

Do Not Pay Clearance Requirements for Self-Help Grantees

Requirements for self-help grantees to receive Department of Treasury's Do Not Pay (DNP) clearance and report any single contract of \$10,000 or more to the U.S. Department of Labor (DOL) have been re-emphasized in the new special self-help section of HB-1-3550, Appendix 13 ([link Appendix 13 here](#)). Both the DOL notification and the DNP checks are completed through online portals. These are unrelated to SAM.gov and the notification and clearance checks are initiated by Self-Help grantees and completed in the portal by USDA – RD, not by the grantees or subcontractors.

Do Not Pay for checking (Sub)Contractors– The DNP system checks for delinquency on any federal debt, among other things. This needs to be completed for any subcontractor with a contract for \$25,000 or more. This is also done for the title company, the applicant, and the self-help housing grantee. Once submitted to RD, you will need to wait for clearance before entering into any contracts. If it is determined a subcontractor is on this list, you will be unable to award them the contract (or pay for any of their services using Section 502/federal funds). This is checked before entering into a contract and needs to be conducted again within five days prior to any payments being made for Custodial Accounts (disbursements from a Supervised Bank Account (SBA) are exempt). As a result, this may require a change in the way that you regularly execute contracts. If the self-help participants are reviewing bids and selecting subcontractors, you will need to request the DNP check once the contractor has been selected but prior to executing the contract. Once entered by USDA – RD staff into the portal, DNP results are almost instantaneous. Additionally, you may want to include information about the DNP clearance requirements in your (sub)contracts.

Do Not Pay for Grantees - Before grant obligation, grant closing and at each draw, RD is required to check the grantee organizations TIN through DNP and its 'principal' members. Principal members are the Chief Executive Officer (CEO)/Director/Executive Director, Chief Financial Officer (CFO), and any person who will be accepting/distributing the Federal Funds; plus, Chairman/President and Treasurer of the governing board. Prior to grant obligation and again before grant closing, the RD staff responsible for processing your Section 523 grant (re)application in the State office will send a request for the principal's Social Security Numbers (SSN) for the DNP checks. These should be sent to the RD representative in a password protected document/email and the password should be sent in a separate email. RD will then maintain these for DNP clearance prior to any subsequent draw requests. If a principal member changes, you must notify your RD state representative and provide updated information and SSN's before any future draws can be requested.

Reporting to DOL – This needs to be completed within 10 days of entering into any single contract or subcontract that will exceed \$10,000 to a single homeowner. Group contracts exceeding \$10,000 only require notification if the individual charge to any one homeowner exceeds the threshold. Once submitted to RD, you will not need to wait for any kind of response or "clearance" from RD or DOL. More information about Notification of Construction Contract Award and the DOL portal can be found here: [Notification of Construction Contract Award Portal | U.S. Department of Labor \(dol.gov\)](#)

To request DNP and DOL notification, it is recommended that this be done simultaneously, when applicable, by providing the following to your state USDA RD office:

We submit the following information relative to a construction contract in excess of \$10,000 per homeowner for DOL notification and/or \$25,000 per homeowner for Do Not Pay clearance per RD Instruction 1901-E, Exhibit C, Rural Development Financed Contract:

1.

Contractor's Name:

Address:

Telephone Number:

Email:

EIN:

2. (In addition, the below is only required if you are submitting DOL notification)

Contract for: (dollar amount)

Starting Date:

Completion Date:

Contract Number:

County/City/State:

DOL Region:

APPENDIX 13

SELF-HELP HOUSING

I. OVERVIEW OF SELF-HELP HOUSING. The Self-Help Program is authorized under SEC. 523. [42 U.S.C. 1490c] of the Housing Act of 1949, as amended and is further defined at 7 CFR 1944, Subpart I as well as RD Instruction 1944-I. The purpose of this program is to facilitate the efforts of both public and private nonprofit organizations providing oversight to low and very low-income families who, with the benefit of technical assistance, participate in Self-Help housing programs. Section 523 grant recipients (hereafter referred to as Grantee) use funds primarily for administrative costs to seek out the land for construction, package loan applications for participants, acquire quotes for building materials, aid in the solicitation and selection of subcontracted labor, and direct program participants in tasks to complete 65% of the labor contributed to constructing the dwelling or for rehabilitation projects, plan labor tasks that will contribute to the owner realizing cost savings.

