The USDA’s rural self-help housing program: Unsung, under pressure—but highly effective

The USDA rural self-help housing program is one of affordable housing’s least-known success stories. Since the early 1970s, close to three thousand mutual self-help homes have been built in Washington State with the financial support of the U.S. Department of Agriculture (USDA) by families participating in self-help housing programs. Today, this seasoned forerunner to volunteer self-help programs like Habitat for Humanity quietly continues to counsel homebuyers, subsidize loans, and consistently produce homes in rural Washington.

Across the nation, the self-help program has enabled more than forty thousand low-income rural households to become homeowners. The program is so effective that several existing housing organizations in our state have recently launched new self-help programs to offer this opportunity to people who live in their communities.

How did this program get so successful? Where does it stand in Washington State? What’s the outlook for the near term? These are just a few of the questions I posed to self-help grantees, technical assistance providers, and the USDA.

**The Birth of Rural Self-Help Housing**
The birthplace of self-help housing was western Pennsylvania, where a group of Quakers assisted about 50 coal-mining families to build their own homes back in 1937.

Twenty-six years later, in 1963, the federal government made its first self-help housing loans to three farmworker families in Goshen, California, through the Farmers Home Administration (FmHA). Before that time, the FmHA could only make housing loans to farmers, but not to farmworkers. This changed under the Housing Act of 1961.

Since the early 1960s, the USDA rural self-help housing program has seen many changes in the way the funding has been administered and disbursed. The program was originally administered by the federal Office of Economic Opportunity (OEO), created in 1964. OEO was disbanded by President Nixon, but rural self-help has continued under the auspices of USDA.

For a vivid, detailed history of the political ins and outs of rural self-help housing, no one is a better source than my good friend Bill French, Chief Executive Officer of Sacramento-based Rural Community Assistance Corporation (RCAC). Bill has been involved in running and providing technical assistance to rural self-help programs since 1968,
The Framework of USDA’s Self-Help Housing Program

One key aspect of the USDA self-help program (sometimes called “sweat equity” or “mutual self-help”) is its focus on rural homeownership. Only communities of about 25,000 or less that are still rural in character are eligible to participate. The program provides interest rates as low as 1% and other subsidies to qualifying low-income households and requires a sweat equity contribution of about 1200 to 1500 hours per family. It’s a community building program, with 8 to 20 families working on each other’s homes for about a year. The program has been so successful that Congress is struggling to keep up with the demand for funding, despite ongoing boosts in appropriations and the strong support of President Bush.

Washington currently has about eight nonprofit sponsors, known as Section 523 grantees, of rural self-help housing programs. These are organizations that have been approved by USDA Rural Development to receive self-help grant funds. The 523 grant covers the operating costs of the program like screening applicants, providing counseling, and training to homebuyers, hiring construction supervisors and other program costs.

There are four regional TA contractors, also known as Section 523 Contractors, for the grantees across the nation. As noted, RCAC is the contractor for the western states and territories.

The Section 502 Direct Loan Program provides mortgages to self-help participants. A key aspect is that the construction loan converts to a permanent loan when the home is completed. The 502 program requires no down payment. Loans are typically amortized for 33 years and some are extended to 38 years. The payments are subsidized based on a 1% interest rate for the lowest income borrowers. A portion of the subsidy must be repaid if the house is sold, based on the length of time the borrower lives there. Also, if a family’s income goes up, the interest rate will be adjusted upward.

57-year-old Veronica Romey built a home for herself through the USDA program on San Juan Island.

originally with Self-Help Enterprises (SHE), the oldest and largest of the self-help agencies, which was formed in 1965 to serve seven rural California counties.

RCAC was formed in 1978 when the federal government encouraged SHE’s board to spin off a multi-state regional program to provide technical assistance (TA) to other sponsoring organizations. In 1979 they got their first contract from USDA to provide TA to self-help housing programs and Bill has served in the CEO role since then.

RCAC currently has the TA contract to work with self-help organizations in 13 Western states and U.S. Pacific Territories like Guam and the Marshall Islands. “Any kind of housing development is a difficult business to be in,” he says. “One where unskilled families are going to produce the labor adds complexity. This is a very complicated program for folks to run. Advising organizations on how to succeed is what we do.”

