



U.S. Department of Housing and Urban Development
Community Planning and Development

Special Attention of:

Notice: CPD 12-007

All State/Area Coordinators
Regional Directors for CPD
CPD Division Directors
All HOME Coordinators
All HOME Participating Jurisdictions

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Subject: Operating Guidance for Implementing FY 2012 HOME Appropriation Requirements

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I. BACKGROUND

The *Consolidated and Further Continuing Appropriations Act of 2012* (P.L. 112-55) imposed new requirements on projects that receive FY 2012 funds from the HOME Investment Partnerships Program (HOME). The purpose of these requirements is to improve project and developer selection by participating jurisdictions (PJs) and ensure that there is adequate market demand for FY 2012 HOME projects.

The law requires that:

- 1) PJs must repay any HOME funds invested in projects that are not completed within four years of the commitment date, as determined by a signature of each party to the written agreement. HUD may grant a one year extension upon determination that the failure to complete the project is beyond the control of the PJ.
- 2) PJs may only commit FY 2012 HOME funds to a project after it has underwritten the project, assessed the developer capacity and fiscal soundness of the developer being funded, and examined the neighborhood market conditions to ensure that there is an adequate need for the HOME project. The PJ must certify, at the time HOME funds are committed, that these actions have been taken for each project.
- 3) PJs must convert any FY 2012 HOME homeownership unit that has not been sold to an eligible homebuyer within six months of construction completion to a HOME-assisted rental unit.
- 4) PJs may only provide FY 2012 HOME funds for development activities to Community Housing Development Organizations (CHDOs) that have demonstrated that they have staff with demonstrated development experience.

HUD has incorporated these requirements as special conditions attached to the FY 2012 Funding Agreement (HUD Form 40093). A copy of the conditions is included in Attachment A.

These requirements are applicable to all projects that receive FY 2012 HOME funds, including all 2012 CHDO set-aside funds. For the purposes of this Notice, a ***FY 2012 HOME-funded project*** is defined as any HOME activity set up in Integrated Disbursement and Information System (IDIS) under a 2012 Consolidated Plan/Annual Action Plan Project. A Consolidated Plan/Annual Action Plan Project may consist of one or more HOME projects set up as HOME activities in IDIS. HOME projects are set up in IDIS as HOME activities.

This Notice explains how these new requirements apply to PJs' FY 2012 HOME projects, how PJs must comply with the requirements, and how HUD will determine PJ compliance with these requirements using data entered into IDIS. Please note that these requirements are separate from changes published in the December 16, 2011 HOME proposed rule. Although there are similarities between the law and proposed regulatory changes, the *Consolidated and Further Continuing Appropriations Act of 2012* requires HUD to immediately implement these

requirements on all FY-2012 HOME-funded activities.

II. IMPLEMENTATION OF FY2012 HOME APPROPRIATION LAW

1) Four-Year Project Completion

Requirement: FY 2012 HOME funds used for projects not completed within four years of the commitment date, as determined by a signature of each party to the written agreement, must be repaid to the HOME Investment Trust Fund. HUD may grant a one-year extension if it determines that the circumstances that led to the failure to complete the project by the deadline were beyond the PJ's control.

For the purpose of complying with this requirement, *completion* shall mean that all necessary construction work has been completed and the project has received a certificate of occupancy or other local certification indicating that construction or rehabilitation has been completed and the project is ready for occupancy. For owner-occupied rehabilitation projects, completion means that all rehabilitation work has been completed, the PJ or its designee has performed a final inspection, and the homeowner has accepted the work, as indicated by a final sign-off.

Applicability to HOME Projects: This requirement is applicable to all HOME activities set up in IDIS under a 2012 Consolidated Plan/Annual Action Plan, regardless of the grant year from which the funds are disbursed.

HUD Implementation: Using IDIS data, HUD will generate monthly, PJ-specific reports that will assist PJs in identifying any HOME activities set up in IDIS under 2012 Consolidated Plan/Annual Action Plan Projects that may fail to reach the four-year completion deadline. The reports will use an activity's initial IDIS funding date to identify HOME projects that may be approaching the four-year deadline and are not yet complete. For the purpose of tracking compliance with this requirement, the IDIS initial funding date is an adequate approximation of the commitment date of each HOME project. Since the *Consolidated and Furthering Appropriations Act of 2012* ties this requirement to the date a written agreement is executed, PJs should establish their own tracking process and use this report to assist in identifying possible incomplete projects.

Should a PJ request a one-year extension to the four-year deadline, HUD will require the PJ to submit the written agreement for the project to establish the date that the written agreement was executed by the parties. If granted, the one-year extension will be based on the date the agreement was executed. For example, if an activity's initial funding date in IDIS is two months after the execution date of the written agreement, HUD will use the date of the written agreement as the official project start date, and will only grant the PJ an additional 10 months to complete the project.

