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The Honorable Lee Metcalf, Chairman
Subcommittee on Reports, Accounting,
and Management
Committee on Government Operations
United States Senate

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Dear Mr. Chairman:

In response to your April 28, 1975, request and later discussions with your office, we investigated the allegation that the Farmers Home Administration (FmHA) in Lowndes County, Alabama, generally discouraged self-help housing projects by forcing loan applicants to buy more expensive all-electric houses.

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As you requested, before beginning our review we interviewed Ms. Lexine Weeks, a VISTA volunteer working with the Southeast Alabama Self-Help Association. We also interviewed officials of Wil-Low Non-Profit Housing, Inc.; FmHA officials at the national, State, and county levels; and individuals who had applied for loans to build houses under the self-help program. In addition, we reviewed applicable laws, regulations, policies, procedures, and case files and inspected a number of FmHA-financed houses.

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SELF-HELP HOUSING PROGRAM

Section 523 of the Housing Act of 1949, as amended (42 U.S.C. 1490c), authorizes FmHA to make housing loans to needy low-income individuals and their families in rural communities to participate in approved self-help housing projects.

According to FmHA instructions, an exchange of labor, without a cash cost to the families, is the key to the self-help housing program. To be eligible for a loan to build a house under the program, an applicant must lack sufficient income to build a modest house by customary methods; be credit worthy and comply with all other eligibility requirements for rural housing loans; and desire to build a house that is simply designed, structurally sound, and low cost. The instructions list basic conditions considered essential to the success of a self-help

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housing venture. These conditions include competent leadership and technical supervision, sufficient skills and available time among group members to perform the basic construction labor, building sites close enough together and to group members to permit convenient exchange of labor, and 6 to 10 families that can work together.

Loans may be used to buy materials; pay for skilled labor and contract costs for work the participants are unable to perform; and, if necessary, buy building sites and prepare the sites for construction. Supervision and technical assistance are provided to the self-help groups by public bodies or public or private nonprofit corporations. FmHA is authorized to pay part or all of the cost associated with providing supervision and technical assistance.

In Lowndes County, Wil-Low provides the supervisory and technical assistance to self-help groups. Wil-Low receives no financial assistance from FmHA but instead is funded by an annual grant from the Rural Housing Alliance, a nonprofit corporation which provides informational, technical, and other services related to housing in small towns and rural communities.

FmHA regulations do not require that a particular utility system be used in the houses FmHA finances.

ALLEGATION THAT FmHA COUNTY SUPERVISOR FOR
LOWNDES COUNTY GENERALLY DISCOURAGED SELF-HELP
PROJECTS BY FORCING SELF-HELP HOUSING LOAN
APPLICANTS TO BUY EXISTING ALL-ELECTRIC HOUSES

According to Ms. Weeks, the FmHA county supervisor for Lowndes County generally discouraged self-help projects by forcing self-help housing loan applicants to buy existing all-electric houses. In support of this allegation, Ms. Weeks and Wil-Low officials provided us with the names of 20 individuals who supposedly were discouraged from participating in the self-help program. We were able to locate and interview 18 of these individuals or their wives. None of the individuals interviewed said that they were pressured out of the self-help program by the FmHA county supervisor.

Our interviews with the 18 individuals and our review of FmHA files showed that 16 had previously applied for loans to build houses under the self-help program. Of the 16 applicants, 8 were found eligible, 7 were found ineligible, and 1 withdrew his application because he lacked the time to perform the required construction labor.

Of the 7 ineligible individuals, 4 did not qualify because FmHA determined that they were poor credit risks. Another did not qualify because he did not plan to live in the house as required by FmHA regulations. The remaining individuals were unable to recall the reasons they were found ineligible and FmHA files did not disclose the reasons.

Purchasers of all-electric houses

Five of the interviewees were living in non-self-help FmHA-financed all-electric houses at the time of our review. Two of them had applied for a loan under the self-help program, but only one was found eligible. The eligible applicant said he withdrew from the program because he could not purchase the type of lot he desired. We could not determine the reason the other individual was found ineligible. Both individuals said that buying all-electric houses was their decision and that the FmHA county supervisor did not pressure them.

