CHAPTER 4: HOMEOWNER REHABILITATION ACTIVITIES

This chapter describes how HOME funds may be used to assist owners in the rehabilitation of owner-occupied housing. Eligible activities, forms of assistance and property types are covered in this chapter. It also covers program design and implementation issues focusing on how to determine 95 percent of median value, as well as subsidy type, selection and tailoring.

This chapter is divided into two parts: HOME Program requirements, and program design and implementation issues.

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PART I: HOME PROGRAM REQUIREMENTS

This part covers eligible homeowner rehabilitation activities, applicant eligibility requirements, forms of financial assistance, and property standards and value. A summary of the key homeowner rehabilitation rules and how to document compliance with these rules is provided as Exhibit 4-3.

ELIGIBLE ACTIVITIES

- ♦ HOME funds may be used to assist existing homeowners with the repair, rehabilitation or reconstruction of owner-occupied units.
- ♦ Whenever HOME funds are used for rehabilitation, the work must be performed according to the PJ's written rehabilitation standard and the unit must be brought up to the applicable state or local code. If a state or local code does not exist, the unit may be brought up to the standards of the national model codes. (See Chapter 2: General Program Rules for more information.)
- ♦ This means that PJs may not undertake some forms of special purpose homeowner repair programs, such as:

Special Purpose Homeowner Repair

All of these types of repairs are eligible if they are undertaken within a more comprehensive scope of work that brings the unit up to standard.

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- Weatherization programs;
- Emergency repair programs; or
- Handicapped accessibility programs.

♦ However, these types of programs may be undertaken, if the property meets or will be brought up to the applicable HOME property standards.

FORMS OF FINANCIAL ASSISTANCE

♦ PJs may structure HOME assistance for owner-occupied rehabilitation using any of the forms described in Chapter 2: General Program Rules. For homeowner rehabilitation programs, PJs most commonly use the following forms of assistance:

- Grants;
- Deferred-payment loans;
- Non-interest-bearing loans; and
- Interest-bearing loans.

♦ Regardless of the type of assistance, PJs may choose to finance all of the rehabilitation cost or only a portion of the cost.

- If financing all of the cost of rehabilitation, a grant or deferred-payment loan is often necessary to provide the deep subsidy required by the very low- and low-income participants of rehabilitation programs.
- In some cases, a low-interest loan may be affordable or more appropriate. Examples of such cases include owner-occupants with sufficient income to repay a loan on a monthly basis; or when refinancing of existing debt, necessary to lower the owner-occupant's overall housing debt, is included as part of the rehabilitation loan.
- If the PJ chooses to finance only a part of the rehabilitation cost, it may structure its assistance to be used in combination with other financing. For example, the PJ and a private lender could jointly loan the funds needed for rehabilitation. This arrangement, referred to as a participation loan, results in one loan from the lender and one from the PJ, usually at a low interest rate. The size of the HOME loan is typically dependent upon the amount available for the conventional loan.

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- Another option would be for the PJ to provide HOME assistance as a grant or deferred-payment loan to "write down" the principal amount of a private loan thus making the monthly loan repayment affordable to the homeowner. This technique is often referred to as principal reduction.

- There are several other less common forms of financial assistance that may be used in homeowner rehabilitation programs. These forms include interest subsidies and loan guarantees. Both methods enable PJs to use small amounts of HOME funds to leverage private money for rehabilitation.

  - Interest subsidies: Interest subsidies, also referred to as interest reduction grants or interest rate buydowns, are similar to principal reduction grants or loans except that the HOME funds are used to "buy down" the interest rate to an affordable level. In this case, the HOME subsidy is paid directly to the lender and not provided to the homeowner.

  - Loan guarantees: Loan guarantees are another way to leverage HOME funds for homeowner rehabilitation. A loan guarantee could be used as a credit enhancement when a borrower otherwise eligible for a private loan is denied because of a real or perceived risk factor. In these cases, the PJ could provide a loan guarantee that would ensure payment, thus making an otherwise risky loan acceptable to a private lender. If the PJ plans to use loan guarantees for a large number of loans, it can capitalize a loan guarantee account with HOME funds. The amount of HOME funds in such accounts must be based on a reasonable estimate of the default rate on the loans guaranteed, and may not exceed 20 percent of the total outstanding principal guaranteed.