HUD will post the reports on the HOME Reports website:
[\(http://www.hud.gov/offices/cpd/affordablehousing/reports/\).](http://www.hud.gov/offices/cpd/affordablehousing/reports/)

PJ Compliance: PJs should evaluate the readiness of each project before setting it up in IDIS as a HOME activity under a 2012 Consolidated Plan/Annual Action Plan Project to ensure compliance with the four-year completion requirement. PJs should establish a process to track a project's four-year completion deadline based on the date of the executed written agreement. Reviewing the reports HUD posts each month on the HOME Reports website will also assist in determining when PJs may need to take action. HUD may grant a one-year extension of the completion deadline to HOME projects that have not progressed due to circumstances beyond the PJ's control. The PJ must submit the extension request to its local HUD Field Office at least 90 days before the project's four-year deadline. All extension requests must include the following:

- Documentation supporting the PJ's claim that the project will not be completed by the four-year deadline due to circumstances beyond the PJ's control.
- A signed and dated copy of the written agreement committing funds to the project.
- A detailed project completion schedule, with milestones, that will ensure the project is completed within one year or less.
- Proof that adequate financing has been secured to ensure project completion.

2) **Assessment of Project Underwriting, Developer Capacity, and Market Need**

Requirement: Before entering into a legally binding written agreement to provide HOME funds to a HOME activity set up in IDIS under a 2012 Consolidated Plan/Annual Action Plan Project, a PJ must:

- Underwrite the project or evaluate the underwriting of another funder;
- Assess the development capacity and fiscal soundness of the developer; and
- Examine neighborhood market conditions to ensure adequate need for each project.

Applicability to PJ Activities: This requirement applies to all HOME activities set up in IDIS under 2012 Consolidated Plan/Annual Action Plan Projects, and must be completed before entering into a legally binding written agreement to provide HOME funds.

HUD Implementation: When committing funds to a HOME activity set up in IDIS under a 2012 Consolidated Plan/Annual Action Plan Project, the PJ must certify in IDIS that it has conducted an underwriting review, assessed developer capacity and fiscal soundness, and examined neighborhood market conditions to ensure adequate need for the project. This certification (see bullet (iv) below) is included as part of a broader certification required for all HOME activities in IDIS.

Since the Project Underwriting, Developer Capacity, and Market Need certification (bullet (iv)) is included with other certifications required for all HOME activities, it will appear in IDIS regardless of whether the project involves development activities that

necessitate project underwriting, assessing developer capacity and financial soundness, and an examination of neighborhood market conditions. This certification will also appear for IDIS activities *not* identified as HOME FY 2012 Action Plan projects.

Certification (iv) below is not applicable to an activity that does *not* involve development activities that necessitate project underwriting, assessing developer capacity and financial soundness, and an examination of neighborhood market conditions (e.g., this certification is not applicable to tenant based rental assistance, homeowner rehabilitation, CHDO operating expenses), *or* if the PJ is committing HOME funds to an activity *not* set up in IDIS under a 2012 Consolidated Plan/Annual Action Plan Project. However, the remaining sections of the certification (i.e., (i), (ii), (iii), and (v)) are applicable to all HOME IDIS activities.

HOME Activity Funding Certification

By requesting the disbursement of Federal funds, the representative of the Participating Jurisdiction using this system certifies that he/she is authorized to execute the certifications set forth herein, and, on behalf of the Participating Jurisdiction, further certifies that, in accordance with the requirements in 24 CFR Part 92:

- (i) the Participating Jurisdiction has fully executed a written agreement that meets the requirements of the regulations applicable to the IDIS activity for which the funds are to be used;
- (ii) the IDIS activity for which the funds are to be used meets the definition of a commitment and the requirements of the definition of a commitment pursuant to the regulations applicable to the IDIS activity;
- (iii) the Participating Jurisdiction has not drawn and will not draw funds for the IDIS activity unless it has fully executed a written agreement committing the funds;
- (iv) ***for HOME projects identified as 2012 Action Plan activities in IDIS, if the activity involves acquisition, construction, or rehabilitation of rental or homebuyer projects, including downpayment assistance, the Participating Jurisdiction has conducted an underwriting review, assessed developer capacity and fiscal soundness, and examined neighborhood market conditions to ensure adequate need for the project for which these funds are to be used; and***
- (v) All of the statements and claims made herein are true and correct. Pursuant to 18 USC § 1001, 31 USC § 3729, et seq., and 24 CFR Part 28, false or fraudulent statements or claims are subject to up to 5 years imprisonment and civil penalties up to \$10,000 plus up to 3 times the amount of damages sustained by the Government for each fraudulent act committed.

While bullet (iv) of the certification, which HUD will implement in April 2012, will only be required for HOME activities set up in IDIS under 2012 Consolidated Plan/Annual Action Plan Projects, HUD has proposed a similar requirement in the recently published HOME proposed rule. If that provision is made effective in a HOME final rule,

certification (iv) will apply to all HOME activities funded from all allocations in the future, not just HOME activities set up in IDIS under 2012 Consolidated Plan/Annual Action Plan Projects.

