



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-7000

OFFICE OF THE ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

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MEMORANDUM FOR: CPD Directors

FROM:  Christopher D. Lord, Acting Deputy Assistant Secretary for Grant Programs, DG

SUBJECT: Guidance to Field Offices on the American Dream Downpayment Initiative

I. Purpose

The purpose of this memorandum is to provide background information and policy and operational guidance with respect to the American Dream Downpayment Initiative (ADDI). The memorandum contains background information concerning the legislative history and current status of ADDI, policy guidance on the use of ADDI funds in the form of questions and answers, and operational guidance on ADDI funds including grant agreements, obligation of funds, and recordkeeping and reporting requirements.

II. Background

ADDI is a new component under the HOME Investment Partnerships Program (HOME) through which HUD will make formula grants to certain participating jurisdictions (PJ) for the purpose of making downpayment assistance to low-income families who are first-time homebuyers for the purchase of single family housing that will serve as the family's principal residence. ADDI is designed to operate as a homebuyer assistance program within the PJ's existing HOME program. As such, ADDI is nearly transparent to PJs who already administer homebuyer assistance under HOME.

Currently, \$74.5 million and \$86.9 million have been appropriated for FY 2003 and FY 2004 ADDI respectively. ADDI funds appropriated for FY 2003 (Consolidated Appropriations Resolution, 2003) were not allocated to PJs last year since the authorizing legislation for these funds was then being debated in Congress. That legislation, the American Dream Downpayment Act (Public Law 108-186) (ADDI statute), signed by the President on December 16, 2003, made ADDI a component of HOME by amending section 271 of the Cranston-Gonzalez National Affordable Housing Act (Public Law 101-625, approved November 28, 1990) (NAHA) to establish specific statutory requirements governing ADDI. The ADDI statute authorized the program through 2007.

Subsequent to the enactment of the ADDI statute, Headquarters staff developed an interim rule for ADDI, which has undergone departmental clearance and an expedited review by OMB. The rule will now be circulated for final HUD concurrence and Secretarial signature. The rule must then be sent to Congress for review. Once the 15-day Congressional review period ends, the rule will be published in the Federal Register 30 days before its effective date. A 60-day public comment period will also commence upon publication of the interim rule. Public comments received during this period will be considered in the final rule making process.

Once the interim rule takes effect this spring, the combined \$161.4 million of FY 2003 and FY 2004 ADDI funds will be made available to states and to local PJs that meet the ADDI minimum threshold requirements. The ADDI statute specifies a formula for the allocation of FY 2004 ADDI funds that differs from the requirements applicable to the allocation of the FY 2003 funds. As a result, 427 PJs will receive FY 2004 ADDI funds, while only 392 PJs will receive FY 2003 ADDI funds. The differences between FY 2003 and FY 2004 ADDI are explained in the questions and answers that follow. Target allocations for PJs receiving FY 2003 or FY 2004 ADDI funds can be found at <http://www.hud.gov/offices/cpd/about/budget/budget04/index.cfm>.

III. Questions and Answers

The following questions and answers address general ADDI program information. These questions and answers are also posted on the HOME website and will be updated periodically as new questions arise concerning ADDI.

A. General

1. What is ADDI?

President Bush signed the American Dream Downpayment Initiative (ADDI) into law on December 16, 2003 under the American Dream Downpayment Act (Public Law 108-186) (ADDI statute). Funds made available under the ADDI statute will be allocated to eligible HOME PJs to assist low-income families to become first-time homebuyers.

