

# INTRODUCTION

This booklet is designed to take you step by step through the Self-Help building process. We hope to clear up any misunderstandings and give you, the prospective self-helper, more insight into the total Self-help Housing Program – what to do, why to do it and how to do it.

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# SELF-HELP BUILDING PROCESS

## I. GENERAL INFORMATION

### A. What Is Self-Help Housing?

Self-Help housing is a home construction program in which the borrower actually helps in the building process. A group of eligible participants work together to build their homes under the direction and supervision of a professional housing corporation and Rural Development. The program is designed to lower the total amount of the mortgage and monthly payment by using the borrower's labor. It also educates the new homeowner in the care and maintenance of a home by in-depth involvement in construction of the home.

### B. Who May Qualify for the Self-Help Housing Program?

A family must meet Rural Development income eligibility requirements and be unable to obtain financing for a modest home from conventional lenders. Each family must also be able to repay a loan, which is demonstrated by the family's debt loan and debt management.

### C. Where Does Funding Come From for a Self-Help Housing Program?

Mostly the funding for both the family loans, and the grant to administer the program comes from the Rural Housing Service of the United States Department of Agriculture. In some cases churches, foundations and others who are interested in advancing the self-help housing concept may also have contributed monies to help the program.

### D. How Does the Loan Program Work?

The Rural Development 502 Self-Help Loan is designed to give families who would otherwise be unable to get financing, a start in homeownership. Rural Development does this by a subsidizing process, which they call "payment assistance." This simply means that Rural Development pays part of the interest the borrower owes. The amount varies depending on the borrower's income. The least amount of interest the borrower can ever pay is one percent. The actual interest rate of these loans varies.

To qualify for payment assistance, a family must qualify according to guidelines by family size and income. Ask our office. (How to determine your adjusted income is explained on page 20.) The loans are examined every year by Rural Development to determine the family's ability to make the house payments. If their income goes up, the family will be expected to assume more of the interest rate of the loan and their payments will increase. If the family's income goes down, it is possible for this procedure to work in reverse and the payments will decrease in amount.

The homes provided by this loan must be occupied by the borrower and family and the home must be modest in size, design and cost.

## **E. What is the General Background and Purpose of Rural Development**

Rural Development was originally a credit agency for lower income farmers who could not qualify for loans elsewhere. Its program of mortgage credit for non-farm rural and small town residents now overshadows the rest of its operations. Rural Development's function as a lender is significant because private credit institutions in rural areas are relatively few in number, smaller, and often impose more rigid terms than institutions in urban areas.

The five purposes of Rural Development's programs are:

1. To encourage the ownership and operation of family farms;
2. To attempt to bring adequate housing to rural areas;
3. To help in obtaining needed community facilities;
4. To provide economic support to farmers affected by disaster;
5. To foster economic development by providing business and industrial loans in rural areas.

## **F. What is the Role of Rural Development to the Self-Help Housing Program?**

Rural Development will:

- Determine the eligibility of each participating family;
- Provide those eligible families with an affordable mortgage loan;
- Perform mortgage maintenance tasks, income reviews, and foreclosures on borrowers who fail to make required monthly payments;
- Make technical assistance grants to qualified organizations to pay for technical assistance and construction supervisors;
- Make loans to eligible nonprofit organizations to develop home sites to be sold to applicants on a nonprofit basis.

Rural Development is independent of local private lending institutions. The Community Development Manager (CDM) approves and originates the loan, and the agency itself continues as the contact for the borrower through its Servicing Center located in St. Louis, MO. The CDM meets with each self-help applicant prior to his acceptance into the self-help program to determine the applicant's eligibility. If the applicant has been accepted, the CDM will inspect development work as frequently as necessary to assure that construction and land development conform to the plans and specifications. The CDM will make an inspection at the earliest possible date after 100% completion of the planned development. Families are not allowed to move into their homes until the homes are declared complete by the CDM, the local building inspector and the self-help sponsoring organization. Follow-up inspections may be made after the family moves in, if necessary. Any obvious non-compliance with mortgage restrictions is cause for further inspection by Rural Development (a set of Rural Development rules is on pages 13 & 14).

## G. What Is a Self-Help Organization?

A self-help organization is usually a private, nonprofit group who was given a grant from Rural Development under Section 523 of Title V of the original Housing Act of 1949 to organize and assist families in utilizing the self-help process. The self-help housing loans and technical assistance funding was initiated in 1968.