- All of the eligible forms of financial assistance are detailed in Chapter 2: General Program Rules. See "Selecting the Form of Assistance" in Part II of this chapter for more information on how to determine the appropriate form of subsidy and structure a program.

Subsidy Limits

- **Minimum HOME investment**: The minimum amount of HOME funds is an average of $1,000, multiplied by the number of HOME-assisted units in the project.

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- The minimum ***only*** relates to the HOME funds, and ***not*** to any other funds that might be used for project costs.

- **Maximum HOME investment**: The maximum per-unit HOME subsidy limit varies by PJ. HUD determines the maximum amounts, which are based on the PJ's Section 221(d)(3) program limits for the metropolitan area, each year. An economist in a local HUD field office can provide these limits.

- The maximum per-unit subsidy limit is:

  - 100 percent of the dollar limits for a Section 221(d)(3) nonprofit sponsor, elevator-type development, indexed for base city high cost areas, and adjusted for the number of bedrooms.

  - For some PJs, the 221(d)(3) limit has already been increased to 210 percent of the base limit. For these PJs, HUD will allow, ***upon request***, an increase in the per-unit subsidy amount on a program-wide basis. However, the absolute maximum subsidy limit that HUD will allow is 240 percent of the base 221(d)(3) limits.

ELIGIBLE COSTS

- Under HOME, both the actual cost of rehabilitating the housing and related soft costs are eligible. Exhibit 4-1 lays out the specific eligible HOME costs under a homeowner rehabilitation program.

- **Refinancing secured debt**: Refinancing existing secured debt is an eligible cost if:

  - The housing is owner-occupied;

  - HOME funds are loaned for rehabilitation; and

  - Refinancing allows the borrower's overall housing costs to be reduced and the housing is made more affordable.

  - HOME funds cannot be used to refinance Federal debt (e.g. FHA loan).

EXHIBIT 4-1

HOME-ELIGIBLE HOMEOWNER REHABILITATION COSTS

HARD COSTS	SOFT COSTS
• Meeting the rehabilitation standards • Meeting applicable codes, standards and ordinances • Essential improvements • Energy-related improvements • Lead-based paint hazard reduction* • Accessibility for disabled persons • Repair or replacement of major housing systems • Incipient repairs and general property improvements of a non-luxury nature • Site improvements and utility connections * ***Note:*** *Lead hazard reduction costs are not counted as hard costs for the purposes of determining the level of assistance under 24 CFR Part 35 (the Lead Safe Housing Rule).*	• Financing fees • Credit reports • Title binders and insurance • Recordation fees, transaction taxes • Legal and accounting fees • Appraisals • Architectural/engineering fees, including specifications and job progress inspections • Project costs incurred by the PJ that are directly related to a specific project • Refinancing of secured existing debt if the housing is owner-occupied and refinancing allows the overall costs of borrower to be reduced and the housing is made more affordable

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Example: Mr. and Mrs. Brown are seeking HOME funds to rehabilitate their home. They have an outstanding principal balance on their first mortgage of $40,000, at 10 percent interest, with a monthly payment of $386. The cost of rehabilitation is $15,000. The PJ is offering the rehabilitation loan at 3 percent for a 20-year term, with a monthly cost of $83.19 The monthly payments for both loans total $469.20. Because the Browns are on a fixed income, the increased mortgage cost would create a financial burden, requiring them to pay well above 30 percent of their monthly income for rent. Refinancing the first mortgage along with the rehabilitation costs using HOME funds would allow them to finance the total $55,000 debt at 3 percent interest for 20 years. This results in a monthly cost of $305.03, a savings of $164.00 per month, making the rehabilitation possible for the Browns and substantially lowering their monthly housing-related expenses.

♦ **Considerations**: Refinancing eligible owner-occupants' secured debt has several implications.