2. How can low-income families apply for ADDI funds?

ADDI will be administered as part of the HOME program by state and local PJs. Interested families should contact their state or local government for more information on homebuyer assistance programs through ADDI or HOME. To find local contact information please refer families to: www.hud.gov/offices/cpd/affordablehousing/programs/home/contacts/index2.cfm

3. How does a PJ qualify for an ADDI allocation?

Each state receives ADDI funds proportionate to the percentage of the national total of low-income households residing in rental housing in the state, as determined by the most recent available U.S. census data. For instance, if a state houses 5 percent of the nation's low-income renter households, its ADDI allocation would be 5 percent of the total amount allocated by Congress. Each local PJ receives ADDI funds from the state's share proportionate to the percentage of the statewide total of low-income renter households within the PJ, as determined by the most recent available U.S. census data. To be eligible for an ADDI allocation, a local PJ must have a total population of 150,000 individuals or more, as determined by the most recent

available U.S. census data, or receive an allocation of \$50,000 or more based on the ADDI formula. For example, if a local PJ containing 9 percent of the state's low-income renter households has a population of 325,000 and would receive an ADDI allocation of \$65,000 based on the ADDI formula, its share would be 9 percent of the amount allocated to its respective state. In FY 2004, approximately 427 PJs out of 630 will receive an ADDI allocation.

4. Will every state receive an ADDI allocation?

Yes. All 50 states are eligible to receive ADDI allocations. However, the ADDI statute establishes a definition of state that differs from that of the HOME program. Specifically, the ADDI statute excludes the Commonwealth of Puerto Rico as a state. Consequently, Puerto Rico and its municipalities will not receive ADDI funds for FY 2004 and subsequent years. Puerto Rico, and three of its municipalities, do receive FY 2003 ADDI funds under the HOME program definition of state.

5. Do Insular Areas receive ADDI allocations?

No. The ADDI statute does not provide ADDI funds to Insular Areas.

6. Where can the ADDI regulations be found?

Once they take effect, the ADDI regulations can be found at 24 CFR Part 92.600 (Subpart M of the HOME rule).

B. Program Design

1. What are the eligible activities under ADDI?

ADDI funds may only be used for downpayment assistance towards the purchase of single family housing by low-income families who are first-time homebuyers. Rehabilitation that is completed in conjunction with a home purchase assisted with ADDI funds is also an eligible activity under the ADDI statute. A PJ's total rehabilitation assistance may not exceed 20 percent of its annual ADDI allocation. However, rehabilitation is not an eligible use of FY 2003 ADDI funds.

2. What are the eligible project costs under ADDI?

Eligible project costs under ADDI include: acquisition costs, and related reasonable and necessary soft costs. In addition, for FY 2004 and subsequent years' ADDI funds, development hard costs for related rehabilitation as described in § 92.206(a) including the cost of reduction of lead paint hazards and the remediation of other home health hazards are eligible project costs.

3. What is the definition of first-time homebuyer?

Under ADDI, a first-time homebuyer is an individual and his or her spouse who have not owned a home during the three-year period prior to purchase of a home with assistance under ADDI. The term first-time homebuyer includes displaced homemakers and single parents. The definition used for ADDI is located in Title I of NAHA.

4. What is considered single-family housing?

Under ADDI, single-family housing means a one- to four-family residence, condominium unit, cooperative unit, combination of manufactured housing and lot, or manufactured housing lot.

5. What forms of investment can PJs use with ADDI funds?

PJs may invest ADDI funds as interest-bearing loans or advances, non-interest bearing loans or advances, interest subsidies consistent with the purposes of ADDI, deferred payment loans, grants, or other forms of assistance that HUD determines to be consistent with ADDI. Each PJ may establish the terms of assistance, subject to the requirements of ADDI.

6. Are there any families who can be assisted to become homeowners with HOME funds who would not be eligible for assistance through ADDI?

Yes. There is no first-time homebuyer requirement for homebuyer projects under HOME, while ADDI funds can only be used to assist first-time homebuyers. (See the definition of “first-time homebuyer” above.)

7. What is the difference between FY 2003 and FY 2004 ADDI?

The ADDI statutory requirements elaborate upon, and in several respects differ from, those contained in the 2003 Consolidated Appropriations Resolution.