The self-help sponsoring agency is not a governmental agency, but rather a private nonprofit organization. It is made up of individuals who are concerned with the housing needs of lower income persons in rural areas. The sponsoring self-help agency works in a specific geographic area. Generally a self-help organization operates under a board of directors who receive their power from the organization's members. Former self-helpers often become organization members and directors of the board.

## H. What Are Rural Development Technical Assistance Funds Used For?

A self-help organization may use technical assistance funds to:

- Hire personnel to carry out a program of technical assistance for self-help housing;
- Pay necessary and reasonable office and administrative expenses;
- Make essential equipment, such as power tools, available to families participating in self-help housing construction;
- Pay fees for training self-help group members in construction techniques or for other needed professional services.

## I. Organizational Structure of a Self-Help Housing Organization



## **II. THE SELF-HELP APPLICATION PROCEDURE**

### **A. Summary of Steps**

The steps below are a summary of application steps and loan procedures. Each step will be explained on the following pages.

1. Application Forms
  - a. Rural Development Application for the 502 loan
  - b. Employment Verification
  - c. Landlord Verification
  - d. Credit Review
  - e. Privacy Act Disclosure
2. Certification or Denial by Rural Development
3. Group Formation
4. Pre-construction Meetings
5. Complete Loan Docket (forms and steps to be completed)
  - a. Offer or option to purchase
  - b. Cost estimate
  - c. Appraisal
  - d. Interest Credit Agreement
  - e. Membership Agreement
  - f. Plot Map
  - g. Location Map
  - h. Development Plan
  - i. Dwelling Specifications
  - j. House Plan
6. Loan Approval – Order Money
7. Closing
  - a. Title Insurance
  - b. Preliminary Opinion
  - c. Insurance Receipt and Binder
  - d. Building Permit
  - e. Release if necessary
8. Construction

## **B. Your First Meeting**

In the first meeting (individual or group), the self-help sponsoring organization provides an explanation of the loan and a general description of the self-help process. At the end of the interview the family may decide if they want to apply to Rural Development for certification. You may be asked to complete a “preapplication interview form” and authorize the agency to obtain an initial credit report.

Specific house plans or details of site selection are not discussed until Rural Development declares a family eligible for a loan.

## **C. Making Application**

With the initial interview, usually done in the office, enough information is compiled to begin the loan “packaging.” In order to apply, five forms must be completed by each family with the help of the self-help sponsoring organization. Those forms are:

1. Loan Application
2. Employment Verification
3. Landlord Verification
4. Verification of Deposit
5. Authorization to Release Information

Additional information and documentation will be requested depending on individual situations.

Basically, those forms provide information to Rural Development: what a family earns, whom they owe, what they own and how they spend their money. Each form will be explained in detail during the interview. The applicant usually is required to pay \$25-\$38 to have a full mortgage credit check completed by Rural Development. Your application and the information within it are confidential and are treated as such.

A brief explanation of each form follows.

502 Application – This form describes the kind of loan and basis for the request by families. No family can apply if the family is eligible of a homeowner’s loan through conventional lending institutions.

Employment Verification – Rural Development asks each applicant to show proof and circumstances of employment.

Landlord Verification – Rural Development asks each applicant to show that they have been paying their rent in a reliable manner.

When all necessary information is gathered together, the application goes to the Rural Development office for review. The self-help sponsoring organization and Rural Development work out any problem together. This may involve gathering additional information, clarifying difficulties with the family, the loan package, etc.

If you have applied for a 502 self-help loan, you have applied for one of the best loans available in the country. There is no down payment, interest payments vary from as low as 1% and may increase to the current interest rate, and the family gains equity by the self-help building process. After investigating several housing alternatives, the applicant may feel s/he is not interested in this program. If the applicant has misgivings at any time during the application process, we encourage them to notify the self-help organization and talk it over with the director.

#### **D. Certification**

Rural Development will evaluate a family's application and notify the family if certification is granted or denied. The applicant is under no obligation at this point even though he is certified. If the loan is certified and the applicant wants to continue the process, the next series of steps can be taken.

The period of time required to certify a family depends on the contents of each application.