The Section 502 Direct Home Loan Program is typically utilized by participants choosing to build their homes in the Self-Help Program. In some areas, the Section 502 Program is used to acquire and rehabilitate existing homes. For owner occupied rehabilitation, the Section 504 Program is encouraged. Processing steps for a 502 or 504 Self-Help loan follow the requirements of Handbook-1-3550 and RD Instruction 1924-A unless otherwise addressed in this Appendix.

II. APPLICATION PROCESSING PRIORITY. Chapter 3 of this Handbook discusses application processing priorities. Self-Help applications receive a priority four. They are priority four given the benefit of this partnership to all involved and given that delays in loan processing adversely affect a Grantee's production goals for their grant. When Grantees are unable to meet their production goals for a grant, the cost of that program rises. Field Staff should consider these factors when processing category four applications.

III. SELF-HELP LOAN APPLICATION PACKAGING. Part of the requirements for Grantees is packaging 502 Direct loan applications to Rural Development for Self-Help Program participants. Self-Help packaging is separate from the certified packaging process, but Grantee's must follow the process found in Attachment 3-A of this handbook, including the use of the required applicant disclosure letter, Application/Property Submittal Cover Letters, eForms for application submittal, etc. As described in Attachment 3-A of this handbook, all packagers act as a "liaison" between the applicant and the Agency, and it is important that the Field Staff keeps the Grantee informed throughout loan application processing.

IV. ENVIRONMENTAL REVIEWS. Self-Help new construction typically affects parcels of land with 4 or more proposed lots which constitutes a ‘significant impact’ and will require a higher level of Environmental Review (ER) than the purchase of an existing home. Determining the level of ER required will likely need to occur even before loan application packages are submitted. The ER process should begin when a Grantee is purchasing land for the Self-Help Program. If the Grantee has another source of Federal funding such as the Self-Help Opportunity Program (SHOP) funded by the U.S. Department of Housing and Urban Development (HUD), Rural Development should coordinate with the other Federal Agencies to jointly process the ER. Guidance for ERs is found in RD Instruction 1970 series “Environmental” and Chapter 1, Paragraph 1.14 A. of this handbook.

V. APPRAISALS. Appraisal ordered by Grantees will be accepted provided that:

- a. Rural Development is notified of the intent to order and the cost of the appraisal prior to any contractual commitment. Once notified Rural Development will:
 - i. Within three business days of receiving this notification, issue the applicant a third-party appraisal Loan Estimate (LE) and accompanying tailored Handbook Letter 5.
 - ii. RD will list the cost of the appraisal as provided by the third party, which may exceed the Agency’s prevailing appraisal fee in Paragraph 5.20 of this handbook.
- b. Orders the appraisal **only** after:
 - i. Receiving notification from Rural Development to proceed with the order.
 - ii. Explaining to the applicant that they are ordering the appraisal on the applicant’s behalf and that the applicant will have to cover the fee, out-of-pocket, if the loan does not close.
 - The Grantee may choose to collect the appraisal fee from the applicant prior to ordering. The appraisal fee, even though paid to the Grantee, is an allowable excess cost and is eligible to be reimbursed to the borrower from their loan proceeds at loan closing. A paid receipt must be forwarded to the Field Office to ensure proper credit and disclosure on the settlement statement.
- c. The Grantee will provide a copy of the paid invoice for the appraisal along with a copy of the appraisal that:
 - i. Meets the Uniform Standards of Professional Appraisal Practice and Agency appraisal standards, as described in Chapter 5, Paragraph 5.14 of this Handbook, and 7 CFR 3550, § 3550.62 Appraisals.
 - ii. Lists Rural Development as an “intended user.”
- d. The appraisal is reviewed for acceptability by Rural Development.
 - i. Rural Development must complete Form RD 1922-15, “Administrative Appraisal Review for Single Family Housing.”
 - ii. At a minimum, the first five appraisals obtained by a Grantee will receive a pre-closing technical review.

