TO: State Directors

ATTENTION: Single Housing Program Directors

FROM: Tammye Treviño  
(Signed by Tammye Trevino)
Administrator
Housing and Community Facilities Programs

SUBJECT: Appraisals of Properties Developed Under the Mutual Self-Help Housing Program

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) provides guidance regarding the treatment of improved site cost in the overall valuation of the property to be developed through the Mutual Self-Help Housing program. The intended outcome is to improve consistency for how appraisals and certified cost data are used by Loan Approval Officials/Underwriters to accomplish the objectives of the Self-Help program.

COMPARISON WITH PREVIOUS AN:

This RD AN replaces RD AN No. 4507 (1944-I), dated April 16, 2010, which expired on April 30, 2011.

IMPLEMENTATION RESPONSIBILITIES:

Appraisals for properties proposed for financing through the Section 502 direct program and developed under the Mutual Self-Help Housing program should be performed by Licensed and Certified Appraisers and administratively reviewed by Rural Development staff in accordance with the provisions of Section 5 of HB-1-3550.

EXPIRATION DATE: June 30, 2012

FILING INSTRUCTION:
Preceding RD Instruction 1944-I
Due to the real estate market conditions in many rural areas, comparable sales data for a site that is improved and ready for construction are often unavailable. Additionally, many larger, more experienced Self-Help housing providers purchase tracts of land for future development many years before they are needed to accommodate the need for zoning, permitting and infrastructure development so that they can be ready for use by a 502 applicant and meet grantees Section 523 funding cycles.

In this regard, one of the current difficulties many grantees are facing, is that the non-profit or public entity’s investment in developing improved sites for affordable housing, including both on-site and off-site improvements are not reflected in the land value.

To address this issue, and provide the necessary resources to allow the grantee to utilize a sustainable approach to continue development of affordable housing under the Self-Help method, the following guidance is to be considered during the underwriting by the Loan Approval Official:

The overall value of the property, based on completion of construction of the improvements must be sufficient to cover the amount of the proposed loan, with the allowable exceptions of the cost of the appraisal, tax service fee and initial escrow deposit. The grantee will provide written certification that the optioned sales cost of the developed lot does not exceed their gross investment, on a per lot basis. Based on acceptable written certification provided by the grantee, the grantee’s certified cost of the developed lot can be considered in the underwriting of the transaction.

A primary goal of the program is to achieve sweat equity through the value of the required family labor component. Ideally, the amount of sweat equity will meet or exceed the amount of the Section 523 Technical Assistance grant assistance on a per unit basis. This is one of the key performance measures used by the Office of Management and Budget’s (OMB) Program Assessment Rating Tool (PART) to measure the effectiveness of the Self-Help program. However, in cases where this equity requirement cannot be accomplished due to market conditions or other extenuating circumstances, these situations should be well documented and supported.

This guidance should be implemented immediately. State Offices that have any questions on this AN should contact Carolyn Bell at 202-720-1532 or Akua Assata, at 202-690-3832.

Sent by Electronic Mail on June 20, 2011 at 11:20 a.m. by the Single Family Housing Direct Loan Division. The State Director should advise other personnel as appropriate.