Fact Sheet

USDA Rural Development – Section 523 Mutual Self-Help Housing Program

Introduction

The Self-Help Housing program provides grant funding to eligible entities to support families who cooperatively build each other's homes. For more than 40 years, U.S. Department of Agriculture (USDA) and its grantees have implemented this program, resulting in home ownership for more than 25,000 low-income families in rural America. In addition, the program stimulates local economies, provides job training and community service skills, and instills a deep sense of community.

Program Benefits

For families

- Provides affordable home ownership with minimal out-of-pocket expense
- Teaches construction skills
- Instills pride and a sense of ownership
- Families work together for a common goal to build strong communities
- Works with the 502 Loan Program to provide low-interest mortgage loans subsidized to as low as 1 percent interest
- Defers mortgage payments during the construction period
- Reduces the purchase price of the home through sweat equity
- Can be used with other funding sources for even greater family savings

For organizations

- Offers a source of hard-to-find administrative grant dollars to run the program
- Provides a predevelopment grant to help cover expenses during final application preparation
- Provides free technical assistance to help you apply for, set up and run the program
- Is an excellent vehicle for meeting the mission and goals of housing entities and nonprofit organizations
- Can create additional revenue for nonprofit organizations willing to undertake property development
- In some cases, funds can be used as a leveraged match, to attract additional dollars

For your communities

- Increases and maintains affordable housing stock
- Can be used to build new or rehabilitate existing housing
- Boosts local economies through purchase of building materials and hiring subcontractors
- Stabilizes communities by giving residents safe, decent and affordable housing

Grant Criteria

Qualified local entities or "grantees" receive an administrative grant for up to two years to build a specified number of homes. Grant size is based on the number of homes built and the comparable contractor cost for a similar home in the area. Roughly 15 percent of the comparable contractor cost or the difference between the comparable contractor cost and the amount of the Self-Help mortgage, minus $1,000 is used to set the upper limits of the administrative grant. To determine the grant size, the amounts derived from these calculations are multiplied by the number of homes to be built. For example, in an area with an average comparable contractor built home cost of $200,000 and a Self-Help housing cost of $175,000, USDA could provide a grantee $24,000 to $30,000 per home built in the program. For an organization building 24 homes, that could mean a $576,000 to $720,000 grant. Many organizations have successfully renewed their grants for more than 30 years.

Nonprofit organizations, tribal entities and units of local government may apply. The administrative grant pays for salaries, office space and other program costs directly related to supervising families as they build their homes. Many groups provide developed lots and modest house plans for their families. The grantees manage the construction sites, including purchasing materials through an on-site construction supervisor.

Mortgages — USDA Section 502

Each participating family qualifies for an individual mortgage, which is used to purchase the land and materials, and pay closing costs and subcontracted labor. Typically, a USDA Section 502 loan is used in tandem with the Section 523 program. In some areas however, conventional loans or other public loan sources are used in part or in full to provide construction and permanent loans to the families. Regardless of the source, all families participating in the 523 program must be at 80 percent median income or below. The Self-Help housing program criteria requires that of the families served, 40 percent must be at or below 50 percent of the median income. Given the favorable terms of the 502 loan and the lower loan amount resulting from the family's sweat equity, the Self-Help program is one of the few ways very-low income families can afford home ownership.

The Section 502 Direct Loan program has several unique features:

- Self-Help loans receive priority processing with 502 funds set-aside on both national and state levels.
- Participating households benefit; the loan is typically amortized for 33 years (up to 38 in some cases) and the payments are subsidized, with the lowest payment possible, based on a 1 percent interest payment. The mortgage subsidy is the difference between what the household is expected to pay and the payment at full note rate. The subsidy is subject to recapture and is repaid if the house sells, there is a change in use, the borrower refinances or in any way title transfers to a third party. Repayment of the subsidy varies, depending on how much has been granted, the length of time the borrower has lived in the home, and original equity in the property.
- A one-step construction loan converts to a permanent loan at the end of construction. There are no interest payments during construction, but the interest accrued during construction is added to the original loan amount and payments are based on the original amount of the note plus accrued interest.
- The self-help 502 does not require a down payment, and the applicant has very few out of pocket expenses at time of loan closing. Typically, the credit reporting fee, hand tools and homeowner's insurance are the only expenses required.

Construction

The Self-Help program can be used for both new construction and rehabilitation. Under the new construction guidelines, house plans must meet the Modest Housing loan limits established by each USDA Rural Development state office. In addition, the family must complete a substantial portion of the labor. Typically, this means that the family performs 65 percent of the identified labor tasks. The local grantee establishes the labor tasks and weekly time commitments for each household. Under the new construction program, the families must work on each other's home.

The program guidelines for rehabilitation are negotiable in construction tasks and amount of funding, but the applicant must demonstrate a cost savings. The labor may be either mutual or each homeowner may complete it individually. The units may be owner occupied or vacant and include acquision. The rehabilitation construction funding comes from a variety of sources, including but not limited to the RD 502, 504 or the 533 programs. The grantee secures the construction funding directly or partners with another agency that can provide the construction funds. Proposals are reviewed on a case-by-case basis, but still use the same application process and forms.

Application Process

Generally, the application is a two-step process. The pre-application determines the need and demand for the program, eligibility of the grantee, and the likely success of the program proposed. If approved, the grantee can secure a $10,000 (tribal entities have been awarded $15,000 in the past) predevelopment grant to support development of the full application. This application includes finalizing house plans, securing lots and qualifying families for their mortgages. The application process generally takes about a year to complete, but is open year-round to applicants on a first-come, first-served basis.

For More Information

USDA local offices in each state take responsibility for both the grant and the mortgages. USDA contracts with Rural Community Assistance Corporation (RCAC) in the West to provide information, assist in program development and support program management. Call RCAC at 916/447-2854 or go to *www.rcac.org* for more information.