Most significantly, the ADDI statute:

- Establishes an allocation formula to govern the allocation of FY 2004 and subsequent fiscal years’ ADDI funds that is based primarily on the need for assistance to homebuyers, as measured by the percentage of low-income households residing in rental housing within the PJ;
- Establishes the definitions applicable to ADDI;
- Authorizes the use of ADDI funds for certain rehabilitation costs completed in conjunction with ADDI downpayment assistance;
- Establishes new Consolidated Plan requirements; and
- Prescribes other requirements regarding the allocation and use of ADDI funds.

FY 2003 ADDI funds, under the Consolidated Appropriations Resolution, 2003, are allocated based on a formula that considers a PJ’s need for, and prior commitment to, assistance to homebuyers.

C. ADDI and HOME

1. Do all HOME requirements apply to ADDI funds?

Generally, requirements for HOME homebuyer projects apply to ADDI projects. However, there are some nuances in the ADDI statute that make the requirements differ slightly from HOME requirements. Questions 4 through 7 in this section discuss the major differences between HOME and ADDI.

Specifically, the following HOME **program requirements** under subpart E of the HOME rule apply to ADDI funds:

- Private-public partnership (§ 92.200);
- Distribution of assistance (§ 92.201);
- Income determinations (§ 92.203);
- Pre-award costs (§ 92.212); and

- Matching contribution requirements of §§ 92.218 – 92.222 (apply only to FY 2003 ADDI funds).

The following **HOME project requirements** under subpart F of the HOME rule apply to ADDI funds:

- Maximum per-unit subsidy amount under § 92.250(a) applies to the total HOME and ADDI funds in a project;
- Property standards (§ 92.251);
- Affordability requirements (§ 92.254(a) and (c));
- If a project receives both HOME and ADDI funds, the total of HOME and ADDI funds in the project is used for calculating the period of affordability described in § 92.254(a)(4) and applied to resales (§ 92.254(a)(5)(i)) and recaptures (§ 92.254(a)(5)(ii)).

The following **other federal requirements** under subpart H of the HOME rule apply to ADDI funds:

- Federal and nondiscrimination requirements (§ 92.350);
- Environmental review (§ 92.352);
- Labor requirements (§ 92.354);
- Lead-based paint (§ 92.355);
- Conflict of interest (§ 92.356); and
- Consultant activities (§ 92.358).

The following **other federal requirements** under subpart H of the HOME rule **do not** apply to ADDI funds:

- Affirmative marketing (§ 92.351(a));
- Displacement, relocation, and acquisition requirements, including the Uniform Relocation Assistance and Real Property Acquisition Policies Act (42 U.S.C. 4201-4655) and the implementing regulations at 49 CFR Part 24, contained in § 92.353 do not apply to ADDI, except the requirements do apply to FY 2003 ADDI funds; and
- Executive Order 12372 (§ 92.357).

The following **program administration requirements** under subpart K of the HOME rule apply to ADDI funds:

- HOME Investment Trust Fund under § 92.500, with the exception of paragraphs (c)(2) and (d)(1)(A);
- HOME Investment Partnerships Agreement (§ 92.501);
- Program disbursement and information system (§ 92.502);
- Program income, repayments and recaptured funds under § 92.503, except the program income and recaptured funds must be deposited in the PJ's HOME investments trust fund local account and used in accordance with the HOME program requirements;
- PJ responsibilities and written agreements (§ 92.504);
- Applicability of uniform administrative requirements (§ 92.505);
- Audit (§ 92.506);
- Closeout (§ 92.507);
- Recordkeeping (§ 92.508), (sections relevant to homebuyer assistance); and
- Performance reports (§ 92.509).

2. Can ADDI and HOME funds be used in the same project?

Yes. HOME funds can be used in conjunction with ADDI funds, especially when an investment of more than \$10,000 is required. For example, if \$5,000 of downpayment assistance is needed

and \$15,000 is needed for rehabilitation, \$10,000 of ADDI funds could be invested in the project along with \$10,000 of HOME funds. The total HOME and ADDI investment cannot exceed the maximum per-unit subsidy limits for the jurisdiction.