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- Refinancing makes overall housing costs, including rehabilitation costs, affordable to the owner.
- Refinancing will reduce the amount of funds available to other applicants, thus reducing the number of families that can be assisted.

ROLES OF NONPROFITS AND CHDOs

- **Nonprofits**: Potential roles for nonprofits in homeowner rehabilitation include:
  - A nonprofit may act as a PJ's subrecipient and manage a homeowner rehabilitation program on behalf of the PJ.
  - A nonprofit may take on a limited administrative role for the PJ, such as marketing the program in its neighborhood, or helping the PJ translate materials into the language spoken by neighborhood residents.
  - A nonprofit may act as a community advocate or advisory group.
  - A nonprofit may provide counseling to owners on behalf of the PJ on topics such as simple home repairs and maintenance.
- **CHDOs**: Homeowner rehabilitation is not an eligible CHDO set-aside activity. CHDOs, like other nonprofits, may act as a subrecipient to the PJ.

THE PROPERTY

Eligible Property Types

- To be eligible for HOME assistance, a property must be:
  - Occupied by an income-eligible homeowner; and
  - The owner's principal residence.
- The following property types may be included under the program:
  - Traditional single-family housing that is owned fee simple (this housing may contain one to four dwelling units);
  - A condominium unit;

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- A cooperative unit or unit in a mutual housing project (if state law recognizes these as forms of homeownership); or
- A manufactured home, including a mobile home.

- If HOME funds are used to assist the rental units in a two- to-four-unit residence, the HOME rental requirements apply -- including provisions regarding tenant occupancy, initial rent levels and long-term affordability.
- If HOME funds are used to rehabilitate only the owner-occupied unit in a two- to-four-unit residence, the rental housing rules do not apply.

Example: A four-unit owner-occupied residence is being rehabilitated. HOME funds are used to upgrade the owner's unit, but CDBG funds are used to upgrade the other units. Therefore, the HOME rental housing rules do not apply.

Maximum Property Value

- To use HOME funds, the value of the HOME assisted property ***after rehabilitation*** must not exceed 95 percent of the median purchase price for the area, as published by HUD, or, in accordance with the Final Rule, as determined locally through market analysis.
- **Determining after-rehabilitation value**: To establish project eligibility, after-rehabilitation value must be established prior to any work being performed. The after-rehabilitation value may be established by one or more of the following methods:
  - Estimates of value: Estimates of value by the PJ or subrecipient may be used. Project files must contain the estimate of value and document the basis for the value estimates.
  - Appraisals: Appraisals, whether prepared by a licensed fee appraiser or by a staff appraiser of the PJ, may be used. Project files must document the appraised value and the appraisal approach used.
  - Tax assessments: Tax assessments for a comparable property located in the same neighborhood may be used to establish the after-rehabilitation value ***if*** the assessment is current and accurately reflects market value ***after*** rehabilitation.

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Determining the 95 Percent of Median Purchase Price Limit

- The Final Rule offers the PJ two options for determining the 95 percent of median purchase price limit for owner-occupied single-family housing. The PJ may either perform a local market survey or use the figures published by FHA for its 203(b) program. (The national cap established by the 203(b) program does not apply.)

- **Program design considerations**: These are the points the PJ should consider in deciding which option to choose:

  - If the 203(b) mortgage limits seem consistent with local housing values, they provide a simple and credible methodology for the PJ. The PJ must obtain these limits annually from its HUD Field Office.

  - If the PJ believes the 203(b) limits understate housing prices in its jurisdiction, precluding the use of HOME funds to assist otherwise eligible homeowners, then the PJ may wish to perform its own analysis to determine the 95 percent of median purchase price limits. However, performing a market survey to establish the 95 percent of median purchase price limits requires additional staff time as well as approval by the HUD Field Office.

- **Conducting a local market survey**: To conduct a local market survey, the PJ must collect and present sales data by type of housing (for example, one- to- four-unit, condos, coops and manufactured housing) on all or nearly all of the one-family house sales in the entire PJ. The data must be presented in ascending order of sales price, and include the address of the listed properties and their locations within the PJ.

