



Report Compliments of **Homes and Lifestyles of Colorado** - *Finding Your Place Called Home*

Denver Office: <http://www.DenverHomeLiving.com> - (303) 816-9199

Mutual Self-Help Housing Loan Program (Section 502)



Purpose:

The Section 502 Mutual Self-Help Housing Loan 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 clean, safe housing through conventional methods. Families participating in a mutual self-help project perform approximately 65 percent of the construction labor on each other's homes under qualified supervision. The savings from the reduction in labor costs allows 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 loan.

Eligibility:

Applicants must have very low or low incomes. Very low income is defined as below 50 percent of the 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 principal, interest, taxes and insurance (PITI). These payments are 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.

Terms:

Loans are for up to 33 years (38 for those with incomes below 60 percent of the area median and who cannot afford 33-year terms). The promissory note interest rate is set by HCFP (in July 1997 it was 7.25 percent). However, the interest rate is not usually meaningful since payment assistance can reduce the interest rate to as low as 1 percent. The amount of subsidy is determined by family income as a percentage of AMI, so that the family pays from 22 to 26 percent of their income for principal, interest, taxes, and insurance (PITI) up to an amount not exceeding the promissory note rate. There is no required down payment. HCFP must also determine repayment feasibility using ratios of repayment (gross) income to PITI and to total family debt.

Standards:

Under the Section 502 Mutual Self-Help Housing program, housing must be modest in size, design, and cost. Modest housing is defined as housing costing less than the HUD dollar cap, which as of 1997 was \$81,548 with adjustments for high cost areas. Houses constructed must meet the voluntary national model building code adopted by the state and HCFP thermal and site standards.

Approval:

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

Report Compliments of **Homes and Lifestyles of Colorado** - *Finding Your Place Called Home*
Denver Office: <http://www.DenverHomeLiving.com> - (303) 816-9199 Office