3. Is there a minimum or maximum amount of ADDI assistance per unit?

Yes. The minimum amount of assistance per unit is \$1,000. The \$1,000 minimum investment can be a combination of ADDI and HOME funds. Under the ADDI statute, the amount of ADDI assistance provided to any low-income family cannot exceed the greater of six percent of the purchase price of a single family housing unit or \$10,000. This specific statutory limit does not apply to FY 2003 ADDI funds. All ADDI funds are subject to the maximum per unit subsidy limit established for the area by HUD.

4. Can PJs use ADDI funds for administrative costs?

No. ADDI funds cannot be used for administrative costs. However, HOME administrative funds can be used to administer ADDI. Under the statute, ADDI funds are not added to a PJ's HOME allocation in determining the 10 percent cap on administrative costs. However, for FY 2003 ADDI funds, the cap on administrative costs is determined by taking 10 percent of the sum of the PJ's HOME allocation and ADDI allocation.

5. Are ADDI funds required to be matched?

There is no match requirement under the ADDI statute, which applies to FY 2004 and subsequent years' ADDI funds. However, HOME match requirements do apply to FY 2003 ADDI funds. If there are match reductions applicable to a PJ for regular HOME funds, these reductions also apply to a PJ's FY 2003 ADDI funds.

6. Is there a CHDO set-aside requirement for ADDI?

No. The 15 percent CHDO set-aside applicable to each PJ will continue to be calculated on the basis of the HOME allocation, not including ADDI funds. Since downpayment assistance is not an eligible CHDO activity, the ADDI allocation was excluded when calculating the CHDO set-aside.

7. Will the funds have to be committed in two years?

Yes. Like HOME funds, ADDI funds must be committed within 24 months and expended within 5 years of the last day of the month in which HUD notifies the PJ of HUD's execution of the HOME Investment Partnerships Agreement. Any funds remaining uncommitted after 24 months and unexpended after 5 years will be reallocated in the following fiscal year.

D. PJ Responsibilities

1. Does a PJ have to account for the use of ADDI funds in its Consolidated Plan?

Yes. To receive an ADDI formula allocation, a PJ must address the use of ADDI funds in its consolidated plan submitted in accordance with 24 CFR Part 91. In addition, under the ADDI statute, each state and local PJ is required to include in its annual action plan a description of the planned use of the ADDI funds; a plan for conducting targeted outreach to residents and tenants of public and manufactured housing, and to other families assisted by public housing agencies, for the purposes of ensuring that the ADDI funds are used to provide downpayment assistance

for such residents, tenants, and families; and a description of the actions to be taken to ensure the suitability of families receiving ADDI assistance to undertake and maintain homeownership.

If a state or local PJ has already submitted its FY 2004 action plan to HUD, it must amend that action plan to include the required information for its FY 2003 and FY 2004 ADDI allocation. Planning targets for FY 2003 and FY 2004 ADDI funds can be found at www.hud.gov/offices/cpd/about/budget/budget04/index.cfm.

2. Will ADDI funds require a separate grant number and grant agreement?

No. ADDI funds will be added to the PJ's grant number that represents the year the funds are obligated. Usually, the PJ will be assigned the same grant number for each year's HOME and ADDI funds. For example, in FY 2004, a PJ may be assigned one grant number for the obligation of its FY 2003 ADDI, FY 2004 HOME, and FY 2004 ADDI funds. See section IV. B. of this memorandum for additional guidance on grant agreements.

3. How much additional recordkeeping work is required of the PJ for ADDI projects?

Other than the recordkeeping requirements applicable to all HOME-assisted homebuyer projects, PJs must also document that each ADDI beneficiary is a first-time homebuyer.

4. Will there be separate reporting requirements for ADDI funds?

No. HUD will extract data from IDIS to compile needed reports. PJs will enter beneficiary information into IDIS just as if ADDI funds were regular HOME funds. The only additional information PJs will be required to enter into IDIS is an indication of whether the beneficiary of a homebuyer activity is a first-time homebuyer. See section IV. C. of this memorandum for additional guidance on ADDI reporting.

