



United States
Department of
Agriculture

Rural Development
Rural Housing Service
Rural Business-Cooperative Service
Rural Utilities Service

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March 25, 2002
Colorado AN 1904 (1944-I)

**SUBJECT: Changes, Use of Contingency, and Appliances
Mutual Self-Help Housing Program**

To: USDA/Rural Development Staff
Single Family Housing Program, Colorado

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance to agency personnel concerning changes to plans and specifications during construction, the use of contingency funds, and appliances which may be included in the loan, under the Mutual Self-Help Housing program.

COMPARISON WITH PREVIOUS AN:

This replaces Colorado AN 1821, which is now expired.

IMPLEMENTATION RESPONSIBILITIES:

1) CHANGES:

In the past, significant problems arose in the mutual self-help construction process when homeowners made changes after their plans and specifications had been approved, and construction was underway. This often led to delays in the construction process, budget shortfalls and conflicts within the group. As a result, a "no-change" policy evolved.

Homeowners continue to bring up the issue of changes/upgrades, and the desire for a little more flexibility in the homebuilding process. Therefore we are adopting the following policy, after numerous solution-oriented meetings with our Sponsors:

EXPIRATION DATE:
July 31, 2004

FILING INSTRUCTIONS:
Following Instruction 1944-I

---The mutual self-help Sponsor is responsible for meeting with the homeowners to help them select a lot, select and review their particular house plans and specifications, materials to be used, sub-contractors, cost breakdowns, and designing plot plans. Some of this selection/review process is to be handled during pre-construction meetings.

---The Sponsor should have at least 5 to 7 sets of standard house plans (i.e. 2 bedroom, 3 bedroom and 4 bedroom homes) from which the applicant will select their individual plan.

---The Sponsor are to have several bids from local contractors on major construction work to be performed (heating, electrical, excavation, foundation, framing, etc) or from suppliers for materials (carpets, linoleum, cabinets, appliances, lumber package, etc.).

---The Sponsor will prepare the Appraisal Package, which will include a statement signed by the applicants, that they have thoroughly reviewed and approved the plans, specs, plot plan and cost breakdown with the construction supervisor/program manager. Also included will be a statement with the list of choices the applicants have made.

NOTE: Rural Development is modifying its change policy, in partnership with our Sponsors, and allowing each Sponsor to adopy either:

A) A “no change” policy during construction, **OR**

B) One (1) pre-approved change/upgrade during construction (not to exceed 1.0% of the total development cost) if:

---the borrower/sponsor provide a copy of the Quick Books printout with the change order request, that shows where the savings were realized in budget line items, and

---the change/upgrade does not come out of contingency (the change/upgrade may be gifted from a family member), and

---the borrower does not pay for the change/upgrade out of their own funds, and

---the borrower signs a statement agreeing to all the above.

With either A) or B) above, other changes may be made during construction only if they meet the following criteria:

- ◆ Unsafe conditions
- ◆ Code compliance
- ◆ Structural problems

NOTE: Sponsors are encouraged to follow a no-change policy to expedite the completion of each group of homes, and in order to meet production goals.

2) USE OF CONTINGENCY FUNDS:

Currently a contingency fund of 3-4% of the construction cost or \$2,000. (whichever is less) is built into each self-help housing loan. This contingency is to be used in case of unexpected costs that may arise during the construction of the home. Some examples may be an unexpected increase in the cost of materials, additional excavation, additional compaction, a need to change sub-contractors, additional fees, etc.

The contingency is not to be used to upgrade the home during construction, or used prior to the completion of the landscaping. If weather does not permit landscaping completion, detailed estimates from the homeowner/Sponsor will be used to withhold funds in the supervised bank account. Contingency funds may then be used, if desired.

Careful selection of materials by homeowners, or price decreases during construction, may result in a contingency higher than \$2,000. when the home is completed. The homeowner will be allowed to use the contingency up to \$2,000. for additional items after the home and landscaping are completed.

NOTE: Loan funds over \$2,000. will be applied on the loan to reduce the principal amount; unless the homeowner, Sponsor and Rural Development concur as the result of an unforeseen situation.

The homeowner is to select from the options below, in case any contingency remains when they have completed the home. Acceptable uses of contingency are to be addressed in pre-construction meetings and the choices documented.

Acceptable uses of the contingency once the home is completed:

1. Return all funds on the loan and re-amortize.
2. Street appeal items:
 - Build a fence
 - Purchase additional shrubs, trees, perennial plants, and water-smart landscape items.
 - Basic sprinkler system or drip irrigation (where the climate dictates)
 - Concrete patios/aprons
 - Wood decks
 - Additional gravel/concrete for drives
 - Storage shed

3. Internal items:

- Additional insulation
- Energy efficient window coverings
- Ceiling fans (limit 2 per home)
- Washer/dryer
- Shower doors

3) APPLIANCES WHICH MAY BE INCLUDED IN THE LOAN:

- Refrigerator
- Range
- Range Hood
- Dishwasher
- Garbage disposal

If you have any questions, please feel free to contact Donald E. Pierce, Director-SFH, or Joe Kost, Mutual Self-Help Housing Coordinator.

Ginette Dennis
State Director