

**THE SELF-HELP HOUSING
DEVELOPMENT PROCESS
IN RURAL AREAS**

HOUSING ASSISTANCE COUNCIL

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Housing Assistance Council

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HAC, founded in 1971, is a nonprofit corporation which supports the development of rural low-income housing nationwide. HAC provides technical housing services, seed money loans from a revolving loan fund, housing program and policy assistance, research and demonstration projects, and training and information services.

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EXECUTIVE SUMMARY

There is a long history of self-help programs in the United States. Informally, the concept dates back to community home and barn raisings. The modern incarnation of the self-help development process in the United States was initiated by the American Friends Service Committee to house western Pennsylvania coal miners in 1937, and later refined by AFSC in serving farmworker households in California's San Joaquin valley in the early 1960s. The U.S. Department of Agriculture's Rural Housing Service (RHS, formerly the Farmers Home Administration or FmHA) began funding self-help housing efforts in 1963, and from that time through 1996 has supported the development of over 26,000 self-help homes.

There are two basic models of self-help, the mutual self-help model and the non-owner volunteer labor model. The mutual self-help model of housing development allows families with limited income to buy their own homes by contributing their labor in construction of the house. Under the RHS mutual self-help process, self-help groups range from six to twelve households, with no household moving into its home until all of the group's houses have been completed. Participating households perform a substantial amount of the labor on each other's homes under qualified supervision, amounting to approximately 65 percent of the labor needed to build the houses. The "sweat equity" established by their labor allows them to purchase the house at a more affordable cost. Additionally, the Section 502 direct mortgage loans from RHS make the home even more affordable by lowering the effective interest rate to 1 percent for qualifying very low-income households. With subsidy and sweat equity savings, the RHS mutual self-help approach makes it possible for even very low-income families to become homeowners.

The other major approach to self-help housing development, the non-owner volunteer labor model, lowers construction costs by seeking donated labor and construction materials from the community. Households that will be moving into homes constructed in this manner are often required to contribute some labor, but the bulk of the construction work is performed by local volunteers. Habitat for Humanity International (HFHI) is the most visible practitioner of this approach to self-help housing. HFHI has built approximately 13,683 houses in the United States from 1976 through 1996, with approximately 3,600 slated for completion by the end of 1997. There are 318 HFHI affiliates in the United States, and affiliates typically vary in their production of homes from one house per year to 20 houses per year.

RHS has played a significant role in supporting mutual self-help housing development, particularly through its Section 502 loans and Section 523 Technical Assistance grants to organizations that sponsor self-help projects. HUD has also recently begun supporting self-help projects under a program initiated in 1996. This program, the Self-Help Homeownership Opportunity Program (SHOP), provides funding for organizations to purchase land and develop infrastructure for self-help projects.

However, in addition to this federal role, there is also a significant and growing link to state agency financing and financing from private lenders. In a period where federal funds frequently must leverage other financing sources in order to carry through affordable housing projects,

funding from state agencies and private lenders has allowed self-help to expand into new areas despite limited federal funding. While it is difficult to make homes affordable to low-income households with private financing alone, combining private, state and federal funding sources has allowed self-help sponsors to maintain affordability for their clients.

The mutual self-help model of development is not just a housing program. The participants' involvement in the development process fosters stronger neighborhoods and communities, and promotes economic self-sufficiency among self-help clients. Participants receive pre-construction training, and make a significant and valuable contribution to the development of their own housing. They also often receive counseling in such subjects as budgeting, repairing credit, home maintenance, and other skills necessary to succeed in homeownership. Many clients use their new skills to find better jobs in the construction industry. The organizational skills and self-esteem fostered through the building process have also helped many other clients go back to school and improve their credentials.

While the mutual self-help development process has primarily been a rural phenomenon, self-help is not just a rural program. This housing development model is also being applied in urban areas, and has been supported by banks to fulfill Community Reinvestment Act (CRA) requirements. The urban applications of the self-help concept use techniques that have been developed through many years of experience in rural areas.

This report examines the most important stages in the self-help development process, and discusses prominent obstacles and solutions to problems at different stages of self-help housing development. Examples from selected local mutual self-help programs illustrate effective techniques for solving the most common challenges in the self-help process.

INTRODUCTION

Background

Self-help housing has provided the means for thousands of low-income households to realize the dream of homeownership. Simply put, self-help participants reduce the cost of their homes through the “sweat equity” of their labor. Self-help housing has a long history in this country, dating back to community home and barn raisings. The first modern organized self-help initiative in the United States was carried through by the American Friends Service Committee (AFSC). In 1937, AFSC sponsored a program which housed a community of coal miners in western Pennsylvania. In 1938, St. Francis Xavier University in Nova Scotia sponsored a self-help cooperative for coal miners, and was the first program known to have used preconstruction training techniques. Puerto Rico began a large-scale self-help housing program in 1949 that had constructed over 30,000 homes by the mid-1960s. In the early 1960s, AFSC began working with farmworker families in California, pioneering a self-help program that would grow into the largest producer of self-help homes in the country.¹

In 1963, the Farmers Home Administration (FmHA, now the Rural Housing Service, or RHS) became involved in the self-help housing process as a direct sponsor of a project in New Jersey. The agency used its Section 502 direct lending program to provide permanent financing for self-help mortgages, and in 1971 the Section 523 Self-Help Technical Assistance Grant Program was implemented, providing administrative funds to self-help housing sponsors. Today, there are about 95 RHS grantees located throughout the United States. From humble beginnings, self-help housing has come to play a larger role in providing low-income households with decent affordable housing in America’s rural communities.²

The mutual self-help model of housing development allows families with limited income to buy their own homes by contributing their labor in construction of the house. Under the RHS mutual self-help process, self-help groups range from six to twelve households, with no household moving into its home until all of the group’s houses have been completed. Participating households perform a substantial amount of the labor on each other’s homes under qualified supervision, amounting to approximately 65 percent of the labor needed to build the houses. The “sweat equity” established by their labor allows them to purchase the house at a more affordable cost. Additionally, the Section 502 direct mortgage loans from RHS make the home even more

¹The AFSC program in Goshen led to the creation of Self Help Enterprises (SHE), which has produced more than 4,000 self-help homes since 1967.

²For more information concerning the history of self-help housing, see John Frisk, “Notes on Self Help Housing,” *Rural Developments*, Volume 2, Number 2 (Summer 1996), Rural LISC, Washington, DC. See also Housing Assistance Council, *A Brief and Selective History of Self-Help Housing*, (Washington, DC: 1996), and Richard Margolis, *Something to Build On: The Future of Self-Help Housing in the Struggle Against Poverty*, International Self-Help Housing Associates (Washington, DC: 1967) .

affordable by dropping the effective interest rate down to as low as 1 percent. This subsidy is called payment assistance, and it makes the homes affordable even to very low-income households (households with incomes below 50 percent of area median income). The RHS Self-Help program has supported the construction of 26,171 houses from its inception in 1966 to the end of FY1996.

Another model of self-help housing development is the non-owner volunteer labor model. The non-owner volunteer labor model lowers construction costs by seeking donated labor and construction materials from the community. Households that will be moving into homes constructed in this manner are often required to contribute some labor, but the bulk of the construction work is performed by local volunteers. Habitat for Humanity International (HFHI) is the most visible practitioner of this approach to self-help housing. HFHI has built approximately 13,683 houses in the United States from 1976 through 1996, with approximately 3,600 slated for completion by the end of 1997. There are 318 HFHI affiliates in the United States, and affiliates typically vary in their production of homes from one house per year to 20 houses per year.

The purpose of this report is to present an outline of the self-help housing development process, with examples taken from practitioners in the field to illustrate how sponsors have addressed challenges at each stage of the development process. While there are self-help variations beyond the mutual self-help and non-owner volunteer models, these two approaches to self-help housing are the predominant models of self-help development.

The most widely used source of funding for mutual self-help housing in rural areas is the RHS Section 502 Direct Loan program, in conjunction with the RHS Section 523 Self-Help Technical Assistance Grants that provide many self-help sponsors with administrative funding. However, many groups that started rural self-help programs with RHS funding have begun developing new financing mechanisms that do not rely upon the RHS programs. RHS programs may only be used in rural areas,³ but many organizations have service regions that include county population centers where RHS funds cannot be used. Quite a few rural areas are located on the fringes of metropolitan regions, are undergoing suburbanization, and are likely to lose their rural designation from RHS within a few years. Self-help organizations facing these situations are being very creative in developing self-help programs financed with non-RHS funding sources. While many of these alternative self-help financing mechanisms have been used in rural areas, they are often called “urban” self-help programs because they were developed to serve areas not designated as “rural” by RHS. Most of the urban self-help programs have been designed to imitate at least some of the important features of the RHS self-help programs.

RHS Section 502 Self-Help Loans and Section 523 Self-Help Technical Assistance Grants

Section 502 Self-Help loans are essentially the same as loans under the RHS Section 502 Rural

³Generally, RHS serves areas which are open country, communities with up to 10,000 residents that are rural in character, and communities with up to 25,000 residents that are rural in character and are outside of metropolitan areas.

Homeownership Loan Program, also known as the Direct Loan program. The self-help loans have most of the same terms as the Section 502 direct loans. Section 502 loans are made in rural areas to households who are unable to buy decent, safe and sanitary housing through conventional methods.

Applicants must have low or very low incomes. Very low income is defined as below 50 percent of the area median income, while low income is between 50 and 80 percent of the area median. Nationwide, at least 40 percent of Section 502 Direct Loan funds must serve very low-income households.

The term for a Section 502 loan is up to 33 years, with an extended term to 38 years for those with income below 60 percent of area median who cannot afford 33 year terms. No downpayment is required, and interest rates are subsidized. The amount of interest subsidy provided to a borrower is determined by the borrower's adjusted income as a percent of area median income, and is termed "payment assistance." With payment assistance, the interest rate may be as low as 1 percent. Depending on the rate of payment assistance received, households pay between 22 and 26 percent of their adjusted income for principal, interest, taxes and insurance (PITI). The mortgage subsidy is subject to recapture upon the profitable sale or refinancing of the home. In the self-help program, the savings achieved by the household's labor are used to bring down the cost of the loan, which means even greater affordability than is possible with payment assistance alone.

When using Section 502 loans in the mutual self-help program, households close on the loans before construction begins. The funds are usually placed in an account supervised by the self-help organization. Funds are drawn down from the accounts to cover construction costs. One of the principal features of Section 502 loans is that mortgage payment may be deferred until construction has been completed. In this way, households do not have to carry the expense of paying for two housing units while engaged in the difficult work of home construction.

Housing must be modest in size, design, and cost. The RHS loan limit for Section 502 loans is defined as 85 percent of the U.S. Department of Housing and Urban Development's (HUD) Section 203 (b) (2) mortgage loan limits, with adjustments for high cost areas. The mortgage loan limits are often referred to as the HUD dollar cap, and these limits are also used for the Federal Housing Administration's (FHA) single-family mortgage insurance programs. As of 1996, the RHS loan limit is \$77,197. Houses constructed must meet the voluntary national model building code adopted by the state, and RHS thermal and site standards.

The funds for Section 502 direct loans are primarily disbursed out of state allocations, but 75 percent of the funds for self-help loans are allocated by the RHS national office, with 25 percent coming from state Section 502 allocations. The national contribution is derived from a set-aside of Section 502 funds to ensure that the federal investment in Section 523 grants will produce the number of housing units specified in Section 523 grantee contracts.

Section 523 grants provide administrative funding to organizations sponsoring self-help housing

development. RHS contracts with four organizations to provide training and technical assistance to self-help sponsors making grant applications. Each technical assistance provider serves a different region of the country. Qualified grant applicants are public and nonprofit groups that demonstrate they have the ability to supervise a project, or that they will receive assistance from a group having this ability. Grant contracts are normally for two years, and specify the number of self-help units the self-help organization is expected to sponsor in that time. The 523 grant pays for such items as office supplies, specialty tools and staff salaries. Grants do not need to be repaid.

To receive a 523 grant, new self-help organizations must go through both a preapplication and application process, which can be quite lengthy and complex. However, assistance from a regional technical assistance provider will be very helpful during this time, and the application process itself may contribute to the success of an organization's self-help program development. For example, as part of the preapplication and application, the organization must document the area housing need and how self-help will meet that need. Plans for program design, staffing needs and client training are also required. By going through the process of applying for a 523 grant, a new self-help group will have prepared for many of the challenges it will face once its self-help program begins.

The Self-Help Organizations: Profiles

The development experience of four self-help organizations was used to provide examples in this report. Each of these groups has extensive experience with self-help housing development, and each has developed innovations in the self-help process, ranging from creative financing mechanisms to construction phase innovations. The groups are South County Housing in Gilroy, California, Southeast Wisconsin Housing Corporation of Racine County in Burlington, Wisconsin, Homes in Partnership in Apopka, Florida, and Lower Columbia Community Action Council in Longview, Washington. In addition, experienced HAC staff provided insights on key challenges in the self-help development process, and examples highlighting novel solutions to development problems.

