
CHAPTER 1. INTRODUCTION

- 1-1. PURPOSE. This Handbook provides guidelines for HUD field staff conducting Housing Development Grant (HDG) settlement and monitoring the performance of States and units of local government which have received funding under the Housing Development Grant (HDG) program pursuant to Section 17 of the U.S. Housing Act of 1937, as amended, and Part 850 of the HUD regulations to develop or substantially rehabilitate rental housing projects.
- 1-2. DEFINITIONS. Terms and definitions used throughout this Handbook are as follows:
- (a) Monitoring. An on-going process of evaluating grantee performance in fulfilling the requirements of the HDG Grant and Settlement Agreements, and providing assistance when necessary.
 - (b) Conclusion. A positive or negative determination of the grantee's performance.
 - (c) Concern. A problem or potential problem which does not violate the Grant or Settlement Agreements but which is inconsistent with program objectives. While concerns will not provide a basis for corrective actions, HUD may call the concern to the grantee's attention and may recommend actions to remedy them.
 - (d) Finding. A monitoring conclusion that a performance deficiency (i.e., a substantive violation or default) under the requirements of the Grant or Settlement Agreements has occurred, for which sanctions or corrective actions are warranted. Such sanctions or actions are as provided in 24 CFR 850.103, 850.105, 850.107 and 850.155.
 - (e) Settlement. Process involving final determination of the amount of grant earned, the amount of equity in the project and any repayments required from the grantee or private source.
- 1-3. MONITORING OBJECTIVES. The purpose of monitoring is to evaluate the grantee's performance of its responsibilities under the Grant and Settlement Agreements. The primary consideration in the monitoring process is the successful completion of the project as approved and assurance of continued availability of the lower income units for the project term as defined in Part I, Section 1.01(d) of the Grant Agreement. Where performance deficiencies are identified, corrective or remedial actions will be required or sanctions will be imposed. Monitoring shall be conducted for each HDG project during the project term.
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1-4. PERFORMANCE DEFICIENCIES. There are two classifications of performance deficiencies:

- (a) Substantive Violation. A substantive violation is a breach of the owner's obligations under the Owner/Grantee Agreement. During the Project Term the owner shall not permit:
- (1) Conversion of the project or of any portion thereof to condominium ownership or conversion to any form of cooperative ownership which is not eligible to receive a HDG, i.e., which does not ensure that the lower-income units remain affordable to eligible families;
 - (2) Discrimination against prospective tenants on the basis of their receipt of or eligibility for Federal, state or local housing assistance;
 - (3) Discrimination in occupancy on the basis that a household may have minor children living with them, except in the case of a project or a specific number of units identified in 1.01(e)(1) of the Grant Agreement as designated for the elderly;
 - (4) Occupancy in the approved number of lower-income units (by bedroom distribution) as specified in 1.01(e)(1) of the Grant Agreement by other than lower or very low-income households;
 - (5) Leasing of the lower-income units to households who are not lower or very low-income at the time of initial occupancy;
 - (6) Failure to determine tenants income and lower-income rents in accordance with 24 CFR Part 850 subpart F; and
 - (7) Failure on the part of the owner to take appropriate action in accordance with 24 CFR 850.151(f) in the event income reexamination indicates that the tenant no longer qualifies.
- (b) Default. A default is a breach of the grantee obligations or those of the participating parties as set forth in the Grant Agreement or the HDG regulations. Defaults include, but are not limited to the following:

- (1) Use of grant funds for purposes other than:
 - (i) those specified in Parts I and II or Exhibits A, B and C of the Grant Agreement; and
 - (ii) for residential purposes to provide the number and bedroom distribution of units on the approved site as specified in Section 1.01(e) of the Grant Agreement.
- (2) Use of funds for administrative costs incurred by the grantee;
- (3) Use of Program Income obtained prior to completion of construction for purposes other than to reimburse costs incurred for project activities, including rental assistance after construction;
- (4) Use of Program Income obtained after construction for purposes other than to support the new construction, rehabilitation or operation of real property to be used primarily for low- or moderate-income residential rental purposes, including cooperative and mutual housing;
- (5) Use of funds recovered due to breach of an owner's obligations (substantive violation) for purposes other than those eligible under Section 17 of the U.S. Housing Act of 1937, (i.e., Rental Rehabilitation or Housing Development Grants);
- (6) Breach of any covenant, agreement, provision or warranty made by the grantee or between the grantee and any participating party as specified in Exhibits B, C, D and E of the Grant Agreement;
- (7) Failure to ensure a minimal time lapse between draws against the U.S. Treasury Letter of Credit and the use of the funds and that such draws are made only for eligible costs in accordance with the leveraging ratio. (See Appendix 4, December 5, 1985 memorandum, "HDG Program Policy, Construction/Drawdown Period");

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- (8) Failure to establish procedures and to identify and notify the owner of actions necessary to correct any substantive violations in a timely manner as specified in Section 12.03 of the Grant Agreement;
 - (9) Failure to make best efforts to comply with Exhibit B

of the Grant Agreement and assure project completion and continued operation. Such efforts shall include legal action, if necessary, to enforce the owner's obligations under the Owner/Grantee Agreement; and

- (10) The unauthorized commitment of HDG grant amounts by the owner, grantee and/or other participating parties before HUD approval of the Grantee's Request for Release of Funds and Environmental Certification.

1-5. TYPES OF MONITORING: The state/area office staff will perform four types of monitoring reviews as specified below.

- (a) DESK MONITORING PRIOR TO PROJECT SETTLEMENT. Desk monitoring shall be conducted by the state/area office staff on a semi-annual basis until the project development is complete and settlement has occurred. State/area office monitors shall rely upon the Grantee Progress Report, other program documents, and miscellaneous information from participating parties, citizens, and other HUD staff to determine whether project development is in compliance with the approved application and the Grant Agreement.
- (b) ON-SITE MONITORING PRIOR TO SETTLEMENT. On-site monitoring shall occur at least once during the construction period. It will consist of a visit to the project to review both project files and the Environmental Review Record documentation for completeness and adequacy and to inspect the site for conformance with the approved application and Grant Agreement. The on-site monitoring will also evaluate the grantee's performance in overseeing the grant by examining its record keeping systems and tenant eligibility and rent determination mechanisms.

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- (c) PROJECT SETTLEMENT. The purpose of project settlement is to close out the Federal funding and implement a Settlement Agreement with the grantee after development activities have been completed. Project settlement ensures that all development obligations of all participating parties are met and that HDG funds disbursed are the "least amount necessary." The state/area office reviews documents submitted by the grantee as a part of the project settlement process. If the grantee fails to initiate project settlement in a timely manner, the state/area office will initiate and, if necessary, assume the grantee's responsibilities.
 - (d) POST SETTLEMENT MONITORING. After settlement, the state/area office staff will monitor to ensure that the grantee fulfills

its oversight responsibilities with respect to the continued availability of the lower-income units and other ongoing requirements of the Grant and Settlement Agreements. State/area office staff conducts monitoring once every two years during the first four years after project settlement and once every four years thereafter through the project term unless otherwise determined by the state/area office Housing Director or state/area office Multifamily Division Director.

- 1-6. ORGANIZATION. Chapter Two addresses the management of the monitoring function. Chapter Three describes desk monitoring prior to project settlement. Chapter Four provides guidelines for on-site monitoring prior to settlement. Chapter Five covers post settlement monitoring. Chapter Six covers project settlement.