

RD AN 4831 (1944-I)
March 2, 2017

TO: State Directors
Rural Development

ATTENTION: Single Family Housing Program Directors
Self Help Coordinators, and Area Directors

FROM: Richard A. Davis /s/ *Richard A. Davis*
Acting Administrator
Rural Housing Service

SUBJECT: Section 523 Self-Help Rehabilitation Program Guidance
Acquisition and Owner-Occupied Rehabilitation Projects

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide program standards for Acquisition Rehabilitation (A/R) and Owner-Occupied Rehabilitation (Owner Rehab) projects funded under the Section 523 program. The instruction in this document provides consistency in the performance of A/R and Owner Rehab projects for Section 523 Self-Help Housing.

COMPARISON WITH PREVIOUS AN:

There is no previous AN on this subject.

BACKGROUND:

Rural Development (RD) Instruction 1944-I, §1944.407 provides that:

“The amount of the Technical Assistance (TA) grant depends on the experience and capability of the applicant and must be justified based on the number of families to be assisted. As a guide, the maximum grant amounts for any grant period will be limited to:”...

EXPIRATION DATE:
March 31, 2018

FILING INSTRUCTIONS:
Preceding RD Instruction 1944-I

(d) A negotiated amount for repair and rehabilitation type proposals. At a minimum, applicants applying for repair and rehabilitation grants must include information on the proximity of the houses in a project, the typical needed repairs, and the cost savings between self-help and contractor rehabilitation and repair.

With such minimal information provided, further Agency guidance is needed regarding the administration of a self-help rehab program.

IMPLEMENTATION RESPONSIBILITIES:

These requirements are effective immediately; however, grantees operating under a current grant agreement shall not be required to implement this guidance until a new grant agreement is executed.

Applications and Amendments

A rehab program can be proposed by a new grantee, a current grantee when applying for grant renewal, or as an amendment to a grant already in process. An organization may be approved to have both new construction and rehab program(s) in the same grant; however, it is anticipated that the programs would not have the same TA fee. If a 523 applicant will be applying for separate awards to administer new construction and rehab program(s) then an application for each must be submitted. In contrast, if just one grant award for both programs is sought only one application that address both tracks is necessary. In order to balance differing TA amounts in an amendment, a reduction or increase in grant award may be necessary.

Application/Amendment dockets should be developed with the assistance of the grantees' Technical and Management Assistance (T&MA) contractors and must include the items found in Attachment 1 'Rehab Application/Amendment Checklist'.

Establishing a Technical Assistance Fee

As defined in RD Instruction §1944.407(d), at a minimum, grantees should establish "typical needed repairs" and subsequently consider the organizational cost of providing adequate cost savings to the families in order to establish an appropriate Technical Assistance (TA) fee. Grantees should propose a fixed per EU rehab cost that is well supported based on projected 'cost savings' to the family described in the grantees request. Methods for calculating family 'cost savings' are defined later in this AN.

In order to justify the grant request, grantees will ensure the total grant rehab TA cost is less than the estimated cost savings to the families.

Project Feasibility

It is the responsibility of the Section 523 Mutual Self-Help applicant/grantee to provide adequate documentation to support the proposal for rehab projects. When a home has been identified for rehab, the grantee will need to assess the project's feasibility. Rehab projects may be on scattered sites and the construction supervisor travel cost, as well as oversight requirements for each task, should be accounted for in a grantee's feasibility analysis. Grantees should consider all organizational costs associated with undertaking the project and compare it to the maximum allowable TA amount before proceeding.

The grantee must also determine if an identified home is suited for the program. Extreme consideration should be given to any hazardous materials, lead, mold and asbestos identified during the inspection. The scope of work for any project must, at a minimum, ensure that construction meets the standards in RD Instruction 1924-A and local codes for A/R; while Owner Rehab projects will typically need to meet Agency decent, safe, and sanitary requirements and local codes, if applicable. For this reason, a whole house inspection from a state-licensed inspector that addresses all items in Handbook 3550-1, 5.7 (A), is required for A/R projects. For Owner Rehab projects, the Agency can accept an inspection from the grantee's qualified staff. State offices will determine the qualification of the grantee's staff and may require a third party inspection on a case by case basis. Based on the inspector's findings, the grantee will prepare a project application docket which at a minimum will include the following items:

- Final Purchase and Sale Agreement – with any amendments (n/a for Owner Rehab)
- Inspection Report – qualified inspector as described above
- Work Order List – with a description of materials
- Development Plan Cost Breakdown – include development/construction costs; purchase price and closing costs as applicable.
- Projected Cost Savings – utilizing one of the allowed methods described below
- Estimated Construction Period – including average labor requirements for the participants

This docket will be submitted to the local RD office if Agency funding will be used. If funding other than 502/504 will be utilized, grantees will need to report quarterly on the items outlined in the 'Reporting and Evaluation' section below but do not need to submit an entire project docket to the Agency. While rehab projects do not need to be approved individually, be reminded that the rehab program goal at grant completion is to have an average cost savings that is equal to or less than the TA cost.

