HOME Monitoring Series

Homeowner Rehabilitation

Tuesday, May 11, 2021

Kris Richmond: Everybody, we're glad that you are all here again with us today. It is Session 9 so we've all been together for a couple of weeks. If you only really do Homeowner Rehab and that's your only job is your first time joining us during these sessions, thanks for being with us this afternoon.

My name is Kris Richmond and I work for ICF and I'm joined by Les Warner, and also Monte Franke, whose name is not on there. So Les is going to be my co-trainer today. And then Monte is going to be answering questions and sharing his deep program knowledge and wisdom and experience. And you'll hear a little bit from Monte as we go along today as well.

So just to remind folks where we are, we have been doing this for a number of weeks. Today is the last of our Homeowner series. So we're doing Homeowner Rehab; on Thursday will be our last session of rental. We'll be doing the Long-Term Rental Compliance. We're going to refer back to a couple of these other sessions.

So if you did miss any of them, I know the first four are actually posted on the HUD Exchange. They're working to get the other ones posted as soon as possible. We do need to have transcripts written and they have to be 508 compliant so sometimes it takes a little longer than we anticipate to get them up.

But I do know that understanding monitoring program oversight, CHDOs and oversight of program partners are all posted. So if you did miss those, you are able to go back and take a look at those, and really appreciate the investment in time that you're taking today for this training.

So today, we're going to talk about how HUD will monitor PJs for compliance and the requirements for homeowner rehab, or you might hear us refer to as owner occupied rehab. So we use those terms interchangeably. We're going to be telling you what do you need to know about homeowner rehab monitoring and what is HUD going to monitor you, or what are they going to be looking at, what do they expect to see in your file? If you're working with program partners, what do you expect to see in their file?

We're going to be reviewing the monitoring handbook so we're looking at Exhibit 7-26. And we're really going to be going over what are the requirements? And what are the policies and procedures you have to have in place? Have these been with us along all these different sessions? You'll have heard the three of us refer to the policies and procedures a lot. HUD is really focusing on the policies and procedures. They want to make sure that you have complete and adequate and compliant policies and procedures so you'll hear us reference that quite a bit.

We're going to go over what the required documentation is to show that you've actually met compliance, so what needs to be in your file and then we're going to look at program design considerations for homeowner rehab. So beyond the requirements, what are some additional policies that the PJ might want to consider, and its program designed to ensure that the homeowner rehab program is compliant, and then it's running smoothly.

And then we're going to end our session by going over some recommended steps that you can follow to help get ready for your HUD monitoring. There might be a couple different acronyms that you may or may not be familiar with. We use the term PJ a lot that's participating jurisdiction. That's the entity that's receiving the HOME funds directly from HUD in our state, or a state or a city or a local government or a county.

We'll use the term IDIS, that's the Integrated Disbursement Information System, that's where you set up your project and do your draw downs and do all your reporting. And IDIS will refer to CPD and the CPD notices, so CPD is community planning and development. That's the opposite HUD and then there's a lot of notices that come out so we'll refer to the CPD notices.

And then the HOME rule that 24 CFR 92 and you might hear us refer to 24 CFR 200. That's the uniform administrative requirements for federal grants. Those replaced all the OMB circulars and the 84 and 818, 22 and 83, about four or five years ago, so you'll hear us refer to 2 CFR 200, as well.

So the requirements we're going to talk about today apply to the entity that's administering the homeowner rehab program. So this might be the PJ, it might be the subrecipient, it could be a state recipient, or could be a contractor. But regardless of which entity administers the program, the program has to comply with the HOME requirements that we're going to discuss today.

And if you're working with a partner, you do need to ensure that they're following the homeowner rehab requirements that's what we're going to talk about today. But you should also go back to the sessions that we did on April 22nd, the oversight of program partners and written agreements. Let me go back and show you that one. Where is it? Right here. April 22nd.

So if you have a partner that's running your homeowner rehab program and you missed this session that we did on April 22nd, go back and listen to that because that's going to be also important for you to follow -- to be able to do the oversight and make sure that your partner is in compliance as well.