California has long been the leader in the number of self-help homes produced. In fact, the Western region has consistently accounted for well over half of the rural self-help homes built in the nation. Washington State ranks fifth among the states for the overall number of homes self-help participants have built, a fact few people realize.
The USDA's rural self-help housing program: Unsung, under pressure—but highly effective, cont’d

**PRESIDENT BUSH’S FIVE STAR COMMITMENT**

Washington’s self-help developers are now experiencing the long-term ramifications of President Bush’s enthusiastic support of the program. Prioritizing the program has led to growth, which has led to a current shortfall in funding.

One of the program’s many virtues is how well it has served minorities. Well over 50% of the people served in the U.S. have been Latinos and other minorities. President Bush was inspired by these numbers back in 2002. As part of his goal of helping 5.5 million minority families attain homeownership by 2010, he announced his “Five Star Commitment.” One of his five stars was doubling the number of participants in the USDA rural self-help housing program by 2010.

Of course, doubling the capabilities of any large-scale federal program is a huge undertaking. And this year, halfway to 2010, the stresses, particularly on the funding side, are starting to grow. Encouraged by USDA in 2002, RCAC stepped up its recruitment of Section 523 grantees here and elsewhere. The demand for larger appropriations to the program have followed suit. “This is the first year,” Bill reports, “where USDA was unable to fund all the self-help 523 applications. Even though we’re expecting to get a $2 million increase in the 523 allocation up to $38 million, it’s not enough. To fund everyone who wants to get funded across the country, we’re going to be $8 to $10 million short.”

“**We’re going to be looking at the same or slightly lower numbers of loans unless we get drastic funding increases.”**

**JON DEVANEY**
Washington State Director USDA Rural Development

**Jon DeVaney is Washington State Director, USDA Rural Development.**

He points out that funding has continued to be increased by Congress, “it’s just that housing costs have been increasing faster. In Washington State, we’ve seen consistent increases in spending.” Average loan amounts for the program between 2004 and 2005 were up 14%; they were up 17% from 2005 to 2006. “You have to have fairly significant increases in funding at the federal level just to keep up with housing costs,” Jon stresses. “We’re going to be looking at the same or slightly lower numbers of loans unless we get drastic funding increases.”

**JON DEVANEY**
Washington State Director USDA Rural Development

**“We were directed to launch additional outreach efforts, to help see if we could meet the President’s goal. We have several potential grantees on the back burner. But,” Art says, “they got caught with the door swinging closed. This fiscal year is the first time the funding wasn’t there.”**

Right now, with the current funding shortfall, existing 523 grantees are being given priority for funding over the new recruits.

Everyone I spoke with about this issue was optimistic about current commitments ultimately coming through—even those grantees currently on hold. “The Congress has always supported this program,” Bill says. “We’re in an interesting period. Success has bred problems. Self-help groups have been excellent on advocacy from the very start. They’ll be beating up on Congress to get more money, but that won’t happen for another year. That’s a long-term process.”

**ART SEAVEY**
Rural Development Specialist–Housing RCAC

**Art Seavey heads up RCAC’s Washington efforts as Rural Development Specialist–Housing.**

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THE CHANGING LANDSCAPE IN WASHINGTON STATE
Each year about 140 new, affordable homes are constructed here by families working to build a better life for themselves through the self-help program. Art Seavey points to just a few of the program’s compelling positives: “Self-help homeowners hold onto homes more tenaciously. They work very hard—a significant number of hours. The delinquency rate is low. In Washington it typically runs in the single digits: 5 to 8%. These families are well counseled by the program: they know what they need to do to achieve their goals.”

And the program truly serves those most in need of a break to secure an affordable home: In any given project, a minimum of 40% of the families that 523 grantees serve must earn less than 50% of the median income of the community in which they live. The remaining 60% must earn less than 80% of the median income. “Those of us who do this work, we see it as changing lives,” Art says.

But each year, securing affordable lots and getting these homes built is getting tougher. Billie Heath has seen a lot of changes over the past 25-plus years. Currently RCAC’s Self-Help Housing Coordinator for the entire Western region, she started with RCAC in 1979, traveling up from Sacramento to work with self-help housing programs in our state. In 1987, she opened the RCAC field office in Lacey and managed it until 2002, when she handed over the reins to Art Seavey.

Lot costs are getting out of reach. “We’ve been fortunate that we’ve been able to use some of the Washington State Housing Trust Fund money towards land development,” Billie points out.

One of the biggest challenges for the program, says Billie, is the state’s Growth Management Act (GMA). “It limits rural lots in most areas to five acres or more. Finding new property and being able to get through land use planning is a real challenge. We can’t subdivide. Often, we can’t make it work.”

What this all adds up to, Billie sums up, is that “the per unit cost for a home has at least doubled over the past 10 years.”

