

RD AN No. 3990 (1944-I)
June 18, 2004

TO: All State Directors
Rural Development

ATTN: Single Family Housing Program Directors
Rural Development Managers
Rural Development Area Directors

FROM: James C. Alsop (Signed by James C. Alsop)
Acting Administrator
Rural Housing Service

SUBJECT: Site Costs for Self-Help Housing Participants

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify the maximum amount a self-help housing borrower may be charged for an adequate building site/lot when the self-help housing grantee owns the lot(s). The grantee may sell the lot at or below market value to the self-help participants. The cost to the borrower for the site and improvements in place may not exceed the market value of the site.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 3811 (1944-I) dated December 3, 2002, which expired on December 31, 2003.

IMPLEMENTATION RESPONSIBILITIES:

There have been several inquiries regarding the sale of lots to self-help participants for more than the purchase price paid by the grantee; especially in cases where there have been limited improvements to the property or when the property was donated to the grantee.

EXPIRATION DATE: June 30, 2005

FILING INSTRUCTIONS:
Preceding RD Instruction 1944-I

The concern raised is that grantees may be using the profit generated by the sale of these properties to fund other programs within their organizations. Additionally, the self-help family, may, in some cases, need to borrow more loan funds to purchase the lot from the grantee than if the property were purchased directly from the seller. Although these issues appear valid, after careful review and consultation with the Office of General Counsel, the profit generated by the sale of the properties is brought back to the community in the form of other housing related projects and/or community development efforts by the grantee. Moreover, the self-help family gains all the benefits derived from the self-help process including sweat equity, technical skill building, empowerment, and sense of community. Therefore, the self-help grantee may market, option, and sell lots at or below their market value.

In accordance with RD Instructions 1922-A and 1922-C, all appraisals completed for new construction under the Section 502, Single Family Housing Direct Loan Program, will utilize both the cost and comparable sales approaches to establish market value. As a component of the cost approach, a lot or land value is established based on the appraiser's knowledge and data concerning the market value of similar lots. Any site improvements that are actually in place such as well, septic, water and/or sewer line connections, etc., must be considered in determining the land value. This information is reported on Marshall and Swift Form 1007, "Square Foot Appraisal Form" and Form RD 1922-8, "Uniform Residential Appraisal Report." In addition, when work orders are submitted to appraisers, the task should instruct appraisers to take into account all information to accurately reflect market value of sites, especially in appreciating/high cost areas based on comparable sales data. Accordingly, the purchase price for the lot, on the option to purchase or sales contract, must not exceed the market value of the site reflected in the appraisal process. The Direct Single Family Housing Programs Field Office Handbook, HB-1-3550, paragraph 5.4, states the value of the site should not exceed 30 percent of the as-improved market value of the property. Although there are provisions under which this policy may be waived.

If there are any questions concerning this AN please contact Debra S. Mangrum at (202) 720-1366.