

HOME & NSP: *CREATING AFFORDABLE HOUSING, REVITALIZING NEIGHBORHOODS*

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Welcome & Introductions

- HUD's Community Planning and Development training initiative
- Course developed nationally by HUD and ICF International
- A little about us:
 - HUD CPD staff
 - ICF staff

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Participant Introductions

- Years of experience with HOME
 <1 yr 1-5 yr 6-10 yr 10+ yr
- Years of experience with CDBG
 <1 yr 1-5 yr 6-10 yr 10+ yr
- My agency is:
 - A local HOME PJ
 - A state HOME PJ
 - A direct NSP recipient
 - Receives NSP funds from state or county
 - HUD
 - Other?

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My boss told me not to come home unless I ask about

- NSP questions
- HOME questions
- Issues with combining the programs
- Other?

Course Goals

- Share information on:
 - The basics of HOME
 - The basics of NSP
 - Rules when combining the funds for affordable housing activities
 - Share examples of possible homebuyer or rental project types

Course Materials

- Agenda
 - Overview of HOME & NSP
 - Affordable housing activities
 - Program administration issues
- Training manual
- Training manual appendices
- Overheads
 - PPTs will indicate when each program or both

Rules!!!!

- Sticky questions board
- Parking lot
- Ask questions
- Live with ambiguity – sometimes no one “right” answer or NSP policy has not yet been determined
- Have fun!

Logistics

- Timing of breaks and lunch
- Restrooms
- Hey, where's the coffee??

HOME & NSP PROGRAM BASICS

Why Combine HOME & NSP?

- Many reasons to consider programs together:
 - Stretches scarce resources
 - Differences in eligible activities
 - Differences in target populations
 - Yet, many rules across two programs are similar
 - PJ may have technical capacity in housing programs & effective program models

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Ways to Combine HOME & NSP

- Can combine:
 - Together in same project:
 - ✓ **Example:** NSP for acquisition and demolition, HOME for new construction
 - In same program but not same project:
 - ✓ **Example:** Downpayment program – HOME for low income, NSP for moderate income
 - In separate but complementary programs:
 - ✓ **Example:** Goal is neighborhood revitalization. Use NSP for targeted homebuyer and rental programs, use HOME for homeowner rehab in same neighborhood

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Rules When Combining HOME & NSP

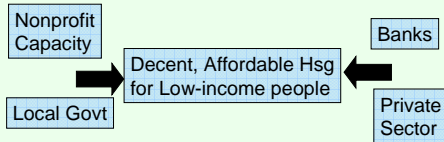
- When combine must meet rules of both programs
 - Generally, most restrictive rule applies
- Example #1: Number of low income units in a rental development
- Example #2: Sales price of homebuyer units
- Example #3: Income limits

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HOME: History & Goals

- National Affordable Housing Act 1990

- Objectives:



HOME: Key Partners

- Participating Jurisdiction (PJ) – state or local grantee receiving HOME funds from HUD
- Consortia – group of local jurisdictions combined to act as PJ
- Subrecipient – nonprofit that administers part of HOME program
- State recipient: unit of local government receiving HOME funds from state PJ

HOME: Key Partners (cont)

- Developer – nonprofit or for-profit entity that finances and builds housing
- CHDO -- nonprofit that owns, develops or sponsors housing
- Beneficiary – tenant, owner or buyer of housing

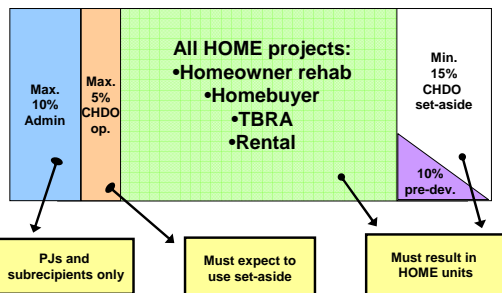
HOME: What is a CHDO?

- Nonprofit with affordable housing mission
- Community-based board
 - 1/3 low income representation
 - No more than 1/3 public
- At least 1 year of experience & staff capacity
- PJ must allocate at least 15% of annual grant to CHDO owner, sponsor, developer deals

HOME: Deadlines

- Deadlines:
 - Commit funds within 24 months
 - Expend funds within 5 years
- Commitment means executed contract/agreement for project
 - Must enter into IDIS but IDIS alone does not count as “committed”
 - Exception: CHDO reservation in IDIS = commitment (must still have agreement)

HOME: Uses of Funds



HOME: Types of Programs

- The HOME Program is four housing programs in one:
 - Homeowner Rehab
 - Homebuyer
 - Rental Development (New Construction or Rehab)
 - Rental Subsidy

HOME: Eligible Costs

- Hard costs and soft costs for:
 - New construction
 - Rehabilitation
 - Reconstruction
 - Conversion
- Improvements on HOME project site
- Acquisition
 - Vacant land
 - Improved land
 - Construction must begin within 12 months

HOME: Eligible Costs (cont)

- Demolition
- Relocation
 - Allows assistance to all displaced households
- Refinancing
- Project reserves
 - Limited to 18 months rent-up period
- Project related soft costs

HOME: Ineligible Costs

- Reserve accounts
- Match for other federal programs (except McKinney)
- Assistance to:
 - Public Housing
- HOME projects during affordability period
 - Some exceptions
- Project based rental assistance
- Acquisition of PJ-owned property
 - Unless acquired for a HOME project
- Paying delinquent taxes on behalf of the owner

HOME: Low Income Targeting

- 100% of HOME \$\$\$ help people \leq 80% MFI
- Lower income levels for some activities
 - Program rule: 90% of rental and TBRA households at 60% of median
 - Project rule: 20% of units in rental projects of 5+ HOME units at 50% of median and below

HOME: Match Requirements

- PJs must match 25% of HOME funds drawn down for project costs
 - Match must be a *permanent contribution* to HOME Program
- Match liability must be satisfied by end of federal fiscal year

HOME: Other Requirements

- Several other types of requirements apply to HOME-assisted projects:
 - Minimum & maximum subsidy limits
 - Maximum property value (homebuyer and homeowner rehabilitation programs)
 - Cost allocation (mixed HOME and non-HOME projects)
 - Subsidy layering (projects with multiple public sources)
 - Property standards
 - Affordability periods (homebuyer and rental projects)
- More about these in later modules

NSP: History & Goals

- Statute = Housing and Economic Recovery Act of 2008 (HERA)
 - Program known as Neighborhood Stabilization Program (NSP)
 - Program to stabilize and revitalize communities hard hit by mortgage crisis
 - ✓ \$3.92 billion
 - Funds provided as supplemental appropriation under HUD's Community Development Block Grant (CDBG) program
 - ✓ In general, CDBG rules apply to NSP

NSP: History & Goals (cont)

- NSP Program revised in March 2009 by ARRA
 - Changes covered in Bridge Notice
 - ✓ Published 6/15/09
 - ✓ Also includes some non-substantial technical corrections or clarifications
 - ARRA also created NSP II
 - ✓ Information found in NOFA

NSP: Key Partners

- **Grantee** = public agency recipient of NSP funds from HUD
- **Subrecipient** = public agency or nonprofit that administers program for grantee
 - Includes UGLG receiving funds from state grantee
 - A landbank receiving NSP funds from grantee or other subrecipient is also subrecipient
- **Developer** = nonprofit or for-profit organization that arranges and completes deals
- **Beneficiary** = homebuyer or tenant

NSP: When is a Nonprofit a Subrecipient?