- iii. All appraisals submitted by Grantees, which are subject to a technical preclosing review, must be entered into the Appraisal Hub on SharePoint to assist with the monitoring of performance and compliance.
- iv. RD staff appraisers should complete their review within three business days. At the discretion of the appraisal staff, additional revisions or reviews may be required.
- v. When additional revisions are needed, they will be addressed by RD staff appraisers, in coordination with the Field Staff, and the third party.
- e. Once the Administrative Appraisal Review (and any applicable technical pre-closing review) determines the appraisal is acceptable, the RD processing Field Office must ensure the applicant is promptly provided a copy.

Loan funds may be used to reimburse the payor of the appraisal fee at loan closing. The amount of reimbursement for the appraisal may exceed the Agency's standard appraisal fee (Chapter 5, Paragraph 5.20). The paid invoice for the appraisal and instructions for "paid outside of closing" reimbursement will be sent to the closing agent for proper disclosure and settlement.

VI. SELECTING A CONTRACTOR. RD Instruction 1924-A describes authorized construction methods which are the contract, borrower, Mutual Self-Help, and owner-builder. The Mutual Self-Help method is defined as the performance of work by mutual labor under the direction of a construction supervisor. The ways of doing the work, buying materials, and contracting for special services are like those used in the borrower method whereby the owner acts as their own general contractor. In the Mutual Self-Help method, a group agreement acts as the governing document between the builder and the Grantee. The group agreement is a vital document that outlines roles and responsibilities, labor contribution requirements, subcontracting arrangements, grievance procedures, and other items related to the group build. The Loan Approval Official must be familiar with this agreement which is part of the approved Self-Help application docket. All changes must be reviewed by the Agency prior to use.

Under the Mutual Self-Help method, the Grantee is NOT a contractor and should **NOT** be asked to sign a construction contract or builder warranty. RD Instruction 1944-I, § 1944.406 of this section, specifically prohibits the Grantee from hiring personnel for the purpose of performing the participants' construction work on the homes. Construction supervisors assisting families in building homes can perform work alongside the families so long as they do not perform an entire task solely and their work is not the determining factor of completing the task.

Grantees are vetted through the Section 523 approval process and are not checked as a contractor through Do Not Pay (DNP).

VII. CONSTRUCTION DOCUMENTS. The items listed below are submitted as part of the Section 523 application process but must be updated as needed and submitted by the Grantees as part of each Section 502 construction package as follows:

- **Plans and Specifications.** The building plans and specifications should be signed by the Grantee and the applicant on each page.
- **Form RD 1924-2, Description of Materials.** Required to be submitted for each application file.
- **Form RD 1924-25, Plan Certification.** The plans, specifications, calculations, and any modifications must be certified by the design professional on Form RD 1924-25, to ensure that the appropriate codes and standards are met.
- **Development Budget.** The development budget may include an amount for construction contingencies resulting from unusual and unforeseen circumstances beyond the contractor's or borrower's control (refer to Chapter 5, Paragraph 5.23 A of this Handbook, for the allowable amount and conditions). Form RD 1924-1 "Development Plan" is not required, provided the development budget contains the same information that would be recorded on the form.

The Grantee is responsible for subcontractor communication, and the Rural Development file does not need to contain pre-construction meeting documents as it would with new construction other than Self-Help.

