



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 50 years, U.S. Department of Agriculture (USDA) and its grantees have implemented this program, resulting in home ownership for more than 50,000 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 or owner occupied housing rehabilitation
- Teaches construction skills
- Instills pride and a sense of ownership
- In new construction, families work together for a common goal to build their homes
- 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 which can be renewed by good performance at no cost to the participants
- 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 in providing affordable homeownership and/or owner occupied rehabilitation
- 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 homeowner 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 \$100,000 and a Self-Help housing cost of \$80,000, USDA could provide a grantee \$15,000 to \$19,000 per home built in the program. For an organization building 24 homes, that could mean a \$360,000 to \$456,000 grant. Many organizations have successfully renewed their grants for more than 40 years.



Eligible entities, tribal entities, nonprofit organizations and local government units 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 through an on-site supervisor who also provides construction training. The grantee secures subcontractors and purchasing materials through a family approved bidding process.

Mortgages- USDA Section 502

In new construction, 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 for construction:

- Self-Help loans receive priority processing with 502 funds.
- 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.
- Rehab projects can be financed with 502 loans, 504 loans or grants, CDBG or HOME funding, or other housing rehabilitation funding programs.

- The 502 program requires no 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 out of pocket 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 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 in new construction. Self-Help rehab requires a cost savings for the tasks performed. 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 homes. The program guidelines for rehabilitation are negotiable in construction tasks, amount of funding and do not require for families to build together.

Application Process

The application process is open year round but funding is generally limited to renewing existing grantees or their replacements. A "new" grantee must complete a full application and can take up to a year to complete. The full application includes a budget, organizational documents, house plans, secured lots for the first build, evidence that there is a need and demand for the program, and the first build group is qualified for their mortgage financing. These requirements can cost a lot in research and development and are born by the applicant. In order to apply, please contact your Rural Development (RD) State Office or the Training and Management Assistance (T&MA) organizations hired by the National Office to be the free program consultants in your area. Both T&MA contractors and RD maintain funding lists and can help to assess eligibility for the program.

For More Information

USDA contracts with Rural Community Assistance Corporation (RCAC) as the T&MA contractor in the West. Call RCAC at 916/447-2854 or go to www.rcac.org.