- Nonprofits are usually subrecipients
 - Undertake most eligible activities
 - Program administration
 - Operate like grantees (program income, reporting, procurement)
- Nonprofit doing (only) acquisition & rehab or new construction **MAY BE** developer
 - May do those as subrecipient also
- Unlike CDBG, new construction does not require CBDO

NSP: When is a Nonprofit a Subrecipient (cont)

- Why this matters:
 - Program income
 - Applicability of certain OMB circulars & related rules
 - ✓ Part 84
 - ✓ A-122
 - ✓ A-133
- Note: for-profit entities and household beneficiaries will not be subrecipients under NSP
- Can have contracted grants administrators
 - Must be competitively procured

NSP: Selection of Partners

- Public and nonprofit subrecipients not required to be procured
 - Grantee's policy decision
- Individual household beneficiaries or private developers not required to be procured
 - Suggest having selection procedures
- Private contractors providing goods/services directly to grantee/subrecipient must be competitively procured

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NSP: Selection of Partners (cont)

- In determining procurement, follow flow of funds:
 - If goods/services provided to grantee/sub recipient = procure
 - If goods/services provided to other entity = no procurement
- Example #1: Developer has agreement with grantee for developer to acquire/rehab units = no procurement
- Example #2: Grantee buys property and hires construction contractor to demolish = must do procurement

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NSP: Deadlines

- Must **USE** funds within **18 months** after execution of the grant agreement by HUD
- USE = contracts signed or written offers for properties
 - Options or other non-binding instruments not acceptable
- Must **EXPEND** within **four years**
 - PI may be generated and expended later than 4 yr period
- Must use it or lose it (otherwise funds get reallocated)

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NSP: Targeting Areas of Greatest Need

- NSP must focus on areas with:
 - Greatest percentage of home foreclosures;
 - Highest percentage of homes financed by a subprime mortgage related loan; and
 - Likely to face a significant rise in the rate of home foreclosures.
- Document:
 - Location of activity
 - Map of target areas (zip code, Census tract etc)

NSP: Key Definitions

- **Abandoned:** Mortgage/tax foreclosure proceedings & no payments 90 days & vacant 90 days
- **Foreclosed:** Mortgage/tax foreclosure complete, includes title transfer or deed in lieu (where legal under local law)
 - Must be acquired out of foreclosure – NSP acquisition not authorized until Action Plan submission
 - *Implication:* Cannot reimburse acquisition of foreclosed properties prior to Action Plan & cannot rehab these sites except if allowed under eligible use E

NSP: Key Definitions (cont)

- **Blighted:** Objectively determinable deterioration that is threat to human health, public safety, public welfare
 - Defined in grantee's Action Plan
- **Land Bank:** Purchase, manage, dispose of property in defined area

NSP: Key Definitions (cont)

- **Vacant Property:** Unoccupied structures or vacant land that was once developed
- **Homes:** Permanent residential unit
- **Residential Property:** Homes plus vacant residential land and multifamily properties

NSP: Uses and Activities

- HERA defines five “uses” of funds
- Generally, uses of HERA funds must be CDBG eligible
 - Some exceptions
- HUD has cross referenced HERA uses to CDBG activities
- HUD permission needed if CDBG activity not on list

NSP: Eligible Uses

Eligible Use	CDBG Eligible Activities
A. Financing mechanisms for purchase & redevelopment of <u>foreclosed</u> upon <u>homes</u> & <u>residential properties</u>	<ul style="list-style-type: none">■ Activity delivery cost for an eligible activity (designing & setting it up)■ The financing of an NSP eligible activity – such as soft second loans, loan loss reserve, equity sharing■ Housing counseling for program participants■ Other activities in Uses B-D

NSP: Eligible Uses (cont)

Eligible Use	CDBG Eligible Activities
B. Purchase and rehabilitate <u>homes and residential properties</u> that have been <u>abandoned or foreclosed</u> upon, in order to sell, rent, or redevelop such homes and properties	<ul style="list-style-type: none"> ■ Acquisition ■ Disposition ■ Relocation ■ Direct homeownership assistance ■ Eligible rehabilitation and preservation activities for homes and other residential properties ■ Housing counseling for program participants

NSP: Eligible Uses (cont)

Eligible Use	CDBG Eligible Activities
C. Land banks for <u>homes and residential properties</u> that have been <u>foreclosed</u> upon	<ul style="list-style-type: none"> ■ Acquisition ■ Disposition (includes maintenance) ■ Housing counseling for program participants

- Land Bank = govt or non-govt entity temporarily assembles, manages, disposes of homes
 - Must operate in specific defined area
 - 10 year reuse plan

NSP: Eligible Uses (cont)

Eligible Use	CDBG Eligible Activities
D. Demolish <u>blighted</u> structures	<ul style="list-style-type: none"> ■ Clearance, for blighted structures only

- Must be blighted, defined in Action Plan
- Can be any type of unit or property
 - Residential, commercial, industrial
- Must meet a national objective
 - Some projects based on demo itself, most on re-use of site

NSP: National Objectives

- All NSP activities must meet national objective
 - Defined differently than CDBG
 - Low/moderate/middle income (LMMI) = 120% of median
 - “Slum/blight” and “urgent need” National Objectives not allowed

NSP: National Objectives (cont)

- Housing (LMMH): households \leq 120% of area median income
 - Used for all housing activities
 - Cannot use LMMA, LMMC for housing acquisition, rehabilitation, construction, homebuyer assistance etc
 - If single unit structure = must be occupied by LMMI person
 - If duplex = one unit must be LMMI

NSP: National Objectives (cont)

- Housing (LMMH) - continued:
 - If 3+ units = proportional share must be LMMI
 - ✓ Different than CDBG (not 51%)
 - ✓ Example: if 10 unit total development cost = \$1,000,000 and NSP funds are \$400,000, must have 40% (4 units) occupied by LMMI, rest can be upper income

NSP: National Objectives (cont)

- **Area benefit (LMMA):** defined area with $\geq 51\%$ of residents $\leq 120\%$ of median
 - Activity serves all residents of primarily residential area
 - Use for land banks if also do maintenance, demolition, redevelopment
- **Limited clientele (LMMC):** family with income $\leq 120\%$ of median
 - Use for special needs public facilities

NSP: Low Income Targeting

- HERA requires low income set aside
 - 25% of NSP funds used for activities that provide housing for households with incomes $\leq 50\%$ of area median income (very low income)
 - ✓ 25% targeting does not apply to program income
 - Be careful about what counts toward set aside
 - ✓ Must meet LMMH national objective
 - ✓ Must be related to re-use of foreclosed/abandoned units for residential housing

NSP: Low Income Targeting (cont)

- Only "**permanent** housing" counts toward targeting
 - Cannot count public facilities including shelters, group homes
 - Beyond this, grantee may determine definition of permanent housing
- Applies for entire affordability period
 - Period defined by grantee in Action Plan
 - HOME rule is safe harbor
 - Need to track very low income occupancy throughout affordability period OR use recapture approach (homebuyer units)
 - More on this topic later in presentation

NSP: Low Income Targeting (cont)

- Calculated based on NSP expenditures not households
 - Applies to entire grantee program not project by project
 - Only count expenditures on very low income units
 - Example: 10 unit rental project. 5 units are very low income. Total development cost is \$1,000,000 and NSP funds spent to acquire and rehab all units (\$1,000,000). Only \$500,000 (50%) counts toward VLI set aside.

HOMEBUYER PROGRAMS

Approaches to Homeownership

- Two common approaches:
 - Homebuyer subsidy
 - Development subsidy
- Both HOME & NSP programs can use these two approaches

Homebuyer Subsidy

- **HOME & NSP:** Wide range of options allowed:
 - Direct lending
 - Principal & interest write down
 - Downpayment & closing cost
 - Loan guarantee
 - Individual Development Account (IDA)
 - Lease purchase

Homebuyer Subsidy (cont)

- **HOME & NSP:** Wide variety of homebuyer direct lending allowed:
 - Amortizing loan
 - Deferred payment
 - Forgiven over time
- **HOME & NSP:** Assistance can also include:
 - Interest write down: \$\$\$ to lender in return for interest rate reduction
 - Principal write down: \$\$\$ to lender to reduce amount borrowed by household

Homebuyer Subsidy (cont)

- Downpayment/closing costs:
 - Assists families with lender's required up-front costs
 - **HOME:** Any reasonable amount allowed
 - **NSP:** Capped at 50% of needed downpayment

Homebuyer Subsidy (cont)

- Loan guarantee:
 - Promise made to private lender that some or all losses due to loan foreclosure will be covered
 - **HOME**: Can set up guarantee pool
 - ✓ Can draw down & deposit up to 20% of outstanding guaranteed loan balance
 - **NSP**: Can acquire up-front private mortgage insurance and can establish loan loss reserve

Homebuyer Subsidy (cont)

