

Self-help Housing (Section 502)

October 2003

The Rural Housing Service (RHS) is a part of Rural Development (RD) in the U.S. Department of Agriculture (USDA). It operates a broad range of programs that were formerly administered by the Farmers Home Administration to support affordable housing and community development in rural areas. RHS both provides direct loans (made and serviced by USDA staff) and also guarantees loans for mortgages extended and serviced by others.

PROGRAM BASICS

The RHS National Office is located in Washington, D.C., and is responsible for setting policy, developing regulations, and performing oversight. RHS employs a central collection and servicing center in St. Louis, Mo. and a computerized system called DLOS for Section 502 direct and Section 504 loans. In the field, RHS operations are carried out through the USDA's RD offices. Each RD State Office administers programs in a state or multistate area. The organization of Rural Development offices within a state varies, but typically Area or District Offices supervise Local Offices (also termed county or community development offices) and do the processing and servicing of organizational loans and grants. Local Offices process single family housing applications, assist District Offices with organizational applications and servicing, and provide counseling to applicant families and backup servicing as needed.

The Section 502 Mutual Self-Help Housing Loan program (a variation on the regular Section 502 Homeownership program) is used primarily to help very low- and low-income households construct their own homes. The program is targeted to families who are unable to buy decent, safe, and sanitary housing through conventional methods. At least 40 percent of program funding nationwide must be used to assist very low-income households. Families participating in a mutual self-help project perform a substantial amount (approximately 65 percent) of the

construction labor on their own and each other's homes under qualified supervision. The savings from the reduction in labor costs allow otherwise ineligible families to own their homes. If families cannot meet their mortgage payments during the construction phase, the funds for these payments can be included in the loans.

Sponsors

Nonprofit or public agencies sponsor mutual self-help housing. They organize groups, provide training and construction supervision, and assist participating families to file applications for loans to finance materials and sub-contracting when applicable. Most rural self-help housing sponsors use administrative funds from the RHS Section 523 Self-Help Technical Assistance Grant Program.

ELIGIBLE ACTIVITIES

Applicants must have very low or low incomes. Very low income is defined as below 50 percent of area median income (AMI); low income is between 50 and 80 percent of AMI. Families must be without adequate housing; however, they must be able to afford the mortgage payments including taxes and insurance. These payments are typically within 22 to 26 percent of an applicant's income. In addition, applicants must be unable to obtain credit elsewhere, yet have reasonable credit histories. Families with very low incomes living in substandard housing are given first priority.

PROJECT REQUIREMENTS

Loans are for up to 33 years (38 for those with incomes below 60 percent of AMI and who cannot afford 33-year terms). The term is 30 years for manufactured homes. There is no required down payment. The promissory note interest rate is set by RHS and was 6.75 percent in August 2002. That interest rate is not initially meaningful, however, since it is modified by payment assistance subsidy. The interest rate and amount of subsidy are determined by family income as a percentage of AMI. Families without leveraged loans pay from 22 to 26 percent of their income for principal, interest, taxes, and insurance (PITI), but not more than the payment amount calculated using the promissory note rate. Eligibility is also affected by repayment feasibility, determined using ratios of repayment (gross) income to PITI and to total family debt.

Rural Housing and
Economic Development Gateway
1-877-RURAL-26 (1-877-787-2526)
www.hud.gov/ruralgateway/
U.S. Dept of Housing & Urban Development
451 7th Street, S.W., Room 7137
Washington, DC 20410

Standards

Under the Section 502 Mutual Self-Help Housing program, housing must be modest in size, design, and cost. As of August 2002, modest housing is defined as housing costing less than the 1997 HUD dollar cap, which is \$86,317, with adjustments for high cost areas. RHS is preparing a final rule that will provide a new definition for modest housing. Houses constructed must meet the voluntary national model building code adopted by the state, the CABO Model Energy Code, and RHS site standards.

Approval

RD Community Development Managers have the authority to approve most Section 502 Mutual Self-Help Housing loan requests. If no backlog exists, decisions on applications are generally made within 30 to 60 days of the Rural Development office's receipt of the application.

Basic Instruction

7 CFR Part 3550 and HB-1-3550 and 7 CFR Part 1944 Subpart I

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FOR MORE INFORMATION

For additional information on Section 502 self-help and RHS, contact the RHS National Office, 1400 Independence Avenue, S.W., Room 5037S, Washington, D.C. 20250; 202-720-4323. Contact your Rural Development State Office to find out the location of the Local Office closest to you, or visit www.rurdev.usda.gov/recd_map.html. Copies of RHS regulations are available online at <http://rdinit.usda.gov/regs>.

RHS contracts with four regional organizations to provide training and technical assistance to self-help sponsors and assistance to applicants to become self-help sponsors. For more information on self-help housing, contact the organization that serves your state:

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