5. How will HUD track ADDI accomplishments?

Section IV. C. of this memorandum describes how ADDI accomplishments will be tracked.

6. What information must a PJ enter into IDIS to indicate a first-time homebuyer project will be applied to its ADDI funds?

Please see section IV. D. of this memorandum for guidance on IDIS data entry for first-time homebuyer projects.

7. If a PJ uses regular HOME funds rather than ADDI funds to assist a first-time homebuyer, should it indicate first-time homebuyer on the HB07 screen Complete Homebuyer Activity: Beneficiary in IDIS?

Yes. HUD is interested in capturing accomplishment data on all first-time homebuyers, whether or not they were assisted with ADDI funds. HUD will differentiate the type of HOME funds that were used in monthly ADDI accomplishment reports that will be posted under Production Reports on the HOME website after ADDI funds are first obligated in spring 2004.

8. What happens if a PJ declines to receive its ADDI allocation?

If a PJ declines to receive its ADDI allocation, the allocation will revert back to the state in which the PJ is located.

IV. Fund Obligations and Reporting Issues and Logistics

A. Source and Obligation of Funds

In 2004, all HOME PJs will receive their FY 2004 HOME allocation as well as the reallocation of prior year funds that are being reallocated by formula. In addition, some PJs will receive one or both of the following funds:

- FY 2003 ADDI funds
- FY 2004 ADDI funds

ADDI funds will be made available at the time the Department publishes an interim rule, which will guide the expenditure of these funds. Not all PJs will receive ADDI funds. Based on formula runs it is anticipated that 392 PJs will receive FY 2003 ADDI funds and 427 PJs will receive FY 2004 ADDI funds (see the attached list).

Now that HUD's 2004 appropriations bill has been passed and the Federal Register publication of the ADDI interim rule, which is required for distribution of ADDI funds, is pending, the most likely scenario for early PJs (PJs with program year start dates from January to March) is that:

- PJs not eligible for ADDI funds should receive their FY 2004 HOME allocation, along with reallocations from prior years, in March;
- PJs eligible for ADDI funds will receive their regular FY 2004 HOME allocation, the reallocations from prior year funds *plus* FY 2003 ADDI and FY 2004 ADDI funds at the same time. Since the ADDI interim rule will not become effective before April, the distribution of combined HOME/ADDI funds to early PJs will not occur until April.

In summary, early grantees that do not qualify for ADDI funds should receive their HOME allocation and reallocation funds in March. Those PJs that are early grantees and qualify for ADDI funds, should receive their combined HOME/ADDI funds as early as April.

B. Grant Agreements

Each PJ will have one FY 2004 grant agreement, form HUD-40093, Funding Approval and HOME Investment Partnerships Agreement, for all three possible sources of funds. OAHP will work with each Field Office on an individual basis to prepare their PJs' grant agreements.

To assist Field Offices with the various sources of funding for each PJ, OAHP will provide a spreadsheet identifying each PJ and the various funds it will receive, as well as the information needed for the grant agreements. The Field Office should hand-write or type the following information at the bottom of each grant agreement, for each type of funding being obligated:

- Fiscal Year Source of Funds;
- Type of funds;
- Appropriation codes;
- PAS codes; and
- Funding amount.

The following is an example of a PJ receiving typical types of funding and how the information on the grant agreement should be indicated.

<u>FY Source of Funds</u>	<u>Fund Type</u>	<u>Appropriation Code</u>	<u>PAS Code</u>	<u>Amount</u>
FY 2004	HOME	864/60205	HMC	\$xxx,xxx.xx

FY 2004	ADDI	864/60205	HMC	\$xxx,xxx.xx
FY 2003	ADDI	863/50205	HMC	\$xxx,xxx.xx

The total of all funds being obligated **must** be entered on item #7, Current Transaction, on the grant agreement.

Note: One state and one local PJ will obligate two or more source years of reallocated funds. OAHP will contact the affected Field Offices directly, concerning how to complete these particular grant agreements. The FY 2004 HOME allocation reflects the 2004 appropriated amount and the reallocations from prior years.

