

SECTION 502: SINGLE FAMILY DIRECT LOANS

AT WORK IN RURAL COMMUNITIES



Amelia Magana and her sons; Coachella, CA

Hardworking families across the country are striving to achieve homeownership and, quite often, this dream is well within their reach if they can access affordable credit. While other affordable housing programs target urban populations, only the Section 502 Single Family Housing Direct Loan program provides the targeted boost low income families living in rural parts of the country need to purchase their own homes.

What is the Section 502 Single Family Housing Direct Loan Program?

- The U.S. Department of Agriculture (USDA) Section 502 Single Family Housing Direct Loan program **provides single-family housing loans in rural areas to eligible low and very low income applicants who are unable to obtain credit elsewhere.** Under this program, eligible applicants may obtain 100 percent USDA direct financing to purchase a home.
- The program is administered by the USDA's Rural Development Housing and Community Facilities Programs office.
- Loans may be used to purchase new or existing dwellings or new manufactured

homes. The program includes a self-help option that provides financing for borrowers to construct their own home. At least 40 percent of Section 502 funds must be used to assist families earning less than 50 percent of area median income (AMI).

- In practice, **two-thirds of Section 502 Direct Loan recipients have incomes of less than 60 percent of AMI**, which translates to an average income of less than \$29,000 annually.

What are the outcomes?

- **The Section 502 Direct Loan program has proven to be one of the most cost-effective federal housing programs** because each loan costs, on average, **\$3,000** over its entire lifetime.
- These loans, though only a small investment on the part of the government, provide critical assistance in filling a credit gap in the private market.
- According to the National Rural Housing Coalition, over the past 60 years, the direct loan program has helped more than **2.1 million families** achieve homeownership and has helped build their wealth by more than **\$40 billion**.

What is the impact on rural communities?

- LISC's involvement with the Section 502 Direct Loan program has primarily been through Rural LISC and its community development corporation (CDC) partners. Rural LISC is dedicated to helping transform distressed rural communities nationwide into healthy and sustainable communities of choice and opportunity by building the capacity of resident-led CDCs.
- Rural LISC CDC partners package Section 502 Direct Loans and provide technical assistance to families looking to obtain financing from the USDA.
- In **Provo, Utah**, Adam and Chiara West and their three children were living in a one-bedroom log cabin with no insulation and a major mold problem. They contacted **Self-Help Homes**, a Rural LISC CDC partner, for much-needed financial assistance in purchasing a healthier home for their family. Now, thanks to Self-Help Homes and Section 502 Direct Loan assistance, this hard-working family lives in a modern and healthy home.
- Since 1998, **Pathfinder Services, Inc** in **Huntington, Indiana** has helped nearly **2,000** families become homeowners through the Section 502 Direct Loan Program. Pathfinder, a Rural LISC CDC partner, uses a comprehensive approach to homeownership by providing financial coaching, assisting with loan packaging and the closing process, and by offering post-purchase counseling to the families who use their services.



Section 502 program recipients; Huntington, IN

- Amelia Magana, a single mother of two young boys from **Coachella, California**, is among the **1,500 families** who have built their own homes in the past thirty years with the help of the **Coachella Valley Housing Coalition (CVHC)**, a Rural LISC CDC partner that administers the Section 502 Direct Loan Program. According to Amelia, *"The Self Help Program...was an opportunity for me as a single mother to become a homeowner. Thanks to the Self Help Program and the CVHC, I'm able to make my dream come true of giving my kids a better place to live."*

What can Congress do?

- We urge Congress to support funding for the 502 Direct Loans for Rural Housing Program of at least **\$2 billion** in the FY 2024 Agriculture, Rural, Development, Food and Drug Administration, and Related Agencies appropriations bill.

LISC is a national nonprofit housing and community development intermediary with offices in 38 different cities and a national rural network of 146 organizations.

For more information about Section 502, please contact Mark Kudlowitz at mkudlowitz@lisc.org.