Groups were selected to reflect strengths in a number of areas. Experience and success in self-help housing development are evident among all of the groups chosen. Completion and occupancy are important as demonstrations of the capacity of these groups to successfully negotiate challenges in the self-help process and provide models for others to follow. Each group has also created alternative financing programs to supplement its traditional base of funding, which has generally been RHS programs. This aspect of self-help innovation is especially significant in a funding environment where groups are finding it necessary to leverage

financing from the federal government with other sources, while still maintaining affordability for low- and very low-income clients.

Innovations in the site development and construction phases are also represented among these groups, in order to illustrate alternative approaches to common development problems. These groups have pursued construction, cost containment, and community development innovations at different points in the development process. Finally, some geographical diversity was sought to illustrate regional differences in land and construction costs, as well as the impact of varied housing market dynamics. Enough regional diversity is present among the groups to highlight solutions to a wide range of housing development challenges.

These groups are all very experienced. Each has used the mutual self-help method for many years and produces many units each year. However, there are many smaller self-help organizations and Habitat for Humanity affiliates that do not produce houses in large volume. Experienced groups were chosen because they have already overcome many of the development challenges and obstacles a newer group will face. To the extent that similar development challenges occur for many housing developers, the experiences of more established organizations are representative of the challenges that await newer or smaller groups.

While no Habitat for Humanity affiliate was visited in preparation for this report, information on HFHI's approach to housing development is included to illustrate that organization's approach to challenges at different stages of the development process. HFHI's development strategy is a significant variation on the self-help model. The HFHI development model offers alternative approaches to common challenges in the process of developing affordable single-family owner-occupied housing.

South County Housing (SCH) was founded in 1979 to provide safe, decent affordable housing opportunities for low-income residents in south Santa Clara County, California. SCH initially developed and managed multifamily housing properties primarily serving farmworkers in south Santa Clara County. SCH's service area has expanded to include San Benito County, Monterey County and Santa Cruz County. SCH began its self-help program in 1987. SCH is a Section 523 grantee and uses RHS Section 502 Self-Help Loans in the rural portions of its service area. The organization has also developed an urban self-help program to serve communities not designated "rural" by RHS. Their urban program is financed primarily through the California Housing Finance Agency, and it highlights some ways in which state housing agencies may support self-help housing. SCH has also blended a variety of other funding sources in subdivisions built under each of its self-help programs, which provides examples of how to blend diverse funding sources to maintain affordability for very low-income households.

As of May 1997, SCH had developed or was in the process of finishing over 200 self-help units. SCH also produces other forms of housing, including multifamily rental housing using tax credits, and contractor-built, below-market rate single-family homes. However, self-help housing is the cornerstone of the organization's development philosophy. SCH's emphasis in housing development work is "building communities." The organization treats affordable

housing development as one component of holistic service to the community. The projects they develop create mixed income neighborhoods by building rental and homeownership units that serve the needs of many income groups. The organization also invests in the social infrastructure of neighborhoods by building parks and community centers and supporting the formation of community associations. SCH has added a staff person charged with neighborhood revitalization efforts, such as promoting repair and rehabilitation of existing neighborhoods, reducing gang activity, promoting child care and community centers, and assisting community planning in the areas where SCH is developing and managing housing. SCH has made a concerted effort to involve community residents in all aspects of the planning process when proposals are made for new developments, and has committed organization resources to maintain that involvement upon completion of the projects.

Southeastern Wisconsin Housing Corporation (SEWHC) was founded in 1970 and serves Racine County, Kenosha County and Wallworth County. The organization has been involved in self-help housing development since its inception. SEWHC has focused exclusively on self-help housing, with the exception of an elderly housing project that was developed in the 1970s that is still owned and managed by the organization. SEWHC is a Section 523 grantee and uses RHS Section 502 Self-Help Loans in its rural projects. The group has also created a self-help program in partnership with General Electric Mortgage Insurance Company and a number of area banks. This program is called the “Pilot Program,” and is frequently used for households whose income is slightly above the eligibility limits for Section 502 loans. Even though it is primarily used in rural areas served by RHS, the Pilot Program will be referred to as an urban self-help program because of its alternative financing mechanisms.

SEWHC has built over 800 self-help units. The self-help program was originally associated with an organization based in Milwaukee that served migrant farmworkers in the 1960s under the auspices of the U.S. Department of Labor’s Office of Economic Opportunity. It became apparent that great housing need existed in the area for both farmworker and non-farmworker households in poverty. To broaden their mission, SEWHC was established as a separate entity and began seeking funding from the Farmers Home Administration (FmHA, now RHS) for self-help housing development. SEWHC continues to serve a large number of farmworker householders in both of its self-help programs.

Homes in Partnership (HIP) was established in 1975, and serves Orange, Lake and Sumter counties in central Florida. HIP has sponsored self-help housing development since its founding, and currently also engages in housing rehabilitation. The rehabilitation work is primarily done on homes in the RHS inventory that are slated for resale to low-income households under the Section 502 Homeownership Loan program. HIP has not pursued multifamily rental housing development, and instead has focused on the construction and rehabilitation of single-family homeownership units. The organization is a Section 523 grantee, with most of its homes financed through the RHS Section 502 Self-Help program. HIP also has an urban self-help program that uses market rate interest mortgages from local lenders. The loans are made affordable to households with lower incomes by obtaining downpayment assistance from the Federal Home Loan Bank of Atlanta and Florida’s SHIP program, a statewide affordable

housing program that allocates funds to county governments for use as homebuyer downpayments or rehabilitation assistance. The income levels served are slightly higher than those of households financed through RHS. HIP's real innovation in the self-help process, however, is its emphasis on organized and ongoing homebuyer and credit counseling. HIP is certified by the U.S. Department of Housing and Urban Development as a Homebuyer Counseling organization, and provides this service free of charge to all of its applicants and anyone in the community who seeks such help.

HIP has completed over 1,000 self-help houses. It was originally organized to serve the housing needs of area farmworker households. The American Friends Service Committee (AFSC) provided seed money and technical assistance to establish the organization. While HIP serves any low- or very low-income household that seeks help, the group is especially sensitive to the needs of area farmworkers, who continue to be the largest group participating in the self-help program. HIP's Executive Director describes its mission as supporting the development of strong communities, noting especially how HIP's developments have improved blighted neighborhoods and contributed to a reduction in area crime.

Lower Columbia Community Action Council (LCCAC) was founded in 1965, and its self-help program was established in 1989. The group serves six counties: Pacific, Skamania, Clark, Cowlitz, Lewis and Wahkiakum. LCCAC has 40 full-time employees and 93 part-time employees. There are nine full-time staff working in the Self-Help program. LCCAC is a Community Action Program (CAP) agency. The organization provides emergency services for the homeless, including a Temporary Shelter program, a Food Bank and a HELP warehouse that distributes clothing and other necessities. LCCAC also provides employment training and referral services, transportation assistance, and services for area senior citizens. In addition to its Self-Help program, LCCAC provides energy assistance and weatherization services, and does owner-occupied housing rehabilitation. LCCAC is a Section 523 grantee, and uses financing through the RHS Section 502 Self-Help Loan program for projects in rural areas. It also has an urban self-help program to serve households in areas not qualified for RHS assistance. The urban program involves a consortium of six local lenders, where one lender provides construction loans for the projects and all the members of the consortium cover the permanent financing.

LCCAC has built over 223 self-help units as of May 1997, with 126 in rural areas and 97 through the urban program. The group is currently building at a rate of approximately 50 houses each year. LCCAC involvement in self-help housing was initiated through the interest of a board member who was concerned about the lack of good quality affordable housing in the region. As of 1997, LCCAC is the largest producer of single-family homes in the region, producing a greater volume of houses than any for-profit developer working in its service area. The organization views the self-help program as the culmination of its continuum of services for low-

income households in the region, which range from temporary shelter to employment services to homeownership opportunities.

Self-Help Program Staff

Each of these self-help programs has a different mix of staff positions, since each has adjusted the self-help process to meet varied local conditions and needs. Nonetheless, each organization has staff performing key functions that are essential to any effective self-help program.

SCH has approximately 15 housing staff, 10 of which are part of its self-help development team. SCH typically has between three and four self-help groups building at the same time. The number of staff fluctuates somewhat depending on the number of active building groups. The self-help team includes a Project Manager who runs feasibility studies, does planning, and develops construction schedules. The self-help Program Manager puts out contracts and handles preparation of legal documents for presentation to participating households. Two Loan Packagers facilitate self-help group meetings, handle marketing and outreach activities, package the final loans to the households, work with participants on credit issues, and provide education on all documents and the self-help process prior to construction. There are a number of Construction Supervisors, with one supervisor for each group of between 10 and 12 households. Construction Supervisors train participants in construction skills and oversee their work at the job site. The number of Construction Supervisors on staff fluctuates with the number of active building groups. A Construction Manager oversees the work of the supervisors, and tracks purchases, delivery, billing for materials and labor needs on the different job sites. SCH's self-help program also has its own Bookkeeper.

SEWHC has five full-time staff working on self-help housing, and between one and three part-time staff. The Executive Director submits grant proposals, negotiates with Rural Development (RD, the state, district and county offices of RHS), serves as the mediator of last resort for disputes within the self-help groups, and performs Spanish language translation. The program has a Bookkeeper/Administrative Assistant who keeps the individual household accounts and submits loan applications for program participants. An Office Manager/Group Worker recruits and evaluates program participants. The work of building is overseen by a Construction Director who orders subcontracted labor and materials for the program, and a Construction Supervisor who trains and supervises self-help groups at the work sites. There are between one and three part-time Construction Supervisors who work only on weekends, and the organization's policy is to hire self-help alumni for these positions.

HIP has 13 staff directly involved in self-help work, although all of the organization's 19 staff play some role in the self-help program. HIP's program is overseen by the organization's Executive Director, who pursues funding sources and opportunities to obtain land, among many other duties. The organization's Director of Operations oversees financial transactions, financial accounting, and is involved in securing funding for the group's work. A Construction Director oversees all construction sites, directs the Construction Supervisors in their work, purchases building materials, and assists in housing design. Construction supervisors train clients in

keeping time sheets, basic construction tasks, monitor work at the job site, coordinate the work of subcontractors, and allocate building materials among their lots on schedule. There are approximately eight Construction Supervisors, depending on the number of projects under construction. Two Recruiters perform outreach, serve as housing counselors in the housing counseling program, manage the program waiting list, do credit counseling for applicants who do not meet the credit standards for participation, and provide education concerning the Section 502 program and loan documents. HIP also has a Land Specialist who performs land acquisition, coordinates zoning and permit work, coordinates infrastructure development, manages predevelopment financing and does grant writing in cooperation with the Director of Operations.

LCCAC's self-help program has a Program Manager, a Construction Manager and a Group Manager. In addition, there are four Construction Supervisors and two Group Coordinators, for a total of nine self-help staff. The Group Coordinators perform outreach and recruitment, do credit counseling and coordinate group meetings. The Group Manager supervises their work and manages most of the financial aspects of the program. The Construction Supervisors are responsible for overseeing work at the job sites, construction training, and maintaining the work schedule for their projects. The Construction Manager coordinates the work of the Construction supervisors, purchases materials and allocates them between sites, and aid the Program Manager in seeking funding. The Program Manager is responsible for securing financing, land acquisition, housing design and supervising the work of the other staff.

While there is variety in the staff positions in each of these programs, each is set up to accomplish key tasks in the self-help development process. Each program has a position to pursue funding. Each has someone with the expertise to do land acquisition or supervise predevelopment work. Each program also has staff clearly charged with outreach, recruitment and training clients prior to construction, and staff whose work entails job site supervision and construction training. A successful self-help program must have the staff expertise to carry through all of these tasks, and organize its staff positions to best utilize staff skills and meet the program's goals. For example, a program like HIP's that emphasizes ongoing homebuyer and credit counseling will devote more staff resources to those education programs, while other programs in areas where developed lots are affordable will not need the services of a separate land specialist, as is the case with SEWHC. Each group emphasized the difficulty of moving clients through training and construction into homeownership. Each group noted that the most important staffing consideration is the ability to coordinate their efforts and work as a team.

OUTLINE: THE SELF-HELP DEVELOPMENT PROCESS

There are many local variations on the basic mutual self-help process, some of which will be highlighted by describing different approaches to issues arising during the course of housing development. The stages of the development process will be discussed roughly in the order in which they must be undertaken by sponsoring organizations. In the field, however, housing development is a complicated process where development stages frequently overlap. Therefore, the outline that follows is somewhat artificial. Nonetheless, the development stages described represent the most common general patterns of development work pursued by self-help organizations.

The basic self-help development process begins with a sponsoring organization securing administrative funding to pay for staff, overhead, outreach to applicants and other expenses. The next step taken by many self-help organizations is to access financing to acquire land, and then begin the process of securing land for building. Once land has been secured, predevelopment activities must be undertaken. Predevelopment activities may include requesting zoning changes, performing engineering studies and environmental reviews, developing infrastructure and obtaining development plan approval and building permits. Many self-help organizations feel that the predevelopment stage is the most complicated and risk-filled stage of the development process.