#### **E. Group Formation**

As soon as a family is certified they are grouped together with other families who wish to build in the same vicinity. Usually four to ten families will constitute a group. The first official "group" meeting may come at any time after a family's certification from Rural Development.

The success of self-help housing is dependent upon the group's ability to work together. It is extremely demanding to care for a family, work a full time job and spend 30-40 extra hours a week for 8-12 months building. Added to this burden is the necessity of getting along with the others in the group, each having different work habits, personalities and values. It is important that the group have a clear understanding of their responsibilities. A group agreement is signed and some time is spent getting to know each other before construction begins. Usually the self-help sponsoring organization assigns a group worker to each group in addition to the construction supervisor.

#### **F. What Costs Do You Pay Out of Your Pocket?**

1. Insurance Policy (Paid for after the loan approval).
2. Closing Costs (Attorney's Fees).

#### **G. Selection of Site for Building**

Before Rural Development will approve a loan for closing, a suitable site for construction must be located. The site must meet the requirements and gain the approval of Rural Development. The cost of the land is a part of the total mortgage amount.

Sites for building self-help homes are quite limited. Don't expect to build wherever you like. Each site must:

1. Be the right price
2. Be within close proximity of all other sites in a self-help group
3. Meet Rural Development requirements
4. Be approved by Rural Development

Normally the self-help sponsoring organization options available land. At times, families may be involved with their lot search. In rare cases, a plot of land in the country will be acceptable, but is not likely. The restrictions on undeveloped land effectively exclude such land from the self-help program. Most often the self-help organization will choose the sites to be built upon. The families then choose from these lots. No matter what the circumstances, all lots must have Rural Development approval and the approval of the self-help organization.

Buying and selling land can take time. Be ready to wait. At the same time when lots are ready to be shown, you will not have several weeks to decide. If you are undecided, it will be offered to the next family in line. Land may not be found in the area you want to build in. If this happens, you have only a few choices.

1. Build where the self-help organization has land
2. Wait without any guarantee from the self-help organization that land will ever be found in your area
3. Discontinue the program

## **H. Cost Estimate and Floor Plans**

The self-help organization will have a selection of basic house plans that have been reviewed by Rural Development. Based on your family's needs, affordability factors, and zoning requirements, a design is chosen.

Final house plans and cost estimates are then prepared and sent to Rural Development. No changes in plans will be made after approval by Rural Development. Cost estimates are made up for each house. These estimates must be adhered to at all costs. It is important that the cost control system be effective to insure proper coordination of purchases.

## **I. Materials Used in Building**

A group meeting will be held to explain the selection of materials available. You will be told as a group if any material changes must be made because of style deletions, price increases, specification changes, etc. The selection of materials presented when your group meeting is held, are the only choices available for your group.

All the materials have been comparison shopped to give you the best quality for the amount of money available in your loan. They meet Rural Development specifications and all applicable building codes, are approved by Rural Development.

Roofing, siding, windows, doors, cabinets, vanity, and counter tops will be selected from samples and choices available through the self-help organization.

The contractor will put in all light fixtures, smoke detectors, and a range-hood fan.

Rural Development will not approve wallpaper as an initial wall finish material.

## **J. Loan Docket**

When you have chosen a lot, a loan docket is made by Rural Development. This involves submitting several more forms that gives Rural Development information about your land and house plans. Each building site is surveyed, staked out, soil conditions are checked on undeveloped lots, and eventually building permits acquired.

Your self-help organization is responsible for collecting information for these documents and explaining the significance of each form to you. You may have the information explained and/or collected for these forms in a group meeting or individual interview. The forms involved at this stage are:

1. Offer or option to purchase
2. Cost estimate
3. Appraisal
4. Association agreement
5. Survey
6. Location map
7. Development plan
8. Dwelling specification
9. House plan
10. Plan certification

## **K. Loan Approval – Order Money**

When all of the prior tasks are accomplished satisfactorily and the additional documentation is added to the loan package, Rural Development will approve the loan and order the mortgage money for closing. It usually takes from two to four weeks for the money to arrive. As soon as it comes, papers are prepared for loan closing.