The grantee will be responsible for ensuring the bidding process for subcontracted work provides the best value to the program participants. The best value to the participant may be documented by comparable contractor bids, use of cost estimating software when costs appear realistic for the area, and/or the grantees certification that no better value is known based on their knowledge of the area.

State offices must approve a grantee's performance of any subcontracted labor arrangements. In order for a grantee to serve as a subcontractor on a rehab project they must be licensed (if required by State law), demonstrate that they are able to provide the best value to the program participant as described above; and also have an accounting system that will ensure the 523 grant is not charged for subcontracted work which is a cost to the program participant's loan/grant.

The first choice for Owner Rehab funding should always be the RD Section 504 Loan/ Grant programs.

Processing Rehab Projects

When processing an A/R request, a grantee may choose to secure financing for the applicant and then identify a property, or identify/acquire a property prior to assisting a qualified applicant. Grantees purchasing property prior to qualifying an applicant for a loan should assess any risk this may pose the organization such as holding costs of the property, etc.

If Section 502 Program funds will be utilized for the A/R project, the grantee can submit the applicant's application for approval before a home to be rehabbed is identified. Once the application is approved Form RD 1944-59 'Certificate of Eligibility' will be issued to the applicant with a copy to the grantee and a suitable rehab project for the applicant will then be sought. Once a property is identified and the rehab project docket has been submitted, the Agency will issue Handbook Letter 16, 'Eligibility of Self-Help Applicants' to the applicant with a copy to the grantee.

502/504 Program application for A/R and Owner Rehab will be assigned a priority processing 4, as with other self-help loans. As required by the funding source utilized, an appraisal based on the as-repaired property information submitted by the grantee will be ordered. Once the appraisal is found satisfactory in accordance with 7 CFR 3550.62, the Agency will request funding for the 502/504 loan using the self-help program type codes described in the Direct Loan Origination System (DLOS) Manual and move to close the construction loan for the term defined by the grantee in the project docket.

If Agency funding will be used as takeout financing for the project, Agency staff is advised to utilize the Conditional Commitment process to ensure funds are set aside prior to the start of the project.

All rehab program participants must sign an individual participation agreement that is specific to the project terms before construction begins. As with mutual self-help projects, grantees are required to provide the homeowner with any warranty information for items installed in the home. The grantee is not required to provide a one year builder warranty as the home owner is the general contractor in this program.

Equivalent Unit Tracking, Family Cost Savings & Labor Hours

The process for completing rehab projects is different to that of mutual self-help new construction projects. For this reason, Equivalent Units (EU's) for rehab will be tracked as follows:

Acquisition Rehab

- Property acquisition- identifying and assessing feasibility of potential homes .2 EU
 - Application-Closing/Inspections & Scope of Work/Pre-Construction Activities .2 EU
 - Rehab Construction/Subcontractor & Inspection Coordination .4 EU
 - End of Construction Punch List/Construction Completed/Loan Conversion .2 EU
- 1.0 EU

Owner Rehab

- Application Closing/Inspections & Scope of Work/Pre-Construction Activities .2 EU
 - Rehab Construction/Subcontractor & Inspection Coordination .4 EU
 - End of Construction Punch List/Construction Completed/Loan Conversion .4 EU
- 1.0 EU

Program participants should realize an adequate cost savings, as defined above, from family labor participation in order for a project to be undertaken by the grantee. As with the ‘sweat equity’ in the mutual self-help program which varies greatly from project to project; area to area; and from grantee to grantee, it is anticipated that the cost savings received in rehab projects will see similar variances. Cost savings is ideally realized through the amount of work the participant will be contributing but may be calculated utilizing an approved method such as the ones described below.

Methods for establishing the estimated cost savings for a participating family may also vary but must be well supported and may include one of the following methods:

1. **Contractor Cost Saving:** this method should be considered first and requires comparing a contractor bid or cost estimating software amount for work to be completed to the total cost under the Self-Help Method.