While the self-help organization is engaged in land acquisition and predevelopment work, it must begin seeking qualified applicants to participate in the self-help program. Outreach activities, applicant screening and creating and maintaining a waiting list are necessary steps early in the self-help process. When the organization has selected qualified applicants for program participation, preconstruction training begins. Preconstruction training may include credit counseling, homebuyer counseling, instruction concerning loan documents and work agreements, and training in basic construction skills.

An organization that has land prepared for development and clients who have completed training is ready to begin building houses. If predevelopment is the most difficult stage for a sponsoring organization, the construction phase is the most challenging for participating households. Because of the grueling hours and hard labor required, maintaining the motivation of the self-help work group becomes the principal challenge for the self-help organization. Once construction is completed, clients finalize their permanent mortgage financing, and are then able to move into the homes which they have built. In programs that use construction loans to cover the cost of building, these loans are paid off when the permanent financing is secured.

At each stage of development, self-help organizations must address a number of challenges. Some of these challenges are common to many housing development ventures, such as trying to create affordable financing arrangements or addressing potential environmental concerns on a site. Others are unique to the self-help process, such as investment in client training and keeping client motivation high through the long process of building the houses.

ADMINISTRATIVE FUNDING

Besides receiving RHS Section 523 grants, other sources of administrative funding may be accessed to cover staff expenses, outreach activities, training expenses and office supply needs.

There are four major funding sources typically tapped by experienced self-help organizations. Federal programs, such as the HOME program or the Community Development Block Grant (CDBG) program, may be used in some cases to cover administrative expenses. Many states also have administrative funding through state housing finance agency programs or state housing trust funds. Some experienced self-help sponsors also pursue their own revenue-generating enterprises, such as sponsoring contractor-built projects in conjunction with their self-help activities. The sale of such homes can generate revenue that will provide supplementary administrative funding, or the proceeds can be deposited in a revolving loan fund established by the organization to cover land acquisition and predevelopment costs. Finally, foundation grants and private, charitable donations are another potential source of administrative funding.

Federal programs, particularly the HOME and CDBG block grant programs, may provide some administrative funds in conjunction with funding for specific project proposals. HOME is a block grant program, and it provides funds to states and local governments for acquisition, rehabilitation and new construction of housing for renters or owners, tenant-based rental assistance, and assistance to new homebuyers.⁴

The key administrators of the HOME program are called Participating Jurisdictions (PJs), and state governments most often perform this role for rural and nonmetropolitan areas. They disburse the HOME funds either directly to nonprofit or for-profit housing developers or to units of local government which select the developers, usually either by formula or through a competitive grant process. Also, some local housing organizations receive additional attention in the HOME program. These are Community Housing Development Organizations (CHDOs), and they are special nonprofit housing groups certified by the PJ. In order to be certified, CHDOs must be community-based, with a demonstrated capacity to meet local housing needs, as well as meet other requirements. Because of this special status, 15 percent of HOME funding is reserved for their use. They may also compete for the remaining 85 percent of HOME funds. The program requires a local match of the HOME dollars allocated for projects. In most cases, these funds are obtained through state government financing programs or through noncash contributions.

⁴Prior to 1996, Native American tribes received a set-aside of HOME funds. In 1996, the Native American Housing Assistance and Self-Determination Act established a block grant formula that replaced housing assistance previously authorized under the Indian Housing Child Development Program, the Youthbuild Program, the McKinney Homeless Assistance Act, HOME, and other sources.

LCCAC in Washington is certified as a CHDO, and the organization has accessed \$550,000 in HOME funds for infrastructure development on an upcoming self-help subdivision. Of this amount, \$130,000 is slated for administrative and staff expenses, including hiring an extra on-site supervisor for the project. LCCAC received these funds from its local PJ in Longview, Washington, rather than from the agency that serves as the statewide PJ, the Washington State Department of Community, Trade, and Economic Development (WCTED). LCCAC staff note that being certified as a CHDO has increased their opportunities to utilize HOME by allowing them to tap into the 15 percent CHDO set-aside in the program.

Another federal source of administrative funds is the CDBG program. Staff at Homes in Partnership feel strongly that a good deal of their program's success rests on their strong, ongoing relationship with local government officials. County Commissioners manage much of the various community development funds that serve the state's towns and smaller cities, and these Commissioners also must approve any proposals for project development within each county. CDBG funds are granted to units of local government for activities that will primarily benefit low- and moderate-income residents of the area. Because of HIP's ongoing success in providing affordable housing, and the organization's positive relationship with Orange County officials, it has received CDBG funding from Orange County for administrative expenses each year over the last 19 years. HIP receives between \$75,000 and \$100,000 each year in these grants.

States also receive CDBG funds through the Small Cities CDBG program, and these funds are used to serve smaller rural communities outside of CDBG entitlement areas that receive their block grant funds through a formula from the federal government. The purpose of the Small Cities CDBG program is to help smaller communities develop by providing decent housing, a suitable living environment, and economic opportunities principally for low- and moderate-income persons. At least 70 percent of each CDBG grant must benefit these populations. Units of general local government with populations under 50,000, which are not named cities of a Metropolitan Statistical Area (MSA) or a participating community in an Urban County (a county with participating jurisdictions with a population of at least 200,000, excluding entitlement communities within the county's borders), are eligible to compete for funds administered by the state. Each state administering the program develops its own plan, which includes the rules and regulations for use of CDBG locally and a system for allocating funds. Allocation may be done through a formula or through a rating and ranking system. CDBG proposals must be consistent with the community development and housing goals set out in each state's Consolidated Plan (ConPlan).

Self-help organizations in more remote rural areas might seek CDBG funding through the state's Small Cities program. The CDBG funds would have to be targeted to a particular project, but a portion of the funding may be designated to cover administrative expenses. Organizations seeking CDBG funds through the Small Cities program still need to enlist the support of town or city officials, since only units of local government may apply to the state for these funds.

There are other federal sources that may be tapped to cover administrative funds, although these

are used by housing organizations with less frequency than HOME and CDBG. For example, if a self-help organization is located in an area with a large concentration of farmworkers, it can seek funding from federal agencies involved in meeting the needs of farmworkers. Because HIP has focused on meeting farmworker housing needs in its service area, it was able to receive more than \$61,000 in administrative funding from the U.S. Department of Labor's Jobs Training Partnership Act (JTPA) Migrant and Seasonal Farmworker Program for 1996 through 1997.

Many states have administrative funds available through agencies that serve statewide housing and community development needs. Self-help organizations that are building in areas that are not designated as "rural" by RHS may wish to seek administrative funding from their state housing finance agency or state housing trust fund. LCCAC provides a good example of this administrative funding source. The organization cannot use its RHS Section 523 grant funds to build in Longview, since the city is not considered rural. LCCAC uses its urban self-help program to build in areas like Longview that are urbanized, and receives funding from WCTED to cover the administrative costs of the program. SEWHC has a similar arrangement with the Wisconsin Division of Housing, which provides some administrative funding for projects developed under SEWHC's urban program. Staff at both of these organizations emphasized that it is not only important for a self-help organization to cultivate positive relationships with local government officials, but it is also important to develop ongoing relationships with state agencies that fund housing and community development initiatives. While this may be a time-consuming effort, it is necessary because these administrative funding sources vary widely by state.

Some self-help groups have pursued development initiatives that generate revenue for the organization, some of which may be used to cover administrative expenses. South County Housing in California has been very creative in this fashion. Since SCH builds and manages rental housing in addition to its self-help activities, the management fees for overseeing the rental properties generate some income that can be used as operating funds. Additionally, SCH generates revenues through the sale of contractor-built homes that are constructed in conjunction with its self-help units. The contractor-built homes are sold at below-market interest rates, making them affordable to households with moderate incomes and low-income households at the upper end of the scale. SCH charges a developer's fee for construction of these homes, and also realizes a small profit upon their sale. These funds are used to cover administrative expenses associated with urban program units, so that the administrative costs do not have to be passed on to the mortgages of the urban self-help clients, driving up the cost of the homes.

SEWHC also generates program income by selling speculation homes, contractor-built housing that is identical to the models built by self-help participants, but sold at a profit. The funds from these sales are used for administrative expenses in SEWHC's urban self-help program and for land acquisition and predevelopment work.

Finally, foundation grants and private, charitable donations may provide supplemental funds for meeting administrative expenses. None of the organizations whose experience is shared here has a full-time grant writer, but all have at least one person on staff with some experience in preparing grant proposals. Most often, Program Directors or the Executive Directors of these

organizations play a role in seeking grant funds and donations from local charities and businesses. The amount of charitable funding received by each of these organizations is very small when compared to their overall budget. However, charitable contributions or small grants may allow groups to invest in needed office equipment or help cover some staff expenses that might not otherwise be funded.

Obtaining administrative funds from a variety of sources allows a self-help organization to use more of its financial capital for home construction. Grants are the most desirable administrative funding sources, since less of the cost of program administration will have to be passed on to client households in their mortgages. Tapping a wide variety of funding sources also means that the self-help organization will not be as dependent on one source of funds to administer its program.

LAND ACQUISITION AND PREDEVELOPMENT ISSUES

Land Acquisition

One of the first decisions a self-help organization must make concerns its land acquisition plan. A number of factors must be considered before a land search begins. Does the organization have the capacity to extend infrastructure into undeveloped lots, or should lots with existing infrastructure be pursued? Are there sources of donated land, or owners who have expressed a willingness to carry the land costs until units have been completed and mortgages closed? Is land available in the area for subdivision development or are small, scattered lots the most affordable option? Are land and transaction costs rising in the area? The answers to these questions will dictate the land strategy adopted by a self-help organization.⁵

The two most prominent concerns when seeking land for self-help development are whether to build in subdivisions or on scattered sites, and whether to purchase raw land or property with infrastructure already in place. These two concerns have a significant impact on financing arrangements for the self-help project and on the logistics of the self-help construction process.

LCCAC, SCH and HIP staff expressed a preference for developing subdivisions with their self-help programs. In California, where SCH works, land costs are very high. SCH has found it more efficient to build whole neighborhoods at a time. While the initial cost of obtaining land for a large subdivision is significant, it is less expensive than purchasing many relatively expensive smaller parcels of land. Additionally, much of the land SCH secures for its projects is former farm land. SCH is able to purchase large amounts of acreage for neighborhood development. Possible pesticide contamination is one of the only significant obstacles to this strategy, but SCH has selected its lots carefully and has not yet purchased property with evidence of a pesticide hazard. SCH staff noted that if pesticide contamination were revealed during pre-purchase environmental review, the organization would probably not purchase the site due to the clean up costs.

HIP and LCCAC expressed a preference for subdivision development over developing scattered sites because of the logistical difficulties of supervising work groups across a wider area. It is more costly, and more supervision is required, to ensure that building materials are divided and shipped to a number of scattered sites. Coordinating participant work schedules is more difficult with scattered sites as well, especially if the sites are located some distance from one another. Finally, HIP staff observed that purchasing enough scattered lots to serve a self-help work group increases transaction costs. If a subdivision is purchased, the organization needs to pay for engineering, environmental review, platting, zoning, permits and presentations for planning board approval once for all of the lots at the site. In the case of scattered sites, these steps must be undertaken for each individual site. This can significantly increase the staff time and cost

⁵See Housing Assistance Council, *A Guide to Rural Land Acquisition and Development* (Washington, DC: Revised 1989), for a more detailed discussion of land acquisition and predevelopment issues.

involved in putting together a self-help land package.

LCCAC and HIP also expressed a preference for securing subdivisions with the lots already platted and the infrastructure already in place. In these situations, construction can begin sooner than is the case with raw land, since the time needed to extend streets, water, sewer and electrical service will not delay construction. In addition, engineering fees, local government project, platting, and zoning have usually already been secured by the owner/seller of the land. So, while developed land may be more costly, it can be more efficient to purchase predeveloped subdivisions. Incidentally, while LCCAC and HIP have always tried to purchase developed land, both groups have found that increasingly they must purchase undeveloped land and oversee infrastructure development themselves. In each case, finding suitable developed lots has proved more difficult due to rising land costs. These groups are finding that in an environment of high cost real estate, the economies of working on predeveloped subdivision are outweighed by the initial cost of purchase. However, even if infrastructure is lacking at the site, purchasing land that is already platted into lots will reduce the likelihood that zoning and boundary changes will need to be made with local zoning and planning boards.

SEWHC, on the other hand, prefers to develop on scattered sites. Small lots located in existing residential areas are preferred by SEWHC because they already are zoned for residential use and do not require the group to seek zoning variances in order to build. These kinds of sites also have established infrastructure and public road frontage, removing the problems and challenges associated with infrastructure extensions and negotiating access to the lots.