VIII. SUBCONTRACTS. Grantees work with subcontractors and suppliers to procure the needed supplies and skilled labor required to complete the homes. The Grantee obtains bids and selects the best available contractors/suppliers. The borrowers' 502 loan funds are then used to make the purchases and pay invoices. To this end, contracts with subcontractors/vendors must be signed by the owner/builders but may be made individually with each owner/builder or as a group. Group contracts must clearly identify the charge to each participant, allow warranties to be issued directly to the owner, and must allow homeowners to work directly with the subcontractor for warranty work. In either case, the group agreement, signed by participants, should specify which process(es) the Grantee will be permitted to use. Subcontracts in Self-Help are unlike those in construction with a general contractor because funds are paid directly to the subcontractors. For this reason, it is reinforced that the following are required for subcontracted work under the Self-Help Program:

- **Department of Labor Notification.** Individual contracts that exceed \$10,000 do require notification to the U.S. Department of Labor as described in Chapter 5, Paragraph 5.23 D of this Handbook. Group contracts exceeding \$10,000 only require notification if the individual charge to any one home exceeds the threshold.
- **Do Not Pay.** All subcontractors require clearance through the DNP system.
- **Contractor's Final Release and Waiver of Lien.** Each subcontractor used during construction must sign Form RD 1924-9, "Contractor's Final Release and Waiver of Lien."
- **Release of Claimant.** Each subcontractor used during construction must sign Form RD 1924-10, "Release by Claimants. Grantees" will maintain a list of subcontractors for each build to ensure this form can be easily obtained prior to final payments being made.
- **Builder's Warranty.** Individual warranties offered on materials and subcontracted labor should be given by the Grantee to the owner with a copy to the Rural Development file. Grantees should not be asked to sign any warranty forms.

IX. ADMINISTERING CONSTRUCTION FUNDS. In the Self-Help Program, Grantees are prohibited from using Section 523 grant funds to pay for the construction of the homes. Again, the Grantee is not a contractor so Field Offices should advance draws to avoid any need to reimburse a Grantee's unrestricted funds that may have been used to pay for home construction while awaiting draws from the 502 accounts. To this end, draws against the 502 builders' accounts will be guided by work in place and work to be completed in the next 30 days. Self-Help draws are not subject to the release of funds based on 60 or 90 percent of the work in place which is required under the contract method for new construction with a contractor. Grantees may request up to 100 percent of work in place as well as an advance for large, planned purchases in the next 30 days. At closing, an initial draw to cover the land, plans/specs, permits, and other costs which will be incurred within the first 30 days of closing (such as opening the supervised or custodial account) maybe be issued.

Field Staff should be aware that group split items are permissible for required building costs shared by the group (e.g., shared outhouse, power bill, tool rental, nail buckets, etc.). Draw requests should be made no more than once a month and must include documentation of the expenditures due on a detailed coversheet. Copies of corresponding invoices, code inspection reports, and pictures of progress should be attached to the detailed coversheet, as applicable (note that invoices coming due in the next 30 days may be unavailable at the time of the request and can be submitted with the next monthly draw). The coversheet will be signed by both the Grantee and the participating family before it is submitted for processing. A Rural Development inspection is not required for each draw, but Rural Development staff should monitor construction progress as compared to funds drawn down to ensure their general alignment (e.g., if the house is 20% complete, draws should be approximately 20% of the construction costs). RD Instruction 1944-I,§ 1944.425 of this section, provides requirements that must be met before a Grantee is authorized to manage 502 account funds in a custodial or supervised account.

X. SELF-HELP INSPECTIONS. Inspection requirements are the same for the Self-Help Program. An inspection report and pictures from a Grantee can be accepted as a third-party inspection; however, to avoid any conflict of interest, Grantee inspections should not be the only ones completed. Grantee inspection should be coupled with local county/city inspectors, RD inspections, or other approved third-party inspectors. Inspections that cause a charge to the 502 borrower account should be used as a last resort. Grantees should never be asked to pay for an inspection.

