



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

ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

AUG 07 2006

MEMORANDUM FOR: All CPD Field Office Directors
Famela H. Patenaude
FROM: Famela H. Patenaude, Assistant Secretary, D
SUBJECT: Grant Reductions for Ineligible HOME Activities

The purpose of this memo is to outline a new policy for approving grant reductions for ineligible HOME activities and to explain why this new process is necessary. Since the inception of the HOME Program, the Office of Affordable Housing Programs (OAHP) has assisted Field Offices in clearing HOME monitoring findings by allowing participating jurisdictions (PJs) to take voluntary grant reductions of future HOME allocations in lieu of repaying their HOME accounts for ineligible uses of HOME funds. To date, OAHP has reduced 37 grants from 16 PJs for \$8.2 million. These funds are reallocated to all PJs in the next HOME formula run.

While this approach eliminates the burden on PJs to repay disallowed HOME costs from local funds, it reduces the amount of funds available to the PJ for affordable housing. Consequently, reduction of a PJ's HOME allocation decreases the amount of HOME funds available to address the community's affordable housing needs. In addition, a reduced HOME grant also decreases the amount of administrative funds a PJ has available to administer its program.

CPD's preferred remedial action for disallowed HOME costs is repayment to the HOME Investment Trust Fund Account with non-Federal funds. This method maintains the amount of funding available for affordable housing in the community. In contrast, grant reduction results in the loss of HOME funds in the amount of the reduction, plus the original ineligible HOME expenditure.

Consider the example of a PJ that takes a \$100,000 grant reduction for an ineligible activity. The PJ now has \$100,000 less for eligible HOME activities. Moreover, the PJ has already expended \$100,000 for the ineligible activity. Since the PJ is not actually repaying the funds, it now has \$200,000 less in HOME funds for eligible activities. In addition, the amount of HOME funds expended on ineligible activities (\$100,000) will be reduced from the amount of funds the PJ has committed or expended making it harder to meet future commitment and expenditure deadline requirements. The PJ, then, has \$100,000 less in HOME funds to commit and expend for affordable housing and has committed and expended \$100,000 less as well.

Alternately, if a PJ repays its HOME account in the amount of the ineligible activities with non-Federal funds, any draws associated with the ineligible HOME activity can be revised and the activity can then be cancelled in the Integrated Disbursement and Information System (IDIS). Once the original ineligible activities are cancelled in IDIS, the new commitments and expenditures related to the PJ's repayment from non-federal funds are considered HOME commitments and expenditures. The PJ's grant is not reduced, so it receives its full formula allocation amount. While the PJ has been required to use its non-Federal funds for repayment of the HOME account, the resources available to assist low- and very low-income households are maintained.

Currently, IDIS does not have the functionality to properly account for grant reductions for ineligible activities. Ineligible activities that are repaid through a grant reduction can never be cancelled in IDIS. Therefore, the activities repaid by each grant reduction must be manually tracked by OAHP for purposes of lowering commitments and expenditures and reducing the accomplishments reported for ineligible activities, increasing the potential for human error. By repaying and canceling ineligible HOME activities in IDIS, PJs eliminate this potential.

Effective immediately, OAHP consultation and approval is required on all requests for voluntary grant reductions for ineligible HOME activities. To qualify for a grant reduction in lieu of repayment, the PJ's chief elected official must request the grant reduction in writing and the PJ must document its inability to repay the HOME funds from non-Federal sources. Grant reductions will not be approved for amounts less than \$100,000 or 30 percent of the PJ's most recent formula allocation, whichever is greater. Generally, PJs must take a grant reduction or make repayment in a single year. In certain circumstances, Headquarters may authorize a period of up to three years to complete grant reduction or repayment of HOME funds, based on the amount of the ineligible costs and the PJ's ability to repay.

If you have any questions regarding this new policy, please contact Mary Kolesar, Director, Office of Affordable Housing Program, at 202-708-2470, extension 4604.