If Field Offices have questions concerning completing form HUD-40093, please contact Danielle Frazier via e-mail or at 202-708-2684 x7354.

C. Tracking/Reporting ADDI Accomplishments

It is not possible to redesign IDIS in a reasonable amount of time to separately track ADDI as an option in IDIS. However, OAHP is developing a modified version of IDIS, known as ADDI/HOME ROCS! that will allow OAHP to distinguish between first-time homebuyer activities that can be credited to ADDI and regular HOME activities. Once ADDI/HOME ROCS! is implemented (expected in the spring 2004) OAHP will be able to accurately isolate the following activities that are completed in IDIS:

- First-time homebuyer with downpayment assistance
- First-time homebuyer and rehabilitation assistance (up to 20 percent of the ADDI allocation) to homes acquired through the use of ADDI downpayment funds.

OAHP will extract all **completed** first-time homebuyer activities that had downpayment assistance from the start date of each PJ's ADDI program through a reporting end date.

OAHP will credit a PJ's ADDI funds *first* for all first-time homebuyer with downpayment assistance completed during the period, until all the PJ's ADDI funds have been depleted. Then, OAHP will credit future first-time homebuyer with downpayment assistance activities to the PJ's regular HOME funds. OAHP will track both commitment and disbursement deadlines for ADDI and HOME funds, as well as report on all beneficiary information received for the HOME Program. Like the HOME Production Reports, this report will be run on a monthly basis and posted on HOME's Production Report webpage as well.

This reporting will work as follows:

- OAHP will credit a PJ's ADDI funds for all completions that are first-time homebuyer with downpayment assistance only or first-time homebuyer with downpayment assistance and rehabilitation to their ADDI funds first;
- If a PJ received FY 2003 ADDI funds, the first-time homebuyer with downpayment assistance only will be applied to their FY 2003 ADDI funds **first** until these funds are depleted, and then they will be applied to their FY 2004 ADDI funds;
- All first-time homebuyer - downpayment assistance with related rehabilitation activities funded with ADDI must be credited to the PJ's FY 2004 ADDI funds first, since rehabilitation is not an eligible use of FY 2003 ADDI funds;
- OAHP will report expenditures and remaining funds balances for each year of funds.

D. IDIS System Requirements

In order for completed activities to count towards a PJ's ADDI funds, the PJ must enter the following data in IDIS:

- First-time homebuyer with downpayment assistance only:
 - 1) On screen HB03 – Complete Homebuyer Activity – the only Activity Type that can be selected for this is “Acquisition Only”;
 - 2) On screen HB04-A – Complete Homebuyer Activity: Costs - funds must be indicated in the Downpayment Assistance section;
 - 3) On screen HB07 – Complete Homebuyer Activity: Beneficiaries - PJ staff must indicate a “Y” to whether the beneficiary is a “first-time homebuyer,” **Note: if a PJ does not input an answer, the system will default to “N”.**
 - 4) On screen C04MA54 in the IDIS Common Path – the Activity Status Code must also be changed to “Complete.”

- First-time homebuyer with downpayment and rehabilitation:
 - 1) On screen HB03 – Complete Homebuyer Activity – the only Activity Type that can be selected for this is “Acquisition & Rehab”;
 - 2) On screen HB04-A – Complete Homebuyer Activity: Costs - funds must be indicated in the Downpayment Assistance section;
 - 3) On screen HB07 – Complete Homebuyer Activity: Beneficiaries - PJ staff must indicate a “Y” to whether the beneficiary is a “first-time homebuyer,” **Note: if a PJ does not input an answer, the system will default to “N”.**
 - 4) On screen C04MA54 in the IDIS Common Path – the Activity Status Code must also be changed to “Complete.”

V. Questions

Any questions from Field Office staff concerning ADDI policy should be directed to Peter Huber via email or at 202-708-1472 extension 3941. Questions concerning ADDI operations, including IDIS, should be directed to Danielle Frazier via email or at 202-708-2684 extension 7354.