- IDAs:
 - Dedicated savings accounts
 - Use program funds as matching
 - **HOME**: Commit funds but draw down when ready to purchase
 - **NSP**: Can deposit funds under Eligible Use A in IDA if family & unit eligible or under Use B if under Direct Homeownership Assistance

Homebuyer Subsidy (cont)

- Lease purchase:
 - Lease while saving for purchase
 - **HOME**:
 - ✓ Purchase within 3 years
 - ✓ If not purchase, 42 months from construction completion to identify additional buyer
 - **NSP**: Assistance eligible only at time of purchase
 - ✓ Issue: Need to meet NSP deadlines
 - ✓ Issue: May have relocation issue depending on project

Development Subsidy

- Under development subsidy approach, assistance is provided to developer
- Three primary approaches:
 - New construction
 - Acquisition, rehabilitation, re-sale
 - Reconstruction
- All three approaches allowed under both HOME & NSP

Development Subsidy (cont)

- Can construct and sell new homebuyer units
- **HOME**: New construction of units allowed
 - Single unit or multiple units in target area
 - Can combine with direct homebuyer subsidy
- **NSP**: Permitted under specific circumstances:
 - Only under Eligible Use E on vacant land
 - Can include targeted infill development
 - Can also combine with direct homebuyer subsidy

Development Subsidy (cont)

- Acquisition with rehabilitation and resale allowed under both programs
 - **HOME**: Any unit that meets HOME rules
 - **NSP**: Allowed under Eligible Uses A, B, and E (if unit is vacant)
 - ✓ Will likely be very common use of NSP funds
- **HOME & NSP**: Reconstruction allowed under both programs
 - Reconstruction = rehab
 - Replace same tenure type, same number of dwelling units
 - Can be on different foundation/location on site

Development Subsidy (cont)

■ Examples:

- Acquire foreclosed or abandoned units using NSP, use HOME for rehabilitation
- Acquire and demolish foreclosed and dilapidated homes using NSP, use HOME to reconstruct standard units
- Use NSP to acquire and rehabilitate foreclosed homes, use HOME for downpayment and closing cost assistance

Eligible Costs

■ **HOME & NSP:** Direct project costs allowed under both:

- Land or property acquisition
- Site preparation
- Construction
- Relocation
- Buyer purchase assistance
- Buyer closing costs

Eligible Costs (cont)

■ Activity delivery costs:

- Costs for grantee to deliver the program
- Example: Inspections, work write-ups, appraisals, homebuyer selection
- **NSP:** Can pay delivery costs as part of eligible program
- **HOME:** Can also pay as project cost IF tracked to site address
 - ✓ If no, is admin

Eligible Costs (cont)

- Housing counseling
 - **HOME**: Can be project cost, admin cost or CHDO operating depending on how set up & tracked
 - **NSP**: Can be activity delivery for NSP-assisted family or public service under Eligible Use E
 - ✓ Note: if buyer drops out from counseling program, cost is still eligible NSP expense

Form of Subsidy

- **HOME & NSP**: Lots of choices for financing projects:
 - Loans
 - Grants
 - Interest/principal subsidies
 - Equity investments
 - Loan guarantees (HOME & acquisition of private mortgage insurance under NSP)
- Both can include construction financing as well as permanent financing

Caps On Amount of Subsidy

- **HOME**:
 - Minimum = \$1,000 per unit
 - ✓ Calculated as average HOME investment across all HOME units in single project
 - Maximum is capped by 221(d)(3) subsidy limit
 - ✓ Calculated based on amount of HOME investment in project – does not cover all other sources of financing
 - ✓ Available only from HUD hub office multifamily division

Caps On Amount of Subsidy (cont)

- **NSP:** Does not cap minimum or maximum investment
 - However, purchase price of foreclosed homes/properties is capped
 - Must be purchased at “maximum reasonable discount” from current market value
 - Amount of discount per home:
 - ✓ 1% minimum per individual home
 - ✓ Grantees encouraged to obtain discount commensurate with lender holding costs
 - ✓ May take steps to ensure reduced NSP acquisition price not used as comp for market rate unit appraisals

Caps On Amount of Subsidy (cont)

- **NSP (cont):**
 - Market value determined based on appraisal
 - Generally required for purchases of foreclosed homes & properties
 - Not required for:
 - ✓ Other types of acquisitions – for example vacant property under Eligible Use E OR
 - ✓ If anticipated value of acquisition is ≤ \$25,000
 - Must still do valuation based on available data but may be done by qualified person (non-appraiser)

Caps On Amount of Subsidy (cont)

- **NSP (cont):**
 - Use URA appraisal standards at 24.103
 - ✓ Fee appraiser must be state licensed or FIRREA certified
 - ✓ Use procurement to select contracted appraisers
 - ✓ Appraisal to include: description of property; approaches to value; comparables; statement of value; date and signature
 - Conduct within 60 days prior to final offer

Investment Caps When Programs Combined

- If HOME & NSP combined in same foreclosed unit, meet both rules
- Example:
 - Assume program allows both HOME & NSP for acquisition and rehab
 - Appraised value: \$200,000 (assume is less than HOME max value limit)
 - Rehabilitation cost: \$20,000
 - 221(d)(3) limit: \$240,000

Investment Caps Example (cont)

	HOME	NSP
Value	\$ 200,000	\$ 200,000
Max Purchase Price	\$ 200,000	\$ 198,000
Rehabilitation	\$ 20,000	\$ 20,000
Total Eligible Development Cost	\$ 220,000	\$ 218,000

- Grantee needs to determine how to use each program to cover total costs given market demands:
 - ✓ If HOME for acquisition and NSP for rehab: max total grantee investment is \$220,000 (\$200,000 HOME + \$20,000 NSP)
 - ✓ If NSP for acquisition and HOME for rehab: max total grantee investment is \$218,000 (\$198,000 NSP, \$20,000 HOME)

Property Types

- **HOME & NSP**: Both allow for:
 - One unit property
 - Two to four unit property
 - ✓ Rules may apply regarding rental units
 - Condominium
 - Cooperative, if homeownership under state law
 - **NSP**: Manufactured home allowed only if real property

Property Value Limits

- **HOME:** Limits which units can participate in program
 - Must be “modest” based on value
 - In homebuyer projects:
 - ✓ Purchase price cannot exceed 95% of median
 - ✓ When rehab, post rehab value cannot exceed 95% of median purchase price
 - Two options for determining:
 - ✓ HUD-published 95% limit
 - ✓ Specialized market analysis
- **NSP:** No cap on value but cap on sale price to buyer

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Sale Price Cap to Homebuyers

- **HOME:** If unit “modest” based on 95% limit, no other cap on sale price
- **NSP:** Homebuyer purchase price must be “affordable” as defined in Action Plan
 - Does not apply to rental properties
 - Sale to assisted household cannot exceed grantee cost to acquire, redevelop, rehab
 - ✓ Can include grantee’s direct and activity delivery costs
 - ✓ Cannot include maintenance costs in sale price, unless rehab done

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Property Caps When Programs Combined

- Need to cap both value and sale price
- Example 1:
 - Assume project is acquisition & rehab
 - Acquisition cost: \$60,000
 - Eligible rehabilitation cost: \$50,000
 - Grantee inspection, work write-up costs: \$10,000
 - Value after rehabilitation: \$160,000
 - Assume 95% limit is \$210,000
 - HOME would allow any reasonable sale price (realistically not likely to sell for more than \$160,000)
 - BUT NSP requires a sale price to homebuyer of no more than \$120,000 (\$60,000 + \$50,000 + \$10,000)

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Property Caps When Programs Combined (cont)

- Example 2:
 - Project is acquisition, demolition, new construction
 - Total eligible development cost: \$250,000
 - Post construction value: \$240,000
 - HOME 95% limit: \$190,000
 - NSP requires a sale price to homebuyer of no more than \$250,000 – in reality would likely not sell for more than \$240,000
 - NSP could be used to write down the sale price
 - HOME could not be used because exceeds 95% limit
 - Cannot assist this unit with both NSP & HOME

Property Standards

- **HOME:**
 - Acquisition: state and local standards or HQS if no standard
 - Rehab/construction: state/local codes, zoning. New construction must meet International Energy Code. Rehab must have written standards
 - Manufactured must meet Manufactured Home Construction and Safety Standards

Property Standards (cont)

- **NSP:**
 - No specific property standards BUT rehab standards defined in Action Plan
 - Rehab must comply with grantee's chosen standards
 - ✓ Must also comply with local codes, laws, requirements for habitability, quality, safety
 - ✓ Green building and energy efficiency improvements encouraged

Property Standards (cont)

- **HOME & NSP:** When programs combined:
 - Rehab and construction comply with state/local standards
 - Acquisition-only activities comply with state/local habitability standards or HQS

Income Targeting

- **HOME:** Low income targeting required:
 - All homebuyers must be low income (\leq 80% of median)
- **NSP:** All buyers must be LMMI (\leq 120% of median)
- **HOME & NSP:** When combined, cap homebuyer income at 80%

What Counts As Income?