## **L. Insurance**

Each family is required to purchase a full coverage homeowner's insurance policy before closing. The amount of the policy needs to cover the appraised value of the home, not just the mortgage amount. The type of policy required in self-help housing is a "builder's risk" policy that converts into a homeowner's policy at the time of occupancy. The policy for the period of construction must have a multiple peril attachment, which includes a casual labor clause (working on a house for no pay), wall collapse, and theft of materials. Your paid in full receipt and insurance binder or policy must be submitted before closing to Rural Development for their records. An

insurance mortgage clause agreement is included with your notification of closing and loan disclosure, which you will receive in the mail from Rural Development. You are to forward the mortgage clause agreement to your insurance agent, who should submit the forms to Rural Development.

### **M. Loan Closing**

Prior to closing, a staff member from the self-help sponsoring organization will assemble several other forms including:

1. Title Insurance or Abstract
2. Preliminary Option
3. Insurance Receipt and Binder
4. Building Permit

Loan closing takes place in the office of an approved attorney or closing agent. A staff member from the self-help sponsoring organization usually accompanies the family through the closing. Closing takes about one hour. At this time the particulars of the loan documents are discussed in detail.

### **N. How Long Does It Take to Complete the Loan Process?**

Be prepared for delays. The fastest self-help loan ever processed was 45 days from the date of submitted application to Rural Development to closing date. Usually it takes considerably longer. Some families have had to endure for more than two years. If you do not feel that a new home is worth the wait, then please do not apply to begin with. Packaging and processing loans is hard work and is time consuming. The rewards of working with genuinely interested applicants makes up for our frustration with delays. We sincerely hope that only genuinely interested applicants continue in the self-help program. If at any time an applicant feels unable to cope with any more delays, we advise investigating other housing alternatives. We have had to accept delays as part of the program, and we sincerely hope that explaining this fact to you in advance will help you understand and cope with the problem.

Delays are caused by lack of buildable sites, weather conditions, site development complexities, a family's personal problems, Rural Development backlog, errors, etc. Sometimes a family's situation changes while they wait. Income goes up, loss of job or a move to another town causes them to be ineligible. We will inform you of the progress of your loan and any delays as they arise. Please do the same by informing us of any change in your status or interest level.

## **III. BUSINESS OFFICE PROCEDURE FOR YOUR LOAN**

### **A. Cost Estimate**

A cost estimate is kept on each family. The cost estimate sheet is made for your land and house cost. We try to make the estimate as accurate as possible, but at times a building project may encounter unforeseen expenses or prices on materials will take a

sudden jump. We are able to build your home within the estimate by buying quantity orders of materials and hiring contractors for several jobs. We not only look for the right price, but quality materials and workmanship and good follow-up service on the jobs.

## **B. Contingency**

A contingency is provided for the unexpected and emergencies. If your bill is over the cost estimate when buying materials, this overrun is taken out of the contingency. If you under spend on any item, the amount goes into the contingency. The contingency money in your loan cannot be touched until the very end of the program. When your home has been declared 100% complete by Rural Development, any money that might be left over may be used to purchase items to enhance the value of your home. In all cases Rural Development reserves the right to approve or disapprove any or all requests. Just because you saved on one item does not mean that you can add it to another category in your cost estimate.

## **C. Business Office Approval on Purchases**

The sponsoring organization's business office has to give approval on all purchases since we have to keep within the cost estimate on all items, especially paint. An official estimate for the "whole job" must be submitted before any selection you make can be purchased.

## **D. Purchasing Items on Your Own Without Approval**

When you purchase items without approval from the business office, you risk the chance of not being reimbursed for your purchase. Sometimes items that you have purchased will not meet approval from Rural Development, and cannot be put in your home.

## **E. The Supervised Checking Account**

Each family's loan money is kept in a supervised checking account at a local bank. Each family's checkbook is kept at the business office of the self-help organization. All loan and construction related bills are sent to the sponsoring organization. Checks will be made out at the office and it will be the individual families' responsibility to come to our office to sign the checks.

After the family signs the check and the invoice, it is sent to Rural Development to be countersigned. Checks are not valid until both the family and Rural Development have signed the checks. This is to protect you, the self-help organization, and Rural Development.

## **F. Why Checks Must Be Signed Soon**

Bills have to be paid as soon as possible. With certain companies, you get a special discount if the payment is received within 15 to 30 days. Lateness on payment of some bills will result in late charges, which have not been allotted for in the cost

estimate. If you refuse to sign a check without a valid reason, we will not order any more materials for your home until the matter is resolved.