HFHI affiliates typically build homes on donated land, or on land purchased with a revolving fund managed by HFHI's central office in Americus, Georgia. Mortgage payments made by participating households are deposited into the revolving fund for use in building more houses. Since most HFHI affiliates produce between one and 20 houses per year, housing development typically takes place on scattered lots. As is the case with self-help organizations, obtaining lots with infrastructure in place is preferable. Since HFHI relies very heavily on volunteer labor and donated materials to make homes affordable to low-income clients, having to seek donations or coordinate volunteer work on infrastructure development is very difficult. Nonetheless, HFHI affiliates may receive a donated parcel of raw land, and will often seek local government assistance or use HFHI's revolving fund to cover infrastructure development.

Each group noted similar concerns in their choice of land acquisition strategy. The high cost and limited availability of developed land figured prominently in decisions to pursue raw land requiring infrastructure development. In SEWHC's part of Wisconsin, the transaction costs associated with infrastructure development and the limited availability of affordably priced developed subdivisions prompted a choice of scattered site development. Ultimately, lowering costs at this early stage of the development process means that self-help homes will be more affordable to the low-income clients a self-help organization serves.

Acquisition Financing

Once suitable land has been located, the self-help organization must find a way to finance its purchase. A group may purchase land outright with its own funds or a loan. This gives the group title and control of the land, but can be costly. In the self-help process, land acquisition financing is usually paid off through the mortgages of the self-help clients. Land costs are one factor in the total cost of their mortgages. However, if there is a delay in construction for any reason, the self-help organization must cover the cost of interest that accrues over that period. Eventually, this added cost must be passed on to the self-help participants in their mortgages. Another approach is to seek an option on the land, where the self-help sponsor pays the owner/seller a fee to secure an agreement that the land will be sold to the organization at a future date. In this way, the group gains site control with a smaller amount of money up front for the option, and does not risk carrying the cost of interest over a longer period of time. One possible difficulty associated with this choice is that the self-help organization may not be ready to proceed with construction at the time the option runs out. This may mean that the group will have to renegotiate with the owner/seller, or may lose the right to purchase the land if other buyers have shown interest.

There are a number of ways that self-help organizations can reduce their land acquisition costs and reduce the risks in securing land. Probably the most effective way to secure affordable land is by having land donated to the organization. Homes in Partnership has had a number of sites donated by Orange County, or offered by the county at very low cost. One potential problem may be that the donated site is undesirable in some way, perhaps having an environmental hazard present that needs to be mitigated before predevelopment work and construction may begin. However, if the donation comes through a unit of local government, the self-help sponsor is likely to have an influential partner in speeding up the process of addressing site deficiencies.

Another strategy that may be pursued is seeking owner subordination in the acquisition of land. This arrangement is a variation of seeking an option on land, but represents a greater commitment on the part of the owner/seller. HIP staff cite this arrangement as the most preferable as they seek land for self-help subdivisions. The property owner takes a nominal fee for use of the lots. In HIP's service area, the typical fee is a \$500 deposit to secure each lot. As self-help participants close on their loans, payments are made to the owner/seller. In some cases, the owner/seller may agree to forego collection of the land cost until the homes have been completed, even if the mortgage loans were closed prior to construction (as is the case with RHS Section 502 loans). LCCAC has pursued similar arrangements with owner/sellers in Washington. The group will make an agreement to provide between 50 and 65 percent of the property's appraised value as the downpayment. The owner/seller supports the balance until loan closing on RHS 502 mortgages or until construction financing has been secured through LCCAC's urban self-help program. At that point, the remainder of the land cost is paid off. This arrangement lowers the initial borrowing costs for LCCAC, and it means that LCCAC does not face a time limit to complete purchase of the property as is typical under many option

agreements. This reduces the financial risks that may ensue from predevelopment or construction delays.

South County Housing's land acquisition efforts have benefitted from growth control measures in Gilroy, California. Gilroy has a growth limit measure that limits construction to 4,000 new units prior to the year 2005. However, about 900 of those units are set aside for affordable housing development. This creates a climate in which sellers are looking for a buyer who can use the land in a timely fashion. Since SCH is a large-volume housing producer and its units meet the affordable housing conditions, sellers will offer excellent terms of sale. Typically, SCH pays 10 percent of the acquisition price at the closing of the land deal, and the seller carries the remaining 90 percent in return for a note from SCH and a lien on the site subordinate to construction or other loans. When self-help clients close on their mortgages the note is paid off. In the case of the urban self-help program in Gilroy, the mortgages are not closed on until construction has been completed. This adds to SCH's interest costs. However, sellers have been cooperative in discounting the cost of the land because they would not be able to sell it as easily to a for-profit developer of market rate housing under Gilroy's growth limits.

Finally, there is a new federal source of acquisition funds available specifically for self-help housing development. The U.S. Congress authorized \$15 million for the Self-Help Homeownership Opportunity Program, to be allocated by HUD and spent in FY 1997 for the acquisition and development of sites for self-help housing. Through a national competition overseen by HUD, the Housing Assistance Council received \$13.5 million of these funds, which will help purchase and develop at least 1,350 building sites. HAC administration of the SHOP program entails making interest-free loans to self-help organization for site acquisition and infrastructure development. The loans must be repaid when the sites are sold to self-help clients or at the end of two years. A 1 percent service fee is charged to cover closing costs. Where the loan amount does not exceed \$10,000 per site, only 25 percent of the loan must be repaid if production goals are met, with the remaining 75 percent converted to a grant. The self-help organizations are to use this grant to establish their own revolving loan funds for site acquisition, site development and grants to subsidize site costs for self-help clients. HAC will establish a revolving loan fund with the repaid loan proceeds and fund additional self-help groups needing site development funding. As of June 1997, HAC has approved 81 SHOP awards. This program represents a substantial new resource for self-help land acquisition and infrastructure development.

Habitat for Humanity International also received funding under the SHOP program, in the amount of \$25 million. HFHI's award must also be used for land acquisition and site development. HFHI affiliates also may use HFHI's revolving fund for land acquisition or infrastructure development.

Some organizations have their own revolving loan funds which are used for site acquisition. HIP is such a case, although the loan fund is not large enough to purchase sizeable subdivisions. HIP

uses its revolving loan fund primarily for the purchase of scattered site lots in areas where it is difficult to secure subdivisions.

States may also have housing development programs with funding for land acquisition. SCH obtained \$888,000 at 7.75 percent interest from the California Low-Income Housing Fund to acquire land for a subdivision in Hollister, California. Low-interest lending by state housing trust funds or housing and community development programs offers another acquisition financing option for new self-help developers. Newer organizations may find it easier to work with a state agency as opposed to competing for funds from a national or federal source. The process of applying to state programs will also help the organization cultivate relationships with state officials that will support the group's self-help efforts in years to come.

Project Planning, Zoning, and Environmental Issues

In most cases, lots with established boundary lines and infrastructure in place will already have appropriate zoning for residential development. Undeveloped land is often not zoned for residential use, so the self-help group must move quickly to seek zoning changes and variances from local zoning and planning boards, so as not to delay infrastructure development. In either case, the organization should confirm the zoning on the land and do at least a preliminary environmental review before a deal for purchase is closed.

A problem may occur as a result of changes over time in city or county zoning codes, where changes may have been made to the minimum lot size requirements for residential development. Many rural communities do not have strict zoning codes, and some do not have codes at all. As more of these communities seek to control growth and attract economic development, new or stricter zoning codes are being enacted. A self-help group may purchase a subdivision only to find that the existing platting on the lots is too small to comply with newer residential code requirements.

Established self-help organizations have taken a number of different approaches to potential zoning conflicts. In Florida, HIP works closely with county officials to resolve potential conflicts when seeking zoning variances. Typically, it takes between three and four months to receive approval for a variance application in HIP's service area when officials support the variance, and the process can take much longer if there is opposition to the petition. HIP presents all of its development proposals, including proposed variances to zoning, to county officials for input before submission to the County Development Review Committee. The Development Review Committee must review and approve plans for all new construction. It is made up of county water and sewer staff, zoning board representatives, health department staff, city engineers, and other professionals in related fields.

By using input from county officials and the Development Review Committee, HIP is able to adjust its proposals to meet all of the site and zoning concerns that may arise when variances and permits are sought. Each proposal by HIP usually must go through three or four revisions before the organization will officially submit requests for variances and permits, and this is the most

time-consuming stage of the predevelopment process. Nonetheless, HIP staff observe that this review process has helped them foster close working relationships with all of the local officials who must approve their proposals, and allows the organization to adjust its development plans to preempt any potential opposition from neighbors of the project. If local officials voice strong concerns about a proposal during these preliminary reviews, HIP will not pursue the project. This allows the group to avoid commitment of substantial funds to a project that is not likely to win the approval of planning and zoning officials.

In California, SCH also emphasizes involving local officials and future neighbors in the project planning process. SCH seeks input from neighbors and city council members during the planning process, and uses their input to revise its subdivision plans before make requests for variances or seeking permits. This has allowed them to seek variances that might not otherwise have been approved. For example, SCH was able to acquire city permission to increase density at a subdivision above that allowed by the city's residential zoning laws. This allowed the group to build more homes at the site, and to lower the site costs that would be apportioned between the mortgages of the self-help clients. SCH has also made efforts to adjust its subdivision plans to address neighbor concerns about increased traffic generated by new projects. By involving neighbors and city officials, and clearly responding to their concerns, SCH has been able to preempt most potential conflicts that might arise when seeking zoning variances or building permits.

SEWHC does careful research before purchasing land in its Wisconsin service area. If variances must be sought, the group will make inquiries concerning potential opposition to rezoning. If there appears to be a problem with zoning officials or neighbors concerning rezoning the land, the group will not purchase the property. While this approach is similar to that taken by HIP and SCH, it does not require the same level of government official involvement in the project planning process.

Conflicts over site proposals or zoning issues may still arise, despite the involvement of local officials in crafting requests for variances. For example, LCCAC purchased five acres of farm property in the City of Yacolt, Washington. The lots had already been plotted prior to purchase, with an existing farmhouse already at the site. The city's water system extended into the property, but LCCAC needed to install septic systems for waste disposal. This raised environmental concerns, so LCCAC petitioned the city and was allowed to adjust the lot boundaries to accommodate the septic system requirements. LCCAC even adjusted the siting of houses on lots and placement of the septic systems to respond to the city's plans for future extension of sewer service to the site, placing the septic systems in the front of lots so that new sewers could be hooked up more easily once the extension was made. However, the subdivision plan led to an intergovernmental conflict between city officials in Yacolt and Clark County officials. Clark County had moved to halt the development under the terms of a county growth management plan. This delayed implementation of the zoning and boundary adjustments negotiated with Yacolt officials. However, because the plots had been laid out and rezoned for residential use before enactment of the county's growth management plan, any residential development on the lots was "grandfathered in" and not subject to the terms of the county plan.

In this case, while LCCAC found itself in the midst of a zoning and planning conflict, having the support of local planning, zoning and elected officials in Yacolt allowed the project to proceed with only minor delays.

Planning, zoning and environmental review are predevelopment tasks that often must be undertaken concurrently. Experienced self-help organizations do at least a preliminary review of potential zoning conflicts, potential environmental hazards and local opposition to plan features. However, challenges in these areas may still surface later in the predevelopment process. For example, a preliminary engineering and site review may reveal no potential environmental concerns, but performance of the detailed review necessary to obtain a building permit may show problems with buried trash or that the site is too close to groundwater sources or wetlands. The most common kinds of environmental problems include buried trash or old tires on site, proximity of proposed septic systems to water sources, the impact of increased traffic, pesticide presence and drainage inadequacies at the site. Nonetheless, these kinds of problems may be easily solved if they are at least considered as part of the project planning process, and local officials and neighbors more supportive in solving the problems if they have played a role in project planning. Environmental problems of a more serious nature, such as toxic waste or a site requiring major reengineering to accommodate drainage, will usually show up on a preliminary review. The more complete the review process, the more likely it is the group can avoid a financial commitment to problematic properties.

Infrastructure Development

While most self-help organizations prefer to secure lots or subdivisions with infrastructure already in place, rising costs for developed land are forcing groups to install infrastructure on undeveloped land in many regions. When developing infrastructure, costs can be contained by avoiding delays due to conflicts over plans and by choosing land that is located near utility junctions.

One suggestion when purchasing raw land is to secure subdivisions with frontage on a county or city road. In some cases, doing extensive road work will delay a project because of planning changes requested by city or county engineers. In other cases, there may be another owner of land between the subdivision and the public roads, and extension of the subdivision's roads to the public right of way will have to be negotiated with the owner of the obstructing property. With frontage on main roads, predevelopment costs that would have to be passed on to self-help clients can be kept to a minimum. Locating land near utility junctions serves the same purpose as seeking property with frontage on public roads. Even if the subdivision requires infrastructure development, close proximity to public utility arteries can significantly reduce the cost of water, sewer and electrical extensions onto the property.