Example-Job Summary: Remove/replace 20 sq. shingles; reframe part of roof; remove replace 1600 sq. ft. of siding; remove/replace two doors; remove carpet in bathroom and replace with vinyl flooring.

| | |
|-----------------------|-----------------|
| Cost Estimator | \$16,500 |
| <u>Self-Help Cost</u> | <u>-\$5,700</u> |
| Cost Savings = | \$10,800 |

2. **Appraised Value:** this method takes the cost to purchase and compares is to the as-improved appraised value to determine an equity model similar to that used in self-help new construction.

Example-Appraisal Value Comparison:

| | |
|--------------------|-------------------|
| As-Improved Value | \$160,000 |
| <u>Loan Amount</u> | <u>-\$150,000</u> |
| Cost Savings = | \$10,000 |

3. **Hourly Rate of Labor Contribution:** this method would include establishing a typical hourly rate for the job task and multiplying it by the hours contributed by the participant. The ‘National Cost Estimator’, ‘HomeWyse.com’, or other comparable software may be used to establish the task labor hours.

Example- Job Summary:

| | |
|---|----------------|
| Remove/replace 20 sq. shingles - \$300 x 6 hrs = | \$1,800 |
| Reframe part of roof - \$350 x 6 hrs = | \$2,200 |
| Remove/replace 1600 sq ft of siding - \$500 x 10 hrs = | \$5,000 |
| <u>Remove/replace carpet w/vinyl in bathroom- \$300 x 4 hrs =</u> | <u>\$1,200</u> |
| Cost Savings | \$10,200 |

Family participation agreements must outline the rehab project specifics such as a work order list as well as outline the participant's projected labor hours, cost savings, etc. It is recommended that grantees work from their current group agreements to modify these into individual participation agreement. Family labor contribution requirements will vary based on the repairs to be completed. While a minimum labor contribution is not being established by this AN, the family's labor contribution is recommended to be 10 hours for every \$1,000 in self-help repairs shown in the Development Plan. Volunteer labor may be included in the recommended labor contribution requirement.

Grant Closing, Quarterly Reporting and Final Evaluations

The grant agreement and grant amendment forms in RD Instruction 1944-I Exhibits A & C respectively may be modified on page one to strike the word mutual so that the agreement will more accurately reflect that the grant is being used for Rehab projects.

Quarterly reporting will be conducted by utilizing Attachment 2, or State equivalents, which requires reporting on applicable items from RD Instruction 1944-I, Exhibit B-2, as well as construction investments, cost savings, and total labor contribution. Any third party financing must also be identified as applicable.

Final evaluation and any high risk placement will be completed in accordance with RD instruction 1944-I, §1944.417 and §1944.417 (b) (2) with the following modifications to the five grant goals as follows:

1. Assisting the projected number of families in obtaining/rehab adequate housing.
2. Meeting the 40% goal of assisting very low-income families.
3. Meeting the family labor requirements (e.g. 10 hours contribution for every \$1,000 in self-help repairs).
4. Controlling TA costs to ensure the final TA costs do not exceed the cost savings to the families.
5. Meeting other objectives in the Agreement which includes the minimum essential repair.

For questions pertaining to this AN, please contact Andria Hively, Finance & Loan Analyst for the Single Family Housing Direct Loan Division at (360) 753-7724.

Rehab Programs
Application/Re-Application/Amendment Checklist

| Description of Documents | Comment | Form/Instruction Number | Tab Position | Date Received/Comments |
|---|---|---|--------------|------------------------|
| (1) Application for Federal Assistance Non-Construction Programs Including Inter-governmental Review submittal, if applicable | N/A- Grant Amendment | Form SF-424 1944.410(e) | | |
| (2) Waiting List of Participants | In Addition to Name, Contact Info, and demographic info Include Property Address if Identified, Anticipated Loan Amount and Source of Funding | 1944.410(-e)(1) | | |
| (3) Proof that approximately 10% of the participants have qualified for assistance | RD HB Letter 16 or 3 rd Party Funding Source Approval Document | 1944.410(e)(2) | | |
| (4) Lot options for first group | N/A- See Waiting List | 1944.410(e)(3) | | |
| (5) Evidence of lot availability for remaining groups | Provide Listing of Identified Potential Program Homes for Sale in Service Area | 1944.410(e)(3) | | |
| (6) House plans, specifications and detailed cost estimates | Describe How the Home Inspection, Work Order List, Cost Estimating, and Contractor Selection Process will be Completed and Documented. | 1944.410(e)(4) | | |
| (7) Staffing needs and hiring schedule | N/A- Grant Amendment Unless Changed From Original Application | 1944.410(e)(5) | | |
| (8) Authorized representative of applicant | N/A- Grant Amendment | 1944.410(e)(6) | | |
| (9) Budget Information – Non-Construction Programs | Not Required in No-Cost Amendment Requests | Form SF-424A & Budget Narrative 1944.410(e)(7) | | |
| (10) Indirect or direct cost policy and proposed indirect cost rate approval | N/A- Grant Amendment Unless Changed From Original Application | 1944.410(e)(8) | | |
| (11) Monthly activities schedule | Should be Updated with all Amendment Requests | 1944.410(e)(10) | | |