FINDING WAYS TO GET HOMES BUILT IN NORTHWEST WASHINGTON STATE
The newest group of self-help homes, Leeward Cove, held its grand opening celebration in late September on San Juan Island. Eight homes were completed there, the first affordable homes ever for Section 523 grantee Homes for Islanders. This month, a second group of eight families is

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ART SEAVEY, Rural Community Assistance Corporation (RCAC)
The USDA's rural self-help housing program: Unsung, under pressure—but highly effective, cont’d

breaking ground. San Juan County, which has the highest median home price of any county in the state —$640,000, up 42.4% from 2005— is clearly in need of heroic efforts to provide affordable housing for its lower-income residents.

Roy Clausen is Director of Homes for Islanders. Because lot costs are so high in the San Juans, he says, his board had to be very creative in getting these 16 homes off the ground. The funding sources were wide ranging, and included the Self-Help Homeownership Opportunity Program (SHOP) Loan Fund, through HUD. The group was able to take advantage of an affordable housing density bonus ordinance, which enabled them to build on a five-acre parcel.

“We’re working right now with low income people,” Roy says. “But there’s also a real need on the islands for affordable housing for people of moderate income.” Roy and his board are studying alternatives, looking to potentially rework a similar model for these people, also caught in the gap between slow income growth and rapidly rising home prices. “It’s going to take some creativity,” he admits. “Median home prices are escalating every month.”

Jon DeVaney says that currently, high-cost areas have been prioritized by USDA Rural Development—areas “where self-help is one of the only ways to get into homes.” Homes for Islanders, he says, is grappling with the eligibility limits, the upper loan limits for USDA funding: “It’s very important that we get some other ways to leverage funds in there.”

NANCY LARSEN
Executive Director
Whatcom-Skagit Housing

Nancy Larsen is Executive Director of Whatcom-Skagit Housing. Formerly Whatcom Self-Help, this organization is an experienced producer of self-help homes near Bellingham. At the USDA’s request, Skagit County was added to their service area in 2003. Nancy and her team are currently managing two mutual self-help groups: 15 homes in Ferndale, and eight homes in Sedro-Woolley. Like many other grantees, Whatcom-Skagit is constantly grappling with the challenge of finding developable land that fits the USDA’s criteria—and participants' budgets.

“We’re buying bare land and putting in the infrastructure,” Nancy says. “We can’t afford to buy market-rate lots. We’ve been lucky to put together a small inventory of land. It just seems like we buy land and it’s gone. And if you don’t have the land, you don’t have the program.”

BARRY BRODNIAK
Executive Director
Northwest Housing Development

THE LAST USDA MUTUAL SELF-HELP HOMES IN KING COUNTY?

Barry Brodniak, Executive Director of Sumner-based Northwest Housing Development (NHD), has been helping people build rural self-help homes since 1976. I first met Barry when we were both working for Rural America in the late 1970s. Over the years, NHD’s sweat equity participants have built more than 725 homes. The organization has covered King and Pierce Counties since 1970 and added Thurston County in the 1990s.

From Barry’s perspective, the single biggest challenge right now is “the availability and predictability of funding from the U.S. Congress.” It’s difficult to run a program and meet your goals when the funding is in question, he points out.

For Barry, running a close second in the hurdles category is the cost of producing homes. Right now, NHD is in the process of helping build homes on Vashon Island in King County. The project is being carried out in partnership with the community land trust Vashon Household—a CLT I recently talked about in My View. The site, Roseballen, will have 19 homes on CLT land, nine of which are currently in construction.
“Without the land trust portion, where we’re taking out the cost of the land for the homeowner—which isn’t even the greatest cost—we wouldn’t be able to do anything in King County,” Barry says.

He believes that next year’s grant from USDA, will represent “the last houses we’ll be able to build in King County under the program. I just don’t see any affordable, developable land.”

The good news is that Barry and NHD are still looking for places they can build. Another site is going up right now in Grand Mound, in Thurston County. And it’s not official, but NHD is contemplating extending its expertise into an adjacent county where there’s a clamoring need for affordable homes and rural land costs, for now at least, are within reach of USDA’s eligibility criteria.

"Land costs are a serious problem—but I think the Growth Management Act (GMA) is worse," says Dave Finley, Single Family Home Director for Kitsap County Consolidated Housing Authority (KCCHA). “We can’t find lots in the rural areas anymore. They’re zoned one house for 20, for 10, and for 5 acres,” I spoke with Dave, who is relatively new to KCCHA, and Norm McLaughlin, who is Executive Director of KCCHA, an organization he helped found in 1982.

