

NATIONAL RURAL HOUSING COALITION

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Introduction

On February 10, USDA and the Rural Housing Service issued revisions to the Section 502 handbook that not only undermine the current program but also directly contravene the regulations that govern it. Revisions to the handbook have halted loan making; as a result, almost no 502 loan funds have been allocated to the states.

The revision pulls the rug out from under thousands of rural families who submitted applications months ago and are now discovering that their eligibility is in doubt, including families who received eligibility notices that expired as USDA refused to make loans. As of today, with more than 1100 loan applications pending, the USDA has not yet released Section 502 funds to the states.

Link to handbook revisions: <https://www.rd.usda.gov/media/file/download/pn655.pdf>

Summary of Key Revisions to the Handbook

1. State Rural Development Directors are required to review twice and approve all Section 502 loans, including those with a 38-year term.
2. The maximum loan limit is reduced from 80 percent of the HUD 203(b) area limits to 60 percent.
3. The maximum packaging fee for a section 502 loan is reduced from \$1,750 to \$2,000 to \$750.
4. SNAP may not be used to determine repayment ability and calculate subsidy for loans.

Implications of Revisions

1. **State director reviews.** With \$1 billion available, USDA is in a position to make approximately 5000 loans. The revised handbook requires two separate reviews and **10,000 actions by state directors.** This will cause a delay, almost certainly confuse matters, and significantly reduce the likelihood of fully obligating the available amount.
2. **Reducing loan limits** to 60 percent of HUD 203 (b) limits. The new loan limits are problematic because they do not necessarily reflect current home values. In the past, exception authority has been granted for markets that are misaligned. The handbook revisions, by reducing those limits without exception, will render the 502 Direct program inaccessible to countless rural households. Implementing loan limits is robbing self-help families of their sweat equity and eliminating wealth-building. In many areas, the total cost to build a new, modest home also exceeds the new loan limits. It may also have a perverse effect, driving the program to less rural, more suburban, wealthier communities with higher building costs (due in part to land costs) and loan limits that exceed those in more rural communities.
3. **Packaging fees.** USDA's rural development staff capacity has been greatly diminished over the last year. During the first Trump Administration, USDA encouraged intermediary organizations, often working with local housing organizations, to assist families in packaging Section 502 loan applications. Depending on the specifics, fees range from \$1,750 to \$2,000 per application. Reducing this amount to \$750, when

coupled with a smaller field structure, results in only one outcome: fewer Section 502s being made.

- 4. Eliminating SNAP from repayment calculation.** The current Section 502 regulations list sources of income that an applicant may not use when determining repayment ability and calculating the subsidy. SNAP is not on that list; **the handbook is rewriting a regulation without public comment.**

Under current law, 40 percent of Section 502 loans are set aside for very low-income households. For these very low-income households, SNAP is a key factor in determining repayment ability. This change reduces the chances that USDA will meet the very low-income requirement. The result will be that the loan money will go unobligated.

- 5. USDA has consulted with no one.** Housing development is an ongoing process in many rural communities. Subdivision development is a key component of building new affordable housing. With no signal from USDA that a dramatic change was coming, subdivision planning proceeded, land was acquired, and Section 502 loans were packaged and submitted to USDA. Many subdivisions are under development with federal funding, and the proposed handbook changes may not conform to the requirements and timelines. For example, a nonprofit developer submitted 24 loan applications in November and 8 last week. 11 received preliminary approval, only to have the national office prohibit that practice in early January. In some cases, families will no longer be eligible due to reduced loan limits; in other cases, due to changes in SNAP policy.

Background on Section 502 loans

Under Section 502 of the Housing Act of 1949, the U.S. Department of Agriculture (USDA) and its Rural Housing Service (RHS) make direct homeownership loans to low-income households to acquire, build, or renovate housing in rural communities. In Fiscal Year 2024, USDA made 5099 loans totaling \$1.062 billion; in Fiscal Year 2025, 3890 loans totaled \$757.3 million. It is the only federal program of its kind and the most deeply targeted homeownership mortgage product in America. Section 502 loans are made at a market interest rate and are subsidized at a graduated interest rate, depending on family income. Borrowers may obtain 100% financing, and loans are generally for 33 years (with a 38-year option available for those with incomes below 60% of the area median household income), supporting sustainable homeownership.

The Fiscal Year 2026 Agriculture Appropriations Act (PL 119-37) was enacted into law on November 12, 2025. Since then, with \$1 billion in available funds, the USDA has made only 6 loans. USDA has more than 1100 loan applications on file.