Of the other three individuals, one withdrew his application because he could not perform the required labor and two had not applied for loans under the self-help program.

Although none of these five individuals regretted selecting an all-electric house, all but one commented about the increased cost of electricity.

Applicants eligible for self-help program

Wil-Low provided us with an October 30, 1970, statement made by one of the individuals who applied for a loan under the self-help program. The individual said in her statement that she and her husband (since deceased) applied for a loan under the self-help program in January 1970 but were told by the FmHA county supervisor that the application could not be processed either because they lived too far from the other members of the self-help group or because her husband was in the hospital. She said also that her family was in desperate need of a house and, after trying for 9 months to build a house under the self-help program, she was forced to have a contractor build her house. She complained that, although she was going to be eligible for an FmHA loan to have a contractor build her house, she was not eligible for a smaller loan for a self-help house.

FmHA's loan file on this individual contained the following pertinent documents.

1. A March 19, 1970, loan application from the individual and her husband to build a house under the self-help program.
2. A letter dated April 17, 1970, notifying the applicant that the FmHA county committee had favorably considered the application. (Until December 1974 a committee of three local residents approved all FmHA housing loans.)
3. A certification by the FmHA county committee dated August 19, 1970, that the applicant was eligible for a \$7,700 loan.
4. A statement signed by the individual on October 21, 1970, requesting to withdraw from the self-help program and to have a contractor build her house.
5. A certification by the FmHA county committee dated November 23, 1970, for a \$9,630 loan.

The individual received an FmHA loan and had a contractor build a house which was not all electric.

The individual said that her October 30, 1970, statement did not accurately reflect the true situation. She said the statement was made to indicate her general frustration with the program. Further she said she was not pressured out of the program by the county supervisor but rather withdrew after her husband became ill and could not perform the required construction labor.

Of the seven other eligible self-help applicants, three withdrew from the program, two were living in houses built under the program, and two were awaiting the formation of a self-help group. These latter two applicants had not been notified of their eligibility on a timely basis. FmHA received their applications in September and October 1974 and both individuals were found eligible for a loan in December 1974. However, the FmHA county supervisor did not notify them of their eligibility until May 1975. Both individuals told us that the FmHA county supervisor tried to sell them FmHA inventory houses after they had applied for loans under the self-help program.

According to the FmHA county supervisor the delay in notifying these individuals of their eligibility was prompted by December 1974 instructions from the FmHA State office not to process any additional loans under the self-help program until Wil-Low corrected a drainage problem at one of its subdivisions. An FmHA State office official

confirmed that such instructions were issued but said the instructions should not have interfered with notifying the applicants of their eligibility. The FmHA county supervisor said that he was no longer withholding self-help eligibility notifications.

Comments of FmHA county supervisor in Lowndes County

The FmHA county supervisor told us that he tries to sell an FmHA inventory house to an individual who applies for any type of FmHA housing loan by explaining that an inventory house is available for immediate occupancy. He said that this is in line with FmHA's policy of emphasizing the repair and use of existing houses as a means of providing adequate housing.

As of October 31, 1975, FmHA had 32 houses in inventory in Lowndes County, of which 23 were all electric. The county supervisor said that most houses constructed in Lowndes County since 1970 have been all electric and noted that the only area in the county with access to natural gas was Fort Deposit, Alabama. The county supervisor stated that he had neither pressured people into taking FmHA inventory houses nor discouraged participation in the self-help housing program. He said that FmHA had approved two Lowndes County self-help groups that had only five participants each even though FmHA guidelines recommend a minimum of six.

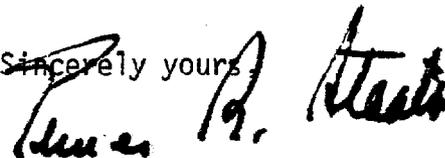
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As of October 31, 1975, FmHA had made 329 rural housing loans in Lowndes County, of which 44, or 13 percent, were to construct houses under the self-help program. Nationally, loans for self-help houses accounted for less than 1 percent of all rural housing loans as of January 1975.

We believe that the available information tends to refute the allegation.

We discussed the report contents with FmHA officials, and the FmHA Administrator stated that FmHA has no objections to the report contents.

Sincerely yours,



Comptroller General
of the United States