- **HOME & NSP:** Three income definitions allowed:
 - Part 5 (Section 8)
 - IRS Adjusted Gross Income
 - Census Long Form
- Project anticipated income
- Document with source documents

Use the Income Calculator on HUD's website

Housing Counseling

- **HOME:** Not required but allowed
- **NSP:** Assisted homebuyers must complete at least 8 hours from HUD-approved counseling agency
 - If counseling done as program delivery cost, not public service
 - Lenders must comply with bank regulators guidance for non-traditional mortgages
 - For more information on HUD-approved agencies:
<http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>
 - Grantees may ask for exception from HUD for good cause

On-Going Requirements

- **HOME & NSP:** Both apply affordability period
- **HOME:** For each homebuyer, UP FRONT, grantee must select compliance approach during period of affordability
 - Two options: Resale or recapture
 - Cannot mix recapture and resale; must choose one or other
 - If no "Direct Subsidy" to homebuyer, grantee must select Resale
- **NSP:** HOME rules are safe harbor
 - Can use alternate approach but must get HUD approval
 - HOME affordability periods are minimums – NSP grantees can set longer terms

Affordability Period for Homebuyers

NSP or HOME \$	Affordability Period
< \$15,000	5 yrs
\$15,000 - 40,000	10 yrs
Over \$40,000	15 yrs

- Note: affordability period is calculated separately for each program, **not** as sum of HOME & NSP funds

HOME Recapture Model

- Meet affordability requirement by recapturing funds if unit sold by owner during affordability period
 - Amount recaptured depends on sale price and chosen recapture approach
 - Cannot use recapture if assistance = grant
- May re-sell unit to any buyer at any price
 - Once \$\$\$ recaptured & unit sold, no additional unit restrictions
- NSP may adopt same rules or alternate approach (if approved by HUD)

HOME Recapture Model (cont)

- Affordability period based on “total amount subject to recapture”
- Total subject to recapture is direct homebuyer subsidy:
 - Assistance provided to buyer
 - ✓ Downpayment/closing cost assistance
 - ✓ Subsidized loan
 - PLUS assistance amounts that write sale cost below market value
 - ✓ Need an agreement with buyer
- Does not include HOME or NSP amounts to subsidize development when that cost exceeds market value (known as development subsidy)

Recapture Affordability Period Example

- HOME loan to buyer: \$15,000
- HOME downpayment assist: \$5,000
- HOME develop assist to CHDO: \$50,000
- Market value of home: \$160,000
- Sale price of HOME: \$155,000
- Total amount subject to recapture:
 - $\$15,000 + \$5,000 + \$50,000 = \$25,000$
- Affordability period 10 years

HOME Recapture Model: Amount Recaptured

- Occurs when home is sold during affordability period (whether voluntary or foreclosure)
- Recapture amount is limited to "net proceeds"
- Net proceeds defined as:
Net Proceeds = Sale Price – Superior Debt – Closing Costs
- Limits amount owed back if net proceeds insufficient – For example:
 - Original HOME investment: \$20,000
 - Unit has declined in value & net proceeds at sale are \$7,000
 - Maximum amount owed to grantee: \$7,000

HOME Recapture Model: Amount Recaptured (cont)

- Grantee must determine up front how to share net proceeds with owner (seller)
- Four options under HOME:
 1. Recapture full amount of direct subsidy to homebuyer;
 2. Forgive direct subsidy pro-rata over affordability period;
 3. Proportionately share net proceeds; or
 4. Allow buyer to recover his/her initial investment first.
- HOME also allows for sharing of appreciation
- **NSP**: Allows these 4 net proceeds approaches and shared appreciation, or alternate if approved by HUD

HOME Resale Model

- Meet affordability requirement by limiting unit sale price and eligible buyers for any sale during affordability period
 - Does not preclude having mortgage on unit which is repaid at sale
- Typically used in situations where goal is creation of long term pool of affordable units
- **NSP**: Grantees can adopt HOME resale rules or alternate if approved by HUD

HOME Resale Model (cont)

- Affordability period based on total HOME investment in the property
 - Must include \$\$\$ of HOME assistance to buyer
 - PLUS total amount of HOME funds provided to developer
- If resale chosen, NSP uses same approach to calculate affordability period
- Do not add HOME & NSP assistance together – calculate affordability period separately for each

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Resale Affordability Period Example

- HOME loan to buyer: \$15,000
- HOME downpayment assist: \$5,000
- HOME develop assist to CHDO: \$50,000
- Market value of home: \$160,000
- Sale price of HOME: \$155,000
- Total amount of subsidy:
 - \$15,000 + \$5,000 + \$50,000 = \$70,000
- Affordability period 15 years

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HOME Resale Model: Actions When Unit is Sold

- If there is Resale requirement, when home is sold:
 - Home must be affordable to new buyer
 - New buyer must be low-income
 - New buyer must occupy house as principal residence
 - Original buyer must receive a “fair return”
 - Remaining resale restrictions apply to new buyer
- If additional HOME assistance provided to new buyer, affordability period is “re-set”

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HOME Resale Model: Actions When Home is Sold (cont)

- **NSP:** If adopt HOME resale model, all unit restrictions apply to sales during affordability period
 - Next buyer income cap based on original unit income targeting
 - If unit originally counted toward 50% income targeting, new buyers during affordability period must also be 50% or less
 - If unit originally counted toward 120% income targeting, new buyers during affordability period must also be 120% or less

HOME Resale Model: Enforcement of Resale/ Recapture

- Resale: must use deed restriction / covenant
- Recapture: must use lien (should be recorded) or deed restriction/land covenant
- Must also have compliance agreement with homebuyer & developer (if applicable)

RENTAL PROGRAMS

Approaches to Rental Housing

- **HOME & NSP:** Many possible approaches to providing rental housing:
 - Acquisition
 - Rehabilitation
 - New construction
 - Conversion & reconstruction
 - TBRA (HOME only)

Acquisition

- Grantee subsidizes purchase of standard units
- **HOME & NSP:** Both programs permit this approach
 - **NSP:** Acquisition limited to foreclosed, abandoned or vacant units (under eligible use E)
- Units rented at affordable rent to assisted households
 - **HOME:** Tenants are LMI; Allows unit targeting
 - **NSP:** Tenants are LMMI; Requires national objective

Rehabilitation & Construction

- **HOME & NSP:** Rehab permitted under both programs -- can be combined with acquisition
 - Both require compliance with property rehab standards
 - Can do historic preservation as part of rehab
 - Energy efficiency & Energy Star upgrades encouraged
 - **NSP:** NSP under Eligible Uses A, B, and E
- **HOME & NSP:** New construction also allowed
 - **NSP:** Only under Eligible Use E

Conversion and Reconstruction

- Reconstruction = re-building same size structure on same site
 - **HOME & NSP:** Both programs allow
 - Both are considered rehabilitation
- Conversion = changing existing non residential structure into affordable housing
 - Considered rehab if within same building envelope
 - **HOME & NSP:** Both programs allow
 - ✓ **NSP:** Under Eligible Use E

Tenant Based Rental Assistance

- **HOME:** Assistance is focused on tenant not project
 - Mobile, used at standard units in jurisdiction
 - Typically use voucher or certificate model
 - Can be very cost effective
- **NSP:** Not permitted
 - CDBG can be used to administer HOME TBRA