- The length of the reporting period varies with the volume of monthly home sales.

  - If there are 500 or more housing sales per month within the PJ, a one-month reporting period must be used.

  - If there are 250-499 sales per month, a two-month reporting period must be used.

  - If there are fewer than 250 sales per month, a three-month reporting period must be used.

- If the total number of sales reported is an odd number, the median is established by the price of the middle sale.

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- If the total number of sales is an even number, the higher of the two middle numbers is considered the median.

  Example: *If the list contained 501 properties, the 251st property would be the median. If the list contained 500 properties, the higher of the two middle numbers -- also 251-- would be the median. (The two middle numbers are 250 and 251, and since the list is in ascending order, the sales price listed at 251 will be higher than the sales price listed at 250.)*

- The median value is then multiplied by 95 percent.
- The entire analysis, ***not just the final numbers***, must be provided to the HUD Field Office for review and approval, preferably as part of or in conjunction with the Consolidated Plan submission.
- The PJ must update this analysis annually.

Property Standards

- As with all HOME-assisted properties, properties that are rehabilitated with HOME funds must meet certain standards. This section briefly discusses the standards that apply to properties rehabilitated with HOME assistance. (For full information on standards for all HOME-assisted properties, see Exhibit 2-1 in Chapter 2: General Program Rules.)
- **Written rehabilitation standards**: All PJs must have written rehabilitation standards describing the methods and materials to be used when performing rehabilitation. All HOME-assisted rehabilitation projects must meet the PJ's written rehabilitation standards.
- **Local/state or national codes**: HOME assisted owner-occupied rehabilitation projects, including manufactured housing, must meet applicable state or local codes. If no state/local code applies, projects must meet one of the national standards listed in Chapter 2: General Program Rules.
- Permanent utility hook-ups or permanent foundations are no longer required in the rehabilitation of manufactured housing units with HOME funds.

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THE APPLICANT/BENEFICIARY

- To be eligible for HOME funds, the homeowner must:
  - Be low-income; that is, with an annual (gross) income that does not exceed 80 percent of median for the area; and
  - Occupy the property as a principal residence.

Income Eligibility Requirements

- **Income definitions**: PJs may choose from three definitions of income to determine eligibility of applicants for a homeowner rehabilitation program:
  - The Section 8 Program definition for annual income;
  - The IRS definition of adjusted gross income as defined for reporting on IRS Form 1040; or
  - The definition of annual income as defined by the U.S. Census long form.
- **Documentation**: Source documents, such as wage statements, interest statements, unemployment compensation statements, etc., must be reviewed to determine annual (gross) income. Eligibility is based on anticipated income during the next 12 months.
- **Timing:** Income determinations must be completed before HOME assistance is provided. Income need not be reexamined at the time HOME assistance is actually provided unless more than six months has elapsed since the initial determination.

Other Eligibility Requirements

- As noted, the applicant must own the property and occupy it as a principal residence.
- **Ownership**: A family or individual owns the property if that family or person:
  - Has fee simple title to the property; or
  - Maintains a 99-year leasehold interest in the property (50 year leasehold on trust or restricted Indian lands); or
  - Owns a condominium; or

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- Owns or has a membership in a cooperative or mutual housing project that constitutes homeownership under state law; or
- Maintains an equivalent form of ownership approved by HUD.
- Life estates and land contracts/ contracts for deeds are not approved by HUD as eligible forms of ownership.

- **Principal residence**: Loan documents or other forms of written agreement between the purchaser and the PJ must incorporate this requirement.

LONG-TERM AFFORDABILITY

- There are no long-term affordability or occupancy requirements associated with rehabilitation assistance to owner-occupants. However, PJs may choose to impose such requirements.

OTHER FEDERAL REQUIREMENTS

- Exhibit 4-2 identifies the other federal requirements that must be followed when HOME is used for rehabilitation of homeowner properties. This exhibit is meant to serve as a checklist only; for detailed information on each of the requirements, see Chapter 10: Other Federal Requirements and the applicable regulations.

