



HOME FACTS - Vol. 1 No. 2, May 2008

Topic

This issue of HOME FACTS sets forth the process to be followed by a PJ to request a reduction to its community housing development organization (CHDO) set aside in one or more years to an amount less than 15 percent of its HOME allocation in those years. Each HOME participating jurisdiction (PJ) is required to reserve not less than 15 percent of its HOME allocation to housing to be developed, sponsored, or owned by CHDOs. Many PJs choose to reserve much more than the 15 percent required each year and after many years in the HOME Program have cumulative CHDO reservation percentages well above 15 percent. A PJ in this position may wish to lower its CHDO set aside percentage in HUD's Integrated Disbursement and Information System (IDIS) for one or more years.

Requirement

The HOME final rule at 24 CFR § 92.300 states that within 24 months after HUD notifies the PJ of HUD's execution of the HOME Investment Partnership Agreement, the PJ must reserve not less than 15 percent of the HOME allocation for investment only in housing to be developed, sponsored, or owned by a CHDO.

HUD measures compliance with the CHDO reservation requirement cumulatively. For example, if a HUD executes the HOME Investment Partnership Agreement with a PJ on July 6, 2008, the PJ's CHDO reservation deadline is July 31, 2010 and its requirement is 15 percent of its cumulative HOME grants through 2008. Any funds not reserved to CHDOs at the time of the PJ's deadline are deobligated from the PJ and reallocated through an infrequent competition.

IDIS Processing

When a HUD obligates a PJ's HOME grant, IDIS is programmed to automatically subfund 15 percent of the PJ's annual HOME allocation to the CHDO set aside, or CR subfund, to be used for projects to be developed, sponsored, or owned by CHDOs. The PJ may increase the amount of the CR subfund for any given year, but cannot decrease the amount in any given year to an amount less than 15 percent of that year's HOME allocation.

To reserve funds to a CHDO, the PJ enters into a written agreement with a CHDO (signed by both parties) reserving a specific amount of HOME funds to produce affordable housing or committing funds to a specific CHDO project. This agreement is reflected in IDIS by the PJ subgranting (reserving) funds from the CR subfund to the CHDO.

Requesting a Reduction to the CHDO set-aside (CR) subfund

A PJ that has consistently increased the amount of its CR subfund to an amount higher than 15 percent of its allocation and has reserved that increased amount to CHDOs may have a cumulative CHDO reservation percentage well above the 15 percent requirement. This PJ may wish to reduce its CR subfund in one or more years in order to use the funds for non-CHDO HOME projects. In this case, it is important for the PJ and HUD to ensure that even if one or more years of the CR subfund are reduced to an amount less than 15 percent of the HOME allocation, the PJ's ability to meet its CHDO reservation

requirement in future years is not jeopardized.

Process, Review, and Considerations

A PJ that wishes to reduce its CR subfund in one or more years should submit a request in writing to its Field Office stating the specific dollar amount and grant year(s) of the reduction. The PJ should also include its plans for the funds once the reduction is completed.

Upon receipt of the PJ's request, CPD in the Field Office should review the following:

1. The most recent *Deadline Compliance Status Report* to ensure the PJ does not currently have a shortfall of its upcoming CHDO reservation requirement and that its cumulative CHDO reservation percentage is well above the 15 percent requirement. In addition, any previous CHDO deobligations for failure to meet the CHDO reservation requirement will be shown on this report under "adjustments".

If the PJ has a CHDO reservation shortfall, reducing the amount of funds in the CR subfund will reduce the amount of funds the PJ has available to reserve to CHDOs, which is not advisable given the shortfall. If the PJ has had one or more CHDO deobligations in the past, it demonstrates previous PJ or CHDO performance problems and a reduction to the PJ's CR subfund should not be recommended.

2. The CR subfund portion of the IDIS PR27 *Status of HOME Grants Report* for a high level review of the PJ's CR subfund. This report shows a year-by-year summary of the PJ's CHDO requirement, amount reserved to CHDOs, percent of requirement reserved, amount committed to CHDO activities, and amount disbursed, among other data items. Using this report, HUD and PJ staff can easily see any and all years in which a PJ over-reserved funds to CHDOs and how much of these reservations each year has been committed to activities, and disbursed.

If there are large amounts of each year's reservations that have not been committed to CHDO projects, a reduction to the CR subfund is not advisable. Likewise, if most CHDO funds have been reserved and committed, but not disbursed, a CR subfund reduction is not in order.

3. The IDIS PR25 *Status of CHDO Funds Report*, which details every CHDO subgrant made by the PJ, to verify that the PJ's CHDO reservations have also been committed to specific CHDO activities. The PJ should have funds reserved to CHDOs, but not committed to activities in only the most recent year or two. If there are large amounts of CHDO funds reserved to CHDOs, but not committed to activities, the Field Office should not recommend approval of the CR subfund reduction request.

In addition, the CHDO commitments must be completely disbursed in early years and moving satisfactorily toward full disbursement in more recent years. It is not acceptable for the PJ to have all of its CHDO funds reserved and committed, but not disbursed and the Field Office should not recommend approval of the CR subfund reduction request in these instances.

After the CPD Division of the Field Office follows the review guidance in this issue of *HOME FACTS*, it either submits a recommendation to the Office of Affordable Housing Programs (OAHP) in Headquarters to approve the request or responds in writing to the PJ denying the request and outlining the specific reasons for the denial.

Upon receipt of a Field Office recommendation to approve the reduction to a PJ's CR subfund, OAHP will perform a similar review and analysis of the PJ's reports. If the recommendation is acceptable to OAHP, it will forward the request to the IDIS contractor to make the requested changes to the PJ's CR subfund in IDIS. Typically, the IDIS contractor can perform the reduction in less than two days.

Do you have questions?

Questions or correspondence regarding adjusting the CR subfund should be directed to Peter Huber, Director, Financial and Information Services Division, Office of Affordable Housing Programs at 202-402-3941 or Peter.H.Huber@hud.gov.