Eligible Property Types

- **HOME & NSP:** Many possible types of units:
 - Multi-family units
 - Scattered site units
 - Single room occupancy (SROs)
 - Transitional housing
 - Special needs housing

Special Needs Housing

- **HOME & NSP:** Can develop permanent rental units for persons with special needs or homeless persons:
 - Traditional rental units
 - Transitional housing (if defined as permanent housing by grantee)
 - SROs

Special Needs Housing (cont)

- Grantee can also develop group homes
 - **HOME:** Considered as housing
 - **NSP:** Considered as public facility
 - ✓ Allowed under Eligible Use E as public facility
 - ✓ Does not count toward 25% targeting
 - ✓ Grantee can request waiver from HUD to allow group homes/other assisted living as "permanent housing"
- **HOME:** Shelters not allowed
 - **NSP:** Shelter is public facility under Eligible Use E

Property Standards

- **NSP:** Rental rehab must comply with grantee's standards & local codes, laws, requirements for habitability, quality, safety
- **HOME:**
 - Acquisition: state/local codes or HQS
 - Construction/rehab: state/local codes or national standards
 - ✓ For rehab, must also have written standards
 - ✓ New construction also International Energy Conservation Code
 - New construction – Site and Neighborhood standards review
- **HOME & NSP:** Must comply with fair housing and accessibility standards

Definition of an Assisted Project

- **HOME:**
 - Site(s) under common ownership, management and financing AND
 - Assisted with HOME funds as a single deal AND
 - Can also be one or more families under one HOME TBRA program
- **NSP:** Can use similar definition

Eligible Projects

- **HOME & NSP:** Both programs allow flexibility in project ownership – public or private
 - **NSP:** Can do any unit type
 - **HOME:** Can do all unit types except public housing
- **HOME & NSP:** Mixed use is also possible
 - **NSP:** Can pay for residential and CDBG pay for commercial
 - **HOME:** Limited to residential

Eligible Projects (cont)

- **HOME & NSP:** Mixed income is also possible
 - **HOME:** Assistance can be targeted at specific units
 - **NSP:** Needs to meet LMMH national objective
 - ✓ Allows for proportionate funding similar to HOME
 - ✓ Ensure that portion of NSP-assisted units \geq portion of NSP funding

Assisted Units

- **NSP:** Units must meet national objective for affordability period (more later)
 - Implies concept of assisted units
- **HOME:** Only units receiving HOME \$\$\$ are subject to HOME requirements
 - Known as "HOME-assisted units"
 - For properties with HOME and non-HOME units, must select "fixed" or "floating" HOME units
 - ✓ Fixed = HOME units for duration of affordability period
 - ✓ Floating = unit numbers change but always have same portion of HOME units
 - **NSP:** HOME concept of fixed & floating units is safe harbor

Forms of Assistance

- **HOME & NSP:** Both allow grants, loans and other forms of assistance
- Common forms of assistance with rental housing:
 - Predevelopment loans and grants
 - ✓ **HOME:** If for CHDO, can be forgivable loan
 - Construction loans
 - Permanent mortgage loans
 - Bridge loans
 - Credit enhancements

Eligible Costs

- **HOME & NSP:** Direct project costs eligible:
 - Acquisition
 - Labor
 - Materials
 - Energy efficiency
 - Lead paint
 - Relocation
 - Handicapped access

Eligible Costs (cont)

- Project delivery costs: Different under HOME & NSP
 - **HOME**: Must be tracked to unit address
 - **NSP**: Can be charged if reasonable, necessary
- On-going project reserves not usually allowed
 - **HOME**: Can fund 18 month operating reserve
 - **NSP**: Allows a reasonable up front deposit for lease-up, but only if lender requires
 - ✓ Can also use some of on-going project cash flow to build reserves

Eligible Costs (cont)

- **HOME**: Remember spending rules
 - Minimum investment
 - Maximum investment
- **NSP**: Recall that NSP requires discount on acquisition price if buying foreclosed unit
- **NSP**: Sale price limit not applicable to rental housing
 - Example: Grantee buys foreclosed multi family property at discounted price (1%)
– sale to developer/owner can be at any price, not capped by TDC limit

Subsidy Layering Review

- **HOME**: PJs must evaluate projects to ensure that only necessary amount of funds invested
 - Applies to all types of projects with multiple government financing
 - PJ must have written layering guidelines
 - Each project file must contain the subsidy layering review
- **NSP**: Not required but costs must be reasonable under A-87 & grantees need good underwriting

Cost Allocation

- **HOME:** Should not pay more than eligible and proportionate given number of HOME units
 - Triggered when have mixed HOME and non-HOME units in a project. Examples:
 - ✓ Multi-family rental
 - ✓ Homebuyer subdivision
 - ✓ 2-4 unit homeowner rehab
 - ✓ 2-4 unit acquisition with rehab
- **NSP:** Does not mandate HOME cost allocation process but national objective dictates proportional funding

Determining Minimum HOME Units and Maximum HOME Investment

HOME: Three tests must be carried out:

1. **Pro rata (fair share):** Is HOME paying no more than a fair share of the total project costs?
 2. **Subsidy limit:** Is HOME paying no more than the 221(d)(3) subsidy limit for the HOME units?
 3. **Layering Analysis:** Is the HOME investment justified by the overall funding needed in the project?
- Note: different approach used for non-comparable units

On-Going Compliance

- **HOME:** Requires affordability period based on level of investment
- **NSP:** Requires grantee to define "affordability" in its Action Plan
 - HOME rules are safe harbor
- **HOME & NSP:** Affordability period dictates compliance period
 - Covers:
 - ✓ Rents
 - ✓ Incomes
 - ✓ Unit quality (HOME only)
 - ✓ Sale during affordability period

Long-Term Affordability

Per Unit HOME or NSP \$	Min. Affordability Period
<\$15,000	5 years
\$15,000 - \$40,000	10 years
>\$40,000	15 years
New Construction/ Acquisition	20 years
Refinancing with Rehab	15 years

- If project does not remain compliant for period, investment may need to be repaid
- Note: do not sum NSP & HOME funds to determine affordability period, calculate separately

On-Going Rent Limits

- **HOME:** Uses high HOME and low HOME rent limit
 - Published by HUD
 - Tenants given notice of increases
 - Actual unit rents can be less but not more than limits
 - ✓ Rents not usually set as a percentage of individual household income
 - ✓ Special provision for low HOME units with project based assistance
 - Rents are inclusive of utilities -- must adjust rents for tenant-paid utilities
 - ✓ Subtract utilities to determine rent paid by tenant
 - ✓ Use actual utility costs or use utility allowance schedule
 - ✓ Can use PHA schedule if it is up to date

On-Going Rent Limits (cont)

- **NSP:** Grantee required to define affordable rents in its Action Plan
 - HOME is safe harbor
 - NSP rents must remain affordable for affordability period
- **HOME & NSP:** If used different rent than HOME for NSP, use most restrictive when combined in project
 - Example: NSP defined affordable at LIHTC rents, which exceed HOME rents. When combine HOME & NSP in rental project, go with lower HOME rents

Tenant Income Eligibility

- **HOME & NSP:** Units must meet income targeting for entire affordability period
 - **HOME:** Requires minimum of 90% of initial occupants at 60% of median:
 - ✓ Remainder of initial occupants can be up to 80%
 - ✓ After initial occupancy, new tenants can be up to 80% of median
 - **HOME:** In projects with 5+ assisted units, must have 20% low HOME units – remains in effect for entire affordability period
 - **NSP:** Caps 100% of initial occupants at or below 120% median
- Only applied to households in assisted units

Tenant Income Eligibility (cont)

- During affordability period, must also ensure tenant income eligibility
 - **HOME:** Tenant income in all units verified annually
 - **NSP:** Check incomes of new tenant at unit turn over
 - ✓ Unit originally occupied by household at 120% of median, new tenant at \leq 120% of median
 - ✓ Unit originally occupied by household at 50% of median, new tenant at 50% of median
 - ✓ Units could float so long as maintain proportion
 - **HOME & NSP:** When combined in same unit, use more restrictive HOME rule