## **G. What To Do In Case of Theft of Materials**

As soon as you discover theft of materials, follow this procedure:

1. Check to see what and how much was taken.
2. Examine your insurance policy to see if you have met the deductible amount.
3. Call the police and give them a list and value of materials as closely as possible.
4. Call the insurance company and give them the same list you gave the police.
5. Call your self-help organization and report the loss to them so that they can order more materials for you.
6. When the insurance company reimburses you, the checks go into your supervised account.
7. **REMEMBER!** If you do not report the theft to the police, the insurance company will not reimburse you for your loss.

## **H. Pre-Construction Meetings**

When enough families have qualified to form a group, the group pre-construction meetings begin. Meetings are held as often as necessary to inform you of any crucial developments in progress and to make sure that you understand the program and your commitment to it. Whenever a meeting is called, the attendance of at least one member of the family is required.

The information you receive at the meeting is the information that is in effect for your group. The procedures do change from one group to another. Whatever information a neighbor has heard or information received from a group that built in the past is not always the correct information for your group. The person who has the final say on the information is the staff member responsible for your group. The best advice is to attend all the scheduled meetings and interviews so you get your information first hand and can ask your questions of the knowledgeable staff person. The questions asked by other group members might also serve to benefit you.

## **I. Construction**

The construction phase is long, difficult, and very demanding. While the self-help organization provides professional supervision during each stage of construction, the group itself determines the pace. The more initiative and determination exerted by the group, the more rapidly the homes are completed. In this respect, especially, the program is truly self-help.

Construction proceeds as follows.

1. Foundations
  - a. Excavation (contracted)
  - b. Footings Set and Poured (contracted)
  - c. Basement walls built (contracted)

- d. Back Filled (contracted)
- 2. Roughing
  - a. Deck, Trusses and Outside Walls (self-help)
  - b. Interior Walls (self-help)
  - c. Roof Shingles (self-help)
  - d. Siding, Windows and Doors (self-help)
- 3. Finish Work
  - a. Plumbing (contracted)
  - b. Electric (contracted)
  - c. Heat (contracted)
  - d. Basement Insulation and Framing (self-help)
  - e. Drywall (self-help)
  - f. Trim (self-help)
  - g. Flooring (contracted)
  - h. Insulation and Cabinets (self-help)
  - i. Painting (self-help)
  - j. Finish Grade (contracted)
- 4. Landscaping (self-help)

All the foundations are completed first. The second phase is to rough in the structures. Finally, the finish work is accomplished. The group should prepare to spend 1½-2 months per house to build their homes.

#### **J. Periodic Inspections (Rural Development)**

Periodic inspections are conducted by Rural Development and local building inspectors to insure quality construction.

#### **K. Final Inspection**

The final inspection by Rural Development is an important one. A complete inspection takes place and should result in 100% approval. After the final inspections of all the homes, the families are allowed to move into their new homes.

#### **L. When You Move In**

When you finally move into your new home it is already an old friend. Yet the work is never really done. The challenge remains to maintain and to make your “dream” home a reality. For most families, the skills have been developed which will make their dream possible.

However, housing problems do not necessarily end when you move into your new home. Problems of budgeting, making monthly payments on time, and keeping your home looking like new will weigh heavily on every family’s ability to keep their new home. It is extremely important that each family recognize the fact that being a

homeowner carries many responsibilities, as well as satisfactions. Homeownership may not be for everybody.

### **M. Rural Development Regulations for Your Self-Help Loan**

Rural Development has granted you a loan to provide for your housing needs. The loan was made after it was determined that other lenders would not extend this credit.

The note and mortgage and other forms were signed by you. You agreed to those contracts. You should study those forms and become familiar with property ownership responsibilities and agreements, some of which are included in the following rules:

1. Make monthly payments when they are due. If unable to do so, immediately contact the Rural Development and fully explain your circumstances. This is a must.
2. You must provide fire and extended coverage insurance, with the proper mortgage clause attached, in at least the amount of the loan on your home.
3. The Community Development Manager will advise all Section 502 RH applicants that payment assistance is subject to recapture.
4. Maintain your yard, lawn and residence as a home that you and others would be proud to own. Make all repairs promptly.
5. You are not to permit any other liens, mortgages, encumbrances, or judgments to be filed against your home without the written consent of the government.
6. You are to comply with all laws, ordinances, and regulations now in existence or that may become of record that affect your property.
7. The government reserves the right, at reasonable times, to inspect your property.
8. You will be requested to refinance your loan when other lenders are willing to provide credit. This rule is enforceable.
9. Any damage to the property such as fire or natural disaster, or any major improvement plans, should be reported to the Rural Development Community Development Manager.
10. You must occupy the home at all times. You cannot sell, lease, transfer or vacate your property without the consent of the government.
11. Your Community Development Manager will be glad to help you with any of your problems affecting your loan. You should seek his/her assistance for such problems or for improvements contemplated.