Over the years, KCCHA has sponsored the construction of more than 1,000 mutual self-help homes with USDA funding. KCCHA’s program currently builds in Kitsap, Jefferson and Mason Counties, completing about 40 homes each year. They could double that number, Norm says, if they had the land and the funding. The applicants are ready and willing. Norm explains that of the three counties, Kitsap is the most impacted by GMA. “We haven’t done a group in the south end of Kitsap, where the greatest demand is—where there’s a huge amount of rural area—in probably 10 years," he says.

Norm and Dave have nothing but kudos for the program itself. “This is the very best housing program that the government has,” says Dave. “There’s no doubt about it. It’s not just a home: The participants get skills, self-confidence, and good neighbors. They build a community.” KCCHA currently has mutual self-help homes going up in Poulsbo [see the sidebar on the following page] and in Hamilton Heights, in Jefferson County.

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THE GROWTH MANAGEMENT ACT: PUTTING THE SQUEEZE ON AFFORDABILITY

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It’s a hot Indian summer afternoon as we drive through a forested area just outside Poulsbo. Through the trees, we catch glimpses of the lofty Olympic Mountains. The peaks look like they’ve been pasted onto a perfect blue sky. As we turn into a clearing, the sound of construction breaks the stillness. Stretching up the hillside, 30 homes are in different phases of construction—each one with the owner’s name proudly displayed on a hand-painted sign. The development is called Vetter Place. It’s the newest self-help housing project in Kitsap County, and Norm McLaughlin and Dave Finley are showing us the real meaning of sweat equity.

Jaimi Graves is working with a chop saw, cutting precise lengths from a 2x10 that will support the floor. Then, along with her mother, Mary Dhatt, and Lisa Pickens, she nails these short joists to the sill plate. It’s rough going. They’re using big framing hammers and galvanized nails. As Mary notes, “It’s really dry. The lumber is as hard as a rock. The nails will bend before the lumber gives.”

The women laugh. They’re sweating profusely in the hot sun.

“I like this program,” Mary says. She describes her frustration with an affordable housing program on Bainbridge Island years ago when she was a single parent with three kids. “The city would put a lien on the property, so when you sold it, you’d have to give the money back to the city.”

When Jaimi came to her with details of the KCCHA self-help housing program, Mary liked it right away. “It’s a lot better—more straightforward. Jaimi actually is able to keep the equity. If you can’t keep the equity, what’s the point?”

Building sweat equity in Poulsbo

Jaimi Graves, a self-help home builder working at Vetter Place.

Top: Bob Kirchman, a self-help home builder working at Vetter Place.

Self-help participants at Vetter Place, KCCHA’s Poulsbo housing site. Pictured from left are Mary Dhatt, her daughter Jaimi Graves, and Lisa Pickens.
CREATIVE APPROACHES IN CLALLAM COUNTY

KCCHA used to include Clallam County in its program, building homes for groups in Port Angeles and Sequim, but about 2 1/2 years ago, the Housing Authority of the County of Clallam (HACC) built the capacity to become a Section 523 grantee. Since that time, HACC has completed Madrona Wood, a self-help subdivision of 20 homes in Port Angeles. Pam Tietz is Executive Director of HACC. In 2 1/2 years, Pam has seen lot prices rise from $30,000 to more than $70,000.

She agrees that growth management throughout the state is having a long-term impact on the affordability of housing. “We’ve had good success working with our local jurisdictions to make changes to those plans to make it easier,” she says. “In order to make changes, you need comprehensive plans, and to get the land use decisions or building ordinances that are friendly, you have to have that political will.” In a smaller county, “it’s probably easier to do just because it’s a smaller conversation.”

Pam points to a recent success in getting revisions made to the Planned Unit Development ordinance in the City of Sequim, the fastest-growing area of Clallam County. “For a small area, they’re pretty darn progressive,” she says. Now, if developers want approval for a parcel of less than five acres, 20% of the units must be affordable housing; if they develop more than five acres they are encouraged to set aside up to 20% of the units as affordable. In both cases, the developer gets a density bonus of one extra unit for every affordable unit they provide. Pam is hoping this will be incentive enough to open up some affordable, developable land for HACC’s self-help program in Sequim.