XI. POST CLOSING LEVERAGED LOANS/GRANTS. Self-Help is a partnership between Rural Development and the Grantee and consistent communication is key to success. If unforeseen circumstances arise and additional funding is needed during construction, the Grantee should contact the borrower and Rural Development immediately. In some cases, the Grantee may have access to affordable home loan/grant products which could be used to cover cost overruns; however, an additional loan/grant adversely impacts a Self-Help builder's sweat equity. Grantees who regularly place second liens on Self-Help participant's property is an indication that there is an issue with the Grantee's management/oversight of the project. State Offices should discuss these occurrences with the National Office for further guidance. Post-closing loans or grants should **NOT** be provided to the borrower without notification to Rural Development.

XII. PARTICIPANT WITHDRAWAL. In rare cases, a Self-Help owner/builder may be unable to complete the program. Grantees should communicate these issues to Rural Development. The group agreement should provide instructions for expelling a member from the group, or a borrower may quit; however, once a loan is closed, the program participant is in ownership of the property and must make decisions as such. In the event an owner/builder will not complete the home through the program, final decisions regarding how to move forward and complete the house must be made as follows:

1. **Transfer to Another Self-Help Borrower-** The borrower may wish to facilitate the sale of the partially built home to another very-low or low-income applicant on the Grantee's waiting list. Rural Development can extend new loan funds to an eligible borrower for such a transfer (when funds are limited a new rates and terms assumption can be processed). A purchase and sale agreement will need to be executed between the owner and the incoming Self-Help Program participant. Parties should consider the closing costs required for the new loan when establishing the sales price (e.g., the closing cost will be seller paid, the applicant will take out a supplemental loan, or some other arrangement).
2. **Contract Method-** Some borrowers may wish to find a contractor to complete their home. This will likely cause the need for the borrower to qualify for a subsequent loan to cover the higher cost of building with a contractor.

The owner should be notified of their option in writing, given a reasonable timeframe to respond and be advised that the loan must be converted to permanent and payments started if they do not respond.

XIII. CONSTRUCTION CLOSEOUT. Once construction or rehabilitation work is satisfactorily completed, Rural Development will coordinate with the Grantee to close out construction, including converting the loan to permanent with payments starting 30 days after. At least 60 days prior to conversion, Rural Development should work with the Grantee to obtain the necessary paperwork for conversion including updated income documents, taxes, insurance information, etc. As with construction under the contract method, loan conversion **MUST** happen on the first of the month after the final inspection, issuance of the certificate of occupancy, or the new/repaired dwelling becomes occupied.

- A. **Funds Remaining After Completion.** Any remaining loan funds which were deposited into the custodial/SBA account to pay final invoices for the home should be reconciled and closed quickly after conversion. It is anticipated that any final invoice would be paid within 60 days and unused loan funds will be returned to Rural Development as a curtailment of the loan balance.
- B. **Compensation for construction defects.** RD Guide Letter 1924-1, "Notification to Eligible Borrowers of Benefits Under RD Instruction 1924-F" should be provided to the borrower by the Field Office at conversion and will cover any materials/supplies as well as work completed by subcontractors.

XIV. SELF-HELP TAKE-OUT LOANS. Using the Section 502 Direct Home Loan Program as take-out-financing for self-help homes is highly discouraged. A Grantee's organizational risk is elevated when holding ownership of the property during construction. If a Grantee chooses to process take-out loans, Rural Development assumes no liability for lack of available funding, unqualified applicants, ineligible properties, etc. Rural Development will not predetermine eligibility or obligate loan funds outside the instruction of this handbook.

XV. OTHER LOAN FINANCING. There is no requirement for Self-Help Program participants to use Rural Development financing. Self-Help Program participants must be at or below Rural Developments low-income limit for the Grantee to charge the grant for the work completed and claim an equivalent unit under the grant. If an owner/builder is not receiving a Rural Development loan, they would not submit an application so Field Offices should refer to RD Instruction 1944-I for information on what documents the Grantee should submit which will be kept in the Section 523 file to ensure they meet program requirements.