## IV. GROUP DEVELOPMENT

### A. The Self-Help Group

When at least four families are certified in the same area, a group can be formed. The self-help group is the most important part of a self-help housing project. If the group is cooperative, hard working and able to get along, the building process is a smooth and very worthwhile experience. If the group is argumentative, lazy and at odds with each other, building will be long and difficult. In either case, the houses will be built.

Every group is different because every person is different. Personalities, values, work habits and employment situations are always varied. The group must make every effort to accept all of its members regardless of personal likes and dislikes. The most important element of any group is steady, consistent work habits. In our past experience, we can verify that the group that works together and stays together gets finished sooner. If a member or members of a group are not working as hard as the others, the group breaks down and construction slows. The first commandment of the self-helper is show thy face on site and regularly. You may not be the fastest, hardest or most talented worker, but at least you can be there! If you are not there regularly, don't be surprised to find that you've lost your home.

### B. What Qualities Do We Encourage in Self-Helpers?

What kind of people are able to build a self-help home? We are looking for people who are:

1. Willing to work. It is not important that you have any knowledge of building a home. Our professionals lay out the work, teach you how to do it and make sure it is done right. Groups who finish the quickest are made up of people who realize their individual responsibilities to the group and do not expect others to do their work for them.
2. Able to handle their debts. Practically everyone has debts. Rural Development understands this and it is not necessarily an obstacle to getting a loan. However, if Rural Development is going to lend a family the money needed to build a home, they want to be sure that the family's debts are not excessive and that they pay them regularly.
3. Able to sacrifice for the group. The group comes first, not the individual. Don't expect to get anything that the others aren't going to get on their homes. Remember that you are dependent on them and they on you. Vacations and holidays may well be spent working on your house, so be prepared.
4. Interested in caring for and maintaining their new home. We are proud of the majority of families we have helped in this program. However, not every family has the pride in their home that Rural Development, the community and the self-help sponsoring organization expect. Families who neglect their home are not only in danger of losing it, but they also jeopardize the future of self-help housing

for other families. It is our intention to insure the quality of self-help homes by taking whatever action is necessary.

### **C. A Sample of Group Problems**

The following are some problems a self-help group can face:

1. Personality conflicts – “I can’t stand his guts.”
2. Differing values – “A woman’s place is in the home.” “A woman can and should do everything a man does.” “Working on Sunday is against my religion.”
3. Differing Work Habits – “He’s a working fool.” “I can’t do it.” “He expects too much.” “He doesn’t do anything but stand around.”
4. Physical Differences – “I’m afraid of heights.” “I had a heart attack last year and can’t do anything.”
5. Personal Problems – “My father died and we won’t be back for a week.” “I can’t work because we can’t find or afford a babysitter.” “I don’t have the gas money to drive back and forth every day.” “We have to move this weekend.”
6. Construction Problems – “Where’s the plumber?” “My basement wall is cracked.” “Where’s the electrician?” “Someone stole my drain tile.” “Where’s the drywaller?” “They sent the wrong material!” “We aren’t going fast enough.” “Where’s the excavator?” “We’re going too fast!” “I don’t like the materials you use.”

These problems are not exaggerated. If you feel these problems could cause you extreme hardship or you feel uncomfortable with them, please consult with a staff member.

### **D. The Construction Process – Part I**

Rural Development will defer the first several months of payments on your loan. Therefore, the self-help group has a specified period from the date of the first loan closing to complete all their homes. While it does not always require that specific amount of time to complete all these homes, groups should plan on that period of time. Do not come back to us after six months demanding to move in because school is starting or for any other reason! You will move in when all homes are 100% complete and Rural Development has given you the go ahead. Not before!