Determining Income

- **HOME & NSP:**
 - Use one of three definitions provided earlier
 - Anticipate income for next 12 months
 - Verify -- 3rd party or review of documents
 - Compare income to income limits to determine eligibility
- **HOME:** Annual recertification required
 - Allows flexibility in source documents; Must use source docs at move-on & every 6th year of afford period

On-Going Property Quality

■ **HOME:** Units must remain standard for affordability period

- Need to inspect HOME units over time:

Number of Units	Inspection Required
1-4	Every 3 yrs
5-25	Every 2 yrs
26 or more	Annually

■ **NSP:** No on-going property standard

Rental Property Sales During Affordability Period

■ **HOME & NSP:** If assisted project sold, must continue occupant, rent, unit quality restrictions (HOME) for balance of affordability period

- Record requirements as land covenant or deed restriction
- Include within written agreement with rental owner
- If project is foreclosed or sold without restrictions, grantee must repay investment minus any PI earned to date

OTHER FEDERAL REQUIREMENTS

Environmental Review

- **HOME & NSP:** Environmental review required before any funds obligated
 - Refers to process of looking at project for impact on environment and notifying public
 - Resources: 24 CFR Part 58 & various other laws
 - ERR = Written record of compliance with all applicable environmental requirements:
 - ✓ Project descriptions, maps, pictures, etc.
 - ✓ Forms & checklists
 - ✓ Notices
 - ✓ Correspondence and relevant documents
 - ✓ Public comments

Environmental Review: Limits On Activities Prior To Clearance

- Participant may not commit or expend HUD funds prior to receiving HUD approval if activity would have adverse environmental impact or limit choice of reasonable alternatives
 - "Participant" includes public or private nonprofit or for-profit entities or their contractors
 - Activities that are exempt or categorically excluded not subject to §58.5 may proceed

Environmental Review: Project Aggregation

- Must group together & evaluate as single project all individual activities which are related or are logical parts of composite of contemplated actions
 - Functional aggregation
 - Geographic aggregation

Environmental Review: Classifying The Activity

- Must determine classification of activity:
 - Exempt
 - Categorically Excluded (“Subject To” or “Not Subject To”)
 - Requires Environmental Assessment
 - Requires Environmental Impact Statement
- If more than one activity or classification, go with most stringent

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URA

- **HOME & NSP:** URA applies to all projects
 - Acquisition and relocation rules
- **NSP:** Section 104(d) One for One Unit Replacement waived (alternative requirements apply)
 - Section 104(d) relocation rules NOT waived
 - NOTE: If NSP is combined with HOME or CDBG, the 1 for 1 rules may apply

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URA (cont)

- Voluntary acquisitions (even from bank, court etc) are covered by URA
 - Must provide voluntary acquisition notice
 - Be careful about involuntary purchases
- Three different types of voluntary sale:
 - Grantee has eminent domain powers but won't use
 - Grantee doesn't have eminent domain powers
 - Purchases from government agency where buyer does not have eminent domain powers over that agency

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URA (cont)

- **Must notify the seller:**
 - Grantee will not use (or does not have) power of eminent domain
 - Owner-occupant not eligible to receive relocation assistance
 - Estimate of fair market value
 - ✓ **HOME/URA:** Appraisal not required, but determination made by someone with knowledge of real estate market
 - ✓ **NSP:** Appraisal required if acquiring foreclosed unit worth > \$25k

URA (cont)

- **HOME & NSP:** If properties occupied (or vacated for HOME or NSP Project), URA relocation rules apply
 - Must determine occupant's status & URA entitlement
 - Lawful occupant entitled to:
 - ✓ Notices
 - ✓ If displaced, advisory services, moving costs, and replacement housing assistance
 - ✓ If not displaced, temporary moving assistance, if applicable
- If grantee allows new tenants to occupy, provide "move-in" notices

NSP Tenant Protections

- **NSP:** Statute includes noticing requirements for "bona fide" tenants in occupancy when unit acquired by initial successor in interest through foreclosure (usually lender)
 - "Bona fide" tenant:
 - ✓ Not former mortgagor
 - ✓ Lease is arms length transaction
 - ✓ Lease requires rent that is not substantially less than fair market rent for property
 - Effective for acquisitions by successor in interest (lender) after 2/17/09

NSP Tenant Protections (cont)

- **NSP:** Lender must provide 90 day notice to vacate to "bona fide" tenant occupants
 - NSP funds cannot be used in any property unless lender followed notice rule
- OR
- Grantee assumes NSP tenant protection obligations
 - ✓ May trigger relocation assistance to displaced persons under URA

NSP Tenant Protections (cont)

- **NSP:** Grantee must document lender compliance
 - If tenant in property, must have 90 day notice
 - If not occupied, lender must certify either that property was not occupied by "bona fide" tenant at time of foreclosure or that tenant received 90 day notice
 - If tenant has Section 8 assistance, lender must agree to continue lease & HAP contract

Davis Bacon

- **HOME & NSP:** Davis Bacon rules apply
- Triggers differ:
 - **HOME:** 12 or more HOME-assisted units in construction contract -- Applicable without regard to use of HOME \$\$\$ (construction or soft costs)
 - **NSP:** 8 or more units per property when construction financed whole/part with NSP \$\$\$
 - ✓ For homeowner units in co-op or condo with 8+ units, only applies to assisted units
 - ✓ For rental projects with 8+ units, construction for whole property is covered
- When combined in project, lowest threshold applies

Davis Bacon (cont)

- All bid solicitations & contracts subject to Davis-Bacon must contain standard clauses & applicable DB wage decision
- May wish hold a preconstruction conference to review requirements with contractor (not required)
- Prime or general contractor is responsible for full compliance, including lower tier subs
- Grantee enforces requirements and provides information to contractor

Other Labor Laws

- Contract Work Hours & Safety Standards Act
 - Workers shall not work more than 40 hours/week unless they get overtime & projects must comply with safety standards
- Copeland Anti-Kickback Act
 - Requires payment once a week & only permissible payroll deductions
- Fair Labor Standards Act
 - Federal minimum wage & overtime requirements

Lead Based Paint

- **HOME & NSP:** Applies to sale, rental or rehab of pre-1978 units
- All transactions require:
 - Disclosure notice with signed receipt
 - Pamphlet "Protect Your Family From Lead in Your Home"
 - Visual inspection for deteriorated paint
- If paint deteriorated, must be stabilized using safe work practices – clearance must be obtained
- Certain types of rehab work exempt:
 - Properties tested & found not to have lead
 - Properties where lead has been removed
 - Rehab won't disturb paint surfaces

Lead Based Paint (cont)

- Lead evaluation and treatment depends on *level of assistance* which is lower of:
 - Per unit rehabilitation hard costs (all funds) OR
 - Per unit federal assistance
- Evaluation activity depends on level of assistance:
 - Less than \$5,000 = Paint testing
 - \$5,000 to \$25,000 = Risk assessment
 - More than \$25,000 = Risk assessment
- Notification:
 - Notice of Lead Hazard Evaluation to homeowner within 15 days of inspection
 - Alternatively, can presume presence of lead & provide "Notice of Presumption"

Lead Based Paint (cont)

- How to address lead depends upon amount of assistance:
 - <\$5k = repair surfaces to be disturbed using safe work practices
 - \$5k - \$25k = interim controls using safe work practices & trained workers
 - >\$25k = abatement using safe work practices & certified supervisor & workers

Lead Based Paint (cont)

- Clearance must also be performed
 - Do NOT pay final payment to contractor before unit has passed clearance
 - Provide Notice of Lead Hazard Reduction to property owner within 15 days of clearance test

Fair Housing & Equal Opportunity

- **HOME & NSP:** Programs covered in similar way
- Comply with non-discrimination and equal opportunity laws
 - Affirmatively further fair housing
 - HOME requires affirmative marketing plan when 5+ assisted units
- Comply with Section 504 regarding handicapped access
- Comply with Section 3 regarding employment and contracting for low income persons

Fair Housing & Equal Opportunity (cont)

- **HOME & NSP:** Other applicable rules:
 - Assist beneficiaries with limited English proficiency
 - Take action to promote contracting with minority & women owned businesses
- **HOME & NSP:** Cannot provide assistance to persons not legally in the U.S.
 - Nonprofits not required to ask
 - Grantees must ask