One issue that needs to be resolved is the responsibility for maintenance of the infrastructure. In many cases, it is desirable to have local government control roads, water lines and sewer systems. In this way, county or city governments are responsible for upkeep of the services. However, in some instances it may be beneficial to maintain control of some of the infrastructure in a subdivision, particularly roads. For example, in one of SCH's subdivisions the streets are the property of the neighborhood's homeowners association, which is composed primarily of self-help clients. The private streets do not have to meet the prevailing codes in California concerning width, and so were designed narrower than codes in the area stipulate. This meant that SCH was able to build more houses in the subdivision and thereby increase the affordability to program participants by reducing the land cost per lot. It also provided a community investment for the homeowners association. Having responsibility for maintaining the streets offers a tangible common concern for all members of the association, and working to maintain the infrastructure of their neighborhood has strengthened the association.

In general, these established self-help groups preferred lots with connections to city infrastructure, but in rural areas many properties are remotely located. This necessitates development of wells and septic systems. The complications associated with well and septic system development are primarily related to engineering and environmental impact. The Washington case of LCCAC having to adjust lot boundaries to accommodate septic system requirements is a good example. Because LCCAC staff invest a lot of time in predevelopment planning and involve local officials in the process, the organization is generally able to solve these kinds of infrastructure complications quickly and efficiently before they drive up the cost of development.

Predevelopment Financing

As is the case with land acquisition financing, savings achieved by securing affordable predevelopment financing will reduce the cost of the self-help clients' homes. There are federal and state grants and low-interest loans that can be used for infrastructure development, and many groups have also used their own revolving loan funds to lower the cost of predevelopment work.

While Community Development Block Grants are used by self-help groups for land acquisition, these funds are most often associated with infrastructure development projects. As noted with their use for acquisition financing, a self-help organization must enlist the support of local government officials in order to access these funds, since CDBG is dispersed by units of local government. Additionally, working closely with local zoning, planning and elected officials will help a self-help group keep abreast of city and county development planning. Locating proposed projects near growth areas in the region can improve the likelihood of accessing CDBG. If a city is planning to extend water and sewer service to an area in anticipation of future commercial or residential growth, a self-help group's project proposal in that vicinity can provide the rationale for obtaining CDBG funding. With CDBG covering a significant portion of a project's infrastructure development, fewer land and infrastructure costs have to be passed on to the self-help clients' mortgages.

In addition to using funds from the SHOP program for land acquisition, self-help groups may use the program to cover site development and infrastructure costs. According to SHOP program staff at HAC, approximately 70 percent of HAC's 1997 SHOP awards went to groups that will use the funds for both acquisition and predevelopment. HAC also manages other revolving loan funds whose purpose is to finance land acquisition and infrastructure development in rural areas around the nation, and many of the established self-help organizations have used HAC loans in the past, and in conjunction with funding through the SHOP program. The McAuley Institute, a national nonprofit organization that serves the housing needs of low-income women, also makes loans for acquisition and predevelopment work. Self-help organizations in the western United States may also apply to the Rural California Assistance Corporation (RCAC) for acquisition and predevelopment funds.

As is the case with land acquisition financing, many states have programs that will provide financing for infrastructure development at affordable rates. Many of the state programs described under acquisition financing can be used to cover predevelopment work as well. In addition to the state funds it has accessed for land purchase, LCCAC has received funding from the Washington Community Development Loan Fund. This program's funding covers engineering, permits, and fees, with a limited portion of the funds used to offset administrative costs. If a project cannot go forward past the predevelopment phase, the LCCAC does not have to pay back the money. SCH has used funding from the California Low Income Housing Fund to finance predevelopment activities in some of its subdivisions, which has allowed SCH to refinance purchase and development loans at a lower interest rate. The savings from this refinancing can be passed on to self-help client mortgages.

A self-help group with its own revolving loan fund can use it to finance predevelopment work, such as paying engineers, doing environmental impact studies, or developing infrastructure. However, few local groups, even the large, well-established ones, have loan funds great enough to pay the entire cost of infrastructure development on a large subdivision. HIP staff observed that the only time the group's revolving loan fund is used to cover infrastructure costs is on a few scattered lots when other financing sources will not cover the entire cost of predevelopment.

Most affordable housing developers feel that the predevelopment phase of development is the most risky and complex component of the development process. Increased costs due to complications in acquiring land and preparing it for building, while not appearing large at first sight, will have an impact on the affordability of self-help homes. Careful planning and tailoring the organization's predevelopment strategies to local conditions are the best general ways to limit the cost and frustration that will ensue when complications and delays occur. Even the most experienced self-help groups face delays, problems and challenges in acquiring and developing their land. Good organization, planning and learning from their past challenges have allowed them to develop exemplary self-help programs.

PARTICIPANT SELECTION AND PRECONSTRUCTION TRAINING

Marketing and Outreach

Experienced self-help organizations find that they have to do only limited marketing and outreach work in order to attract applicants to their programs. However, as experienced groups expand their service areas, they must “re-market” their services. In this sense, experienced organizations face the same challenges of publicizing their self-help programs as are faced by newer self-help groups. Additionally, outreach and marketing strategies serve to limit the potential opposition of neighbors (NIMBY, or “not in my back yard”). Much of the marketing and outreach done by experienced groups is focused on educating the public about the benefits of self-help housing to the community.

When seeking new applicants, experienced mutual self-help groups will advertise in local media. Smaller organizations will focus on print media such as local and regional newspapers, with an occasional advertisement on a local radio station. Larger organizations, like LCCAC, will prepare short commercials for broadcast on local or public television stations. Another good strategy for reaching low-income applicants is distribution of program brochures to local service agencies and community associations, like Head Start programs or Parent-Teacher Associations. When expanding to a new area, an experienced self-group might take the time to distribute brochures and flyers door-to-door in low-income neighborhoods near the proposed project location. Some groups also hold informational meetings in the project communities, speaking at churches, colleges, community organizations or factories. These meetings also serve the purpose of informing neighbors about the upcoming project and responding to their concerns. Whatever outreach efforts are pursued, once a self-help organization has established itself in its service area, word-of-mouth becomes the most frequently cited reason by applicants for their knowledge of the program.

Organizations respond to local opposition in a variety of ways, depending on the dynamics of the community environment and past experience with NIMBY resistance. SCH has adopted a strategy of having a significant community contribution to the project planning process in order to reduce neighbors’ concerns about proposed projects. LCCAC will not generally hold open community forums, since it is too hard in a large gathering to educate those in attendance about the self-help process. Instead, LCCAC staff work with local officials in the planning process, and through their involvement reduce community concerns about projects. LCCAC also produces photographs and architectural renderings of the homes they will build, and local officials may then share these with concerned residents. Often, when neighbors see the quality of the homes being built, they will support the project. SEWHC will send staff to meet with individual neighbors who voice concerns about a nearby self-help development, and they also bring with them materials to show the neighbors the appearance of the self-help homes. SEWHC staff also encourage their self-help clients to introduce themselves to neighbors while they are building. In many cases, through these introductions and by observing the hard work and dedication of the building groups, neighbors quickly appreciate the presence of the self-help participants. Finally, when HIP has encountered strong neighborhood opposition to a project

proposal, it will seek sites elsewhere. Much of HIP's success rests with its good relations with city and county officials in its service area, and generating undue conflict among residents makes it more difficult for HIP to produce units. In most cases, HIP selects areas to build where the self-help homes will contribute greatly to the quality of the neighborhood, and concerns are usually very limited. Once construction begins, neighbors in most cases are pleased with the new additions to their area.

Eligibility Criteria and Participant Profiles

The rural programs run by these experienced self-help groups all use the eligibility criteria of the RHS Section 502 Self-Help Loan program. SEWHC is the only group whose non-RHS urban self-help clients have incomes above the Section 502 limits. LCCAC, HIP and SCH all serve clients in their urban self-help programs in the same income range as those in the RHS-financed rural programs.

In order to qualify for a Section 502 Self-Help Loan, an applicant must be without decent, safe and sanitary housing. The applicant must be unable to obtain decent housing with his or her own resources or through any other lender on reasonable terms. He or she must be a citizen of the United States, an alien admitted for permanent residence, or an alien on indefinite parole (legally admitted for an indefinite period of time, although not necessarily permanently).

In order to qualify for a Section 502 loan, an applicant must have an adequate, dependable income to meet family living expenses, taxes, insurance and debt retirement on the housing loan. If the applicant's income is insufficient, another party may co-sign. RHS will consider income insufficient when principal, interest, taxes and insurance (PITI) exceeds 29 percent of repayment income for those below 50 percent of median, or 33 percent for those below 80 percent of median, or when total debt exceeds 41 percent of income. If an applicant shows evidence of poor credit history, he or she will not qualify for a loan. Evidence of poor credit history includes two debt payments more than 30 days late within the last 12 months, a foreclosure within the last 36 months, two or more rental payments more than 30 days late within the last two years, or outstanding collection accounts with a record of irregular payment and no satisfactory arrangements for repayment. Other similar criteria also figure into determining the credit-worthiness of Section 502 applicants.⁶

Most experienced self-help groups have many households on their waiting lists who would otherwise make good self-help candidates, but have credit and debt problems that disqualify them for a Section 502 loan. Most self-help programs therefore have some credit counseling

⁶For more information, see Housing Assistance Council, *Rural Housing Service's Section 502 Homeownership Loan Program: A Guide for Applicants*, Draft (Washington, DC: Revised April 1997).

component of their training which is made available to all applicants, so that households on the waiting list may correct credit problems and qualify for the self-help program at a later date.

HIP serves Florida households between 50 and 80 percent of area median income, with at least 40 percent very low-income households as clients. The majority of households are headed by an individual between 20 and 30 years old, with an average of five children per household. The majority of clients are farmworkers, with most clients African-American or Latino. Staff did not have specific data, but a “sizable minority” of clients are single-parent, female-headed households.

Approximately 40 percent of SEWHC’s clients in Wisconsin are very low-income households, and 60 percent are low-income. The group’s urban program will serve clients with income at or above the area median. Approximately 45 percent of clients are Latino, 45 percent white, and 10 percent Asian or Native American. About one-third of households are single-parent, female-headed households, with only a few two-parent households in the program without children. Over half of the heads of households are under 30 years old, about 20 percent are between 30 and 39, 20 percent between 40 and 49, and only 5 percent older than 50. Most of the households served are farmworkers.

The average income of the Washington households served by LCCAC is below 50 percent of the area median. According to LCCAC staff, there is an average of at least one elderly household and two Latino households for each building group of eight families. A small number of households are recent Russian immigrants, and approximately 60 to 65 percent of all client households are white. About 95 percent of households have children, and about 50 percent of these are single-parent, female-headed households. In the last two years, only about 25 percent of new participants have been female-headed households. Although LCCAC did not have specific data, staff note that many of the clients served by the organization are farmworkers.

SCH serves an average income level of 62 percent of area median income in its California service area. Approximately 47 percent of their clients are Latino, 4 percent Asian-American, with a few African-American and Native American participants. The remainder of the clients are white. The majority of SCH’s clients are farmworkers.

While the rural and urban self-help programs of these organizations do not serve the poorest of the poor in their service areas, each program serves a substantial number of households with incomes below 50 percent of the area median. Between the sweat equity savings, mortgage subsidies and downpayment assistance, these programs build homes affordable to all but the poorest clients.

Waiting Lists

Each group profiled in this report has far more applicants than they can serve with their current resources. In each case, it often takes up to two years from the time a household applies to a self-help program to the time they are notified of an opening with a building group. Each group

also admits many households to their waiting list that do not meet all of the eligibility criteria for program participation. Sometimes this is because the household's income is too low, but most often it is because the household has credit problems. Each group has some training or counseling mechanism in place to advise applicants about improving their incomes or correcting problems with their credit.

There are different ways that waiting lists can be managed. One approach is to have a single pool of applicants, with clients selected from the top of the waiting list until enough qualified applicants are selected to fill a building group. Another approach is to allow applicants to state preferences for different areas they would like to build their homes. A separate waiting list is maintained for each area in the self-help group's service region, and when a project is proposed for a particular area, clients are selected from that area's waiting list. Another approach is used by SCH, which maintains a single waiting list, but selects clients for available building slots by lottery. Since SCH has a large backlog of applicants, SCH staff feel that a lottery is the fairest way to select program participants.

HFHI affiliates pursue many of the same outreach strategies as mutual self-help groups, advertising in local media or attending meetings of church organizations. However, HFHI affiliates have a different structure in place for selecting clients. Each HFHI affiliate has a local committee composed of community volunteers. The committee interviews and screens prospective clients, and then selects participants through deliberations.

Staff at each self-help organization emphasized the importance of continuing to generate interest in their self-help programs, thereby maintaining sizable waiting lists. Each group estimated that approximately 10 applicants are required to secure one qualified household. For example, if applicants are selected off waiting lists but have not yet corrected credit deficiencies, then they must be passed over and another candidate selected. If the waiting lists do not have enough households, it becomes more difficult to secure program participants who will meet RHS and urban self-help program eligibility criteria. According to staff at each organization, credit problems are the most common cause of ineligibility.