Sometimes it will seem to the group that things are moving too slow. Contractors are not there when they said they would be or materials are not delivered exactly when needed. When possible these things will be corrected, but they will always happen. That is why you have several months in which to complete your homes.

Normally construction will begin when the first loan in a group is closed. All families will then start working whether the rest are closed or not. The basements on

all homes are completed first, all homes are roughed in next and finally they are finished. All homes should be finished within two or three weeks of each other. Please note that the order of construction is not always according to whom closed first, second and so on. This will be determined by the construction supervisor.

## **E. The Construction Process – Part II**

The construction supervisors have three responsibilities to the self-help group.

1. Instruct the self-helper. This includes laying out the work, assigning tasks, explaining the use of tools, etc.
2. Inspect the work. If something is wrong, it will be done over.
3. On site supervision. The construction supervisors will be working together with the group whenever possible. The group is quite capable of accomplishing 90% of the work without assistance. It is the group that takes the initiative and is aggressive that gets finished sooner.

Here are a few rules the self-help organization and Rural Development have regarding self-help construction.

1. We regulate the pace of construction. Our supervisors decide where, when and what is to be built, not the group. We decide which home needs a step towards completion next.
2. We order materials. Materials will be sent when we decide they are needed, not when the self-help participant decides. If a family is not working, we may stop ordering materials for the home altogether.
3. You build our way. Many self-helpers feel they know how to build a home and that theirs is the better way. In the end, however, the group will build these homes using the methods stipulated by Rural Development and the self-help organization.
4. We bid out for the contractors. We take bids and screen all potential contractors. The self-help group does not. If the group knows someone who wants to put in a bid they are welcome to do so. We will then present these choices, along with our opinions and recommendations to the group of families. The families then choose which subcontractors to use and sign the contracts with them.

We are open to suggestions and improvements in the self-help process. When a change for the better can be made, it will be. This is one of the reasons group meetings are held periodically once construction starts.

## **F. Can A Family Lose Their Home?**

Yes. Any family that does not live up to the group agreement can lose their home. The group has the power to discontinue their association with a member family if the

family has clearly failed to provide the labor requirement. This is done when the families vote to remove a family from the group and Rural Development and the self-help organization upholds their decision. Rural Development can then transfer the loan to another family for failure to meet self-help obligations. Effectively, a family can lose their self-help loan. It has happened. However, no family that has worked consistently has ever had to worry about that. It's up to you.

## **V. FAMILY FOLLOW-UP AND CONSUMER EDUCATION**

### **A. Pre-Construction Meetings**

Meetings are held before the families begin building to prepare them for their new responsibilities and help them understand the process they will be going through. Some of the subjects covered are:

- Group Membership and Team Work
- Homeowners Insurance
- Maintenance
- Budgeting

The meeting topics are enhanced as often as possible with outside speakers to familiarize the families with available community resources. Attendance is required at these meetings. Information essential to the building program is given at each session.

### **B. Housing Related Follow-Up**

Following up centers on helping families work out misunderstandings in billing, property tax problems, and sometimes referring the problems to the proper agency. For the length of time the family is receiving payment assistance, they will be asked by Rural Development to complete annual forms to establish the need and renew the assistance.

### **C. Community Acceptance for Self-Help Housing**

Interior and exterior appearance is crucial to the success of the self-help program. A clean, well-maintained home is a stipulation of the terms of the Rural Development mortgage and also the neighborhoods and communities self-help groups build in. You can enjoy the ultimate of self-satisfaction and pride in owning and showing off your new home.

**VI. HOW TO ADJUST YOUR INCOME**

It is very important that every family learn how to adjust their income according to the Rural Development formula. Your house payment will be determined by your adjusted income.

**A. Calculating Annual Income Worksheet**

	<b>MONTHLY</b>	<b>ANNUAL</b>
Applicant Employment Income (Full-time, part-time, seasonal)	_____	_____
Spouse Employment Income (Full-time, part-time, seasonal)	_____	_____
Overtime	_____	_____
Commissions	_____	_____
Bonuses	_____	_____
Unemployment or Disability Compensation	_____	_____
Social Security	_____	_____
Retirement/Pension Income	_____	_____
Disability or Death Benefits	_____	_____
Public Assistance	_____	_____
Alimony/Child Support	_____	_____
Total Annual Income		_____

**B. Calculating Adjusted Income**

Annual Family Gross Income	\$ _____
___ Children X \$480 each	- _____
Actual Annual Day Care Expenses	- _____
Elderly Family (\$400 deduction)	- _____
Elderly Family's Medical Expenses > 3% of annual income	- _____
Adjusted Annual Income	\$ _____

**F.Y.I.**

Your gross income for the next twelve months can be arrived at by multiplying your hourly wage times 2,080. The number 2,080 represents 40-hour work week, 52 weeks a year.