EXHIBIT 4-2

OTHER FEDERAL REQUIREMENTS

Other Federal Requirement	Apply to Homeowner Rehabilitation?	Special/Issues/ Considerations	Regulatory Citations and References
Non-Discrimination and Equal Access Rules			
Fair Housing and Equal Opportunity	Yes. Must affirmatively further Fair Housing.		• 92.202 and 92.250 • Title VI of Civil Rights Act of 1964 (42 U.S.C. 2000d et. seq.) • Fair Housing Act (42 U.S.C. 3601-3620) • Executive Order 11063 (amended by Executive Order 12259) • Age Discrimination Act of 1975, as amended (42 U.S.C. 6101) • 24 CFR 5.105(a)
Affirmative Marketing	No.		• 92.351
Handicapped Accessibility	No. (Note: Accessibility improvements are eligible costs.)		• Section 504 of the Rehabilitation Act of 1973 (implemented at 24 CFR Part 8) • For multi-family buildings only, 24 CFR 100.205 (implements the Fair Housing Act)
Employment and Contracting Rules			
Equal Opportunity Employment	Yes.	Small projects offer opportunities for minority and resident-contractors.	• Executive Order 11246 (implemented at 41 CFR Part 60)
Section 3 Economic Opportunity	Yes, if amount of assistance exceeds $200,000 OR contract or subcontract exceeds $100,000.	Include Section 3 clause in contracts and subcontracts.	• Section 3 of the Housing and Urban Development Act of 1968 (implemented at 24 CFR Part 135)
Minority/Women Employment	Yes.	PJs must develop procedures and include in contracts and subcontracts.	• Executive Orders 11625, 12432 and 12138 • 24 CFR 85.36(e)
Davis-Bacon	No.		• 92.354 • Davis-Bacon Act (40 U.S.C. 276a - 276a-5) • 24 CFR Part 70 (volunteers) • Copeland Anti-Kickback Act (40 U.S.C. 276c)
Conflict of Interest	Yes.		• 92.356 • 24 CFR 85.36 • 24 CFR 84.42

EXHIBIT 4-2 (Continued)

Other Federal Requirement	Apply to Homeowner Rehabilitation?	Special/Issues/ Considerations	Regulatory Citations and References
Debarred Contractors	Yes.	• PJ should check HUD's list of debarred contractors.	• 24 CFR Part 5
Other Federal Requirement			
Environmental Reviews	Yes.	Neighborhood reviews may facilitate targeted programs, but individual checklists still required for each project site. Special attention should be paid to flood insurance and historic requirements.	• 92.352 • 24 CFR Part 58.35 a(4) • National Environmental Policy Act (NEPA) of 1969
Flood Insurance	Yes for PJs that are cities/counties. No for state programs.	Must obtain flood insurance if located in a FEMA designated 100-year flood plain. Community must be participating in FEMA's flood insurance program.	• Section 202 of the Flood Disaster Protection Act of 1973 (42 U.S.C. 4106)
Site and Neighborhood Standards	No.		• 24 CFR 893.6(b)
Lead-Based Paint	Yes for pre-1978 units.	Notices to owners. Paint testing of surfaces to be disturbed. Risk assessment, if applicable, based on level of rehabilitation assistance. Appropriate lead-hazard reduction activity (based on level of rehabilitation assistance). Safe work practices and clearance. Provisions included in all contracts and subcontracts.	• 92.355 • Lead Based Paint Poisoning Prevention Act of 1971 (42 U.S.C. 4821 et. seq.) • 24 CFR Part 35 • 982.401(j) (except paragraph 982.401(j)(1)(i))
Relocation	Yes.	Relocation **is** required if tenants are living in the other units. Relocation **is not** required for owner-occupied units.	• 92.353 • Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) (42 U.S.C. 4201-4655) • 49 CFR Part 24 • 24 CFR Part 42 (subpart B) • Section 104(d) "Barney Frank Amendments"