Preconstruction Training

In the self-help development process, preconstruction training is the stage which varies the most from one organization to another. Preconstruction training may include review of loan applications and builder's agreements, credit counseling and homebuyer education, training in construction skills, and others areas of training pertinent to helping self-help clients become homeowners. The content of preconstruction training will vary from one organization to another, depending on the type of construction being done, the local construction regulations, the training needs of typical applicants in the area, and the organization's financial and staff resources. Preconstruction is most often carried out or overseen by group coordinators, the staff in a self-help organization that are responsible for recruiting participants, managing waiting lists, providing education concerning the program and loan documents, and sometimes managing family building accounts.

Preconstruction training generally takes three to six weeks prior to the start of house construction, depending on the program. LCCAC is the only group profiled that provides extensive training in construction skills during the preconstruction stage. HIP, SEWHC and SCH do most of their construction skills training at the job site once building has begun, providing on-the-job training throughout the construction stage.

Every self-help organization will have to spend time reviewing program requirements and loan documents with members of the self-help group. In the case of Section 502 loans, participants will also have to meet with RD staff, usually once as part of the loan application process, once to close the loan, and once upon completion of the home. Every self-help program will also spend a considerable amount of time reviewing expectations and responsibilities for the construction stage. RHS requires that the Section 523 grantees submit a sample “membership agreement,” also called a “builder’s agreement” in many self-help programs. The builder’s agreement functions as a contract between the self-help organization and the client, and specifies all of the conditions of program participation covered in preconstruction workshops. Beyond these topics in common, however, self-help organizations must tailor their training to local conditions, the needs of clients and the specifics details of each self-help program.

Many self-help organizations will use the preconstruction phase to form a self-help association among group participants. This is a step recommended by RHS, although it is not a requirement. A self-help association will elect officers and sign a group agreement, sometimes included with each household’s builder’s agreement and sometimes as a separate document. The association provides a formal structure for participants to give input on the self-help process and progress toward their goals. It also provides a formal framework for resolving disputes within the group. Finally, the association will often carry on as a homeowners association after the families have moved into their completed homes. SCH is the only group covered that establishes formal self-help associations among its clients, although the other groups establish such things as grievance procedures and mechanisms for client feedback as part of the builder’s agreements participants must sign.

HIP’s preconstruction training places a very heavy emphasis on homebuyer education and credit counseling. Extensive homebuyer education allows HIP to help income-eligible households take care of credit deficiencies that would disqualify a family from participation. More important, though, is the role of early and ongoing counseling in improving household budgeting skills, and thereby reducing mortgage delinquency and the threat of loan default. HIP’s homebuyer counseling program requires households to create savings plans, and counseling continues periodically during the construction phase and after homes have been completed. Clients are counseled concerning credit, budgeting, mortgage default, tax exemption, and insurance. They also receive instruction concerning home maintenance, interior and exterior decorating, and good neighbor relations. HIP documents a default rate of less than 5 percent for households who have completed its homeownership counseling program. HIP is certified by HUD as a homeownership counseling organization.

HFHI affiliates provide preconstruction training through their local committees. Often, a

committee will appoint family liaisons to befriend client households and provide advice during difficult times. The committee, in conjunction with the affiliate director or volunteer coordinator, will also instruct clients in the responsibilities of program participation. Construction skills training is also provided to community volunteers who will be working on the Habitat for Humanity home. Clients who will contribute to house construction will also attend these classes. Some HFHI affiliates have organized classes on such topics as budgeting and home maintenance, or on building self-esteem. Smaller affiliates that cannot provide organized classes may find local professionals, such as money-managers, to volunteer their time and counsel HFHI clients.⁷

To adequately prepare clients, every self-help program should provide training which covers the general self-help process, project budgets, loan documents, and household financial responsibilities under the terms of the program. In addition, programs which have participants performing a substantial amount of skilled carpentry work will usually benefit by including extensive construction skills training during the preconstruction phase. Homebuyer and credit counseling is a component of most preconstruction training, and can preempt many potential problems such as poor credit performance and mortgage default after the homes have been completed. Each self-help group should consider the most likely problems that may arise for its clients, and the most complicated aspects of its self-help program, and design training workshops to address these concerns. The more care an organization takes in planning training for its clients, the more manageable are the problems that will inevitably arise over the course of construction.

⁷Joan Kirchner, "Christian Home Builders Face Test," The Associated Press, February 8, 1997.

THE CONSTRUCTION PROCESS

Participant Labor Contribution

The RHS self-help model requires that participants contribute at least 65 percent of the labor necessary to build their homes, and this level of labor contribution also holds for the urban self-help programs covered in this report. The labor contribution may be tracked through a log of the hours worked, or by awarding points for completing particular tasks.

In the case of tracking labor contributions by ranking tasks, if all of these tasks are completed, and the full complement of points earned, self-help clients will have performed no less than the required 65 percent labor contribution. Points accrued roughly correspond to the hours required to perform the task and task difficulty. For example, HIP clients earn a maximum of 8 points for assisting with pouring of the footings, foundations and columns, work which involves substantial digging and heavy lifting, but only one point for assisting with installation of cabinets and counter tops, a less rigorous task in the building process.

An important feature of job site organization is the group's time sheet, which may be kept by the construction supervisor or by an individual selected by the self-help association. The time sheet may track the hours that group members work, or their labor contribution to particular tasks for purposes of crediting labor contribution points. Whoever keeps the time sheet, however, it is the construction supervisor's responsibility to verify that each member of the group has contributed a fair amount of work, and to intervene if a household becomes delinquent in meeting its labor contribution. The most common disputes at the job site often involve conflicts over how much labor has been contributed by each household.

Most self-help organizations accept the assistance of volunteer labor. In the vast majority of cases, volunteers are family and friends of the participants. Occasionally, a church or civic organization will contribute labor to a self-help building group. There are a number of ways in which self-help organizations may credit participants for the contributions of volunteer labor.

SCH requires each household to contribute at least 40 hours of "productive labor" each week. The construction supervisor determines whether or not a household has contributed productive labor. No credit is given for less than two hours worked on any given day. No children under 16 years old are permitted at the work site. In a two-parent household, the applicant and spouse are each required to work a minimum of 12 hours per week. In a single-parent household, the head of the household must work at least 15 hours. Each household may have as many as three volunteers, who must be signed up with the construction supervisor for accident insurance purposes. Only the hours of two volunteers can be credited to a household toward meeting a day's work requirement.

LCCAC also requires specified hours by the head of each household, with the remainder of the household's contribution provided by friends, family or volunteers. Any number of volunteers may assist a client household, but they must sign up with the construction supervisor in advance

so that a work schedule may be prepared. The volunteer hours are credited to the household that recruited them, but the head of the household must still put in the minimum hours required each week. In addition, volunteers must be at least 16 years old and provide their own tools. Occasionally, volunteer from a church or civic organization help at building sites, and if this occurs their hours are divided up among all the households in the self-help building group.

In addition to receiving volunteer help from churches and civic organizations, HIP will use labor provided by a local youth service organization which provides at-risk youth the opportunity to develop job skills in structured and supervised environment. HIP will also use labor from individuals that the courts and prisons require to do community service. SEWHC encourages participating households to recruit volunteers, primarily family and friends. The hours worked by the volunteers are credited to the household that recruited them, although there are no separate records to distinguish volunteer labor from that of the self-help clients.

HFHI affiliates require their clients to contribute 300 hours of labor. Most often, the clients will contribute the labor to construction of their future home. However, in many cases clients may contribute some labor to their homes, and then donate labor to the construction of other HFHI houses in the area. If the client household members are elderly or have disabilities, the HFHI affiliate may instead require the household to contribute volunteer labor to other kinds of jobs, such as doing office work for the affiliate or helping to raise donations.

HFHI affiliates rely very heavily upon volunteer labor, and HFHI has developed sophisticated training for volunteer coordinators so that affiliates may most efficiently use the volunteers at their disposal. The emphasis on managing volunteers at the job site is to coordinate the work of groups with different skill levels. HFHI affiliates have a volunteer application which is used to rank volunteers by skill level. Volunteers may be skilled professionals with the ability to oversee the work of others, semi-skilled workers who can take responsibility for their own work and tools, and unskilled workers who can perform basic tasks with supervision or provide basic labor in assisting skilled workers. HFHI also classifies tasks according to the skill mix of volunteers necessary to carry them out. For example, laying brick is a skilled task that can be done with two professionals and one semi-skilled volunteer. Unskilled volunteers would add to the work time for the task, and increase the risk that it would not be performed properly. On the other hand, landscaping is a task that could be done effectively by five unskilled workers under the supervision of one semi-skilled volunteer. HFHI affiliate directors and volunteer coordinators carefully lay out a work plan according to the availability of volunteers of different skill levels. In this way, skilled professionals are present for complicated tasks, and on days when basic labor is required, large numbers of unskilled volunteers will be present.⁸

The role played by volunteer labor in the construction process is one of the most significant differences between the non-owner volunteer model exemplified by HFHI and the mutual self-

⁸For more information about Habitat for Humanity's coordination of volunteer labor, see Drew Cathell, "How to Schedule Volunteer Construction Workers," *Cost Cuts* (December 1988).

help model. In most cases, volunteer labor is an extremely small fraction of the labor that goes into the construction of mutual self-help homes, with the exception of labor contributions by family and friends. Since households need to contribute at least 65 percent of the labor needed to construct their homes, volunteers from charitable and religious organizations generally play a smaller role at self-help developments. However, volunteer labor contributions and support often give participating households an important morale boost or the opportunity to take part of a day off to tend to family business. Ultimately, though, it is the self-help clients who primarily build the houses in their free time.

The Construction Supervisor

Once construction begins, the construction supervisor is the glue that holds the whole process together. The construction supervisor coordinates the work done by participants with that contracted out to specialists. He or she makes sure that building materials are delivered on time and in the proper quantity, and divides them among the houses being built. The construction supervisor must be present for site inspections by local building inspectors, and is responsible for making sure the construction meets all appropriate codes. He or she provides instruction in the building skills required to complete the job, and is the primary mediator when difficulties arise between clients at the job site.

Each group interviewed emphasized similar qualities sought in their construction supervisors. Obviously, a self-help construction supervisor needs to have basic construction skills and knowledge of the construction process. However, most experienced self-help organizations place more emphasis on the interpersonal skills of their construction supervisors. This position requires an individual who can resolve group conflicts quickly and fairly, and retain the respect of the group members. In addition, the difficulty of constructing homes while working full-time jobs demoralizes even the most enthusiastic self-help clients. The construction supervisor must be able to motivate participants constantly over a long and difficult building period.

LCCAC staff noted that they can always upgrade the construction skills of a supervisor, but that it is difficult to teach the interpersonal skills and patience needed for working with a self-help building group. Each self-help organization also noted that in many cases, construction supervisors who have worked exclusively with for-profit contractors often do not work out very well. These individuals are used to focusing only on building-related problems, and often have difficulty maintaining patience with self-help workers that need a significant amount of training and supervision. Almost all experienced self-help organizations have at least some construction supervisors who are graduates of the self-help program. These individuals are ideal for the position because they have developed the necessary construction skills through building their own homes and are familiar with the self-help aspects of the organization's program. They have gone through the process themselves, and are therefore able to preempt many potential problems

before they arise. They also offer an example to participants of what can be accomplished if they complete the program.

Contracted Labor and Construction Process Models

While self-help clients perform a significant portion of the labor needed to build their houses, some tasks are too large, too complex, or require the presence of a licensed professional trades person. Generally, self-help organizations will seek subcontractors to perform these tasks. Tasks that would be very costly if not done correctly the first time are also often done by subcontractors. Every self-help group will have a different division of labor between self-help participants and subcontractors. Which construction tasks are performed by subcontractors depends primarily on the self-help construction process adopted by the organization and the construction trades licensing regulations in force in the group's service area.

The most common construction tasks that must be contracted out include excavation, pouring foundations, hanging drywall, plumbing, and electrical work. LCCAC's construction process is very typical of many self-help organizations, and SEWHC also practices construction in a similar manner in Wisconsin. In Washington, LCCAC uses subcontractors for excavation, electrical work, plumbing, floor covering, hanging drywall, mounting gutters and downspouts, and hydro seeding. Self-help participants assist some of the subcontractors in their work. For example, self-help workers may dig ditches for plumbers to lay pipes or carry materials for the drywall hangers. The self-help clients perform the remainder of the construction work, including framing the house, roofing, finish carpentry and installing counters and cabinets. The construction supervisor establishes what tasks will be completed and which houses need to be worked on each week. LCCAC construction supervisors will train all participants in new tasks, closely supervise the task the first time it is performed, and then allow participants to perform the task on other houses at the site with only limited supervision. Construction supervisors are still responsible for inspecting all work, and if it is not done properly, will require participants to tear it down and do it again. The construction supervisors improve the efficiency of the construction process by developing jigs which outline cutting patterns and other construction aids at the job site. This minimizes waste of materials and improves the accuracy of measuring and cutting materials.