| Description of Documents | Comment | Form/Instruction Number | Tab Position | Date Received/Comments |
|--|---|--|---------------------|-------------------------------|
| (12) Personnel practices and procedures | N/A- Grant Amendment | 1944.410(e)(9) | | |
| (13) Authorizing resolution | Should be Received for Amendment Requests | 1944.411(d) | | |
| (14) Assurance Agreement | N/A- Grant Amendment | Form RD 400-4 1944.411(d) | | |
| (15) Fidelity Bond Coverage | N/A- Grant Amendment | 1944.411(e) | | |
| (16) Evidence of interest bearing checking account and a statement of interest repayment | N/A- Grant Amendment | 1944.411(g) | | |
| (17) Group and/or Participation Agreement including Exhibit B-2 of 1944-I | Describe how labor hours will be tracked and how cost savings to the family is being calculated; Exhibit B-2 not applicable | 1944.411(h) | | |
| (18) Request for Obligation of Funds | Only if Amendments Request is For-Cost | Form RD 1940-1 1944.412 | | |
| (19) Self-Help Technical Assistance Grant Agreement | Amendment to Self-Help Technical Assistance Grant Agreement | Exhibit A of 1944-I 1944.412 | | |
| (20) Certification Regarding Drug- Free Workplace | N/A- Grant Amendment | Form AD-1049 RD Inst. 1940-M, § 1940.606(b)(2) | | |
| (21) Certification Regarding Debarments, Suspension, and other Responsibility Matters | N/A- Grant Amendment | Form AD-1047 RD Inst. 1940-M, § 1940.606(b)(1) | | |
| (22) Certification Regarding Lobbying | N/A- Grant Amendment | Exhibit A-1 of RD Inst. 1940-Q and §1940.810 | | |
| (23) Statement of Compliance with 2 CFR 200 Part 400 & 416 if a State or Local government; or Part 400 & 415 if a non-profit | N/A- Grant Amendment | 1944.411(c) | | |
| (24) Assurances – Non Construction Programs | N/A- Grant Amendment | Form SF-424B 1944.411(f) | | |
| (25) Area Director Recommendation <i>*DNP Portal Verification (Checked at submission and again prior to closing)*</i> | Always required | 1944.410(b) 1940-M §1940.606(b) | | |

| Description of Documents | Comment | Form/Instruction Number | Tab Position | Date Received/Comments |
|--|--|--|--------------|------------------------|
| (26) T&MA Contractor's Review and Recommendation | Always required | Required Under National Office Contract with T&MA Contractor | | |
| (27) National Office Review (if over \$300,000 or if amount of new grant plus unexpended funds from previous grant total \$400,000) | All For-Cost Amendments are Funded at the National Office | 1944.415(a) | | |
| In addition to the above information, existing grantees submitting an application for a new grant should also provide the following information as part of a complete application. If this information was already provided in the pre-application of a new grantee, they will not be required to duplicate this information: | | | | |
| (28) Narrative Statement (a) Amount of request (b) Areas served (c) Number of houses proposed (d) Housing conditions of low-income families (e) Need for self-help housing (f) Evidence of Community Support | Rehab Narrative Statements Should Also Include 1. Rehab Policies and Procedures 2. Min/Max rehab \$ per home 3. Relocation Policy, if any | 1944.410(a)(4) | | |
| (29) Current Financial Statements for Applicant and any Sponsor | Updated Financial Statements as applicable for Amended Request | 1944.410(a)(3) | | |
| (30) Outreach Plan for very low-Income | N/A- Grant Amendment | 1944.410(a)(5) | | |
| (31) HUD Affirmative Fair Housing Marketing Plan (AFHMP) | N/A- Grant Amendment | HUD Form 935.2B 1944.410(a)(10) | | |
| (32) Determination of TA Grant Amount | Include the Projected Average Cost Savings for Families | 1944.407 | | |
| (33) Intergovernmental Review Submittal, if applicable | N/A- Grant Amendment | 1944.409 | | |
| (34) Civil Rights Impact Analysis Certification | N/A- Grant Amendment | Form RD 2006-38 2006-P, §2006.754(b) | | |