EXHIBIT 4-3

SUMMARY OF HOMEOWNER REHABILITATION RULES AND HOW TO DOCUMENT

	Key HOME Requirement	Documentation
Eligible Participants		
Owner Income	• Gross income ≤80 percent of median income based on the upcoming 12 months. • Income is defined by one of three options: Section 8 annual income; annual income under Census long form; or adjusted gross income under IRS Form 1040.	• Completed application in the project file. • Source documentation (wage statements, interest statements) in the project file.
Owner Occupancy	• Applicant must occupy unit as his/her **principal residence**.	• Client must sign a clause on the application form certifying that the property is the principal residence.
Ownership of Property	• Applicant must have ownership of the property through: ⇒ fee simple title, ⇒ 99-year leasehold interest (50 years on trust or restricted Indian lands), or ⇒ ownership/membership in a cooperative or mutual housing project.	• Title check documentation in project file. • Copy of deed or other ownership document in the project file.
Eligible Property		
Property Type	• Eligible property types include: ⇒ one-to-four-unit property; ⇒ condominium unit; ⇒ cooperative or mutual housing unit, if recognized by state law; or ⇒ manufactured or mobile home.	• If two-to-four units, indicate status of non-owner-occupied units in the application. • If non-owner units were assisted with HOME funds, provide agreement with homeowner regarding rental requirements and reference to the property's rental monitoring file.
Property Location	• Property must be located within geographic area of the PJ.	• Application should include address in PJ's geographic area.
HOME Minimum and Maximum Subsidy	• A minimum of $1,000 in HOME funds must be invested in each assisted unit. • The maximum per-unit subsidy limit is determined by HUD.	• Maintain records in project file demonstrating that the per-unit HOME investment exceeded $1,000. • Maintain records in the project file indicating total HOME subsidy did not exceed maximums provided by HUD.
Property Value	• After-rehabilitation value must not exceed 95 percent of the area median purchase price. ⇒ Use 203(b) limits; OR ⇒ Establish local limits and obtain HUD approval.	• If using local value limits, document data used to determine limits as well as evidence of HUD approval in the program file. • Document method for determining value in the project file. • Copy of value estimate held in project file.

Exhibit 4-3 (continued)

	Key HOME Requirement	Documentation
Eligible Property (Continued)		
Property Standards	• Property must meet PJ's written rehabilitation standards. • Property must meet applicable codes (state or local codes/standards or one of three nationally accepted codes/standards).	• Document local code or model code used in program files. • Maintain written rehabilitation standards in program files. • Include inspection report or certification by inspector in project file. • Keep inspection checklist and work write-up in project file.
Eligible Activities	• Rehabilitation, reconstruction.	• Document all expenditures.

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PART II: PROGRAM DESIGN AND IMPLEMENTATION ISSUES

♦ There are several key questions to be addressed when implementing a homeowner rehabilitation program under HOME:

  ➢ What are the PJ's objectives for the program?

  ➢ What type and level of assistance will be provided?

  ➢ How will eligible applicants be screened and selected?

  ➢ Who will oversee the rehabilitation process?

♦ It is critical that a PJ address these questions in its homeowner rehabilitation program design.

♦ PJs who already have homeowner rehabilitation programs may want to reevaluate the design of these programs.

PJ OBJECTIVES

♦ Homeowner rehabilitation programs can be used to address a number of PJ goals, including:

  ➢ Neighborhood revitalization;

  ➢ Spot repair of substandard units jurisdiction-wide; or

  ➢ Assistance to a special population of homeowners (such as very low-income owners).

♦ In order to design its program, the PJ must determine which of these goals it intends to meet. From this flows key aspects of program design as discussed below.

  ➢ <u>Neighborhood revitalization</u>: If the PJ's objective is to revitalize a particular neighborhood:

    ✓ Marketing should be highly targeted.

    ✓ A range of financing options should be created to meet a variety of homeowner needs.

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    - ✓ Levels of subsidy should be tailored to costs and available funds in the area.

  - ➢ Community-wide programs: If the PJ's objective is to provide assistance community-wide on an as-needed basis:

    - ✓ Project selection criteria will need to establish criteria for determining which projects are chosen (such as level of needed repair or ability of the owner to leverage other funds).