## IMPORTANT

1. Rural Development cannot allow a family to pay less than 1% on their loan. But conversely, a family cannot be asked to pay more than the “market rate”. That is the interest rate at the time of loan closing. Here is a schedule that may be helpful:

<u>If the Total Loan was</u>	<u>“Market Rate” ( 8 % at 33 yrs)</u>	<u>Payment at 1% (at 33 yrs.)</u>
\$60,000	\$431	\$178
\$65,000	\$467	\$193
\$70,000	\$503	\$208
\$75,000	\$539	\$223
\$80,000	\$575	\$238
\$85,000	\$611	\$253
\$90,000	\$647	\$267

2. As your income goes up so will your monthly payment. If your income goes down significantly, the process can work in reverse. You are receiving an 8% loan (interests rates subject to change). This means that the monthly payment to repay a loan of \$60,000 loan would be \$431, not \$178 as indicated above. You might only pay \$178 or \$195, etc. based on your income because the government agrees to pay the rest until you can afford to do so. So, as your income goes up, you will pay more of the \$431. When your adjusted family income reaches a certain level, you will be required to pay the full amount.
3. Besides the loan payment, other costs associated with being a homeowner include real estate taxes and insurance. Rural Development has an interest in making sure that these costs are paid in order to protect the property from tax sale or foreclosure. To ensure that funds are available Rural Development requires borrowers contribute funds to an escrow account to be used to pay the borrower’s tax and insurance bills. When a borrower receives a construction loan, the standard initial deposit to the escrow account is not collected at closing, but when construction is completed. Rural Development does permit any real estate taxes that become due during the construction period, as well as the initial escrow account, to be included in the mortgage loan.
4. When your income is high enough Rural Development can ask you to refinance. This simply means that you must go to a bank or other lending institution and attempt to refinance your loan. By refinancing, the money loaned to you to get you started can be lent to someone else. Rural Development is not in the business of competing with banks. They only loan to applicants whom banks will not loan to. When a family is able to secure a loan from a bank, they will be required to do so.
5. Rural Development will review your loan periodically and may inspect your home.

## VII. DO'S AND DON'TS OF SELF-HELP BUILDING

These are a few rules, which we have found to be helpful to our self-help families during construction. In setting up these rules, we hope to alleviate some of the problems, which we have had in the past.

1. You will keep work sheets. The families will be required to keep daily work sheets consisting of date and time period worked each day. These sheets will be turned into the self-help sponsoring organization on a schedule determined by the organization.
2. No children or pets are allowed on the site. To prevent problems with small children being hurt on the site, and people being bit by dogs, they are barred from the construction site. If the need arises, someone in the group may be appointed to watch all of the children in one location so that the others can work.
3. Do not give notice of when you are to move. Construction does not always run as smoothly as we would like. There may be delays due to weather conditions, machinery breakage, subcontractors work schedules, and many other unforeseen things. Therefore, we cannot be very specific as to when you can move. However, we will try to give you some idea so that you can give proper notice. Do not call us and tell us that you have to move on a certain day, because we will not be responsible for your eviction. If you must move, then you must find a place to stay.
4. Furniture cannot be moved into the house until final inspection is completed. If you decide to give notice not knowing for sure if you can move, and you have to have a place to store your furniture, that will also be your responsibility. Nothing can be stored in the new house.
5. We regulate the time frame for final inspection. You do not tell us when you want to have final inspection. We will tell you when you are ready.
6. Houses must be cleaned at the time of final inspection. When the final inspection is conducted, the houses should be clean. This should include sweeping and general cleaning.
7. Call if you won't be at the site. During the group meetings, you will be setting up a work schedule on the times you will be available to be at the work site. If you cannot be there, let the construction supervisor know. If you are unable to get in touch with him, contact one of the other families in the group.
8. The use of drugs or alcoholic beverages on the site is prohibited.

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