| Description of Documents | Comment | Form/Instruction Number | Tab Position | Date Received / Comments |
|---|----------------------|--|--------------|--------------------------|
| (35) Compliance Review (Pre-award) | N/A- Grant Amendment | Form RD 400-8 RD Inst. 1901-E, § 1901.204(a) and § 1901.204(c)(3) | | |
| (36) OGC Review (if necessary) | N/A- Grant Amendment | 1944.410(b)(2) | | |
| (37) Previous Experience | N/A- Grant Amendment | 1944.410(a)(1) | | |
| (38) Organizational Documents (a) Reference to State Law (b) Certified copies of Articles of Incorporation and Bylaws, or other evidence of corporate existence (c) Certificate of incorporation for other than public bodies (d) Evidence of Good Standing from the State (e) Names and addresses of Board of Directors, officers and members (plus principal business of any member that is an organization) (f) Copy of 501(c)(3), if non-Profit | N/A- Grant Amendment | 1944.410(a)(2) 1944.404(d)(1-4) | | |
| <p>Applicants and existing Self-Help grantees applying for a new grant should submit their applications in an original and one copy containing the above applicable items to the Technical and Management Assistance (T&MA) Contractor for review. The T&MA contractor will make a recommendation and submit the package to the State Office within 15 calendar days. <u>Within thirty (30) days of receipt of the application, the designated official will review the application for completeness, accuracy and conformance to program policy and regulations.</u> The designated official should then make a recommendation and forward along with a copy of the grantee’s package to the State Director. The State Office will issue a Letter of Conditions to the Grantee subject to: (1) review of the application package by the National Office, if applicable and (2) subject to submission of any additional items not included with the application.</p> | | | | |

Evaluation Report of Rehab Self-Help Technical Assistance (TA) Grants

Evaluation for Quarter Ending: _____, 20__

1. a. Name of Grantee: _____
b. Address: _____ c. Area the grant serves: _____

2. Date of Agreement: _____ Time Extended _____

3. a. Equivalent unit increase during quarter:

First Month

Second Month

Third Month

b. Cumulative total number of Equivalent Units since beginning of grant:

Total to Date

4. a. Method of Rehabilitation: Acquisition __%, Owner Occupied __%,
b. Average construction investment this quarter:

b1. Average construction investment this grant period

Total to Date

c. Average cost savings to participant this quarter:

c1. Average cost savings to participants this grant period:

Total to Date

d. # of houses/EU under rehab this grant period, but started during previous grant period:

5. a. Number of houses/EU proposed under this grant:

b. Number of houses/EU completed under this grant:

c. Number of houses/EU currently under rehab:

d. Number of families in pre-rehab phase:

e. Number of Construction Supervisors:

f. Number of TA employees:

6. a. Average time needed to complete rehab project:

b. Length of time between submission of Rehab borrower's docket and approval/rejection or list third party funding sources being utilized: _____

c. Number and percentage of loan docket rejections during reporting period: _____

7. Did any of the following adversely affect the Grantee's ability to accomplish program objectives (attach narrative as needed)?

| | YES | NO |
|--|-------|-------|
| TA Staff Turnover | _____ | _____ |
| RD Staff Turnover | _____ | _____ |
| Bad Weather | _____ | _____ |
| Loan Processing Delays | _____ | _____ |
| Rehab Home Acquisition and Development | _____ | _____ |
| Unavailable Loan/Grant Funds | _____ | _____ |
| Lack of Participants | _____ | _____ |
| Communication between RD/Grantee | _____ | _____ |

8. Attach information concerning individual projects as follows:

(1)The participating families name, address, income level, and funding source with total loan/grant amount; (2) The rehab work completed with constructing investment amount; (3) Cost savings to family with explanation of method used.

I certify that the statements made above are true to the best of my knowledge and belief.

(Title)

(Date)

(Grantee Signature)

B. Area Office Review, as applicable- I have reviewed the above information which I have found to be substantially correct.

Comments: _____

(Area Office Representative Signature)

(Date)

C. State Office Review, as applicable- I have reviewed the above information which I have found to be substantially correct.

Comments: _____

(State Office Representative Signature)

(Date)