KEY ADMINISTRATIVE ISSUES

Program Administration Costs

- Program Administration
 - **NSP:** Up to 10% of NSP Grant + program income
 - **HOME:** Cap is also 10% of grant plus PI
- CDBG can be used to pay for some HOME or NSP administrative costs
 - Certain specific HOME housing services costs can be outside of CDBG admin cap

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Admin Vs. Project Delivery Costs

- Admin = costs to administer grantee or subrecipient agency
 - Must still have tie to funding program
 - Cannot be used to pay administrative costs for programs or projects not funded by HOME or NSP
 - Example: cannot use NSP, HOME or CDBG \$\$\$ to pay to administer McKinney programs or locally funded programs
- Activity Delivery
 - Cost of delivering an assisted project or service
 - Not counted toward admin cap

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Admin Vs. Project Delivery Costs (cont)

- Costs directly related to carrying out projects may be either admin OR project costs:
 - Appraisals
 - Work specifications
 - Construction inspections and oversight
 - Underwriting
 - Relocation, environmental reviews, etc.
 - Counseling
- **HOME:** If want to charge as project cost, must track to specific address
 - Not required for NSP

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HOME: Admin Vs. Project Costs

- **HOME:** If costs are charged to project:
 - Counts in maximum subsidy limit
 - Triggers 25% match
 - Must be charged to admin if project does not go forward
 - TBRA admin always admin cost
 - Project costs incurred by property owner always project costs

Administrative and Planning Costs – Staffing Costs

- **HOME & NSP:** Can include applicable staff and jurisdiction administrative and management costs
 - Two options for calculating staff costs:
 - ✓ Entire salary/wages OR
 - ✓ A pro-rata share
 - Choose one option by staff person!
 - Must document by timesheets or other approved means

Other Admin/Planning Costs

- **HOME & NSP:** Other eligible costs may include:
 - Public information
 - Fair Housing
 - Indirect costs under a cost allocation plan
 - Preparation of Consolidated Plan/Action Plan

Program Income

- Program income rules differ somewhat across two programs
- **NSP:** Program income is received by grantee or subrecipient:
 - Proceeds from the sale/lease of property acquired, rehabbed, redeveloped with NSP
 - Principal and interest on NSP loans
 - Revenue returned to grantee by non-subs
 - Recapture of home sales under affordability agreements

NSP Program Income (cont)

- **NSP:** Program income is income received by grantee or subrecipient (cont):
 - Net operating income (NOI) from rental properties
 - ✓ NOI from rehabilitation projects (eligible under 570.202) carried out by nonprofits is NOT considered program income because nonprofit is not subrecipient (unless designated by grantee)
 - ✓ Refer to HUD's "Guidance on NSP-Eligible Acquisition and Rehab Activities" dated 4-23-09 for more information

NSP Program Income (cont)

- **NSP:** Grantee not required to get funds back from private individuals & developers (non subrecipients)
 - Avoid undue enrichment
 - HUD suggests structure assistance as loan not grant
 - May also wish to share in excess cash flow

HOME Program Income (cont)

- **HOME:** Program income is gross income received by PJ, state recipient or subrecipient directly generated by:
 - Use of HOME funds OR
 - Matching contributions
 - Program income does not include:
 - ✓ CHDO proceeds
 - ✓ Recaptured funds from homebuyers
 - ✓ Repaid funds for ineligible activities

HOME & NSP Program Income (cont)

- **HOME & NSP:** PI is earned in perpetuity
 - Number of revolutions does not matter
 - Date of receipt does not matter
 - Must re-use for eligible HOME or NSP use, as applicable
 - ✓ NSP PI must be used for NSP eligible uses meeting a national objective
 - Document receipt and use of PI
 - Incorporate requirements within subrecipient agreements
- Must use PI prior to draw new funds
 - **NSP:** Counts PI committed or spent toward deadlines
 - **HOME:** No longer counts PI in tracking commitments/expenditures

Uniform Administrative Requirements

- **HOME & NSP:** Grantees must comply with federal admin guidelines & financial management requirements:
 - Governmental entities/public agencies
 - ✓ OMB Circular A-87
 - ✓ 24 CFR Part 85 (except states, which may adopt their own standard)
 - ✓ OMB A-133
 - Nonprofit subrecipients
 - ✓ OMB Circular A-122
 - ✓ 24 CFR Part 84 (for state programs, follow state rules if part 85 is not used)
 - ✓ OMB A-133

OMB A-87/122

- Establishes cost principles
 - Grantee is responsible for efficient and effective administration
 - Administer consistent with program rules and agreements
- All costs must be allowable, reasonable and allocable

Allowable Costs

- A-87/A-122 Identifies allowable and unallowable costs
 - Some costs are never allowed
 - ✓ Examples of unallowable costs: entertainment, alcohol
 - Some costs are allowed but with certain conditions
 - Some costs depend on the federal funding source

Cost Reasonableness

- Cost is reasonable when does not exceed what prudent person would incur under similar circumstances
- Consideration should be given to:
 - Is cost necessary and ordinary?
 - Market prices for comparable goods and services
 - Individuals acted with prudence
 - Deviations from set policy

Cost Allocability

- Determines where put cost
- Process known as cost allocation method
- Found in cost allocation plan
- GAAP provides guidance

Source Documents

- Records must be supported by source documents
 - Explain basis of costs incurred
 - Actual dates of expenditure
 - Examples include cancelled checks, paid bills, payroll, etc.

Part 85/84

- Part 85/84 covers two key topics:
 - Effective financial management systems
 - Procurement
- Also covers:
 - Pre-award
 - Property & equipment
 - Records
 - Close-out

Circular A-133

- If expend \$500,000 or more in federal awards during program year, get single or program audit
 - Program audit allowed only if that agency expended funds under only one Federal program
- If less than \$500,000, exempt from audit requirements for that year
- Audits due to federal clearinghouse no later than nine months after end of fiscal year
 - Clearinghouse is supposed to send to HUD
- Grantees must resolve audit findings

Financial Draws and Reports

- **HOME:** Uses IDIS
- **NSP:** Uses DRGR
- IDIS:
 - Real-time computer application
 - Supports CDBG, HOME, ESG, and HOPWA
 - Three key purposes of IDIS:
 1. Management and disbursement of funds
 2. Link plans, projects, and activities
 3. Report and track progress

IDIS Re-engineering

- Re-engineered system
 - Easier to use and facilitate better reporting
 - Web-based windows platform
 - <http://www.hud.gov/offices/cpd/systems/idis/reengineering/demo1v4/index.cfm>

IDIS Resources

- IDIS Reference Manual
 - <http://www.hud.gov/offices/cpd/systems/idis/library/refmanual/index.cfm>
 - HOME set up and completion forms at bottom of website page
- Technical Assistance Unit
 - 1-877-483-8282

DRGR Overview

- Primarily developed by HUD CPD for Disaster Recovery CDBG Program
- Accessible on internet through website
- Identifies Action Plan projects/activities, budgets, and performance goals
 - Suggested performance measures predetermined by activity
- Reporting tool for NSP progress

DRGR Components

- Admin (only seen by grantee administrator)
- Action Plan
 - Narrative
 - Projects
 - Activities
- Drawdowns (may be used solely by finance staff)
 - Obligations
 - Voucher submissions
- Quarterly Performance Reports (QPRs)
- Reports
- Grants (used only if grantee has more than one grant)

DRGR Admin: Set Up/User Instructions

- HUD HQ staff load grant and grantee profiles into DRGR
- Fort Worth HUD CFO staff load account information after agreement is signed
- Grantees request user accounts through HUD Field staff
- After DRGR accounts are created, grantee administrators must authorize access to specific grants for local users

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DRGR Admin: User Instructions

- Each grantee must have DRGR Grantee System Administrator
- Admin tab shows authorized and available (unauthorized) users in system
 - Check current authorized users
 - Add additional authorized users, for example:
 - ✓ Drawdown Requester = requests voucher
 - ✓ Drawdown Approver = approves/denies voucher

The screenshot shows the 'Admin' tab of the DRGR system. The main heading is 'Admin' with a sub-heading 'Assign and Remove Users'. Below this, the 'Grant Number' is listed as 'B-06-DG-01-0001'. There are two columns: 'Authorized Users' and 'Available Users'. The 'Authorized Users' list includes:

- AL - Donaldson, Sandra - C01000 - State of Alabama
- AL - Jones, Al - C01000 - State of Alabama
- AL - Ota, Shabbir - C01000 - State of Alabama
- AL - Patterson, Elaine - C01000 - State of Alabama

 The 'Available Users' list includes:

- AL - HELMS, MICHAEL - C01000 - State of

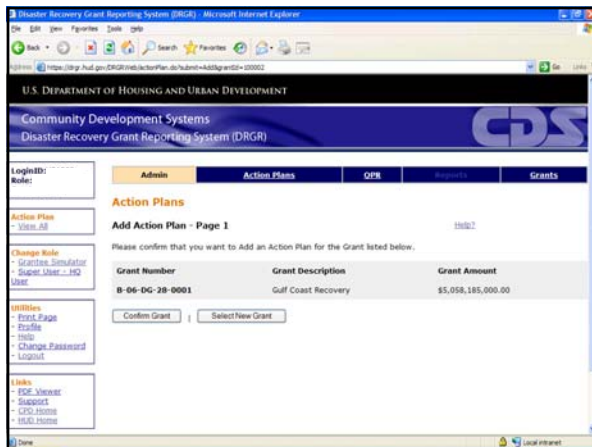
 Between the columns are buttons for '<< Assign' and 'Remove >>'. At the bottom of the interface are 'Save Changes' and 'Cancel' buttons. The left sidebar contains navigation links for 'Admin', 'Change Role', 'Utilities', and 'Links'.

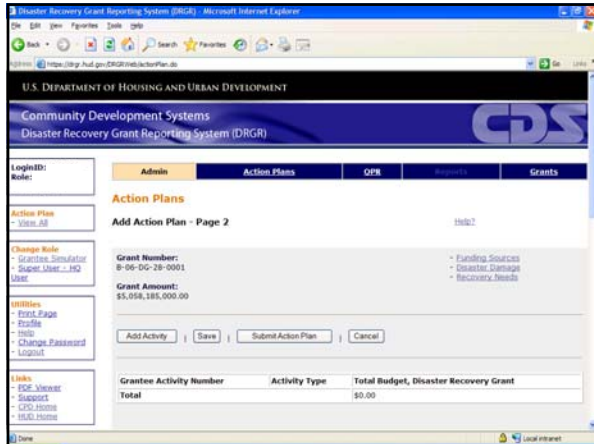
DRGR Steps

1. Grant and activity set-up
 - Profiles, account info uploaded by HUD
 - Grantee requests user account
 - Access authorized
 - Enter action plan
2. Obligate activities & draw down
3. Report results
 - Add quarterly report
 - Enter narrative
 - Enter activity information

DRGR Action Plan

- Four step process:
 - Enter narratives into Areas of Greatest Need and Distribution and Uses fields
 - Enter projects (for NSP, project = eligible use)
 - Enter activities with budgets and performance measures and assign activity to a project
 - ✓ Enter budget under Total Budget, Program Funds
 - ✓ National objectives are specific to NSP
 - Optional: grantee can discuss DRGR action plan draft with HUD Field staff
- Repeat steps 1-4 above when new activities need to be added or edited





DRGR Action Plan: Projects and Activities

- Project
 - Name of NSP Eligible Use, such as "Financing Mechanisms"
 - Avoid use of "bucket project"
 - ✓ Use only as holding place until sub award process is completed
 - Remember to set up Program Administration
- Activity
 - Name of project/location, such as "Park Villas: 120 Main St"
 - ✓ May or may not include subrecipient/state recipient
 - ✓ Select eligible activity from drop down
 - Use IDIS Matrix Code for Grantee Activity Number

DRGR Activities: Aggregate or Not

- Each activity must meet national objective
- Aggregate activities by each developer agreement but may need to break out further if different:
 - National objective
 - Activity type
 - Responsible organization
 - Must separate for multi-family properties

LoginID: Role: QPRs View All Change Role Grantee Simulator Super User - HQ User Utilities Print Page Profile Help Change Password Logout Links PDF Viewer Support CPD Home HUD Home	<table border="1"> <tr> <th>Admin</th> <th>Action Plans</th> <th>QPR</th> <th>Reports</th> </tr> </table> <p>Quarterly Performance Report</p> <p>Add/Edit QPRs - State of Alabama Help?</p> <p>Grant Number: 8-06-DG-01-0001 Contract Start Date: 05/01/2006</p> <p>Grant Status: Active Contract End Date:</p> <p>Grant Amount: \$74,388,000.00</p> <table border="1"> <thead> <tr> <th>Due Date</th> <th>Date Submitted</th> <th>Action</th> <th>Status</th> <th>Submitter</th> </tr> </thead> <tbody> <tr> <td>07/30/2008</td> <td></td> <td>Add</td> <td></td> <td></td> </tr> <tr> <td>04/30/2008</td> <td>04/30/2008</td> <td>View Edit</td> <td>Rejected - Await for Modification</td> <td></td> </tr> <tr> <td>01/30/2008</td> <td>04/15/2008</td> <td>View</td> <td>Reviewed and Approved</td> <td></td> </tr> <tr> <td>10/30/2007</td> <td>02/15/2008</td> <td>View</td> <td>Reviewed and Approved</td> <td></td> </tr> <tr> <td>07/30/2007</td> <td>02/13/2008</td> <td>View</td> <td>Reviewed and Approved</td> <td>elaine.patterson@</td> </tr> <tr> <td>04/30/2007</td> <td>05/01/2007</td> <td>View</td> <td>Reviewed and Approved</td> <td></td> </tr> <tr> <td>01/30/2007</td> <td>03/06/2007</td> <td>View</td> <td>Reviewed and Approved</td> <td>al.jones@adeca.a</td> </tr> <tr> <td>10/30/2006</td> <td>02/23/2007</td> <td>View</td> <td>Reviewed and Approved</td> <td>al.jones@adeca.a</td> </tr> </tbody> </table>	Admin	Action Plans	QPR	Reports	Due Date	Date Submitted	Action	Status	Submitter	07/30/2008		Add			04/30/2008	04/30/2008	View Edit	Rejected - Await for Modification		01/30/2008	04/15/2008	View	Reviewed and Approved		10/30/2007	02/15/2008	View	Reviewed and Approved		07/30/2007	02/13/2008	View	Reviewed and Approved	elaine.patterson@	04/30/2007	05/01/2007	View	Reviewed and Approved		01/30/2007	03/06/2007	View	Reviewed and Approved	al.jones@adeca.a	10/30/2006	02/23/2007	View	Reviewed and Approved	al.jones@adeca.a
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DRGR Help and Resources

- User ID/Password help
 - Send email to DRGR_Help@hud.gov
 - Passwords reset to "HUD!XXXXXX"
 - ✓ 6 X's is the same as the 6 digits the grantee provided when account was opened
- DRGR website
 - <http://www.hud.gov/offices/cpd/communitydevelopment/programs/drsi/drgrs.cfm>
 - ✓ Access DRGR
 - ✓ DRGR FAQ – with NSP updates
 - ✓ DRGR Online Training
 - ✓ Draft Report Users Guide

Performance Measures

- HOME reports data in IDIS, including CPD performance measures
- CPD Performance Outcome Measures not used for NSP
 - Grantee must identify measures in Action Plan
 - Codify in agreements with partners

Record keeping & Monitoring

- **HOME & NSP:** Must keep project records:
 - General administrative
 - Records on subrecipients, state recipients, CHDOs, CBDOs etc
 - Programs
 - Financial
 - Project
 - ✓ Purchase price, sale price, project costs, other federal requirements, etc.
 - **NSP:** National objective
 - ✓ Determining and documenting income
- Must monitor projects, partners

Resources

- HUD materials:
 - NSP Federal Register Notice
 - NSP Bridge Notice
 - NSP Frequently Asked Questions and Policy Guidance
 - HOME model guidebooks
 - HOME training manuals
 - HOMEfires and notices
- For more info:
 - www.hud.gov/nsp
 - www.hud.gov/offices/cpd/affordablehousing/index.cfm
 - www.icf.com/nsp