PJ Compliance: PJs must develop and implement written policies and procedures for underwriting projects, evaluating the development and fiscal capacity of developers, and ensuring that there is adequate need for projects based on neighborhood market conditions. PJs may procure the services of a third party to undertake these evaluations. However, the PJ is ultimately responsible for the day-to-day management and oversight of its HOME program in accordance with §92.504(a). Consequently, the PJ must ensure that individuals responsible for entering data in IDIS have the appropriate documentation or written approval from the appropriate staff responsible for compliance to confirm that these reviews have been conducted. The IDIS certification will require the PJ to enter the name of the person responsible for ensuring compliance with these requirements. PJs should be aware that false or fraudulent statements or claims made in IDIS in regard to the PJ's certification that these assessments have been conducted are subject to criminal or civil penalties.

3) **Conversion of Homebuyer Units to Rental Units**

Requirement: Any FY 2012 HOME homebuyer units that have not been sold to an eligible homebuyer within six months of completion must be converted to a HOME rental unit that complies with all HOME requirements for the period of affordability applicable to such rental units.

Applicability to PJ Activities: This requirement is applicable to all HOME activities set up in IDIS under 2012 Consolidated Plan/Annual Action Plan Projects.

HUD Implementation: HUD will consider a homebuyer unit "sold" if the PJ has a ratified sales contract for the unit within six months of completing project construction. For the purpose of complying with this requirement, ***completing project construction*** shall mean that all necessary construction work has been completed and the project has received a certificate of occupancy or other local certification indicating that construction or rehabilitation has been completed and the project is ready for occupancy. (Using IDIS data, HUD will identify HOME homebuyer activities set up under 2012 Consolidated Plan/Annual Action Plan Projects in IDIS that are in final draw and those HOME homebuyer activities with more than 90 percent of the HOME funds drawn yet no draws in the past six months. Reports identifying these activities will be posted monthly on the HOME Reports website (<http://www.hud.gov/offices/cpd/affordablehousing/reports/>)). The FY 2012 HOME appropriation language does not provide HUD with the authority to waive or otherwise make exceptions to this requirement.

PJ Compliance: PJs must monitor all HOME homebuyer activities set up under 2012 Consolidated Plan/Annual Action Plan Projects in IDIS to ensure that there is a ratified contract for sale within six months of completing construction. Units in HOME homebuyer projects that do not have a ratified contract for sale within six months of

construction completion must be converted to HOME rental units and operated in compliance with all applicable rules. Accordingly, HUD recommends that PJs develop or modify existing policies and procedures that take this possibility into account, and identify potential partners in the community with the capacity to manage rental units if this conversion becomes necessary.

4) **CHDO Development Capacity**

Requirement: PJs may not reserve FY 2012 HOME funds to a CHDO for development activities unless the PJ has determined that the CHDO has staff with demonstrated development experience. The PJ must ensure that the current CHDO staff has experience developing projects of the same size, scope and level of complexity as the activities for which HOME funds are being reserved or committed.

Applicability to PJ Activities: This requirement applies to all reservations and commitments of CHDO set-aside funds made from a PJ's FY 2012 HOME allocation in which the CHDO is acting as the developer.

HUD Implementation: Any time a PJ subgrants HOME funds from its 2012 CHDO set-aside (CR) subfund to a CHDO for a project, the PJ must certify in IDIS that it has carefully evaluated the development capacity of the CHDO staff, and has determined that the CHDO staff has the knowledge, skills, and experience necessary to undertake eligible CHDO set-aside projects. .

HOME CHDO Reservation Certification

By reserving these Federal funds, the representative of the Participating Jurisdiction using this system certifies that he/she is authorized to execute the certification, and, on behalf of the Participating Jurisdiction, further certifies that, in accordance with the requirements in Public Law 112-55:

For 2012 CHDO set-aside funds that will be committed to a CHDO project, these funds are being reserved for development activities that are to be carried out by the designated community housing development organization and the organization has demonstrated that it has staff with demonstrated development experience.

PJ Compliance: PJs must develop and implement written policies and procedures for assessing CHDO staff capacity, and ensure that adequate documentation of the assessment is included in the appropriate files. HUD defines CHDO staff as paid employees who are responsible for the day-to-day operations of the CHDO. Staff does not include volunteers, board members, or consultants.

The PJ must ensure that individuals responsible for entering data in IDIS have the appropriate documentation or written approval from the staff responsible for compliance

to confirm that a CHDO has demonstrated development experience. The IDIS certification will require the PJ to enter the name of the person responsible for ensuring compliance with this requirement. PJs should be aware that false or fraudulent statements or claims made in IDIS in regard to the PJ's certification that this assessment has been conducted are subject to criminal or civil penalties.

HUD will issue supplemental guidance with respect to these requirements as necessary, as well as specific instructions for implementing these requirements in IDIS. Any questions on this guidance should be addressed to the local HUD Field Office.

Attachment A