In California, SCH has developed an interesting innovation on the standard organization of self-help construction. SCH uses subcontractors to pour the foundations, install plumbing and electrical wiring, hang drywall and construct the roofing on two-story houses. Self-help participants work on framing, painting, trimming, cleaning the site, putting up roofs on one-story houses, hanging doors and windows, landscaping, and sometimes installing cabinets. SCH's innovation on the process used by groups like LCCAC is a modification of the organization of construction used by many for-profit developers of large subdivisions. Called a "staged construction approach," it mirrors the efficiency of a factory organization of work, where tasks are made routine by specialization and repetition. The self-help building group is broken up into small teams. The first team is trained by the construction supervisor to perform a specific task on one house, performs the task with direct supervision on the next house, and then continues

without supervision until the task has been completed on every house in the group. Another small team is then trained to perform the next logical step in the construction process, and they follow close behind the work of the first team. If subcontractors are at the site, the self-help teams avoid those units at which the professionals are working, and rotate back to them when the professionals have moved on to another unit. This organization of labor increases efficiency of construction, by allowing the construction supervisor to provide full training for each task but set work groups to a variety of tasks at once.

HIP practices an interesting and effective variation of the standard mutual self-help construction model. The first distinction between HIP's construction process and groups like LCCAC, SEWHC and SCH, is that HIP builds concrete block houses instead of frame houses. Concrete block construction is the most common practice in central Florida, owing to the high cost of lumber and the need to build houses that can withstand hurricanes. In HIP's construction model, almost all of the skilled construction tasks are performed by subcontractors. Self-help participants primarily function as the unskilled labor assisting the professional construction workers. Part of the reason for this is that many of the tasks involved in building concrete block homes are complicated and costly if not done correctly the first time. If a self-help group does a poor job putting together a wall frame, the frame can be torn apart and much of the material reused to build another frame. If a concrete block wall is not laid correctly, the wall must be torn down and rebuilt with new materials. Additionally, the prevalence of hurricane damage in the area has led to rather strict building codes and construction trades licensing regulations in Florida. It would be too costly for HIP to license all of its construction supervisors in the various construction trades needed to complete a house, and the organization would still need to negotiate with licensing boards in order to allow unlicensed self-help participants to perform skilled tasks even under the direction of a licensed construction supervisor.

HIP uses subcontractors for pouring the driveways and foundation slabs, concrete block work, plumbing, electrical work, hanging drywall, installing heating and air conditioning, roofing and cabinet work. Self-help participants perform the unskilled labor of house construction, such as carrying concrete blocks for the masons, digging ditches for laying pipe, carrying shingles for roofers, and cleaning up the job site. Other tasks performed by self-help households are painting, landscaping and putting down flooring. Normally, HIP does not have self-help participants use heavy tools, like power saws, that might cause serious injury. Even though HIP clients perform very little of the skilled labor in home construction, they still contribute at least 65 percent of the labor necessary to build their houses. The advantages of HIP's model are incredible efficiency of production and low overhead for preconstruction training. Since clients do not need to learn complex construction skills, HIP does not need to invest in extensive building skills training prior to construction. Additionally, because of the reliance on skilled construction professionals at the job sites, HIP is able to produce a large volume of houses. HIP is currently producing over 100 homes per year. The limitation to this method is that self-help participants are not as likely to acquire construction skills that may translate into employment opportunities and reduced maintenance costs on their homes. The organization has addressed this concern by providing a

home maintenance workshop as part of preconstruction training, and assisting former self-help clients who express an interest in entering one of the building trades.

At least for the groups profiled in this report, different climates have only minimal impact on the development process. In central Florida, concrete block homes are the most common housing form because of their structural integrity, an important feature in a region that experiences seasonal hurricanes. In Wisconsin and Washington, building groups will still work through the winter months, although these groups do proceed more slowly than those which build during the spring and summer.

Each of the self-help organizations profiled here plans for approximately one month of construction time per house, although staff at each organization note that occasionally delays are caused by bad weather. In many cases, however, motivated self-help work groups will complete their homes in less time. For example, LCCAC generally uses building groups of eight households, but the average time for completion of eight houses is six to seven months. HIP's process is somewhat faster, owing to its reliance on more contracted labor. HIP building groups of eight households typically take five to six months to complete their homes.

Challenges at the Self-Help Construction Site

The most common challenge that self-help organizations face during the construction phase of development is group conflict. Group conflict may arise from a variety of causes, usually having to do with members of the group feeling that one household is not contributing enough labor or that one household is working on its own house to the exclusion of others in the group. Regardless of the origin of a group conflict, however, an experienced self-help organization will have procedures in place to resolve disputes or remove households from the program in cases of nonparticipation.

Since RHS requires a self-help organization to develop a builder's agreement that specifies the terms of program participation, any self-help group that receives Section 523 administrative funds must have procedures in place for addressing grievances and managing cases where a client must be terminated from the program. However, groups are given a wide degree of latitude in establishing their dispute resolution and program termination procedures.

In Wisconsin, SEWHC staff cite group conflict as a recurring issue at job sites. In general, SEWHC first makes efforts to maintain the authority of the staff, particularly group workers and the construction supervisor. In cases where a household is not contributing enough hours of labor, the organization will step in and try to address the cause of absenteeism. For example, SEWHC might arrange for child care so that a single parent may be free to work at the job site. SEWHC also makes sure that all group members are present for demonstrations of construction skills, so that every group member is able to participate in each building task. Small disputes are resolved by informal mediation, usually on the part of the construction supervisor. If a dispute escalates, SEWHC will first try to work out a problem at the job site, as described. If this does not resolve the problem and a household repeatedly misses its work obligation, SEWHC begins a

formal procedure to remove the problem household from the program. At this point, the Executive Director begins formal mediation with the household. If this step should fail, the household is removed from the program in a process that also requires a vote by the self-help group. The removal of a household from the program has only occurred twice. SEWHC staff emphasize to clients that it is possible to lose their homes for noncompliance with the work agreement, and that this motivates participants to work out disputes quickly.

SCH's builder's agreement establishes a grievance procedure for resolving complaints at the job site. It stipulates that complaints will be resolved by the construction supervisor, and that in inter-family disputes, the president of the self-help association will also be involved in mediating between the parties. If necessary, a group meeting will be called to address the problem. A common source of disputes is group members feeling that one family is working on their home to the exclusion of other houses at the job site. Typically, the group will adjust the work schedule through the mediation process to reduce the work on that one house and add labor hours to the other homes that are less complete.

SCH also has a formal grievance procedure in cases where a household fails to meet its labor obligations. If a household falls 15 hours behind its minimum required work hours, SCH notifies the family in writing that they are in jeopardy of losing their home and defaulting on the membership and builder's agreement, and request from that family written notification as to its reasons for falling behind. If the household falls behind by 40 hours without justifiable cause, the self-help group members may, by a majority vote, request that future assistance for the household's home be withheld until the household brings its hours up to date or makes some other arrangement satisfactory to both the self-help group and SCH. If a household falls 60 hours behind and does not make efforts to correct the situation, the self-help group may, by a two-thirds majority vote, request that SCH expel the family from the program and find a suitable replacement household. SCH has found it to be extremely rare that a family must be terminated from the program, and since it carefully reviews the terms of the builder's agreement with every participant, problems have rarely reached the stage of expulsion.

Sometimes, unexpected hardships may force a family to curtail or scale back its labor contribution to the construction process. A medical emergency or death in the family may make it difficult for a household to contribute the labor hours required under its builder's agreement. Staff at SCH describe this kind of situation, where the head of a household had a heart attack at the job site and passed away. The household was given some time to mourn their loss, but their labor contribution was missed by the other group members at the job site. The construction supervisor held a discussion with the family, and they expressed a great desire to see the project through. They were able to work out a schedule to complete their labor contribution and help the group finish all of the homes. SCH staff note that this process was eased by provisions included in the organization's builder's agreement, which includes a statement of the expectations and procedures in place should unexpected family hardships arise during the construction process.

Since each household was aware of these provisions governing family emergencies, it was easier for the organization to adjust work schedules to accommodate family needs.

LCCAC has had to address a problem that may be easily overlooked by a self-help organization. Many of LCCAC's clients have limited math skills. Many of its clients were also raised in other countries where the metric standard of measurement is used instead of the English standard of feet and inches. LCCAC has found that many self-help participants express a reluctance to perform the measurement calculations necessary at the job site. The organization has addressed this problem by providing remedial math instruction as part of its preconstruction training, and devoting training time in the use of tape measures at the work site.

Every experienced self-help organization notes that maintaining the motivation of the self-help work groups is the most common and persistent challenge once construction has begun. This is an issue that is usually best addressed by the construction supervisor, since he or she is the organization's representative at the job site and has contact with the self-help group on a day-to-day basis. For this reason, it is very important that newer self-help organizations seek candidates for construction supervisor positions that have strong interpersonal skills.

One final construction challenge involves building two-story as opposed to one-story houses. Consensus is divided among experienced self-help organizations as to the level of difficulty in building two-story houses. SCH, SEWHC and LCCAC self-help groups build two-story or split-level homes. RD has been reluctant in the past to support two-story development, because of potential hazards of participants working at heights and the possibility that the construction process will become too complex to finish the homes in a timely fashion. However, each of these groups has adjusted its construction process to accommodate multi-story construction. LCCAC staff feel strongly that two-story homes fill a number of important needs for their clients. LCCAC has not experienced an increase in construction time, and construction costs are reduced compared to building a single-story house with the same square footage. Two-story houses provide maximum square footage while occupying a smaller amount of space on the lot. Since they have a smaller "footprint" on the lot, LCCAC is able to build on smaller lots, which allows more homes to be built at less cost. Self-help clients benefit by adding another dimension to their construction experience, and they receive a greater return on their investment since two-story homes have greater resale value in this area of southern Washington. LCCAC does not require any participant to do roof work on any home if physical considerations or a fear of heights pose problems for a self-help client.

Construction Financing and Permanent Financing

Under the RHS Section 502 Self-Help Loan program, self-help participants close on their loans before construction begins. These funds are then usually kept in a checking account managed by the self-help organization, with each client household having its own account. As funds are needed to purchase building materials or pay subcontractors, they are drawn down from the family accounts. Program participants may have their mortgage payments deferred until completion of the house. Once clients occupy their new homes, they begin making mortgage

payments and the self-help organization no longer manages their accounts. At this point, the Section 502 loan serves as the permanent financing.

HFHI has standard mortgage terms used by all of its affiliates. The standard loan terms call for 0 percent interest on a 20-year loan. HFHI loans require a 1 percent downpayment and the first year's insurance, which typically amounts to approximately \$400 to \$600 up front for the client household. There is no application fee or origination fee. However, HFHI affiliates work closely with their clients to develop a budget and save the money so that it will be available upon completion of the house. HFHI frequently provides the mortgages itself, although some local affiliates have worked with state agencies and local lenders to provide mortgages under the terms required by HFHI.

Urban self-help programs with non-RHS financing often need to make different financing arrangements to cover construction costs. In most cases, a separate construction loan must be secured, which is then paid off once clients close on their mortgages. Affordability is often enhanced through downpayment assistance, mortgage write-downs or second mortgages.

LCCAC's urban program is financed by a consortium of six banks active in southern Washington. One bank provides the construction loans to LCCAC, and all six banks divide responsibility for the mortgage financing. The self-help clients receive a purchase and sale agreement prior to the start of construction, stating the price and loan terms the bank has agreed to provide. LCCAC draws down funds from the construction loans to pay for materials, subcontractors and other construction expenses. Upon completion of the houses, LCCAC sells the homes to the self-help clients, financed by the client mortgages. The Federal Home Loan Bank of Seattle and the Washington Housing Trust Fund provide mortgage write-down funds to increase the affordability of the homes. These funds constitute second mortgages. As long as the clients occupy the homes for a specified period, the mortgage write-downs are forgiven. The mortgage write-downs are repayable upon change of use, sale or refinance of the property before the use restrictions have expired. Banks in the consortium contribute to affordability by reducing points at closing.

SCH's urban self-help program relies on construction financing from Wells Fargo Bank and Bank of America, which provide loans with favorable terms to SCH. Costs are lowered by indirectly reducing land costs under the City of Gilroy's growth control requirements and obtaining CDBG funds for infrastructure development. The developer's fee and sale of below-market rate contractor-built homes makes the self-help units less costly for families. Self-help clients do not close on their mortgage loans until completion of the houses. Permanent mortgage financing is provided by the California Housing Finance Agency (CHFA). CHFA periodically floats a special bond issue, the proceeds of which are used to provide mortgages at 5 percent interest for affordable single-family housing to experienced nonprofit developers. The clients must also save for a downpayment at the time of loan closing. Finally, the City of Gilroy holds a soft second mortgage on the self-help units in the amount of the difference between the actual cost of the homes and the market value. Resale restrictions are attached to the second mortgages, where low-income families must remain in the homes for 30 years before the second

mortgages are forgiven. If the family sells the home to another low-income household, the use restrictions are transferred to the new owner. If the home is sold to a borrower who is not income-eligible, the second mortgage must be paid off. This arrangement helps Gilroy maintain the stock of available affordable housing.