    - ✓ Marketing need not be targeted, but should ensure information is widely and fairly distributed.

  - ➢ Special needs programs: If the program will target a special needs population:

    - ✓ The PJ will need to clearly define the members of this population.

    - ✓ Marketing should be highly targeted to this population.

    - ✓ The level of subsidy must be tailored to meet the specific characteristics and needs of the special needs group.

- ♦ These objectives and their relationship to program design will need to be clearly established in the PJ's Consolidated Plan.

- ♦ **Administrative plan/procedure**: In addition, it is recommended (but not required!) that the PJ develop an administrative plan or procedure describing:

  - ➢ Who on the PJ staff is responsible for accomplishing which tasks;

  - ➢ The methods and criteria for selecting applicants;

  - ➢ If a waiting list will be used, how it will be administered;

  - ➢ Available forms of assistance and criteria for determining the type of assistance offered to various households (if the program allows for flexible types of financing mechanisms); and

  - ➢ A flowchart of key activities to be undertaken and an anticipated timeline for accomplishing these tasks.

- ♦ The following sections of this chapter provide detailed information that will help the PJ to determine how it will administer its program.

NOTES

SELECTING THE FORM OF ASSISTANCE

- The availability of HOME program funding and growing participation from private lenders together create an opportunity to make rehabilitation programs more effective. However, PJs must carefully design programs to both meet community needs and program goals.

Factors in Determining Type and Amount of Subsidy

- Following are factors to consider when determining the type and amount of subsidy to offer individual homeowners.
  - Determine community needs and demand for services, including analyzing:
    - ✓ The age and condition of the housing stock and cost to meet codes and standards;
    - ✓ Number of deteriorated homes occupied by low-income citizens;
    - ✓ The incomes of typical homeowners whose residences require rehabilitation and need for refinancing; and
    - ✓ The place of HOME in the PJ's overall rehabilitation strategy (is HOME the primary source of rehabilitation funding or are other sources available?).
  - Reconcile program goals by determining local answers to the following questions:
    - ✓ Does the PJ want to assist the lowest-income people living in the worst housing or improve a neighborhood by assisting as many units as possible? It may take just as many HOME dollars to assist a relatively low number of people living in housing that requires a great deal of work as it does to spread the money throughout a neighborhood where individual houses do not need quite as much work, but some rehabilitation will dramatically improve the neighborhood.
    - ✓ Does the PJ want to maximize program income or maximize leveraging? Maximizing the return of HOME investments may be less costly than gap financing of riskier or more expensive projects, but it means that relatively higher income households are being served.

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- Once community needs have been determined and program goals defined, PJs must determine what types of assistance they will provide. For a discussion of the basic forms of financial assistance, see Chapter 3: General Program Rules.

Approaches to Providing Financial Assistance

- The next step is to determine how the program will be structured. PJs may want to use one of the following approaches to providing financial assistance.

  - **Customized approach**: PJs may choose to customize their loan product -- including terms and interest rates -- to meet the individual needs of borrowers. Programs using customized approaches calculate the borrowing capacity of each household when: the income of the borrower is determined, the amount available for additional housing-related expenses is calculated, and the cost of rehabilitation is estimated. The interest rate and/or the term of the financing is based on what that household can afford to borrow.

    - ✓ Advantages: The PJ can tailor each loan to meet the particular needs of a borrower.

    - ✓ Disadvantages: Customized programs are complex to underwrite and administer, since there is no standard loan product. Borrowers with similar incomes and properties with similar rehabilitation needs may receive more or less assistance depending on other factors, such as credit and debt levels. The differences in treatment among borrowers may be difficult to explain, and the public could perceive them as unfair and inequitable. If the PJ is working with a private lender, it could encounter resistance to customized loan products, because they are staff-intensive both in underwriting and in servicing.

  - **Category approach**: In the "category" approach, all households of similar income are offered the same financing. Only the principal amount varies within income categories, depending on the cost of improvements to be made and what is affordable to the borrower. Programs using this model usually establish income ranges. Next, using a survey of potential homeowners, they must estimate the average amount of additional monthly housing payment that is affordable for households within that income range.