And you would use Exhibit 7-34, 35, and 36 for monitoring your partner. So let's take a minute so that you can tell us a little bit about you. If you could answer one of the options and push the [inaudible], so we know who's joining us today, that's really helpful for us to see. If we were all together in a classroom, I'd say raise your hand.

But since I can't see you, if you could just go ahead and there should be a poll that showed up on the right hand side of your screen, if you could just click how many years of home monitorings you have with the Homeowner Rehab Program, that's really helpful for Les and Monte and I to get a sense of who's with us today. So go ahead and pick the one that's most applicable to you so we can see who's with us.

So Medora, we're able to see the results. All right, so looks like we have about 1/3, that's less than a year. So it's a couple newbies, and then the rest is split between one to five years and over five years. If you are super brand new, we highly recommend that you go to the self-paced online building HOME training. We do have a slide about this at the very end so if you need a lot more in depth information, that's a good resource for you to go to.

We do consider this a more advanced training so we're not going to go into great detail about the requirements. We do expect there to be some level of knowledge about Homeowner Rehab Program, but please feel free everybody to go into the Q&A box when you do have questions about the content to go in and write what your questions are because we are going to try to answer as many of those today as we can.

So let's talk about the regulatory basis for the HOME Homeowner Rehab requirements. So in the HOME Final Rule, section 92.254 contains the core requirements related to HOME ownership. And then sections B and C relate specifically to homeowner rehab provisions. And specifically, they address the maximum property values of the homes and that the PJ can assist, remember, we're assisting modest housing.

Also covers the principal residency requirement for the owner, and then also we're going to discuss the ownership interest, the work form of ownership must the owner have in order to be eligible for home funded homeowner rehab program.

And then there's a lot of other regulatory references in the HOME rule that apply to homeowner rehab. So the PJ has to comply with all of these. So generally, these are other requirements that are related to ensuring that the participants are low income, that the costs are eligible, that the costs are reasonable, that the property is decent, safe and sanitary at the end of completion and that the PJ is following the home administrative requirements.

And the exhibit we're reviewing today 7-26 includes questions on all these different requirements, and then the PJ needs to successfully implement and document compliance, each of these, so we'll go through what these are. So the CPD Monitoring Handbook includes each of the exhibits that HUD uses to monitor its programs. HUD refers to its exhibits unlike [inaudible] refer to them as a checklist. But if I say checklist, I mean the same thing as the exhibit.

So this picture shows 7-26. This is the one for homeowner rehab. This is also -- we have the link for this at the very end. You can get to it from the HUD Exchange and it's housed on HUD clips. So the exhibit is 30 pages long and it has 47 questions and these questions address how the PJ administers its program, whether the PJ has specific policies and procedures that are required by these regulations. And whether the project files have documentation that shows the PJ has complied with all the HOME requirements.

And then you'll see on our slides as we go through today, let me see if I can put a different color in here to show you. So I'm highlighting this in yellow at the top. You'll see as we go through the slides, there'll be question numbers at the top of each slide. And so these are the slides -- I'm sorry, these are the numbers that reference back to Exhibit 7-26, it'll tell you, this is question number five, or we're talking about question number 22.

So you can go back later and check on the exhibit to find out more information about that question. We're not going to have these questions go in numerical order. We are actually going to be following how a program or a project is implemented but you can reference back now that you have the question number on these slides to go back and look at the actual exhibit.

Great. So this slide lays out how the topics are organized. There'll be groups of 47 questions and we put them into three subgroups. So the first group, marketing and participant, selection group, this is the marketing to find the applicants, selecting your owners to assist in helping to determine eligibility.

Then we're going to look at the property and the project selection so we're going to determine if the property is eligible for assistance and then we're going to look at administrative requirements. And these are the mechanics of providing the HOME assistance through your homeowner rehab program. So these are all the different regulatory requirements.