A few years back, Pam spearheaded the creative use of Section 8 Housing Choice vouchers to put the USDA self-help program within reach of more people in Clallam County. “We now have families who use these vouchers in calculating their repayment ability to qualify for a 502 loan.” On the first trial, she says, the USDA had never considered how to use these as a loan qualifier, and HACC had to finance the loans during construction. Now HACC has the USDA on board. “It’s very difficult to qualify low-income people for any type of mortgage,” Pam says. “This helps bridge that gap.”

“We now have families who use these [Section 8 Housing Choice] vouchers in calculating their repayment ability to qualify for a 502 loan.”

PAM TIETZ, Executive Director, Housing Authority of the County of Clallam (HACC)
NEW OPPORTUNITIES IN EASTERN WASHINGTON

The two newest 523 grantees are expanding the program’s reach into Eastern Washington. These are organizations I’ve talked about in previous issues of My View. Both Community Frameworks and the Diocese of Yakima Housing Services run highly effective affordable housing programs that meet a spectrum of needs in their communities.

Alan Trunnell, Senior Housing and Community Developer is managing Community Frameworks’ nascent rural self-help program in Takoda Park, near Cheney; he’s also currently serving as President of the National Rural Self Help Housing Association. Since Community Frameworks also runs a four-state urban self-help program with SHOP funding, Alan has a good perspective on the USDA program’s advantages.

For one thing, he points out, rates as low as 1% are as good as it gets. That means fewer funding gaps that the sponsoring programs have to fill. And, he explains, the 502 is a one-step loan: families are able to close on their mortgage before they start construction—vs. urban self-help programs like SHOP, where loans close after the home is completed. Alan gave the example of a teacher in a SHOP program, who increased his income during construction of a self-help home. After putting in his sweat equity, he was ineligible to purchase the home he’d built. One of Alan’s goals is to find a way to get a construction-to-permanent loan product available for urban and metro self-help programs as well. He points to a pilot project in Utah in which Fannie Mae is doing just that.

Due to the hold placed on funding for new grantees, Community Frameworks’ Cheney-area project is still waiting to get started. “We had the application in—the state USDA office obligated loans for eight families, with 502 mortgages set aside. But we didn’t get funded as a 523 grantee,” Alan says.

The families are taking it in stride. Alan just had his second monthly meeting with them. “We laid it out for them: Our grant application is right near the top. The development will be done. We are fortunate that the price paid for the lots is locked in—it’s since gone up, so they’ve already got some equity as long as they continue to qualify.” He also pointed out to the families that with the wait, they’ll be able to start construction in the spring, in April at the latest, while the weather is warming.

“When you actually think it’s impossible it somehow works out.”

ALAN TRUNNELL
Senior Housing and Community Developer
Community Frameworks
DYHS’s model helps local low-income families build towards homeownership with resident services and education in existing rental communities. They are choosing to concentrate their rental housing and self-help housing in the same geographical areas to take advantage of economies of scale—and to stay connected with families throughout the cycle. “It’s a different process than rental housing,” Mario says. “With homeownership, you need to get people in and on board as early in the process as you can.”

Right now, Mario and his team have families waiting to get started on lots in Mabton, near Sunnyside, adjacent to DYHS’s New Life Villa. New Life offers a spectrum of housing: seasonal housing for agricultural workers and year-round rental apartments. Now there are also homeownership lots set aside for rural self-help housing, waiting for the final grant sign-off by USDA—and Congressional funding.

Just as the character of every community in Washington State is different, so are the challenges each faces. Just as the complexities of financing and managing large-scale projects, the escalating costs of lots and materials, the stringent demands of GMA, and the unpredictability of funding from Congress are all challenging self-help sponsors, their tough, passionate commitment to home ownership—and the willingness of families to build their own homes—are overcoming these challenges and making the American Dream come true in rural Washington.
The eight homes of Leeward Cove on San Juan Island were built by a physical therapist, a mechanic, a Montessori teacher, a bookkeeper, a fisherman, a Pilates instructor and a cement company employee. They and their families provided 65 percent of the labor.

ABOVE: Robin Garcia in her Friday Harbor kitchen.

"This is the very best housing program that the government has."

DAVE FINLEY, Single Family Home Director, Kitsap County Consolidated Housing Authority (KCCHA)

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ABOVE: Robin Garcia in her Friday Harbor kitchen.

DAVID AND HEATHER ALLEN with their sons (left to right) Adam, Ryan, and Brandon.

KARINA KING
Poulsbo Homeowner

JAIMI GRAVES AND LISA PICKENS working in Poulsbo.
For more information about the Commission and its work, OR to access archived newsletters, visit www.wshfc.org or call 206-464-7139 or 1-800-767-HOME (4663) toll-free in Washington State.