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The term of the loan is usually fixed. Interest rates are then selected to allow monthly payments to be close to the average payment affordable to households within the income category.

- ✓ Advantages: This approach offers consistent treatment of clients with similar incomes. This is also easy to market, easily understood by homeowners, lenders and the local governing body, and uncomplicated to administer. Finally, it is perceived as equitable.

- ✓ Disadvantages: Depending upon whether these are amortizing loans or deferred-payment loans, some homeowners whose financial circumstances may preclude additional borrowing may be excluded.

- ➢ **Standardized approach**: This approach uses only one type of financing, such as three percent for a 15-year term. Each applicant is qualified for a maximum loan amount based on this standardized loan product. Any additional funds necessary to complete the rehabilitation would come from the homeowner or other sources.

  - ✓ Advantages: Resembles traditional lending and is easy to explain and market to potential borrowers. In addition, borrowers repay what they can afford, no more or less.

  - ✓ Disadvantages: Some applicants may be unable to borrower enough to complete all needed repairs.

APPLICATION INTAKE AND SCREENING

- ♦ Having a clear intake and applicant screening plan is essential to program operations. The elements of this plan should include methods and procedures for taking applications, and selection of homeowners to participate.

  - ➢ Some of the methods and procedures for application intake include:

    - ✓ Geographical preferences: If the program is citywide, the PJ may want to centralize intake, or it may want to provide opportunities for staff to do intake in community facilities in specific neighborhoods on a revolving basis. If the program targets applicants residing in one neighborhood, the PJ may want to establish an intake and counseling center in an easily accessible neighborhood facility.

NOTES

- ✓ Targeting populations: If targeting specific populations such as elderly homeowners, the PJ should identify how information about the program will be conveyed to them. For example, staff may want to visit senior centers throughout the city to distribute literature and take applications or speak directly to interested homeowners by visiting their homes.

- ➢ Selection of homeowners to participate through one of the following methods:

  - ✓ First-come, first-served: Applicants are served on a first-come, first-served basis. To ensure fairness, the date and time they applied should be stamped on their application by the person receiving the application.

  - ✓ Lottery: Sometimes, demand for a program is so great that a PJ may elect to select applicants by lottery. To the extent all applicants are eligible, this process is as fair and open as any.

  - ✓ Selection criteria: A third option is to create selection criteria; in effect, to rank all applications based upon pre-established criteria, such as need, income, etc. Because even the best criteria often become somewhat subjective, this approach may not be perceived as sufficiently open and fair.

  - ✓ Whichever process is developed, the PJ should articulate it fully. Homeowners who receive assistance should be selected according to the criteria. Households should be notified of their selection in writing and provide with detailed information about the program requirements.

STAFFING THE PROGRAM

- ♦ There are a number of factors to consider when staffing, including

  - ➢ **The role of the PJ staff**: The PJ must determine how much of the program will be administered in-house, and to what extent other government agencies, private lenders and non-profits will be involved in program implementation.

  - ➢ **Forming relationships with private lenders**: Many rehabilitation programs rely on private lenders to do applicant intake and underwriting. The lender can then

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assess the level of private dollars each homeowner may be eligible to borrow and the level of HOME subsidy needed. Lenders also will do appraisals and, in some programs, initial property inspections. See Part II of Chapter 5: Homebuyer Activities for more on developing relationships with a private lenders.

- **Using nonprofits**: Many PJs use nonprofits or CHDOs to administer homeowner rehabilitation programs. The nonprofit can identify applicants, provide counseling and do initial work write-ups and cost estimates. It is important to remember that the PJ is ultimately responsible for certifying that all HOME requirements are met. To ensure compliance, the PJ may want to do final eligibility certification of all applicants and review work write-ups and cost estimates prior to construction.

- **Other government agencies**: Many programs use property inspectors, specification writers and cost-estimators from other city programs to perform these activities in their HOME-funded rehabilitation programs. To the extent that program staffers understand the HOME regulations separate from CDBG or code requirements, this can be an efficient way to staff a rehabilitation program.