SEWHC's urban self-help program, called the "Pilot Program," makes self-help houses affordable by providing downpayment assistance. General Electric Mortgage Insurance Company (GE) guarantees the mortgages. Three area banks provide construction financing to SEWHC and the permanent mortgages for the clients. GE and the banks credit 800 hours of self-help labor, or 400 hours of rehabilitation work, as the equivalent of a 10 percent cash downpayment. After the labor is completed, SEWHC deeds the homes to the self-help clients.

These programs provide just a few examples of how alternative financing and innovative partnerships can support self-help housing development. They allow self-help organizations to expand their services to areas not served by RHS. These programs also tap into state and private sector financial resources at a time when demand is growing and resources shrinking in the RHS Section 502 program.

BUILDING ON EXPERIENCE: OBSERVATIONS AND SUGGESTIONS

Self-Help Organizations

Experienced self-help organizations have a number of suggestions of benefit to newer organizations, and a wide variety of ideas concerning creative ways to use federal and state programs more effectively. In addition, their experiences suggest a number of points to consider when forging partnerships with local governments and private lenders, and developing innovative financing mechanisms for self-help housing.

Dedicated staff that work as a team are critical to the success of a self-help program. Housing development is a difficult and complex undertaking, and training and supervising inexperienced self-help clients adds yet another layer of complexity to the process. Recruiting staff with strong interpersonal skills and problem-solving abilities appears the most successful personnel strategy. SCH has taken this concept quite far, instituting a consensus decision-making process that fosters input from all of the self-help staff. Self-help program staff certainly need some degree of expertise in their program areas. Group coordinators need familiarity with the funding sources they will manage for their clients and construction supervisors must have expertise in building. Nonetheless, self-help staff must be flexible, able to adjust to the changing needs of their clients and the increasing complexities of securing financing, obtaining land, and building homes.

The most successful self-help organizations all have strong preconstruction training programs. The more resources and effort are invested in education prior to building, the more prepared clients will be for the rigors of the process. Strong training programs also promote household success after program graduation. HIP staff feel that the organization's ongoing homebuyer and credit counseling has significantly helped clients avoid mortgage delinquency. LCCAC's extensive construction skills training has led many of its program graduates into better-paying careers in the building trades.

Having a clearly stated, encompassing builder's agreement is important to resolving client disputes throughout the self-help development process. No document can cover every possible contingency that might arise over the course of construction, but having expectations established, rules and conditions clearly stated, and a grievance procedure outlined can preempt many problems that may arise once participants begin building their homes. SCH has revised and updated its builder's agreement on occasion to reflect lessons the organization has learned about client needs. Every experienced self-help group emphasizes the importance of the agreement and the conditions it sets out for becoming a homeowner.

Self-help organizations can improve their capacity by cultivating long-term, positive relationships with local government officials. HIP's experience illustrates what can be accomplished by developing partnerships between the self-help group and officials in city and county government. These relationships can ease the process of obtaining land, building permits, and zoning variances. Local officials are often in a position to support development

work with CDBG funds, or funding received through the state. The support of local officials also contributes to the positive reputation a self-help organization needs to develop in the community. Each community is different, so it is important to get to know officials personally. As HIP staff note, this establishes a development environment where cooperation and partnerships are the norm, so the organization is “not always fighting a battle.”

Establishing a revolving loan fund for land acquisition and predevelopment activities can also greatly improve a self-help organization’s capacity. Even if the fund is small, it can be used to secure one more lot in a scattered site project or cover the cost of a design change required through the local plan approval process. Seed money from a revolving loan fund can also be used to leverage other funding sources, or to obtain an option on a piece of land until acquisition financing is secured. Even if an organization does not choose to create a revolving loan fund, it should maintain a contingency fund to cover unexpected costs over the course of development. Environmental hazards discovered during an environmental review, construction delays caused by bad weather or problems securing zoning variances, or increases in the cost of building materials can increase the cost of a project significantly and reduce the affordability of the self-help homes. A contingency fund allows the organization to mitigate many of the risks of development, and maintain an efficient and cost-effective building schedule.

There are a variety of other measures that may improve a self-help organization’s program performance. Increasing the number of bilingual staff can improve outreach and training. Recruiting a staff member with public relations experience will contribute to marketing the group’s self-help program and seeking grant support. Most self-help groups perform some level of homebuyer counseling during preconstruction training, and many counsel program graduates on an informal basis when the former clients may be having difficulties. However, instituting formal follow-up counseling for program graduates may significantly reduce delinquency and default rates among self-help homeowners. HIP, for example, is considering extending its homebuyer counseling program in this fashion.

Local, State, and Federal Government Support

Most established self-help organizations have far more applicants than can be served with their resources. The Section 502 Self-Help Loan program is highly regarded by all experienced self-help groups for two primary reasons. The program’s financing structure makes the loan funds available for construction, so that a self-help organization does not have to secure construction loans with interest due, thereby driving up the cost of the homes. The Section 502 program is also highly regarded because no downpayment is required and the mortgage interest subsidy makes homes affordable even for very low-income households. Continued and expanded funding for the Section 502 Self-Help Loan program is a priority for self-help organizations at all levels of experience.

Federal and state affordable housing programs have assisted millions of poor Americans obtain safe, decent, affordable housing. Programs supporting mutual self-help housing have not only benefitted clients, but also the communities in which the homes are built. Experienced self-help

developers often note the lack of public awareness concerning the availability of these programs and their positive impact on communities around the country. Many self-help groups favor stronger publicity efforts by the federal government and their state agencies on the benefits of self-help housing in particular and the contributions of affordable housing programs in general to community well-being.

Given the trend toward devolution of programs, experienced self-help groups are more frequently seeking partnerships with state and local governments. There are a variety of initiatives that could be undertaken at these levels of government that would provide a great deal of support for self-help housing development.

Many states have programs administered by state housing finance agencies or state housing trust funds that provide funding to local government or qualified nonprofit developers for land acquisition and infrastructure development. However, since acquisition and predevelopment are the most risky stages of the development process, innovative efforts to support these activities would help self-help groups serve a larger number of households. For example, HIP has received land donated by Orange County. However, state incentives to local governments to support these kinds of gifts would foster stronger relationships between local government and self-help organizations, would put vacant land to productive use, and would support affordable housing development with very small capital investments. Downpayment assistance is another form of subsidy that often helps make homes affordable to low-income households, even in the absence of the more substantial mortgage subsidies found in the RHS Section 502 program. Local government support of state downpayment assistance programs, or efforts by local government to spur the investment of private lenders in a local or regional program, would be of great value to many self-help organizations.

A problem faced by self-help groups around the country, but especially in areas experiencing heavy growth, is rising impact fees required by local governments. Staff at the organizations profiled here expressed support for efforts by city or county governments to reduce impact fees on projects providing housing for low- and very low-income households.

Many established groups have developed urban self-help programs in order to create financing mechanisms that provide an alternative funding source to the RHS Section 502 Self-Help Loan program. While these groups have pursued these initiatives in order to serve clients outside of RD service areas, the other major impetus has been to maintain self-help production in an environment where demand for the Section 502 loans far outstrips the program's funding. In every case detailed in this report, staff noted that the private lenders investing in their self-help programs cited compliance with the Community Reinvestment Act (CRA) as a major incentive for their participation. Small banks, however, have less detailed CRA examination requirements, and are often the only lending institutions in many rural areas where self-help groups are active. These self-help groups feel strongly that CRA should be maintained, or even strengthened and expanded to prompt greater involvement of smaller local lenders. Bank mergers pose a related challenge to self-help organizations that have developed alternative financing mechanisms under urban self-help programs. If a local bank has invested in an organization's self-help program,

there is no certainty that after a merger the parent bank will continue to invest in self-help housing. While there is no particular solution to this issue, it is one that concerns self-help groups that have invested much of their financial and staff resources into the development of relationships with private lenders.

THE COMMUNITY IMPACT OF SELF-HELP HOUSING

Benefits to Self-Help Clients

The mutual self-help development process has a significant impact on the lives of participants. Staff at self-help organizations around the country consistently observe how the self-help process has increased the self-esteem of clients. For many program graduates, this is the largest undertaking they have attempted in their lives. Self-help staff report that many clients, seeing their success in building their own homes, have gone back to school to improve their job prospects or opened businesses of their own.

The training required to construct self-help homes gives program participants solid skills in the building trades. A large number of clients formerly employed in low-wage jobs such as service work or farm work are able to obtain employment in one of the building trades at much higher rates of pay. LCCAC has used subcontractors who are former self-help clients, with at least one case where the organization assisted the individual in obtaining a contractor's license through instruction and referrals. One of HIP's former clients has established his own electrician's business, and trains and hires low-income youth from his neighborhood. Most established self-help organizations actively seek to fill construction supervisor and group coordinator positions with former clients. This offers program graduates an excellent opportunity to use their newly developed skills and share their experience with incoming clients. Self-help groups will also often make job referrals to local builders for program graduates, or help them obtain licenses in the skilled building trades.

In addition to using the construction skills gained in the self-help process to secure better employment, these skills also reduce the long-term costs of homeownership for program graduates. They have the ability to perform most of their home maintenance labor themselves, and are able to make substantial renovations to their homes with only limited assistance from family and friends. This helps them improve the value of their property and save money as they improve the quality of their living environment.

Anecdotally, the self-esteem fostered in program participants has an impact on their children. Self-help staff observe that the children of self-help clients tend to do better in school. Having a stable and safe home environment has contributed to their school performance, and it is likely that their parents' rising expectations upon completion of their homes provides some inspiration as well.

Finally, homeownership offers an opportunity for these low- and very low-income households to build assets that may support retirement or their children's educations. Self-help participants have the opportunity to build equity in their homes, a financial resource that can help them weather hard times or provide a springboard for their children's future. There are limitations to using equity in this fashion in cases where a subsidy must be recaptured upon refinancing or sale of the home. However, once a household has met use restrictions for second mortgages or refinanced the home with a private lender and paid off RHS mortgage subsidy, the household

may then use equity in the home to seek home equity loans or other related financial resources. Even when a household has not paid off subsidy, and therefore cannot use the equity in the home, a record of making timely payments over many years may convince a bank the client is a good risk for other kinds of loans, such a loan to establish a small business. Self-help programs therefore offer low-income households the chance to access the same kind of financial resources available to middle-class homeowners.

Benefits to the Community

Mutual self-help programs contribute significantly to local economies. Building single-family, owner-occupied homes improves a city's or county's tax base, especially when an organization's subdivision development creates entirely new neighborhoods. In most cases, the high quality of self-help homes increases property values in the areas surrounding the development. This too increases the local tax base, and provides greater home value for neighbors of a self-help project.

Self-help organizations also contribute directly to local economies in a variety of ways. As part of the development process, these groups must pay for permits and impact fees, generating revenue for local governments. Larger organizations provide a number of employment opportunities, with many of these positions occupied by individuals who are former low-income self-help clients. Self-help groups also must hire subcontractors, which also supports a community's job base. While most self-help organizations need to secure bids for their building materials in order to reduce costs, many also strive to purchase their materials from local suppliers whenever possible. In the cases of groups like LCCAC, HIP, SCH and SEWHC, which are among the largest builders in their regions, this practice has a substantial and positive economic impact.

Self-help housing development also may contribute to the realization of community growth plans. A city or county may wish to revitalize a blighted area, or extend infrastructure to areas of future residential and commercial growth. Supporting an affordable homeownership project may allow the local government to utilize CDBG and other community development funding sources. The self-help development will often serve as the anchor for future growth initiatives.

Self-help groups make very good neighbors. The bonds formed while building each other's homes often carries on after the houses have been completed. It is quite common for a self-help group to take the lead in establishing a neighborhood organization that works to maintain the quality of life in a community. These groups provide input to local officials on neighborhood infrastructure needs and on proposals for development in adjoining areas. Self-help homeowners have often inspired neighbors to improve their own homes. One self-help participant in Winlock, Washington, observed that the self-help homeowners in her subdivision have an informal competition to see who can make the nicest improvements to their property. Self-help developments also can improve blighted areas plagued by crime and drugs. Self-help clients have invested a considerable amount of sweat and money in their homes, and are generally quite vigilant about potential problems in their neighborhoods. HIP staff have observed that drug pushers no longer frequent many of the areas where the organization has built homes. In

addition, many self-help clients become more involved in community organizations. Their experience in building the own homes has given them the motivation to contribute to the well-being of their communities, and the experience necessary to carry through the challenges of serving other families in need.

The mutual self-help process empowers its clients and improves communities. It has played an important role in providing affordable housing opportunities to a large number of low- and very low-income households. Along most measures, the self-help process has improved the prospects for program graduates. The mutual self-help process provides the means for families to build something tangible for themselves and realize one of the key components of the American Dream, owning their own homes.

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