And then, after we review the regulatory requirements, we're going to talk about program design. So to run an effective Homeowner Rehab Program, there's many policies that the PJ needs to establish that are not actually requirements. So this may define how the PJ will target HOME assistance, and it should reflect its specific decisions for how it's going to administer its local program. So we'll spend some time after we go through the regulatory requirements going through program design.

So let's walk through each of the requirements and we're going to identify what the requirement is, identify specific policies and procedures that are required, and identify what documentation you need in your file to show compliance, to show that you actually met that requirement. So as we proceed to each to the topic areas, we will not address each question, but we're going to summarize it in these three different categories.

So we're going to talk about requirements. So we're just going to do a quick summary so you know enough of what that question actually means. We're going to talk about the documentation, this is what needs to be in the file, so that you can actually prove that it happened. And then sometimes we have a section called the compliance review. And this is really a judgment that HUD would need to make based if I'm looking at these things with that compliance, whether it meant it or not.

And so these headings can also be identified by the colors that you see in the slide. So we'll have the requirements in orange and the documentation in green and, if applicable, the compliance review, that'll all be in blue. So if you've been with us through the last couple of weeks, this is still the same as all the other webinars.

So first, let's take a look at the specific requirements that apply during the marketing and participation selection stage of the rehab process. So together, they make up all the required steps that a PJ has to take to determine if an owner is eligible, but both the owner and the property has to be evaluated before the PJ makes a commitment of HOME funds and this should be documented in the file of the review of the PJ or the PJ's partner.

So let's look at marketing and participation selection. So first, we're going to start with affirmative marketing. So the PJ has to adopt an affirmative marketing plan and the goal of that plan is to ensure that those least likely to apply know about the benefits of the Homeowner Rehab Program, and that those least likely to apply are also able to apply for an access, these opportunities they're being made available by the PJ through its Homeowner Rehab Program.

So what's the documentation? You would have a copy of the PJ's affirmative marketing policy; you would have documentation of any outreach activities. So if we were in normal times, we would have in-person housing fairs, community meetings. We're going to start to get to more normal times, I'm hoping in the next couple of months so as these things start to happen, as you start to have community meetings and housing fairs, you want to have documentation that these actually took place and put these in the file as well.

And then the documentation should be showing the steps that the PJ's plan were being followed. And I do want to show you over here, if you are responsible, if you're monitoring for compliance through affirmative marketing and the record keeping and the data compilation, you're going to be using Exhibit 22-3, the Guide for Review of Civil Rights, and that'll help you look through and see what needs to be determined for the compliance of the data.

So let's talk about income determination. All HOME assisted households must have income that are at or below 80 percent of area median income at the point of assistance. And so for homeowner rehab, the point of assistance is when the household is approved to receive assistance and this has to be done within six months of when the household receives assistance.

So you need to choose a definition. On the HOME program, we have the Section 8 Part 5 definition or the IRS 1040. You need to choose one of these definitions to be used throughout your program and then there needs to be the determination of the household income. So we're doing this calculation based on the current income and any anticipated expected changes in the income.

And this could be raises, it could be overtime, so we're looking at anticipated income. We're not basing this on an average of past year's earnings so that's really important for you to understand that we are looking at anticipated income. We also need to make sure that we have identified all the household members because income is based upon household size. We want to have how many household members are going to be residing in this house, or the unit and then we're going to verify with source documentation. And what do we mean by source documentation?

On our next slide here, we have some information on source documentation. This could be your pay stubs, unemployment compensation statement, statement from another income-based program, maybe SSI. So that's on my source documentation and we have to have two months of source documentation in the file.

We also need to have a copy of the application and so the application, this is where we're going to find out the household size, and also what they listed their income, we are going to take other steps to determine that income but that's the starting point for us. We'll also want to have in the file a worksheet or analysis, or if you're using the income calculator, the CPD income calculators on the HUD Exchange, you want to have that print out, this is going to show that the household income was determined correctly, to have that type of analysis in there.

And then for all projects, we need to make sure that we're using the same definition of income. So did you decide to use Section 8 Part 5 or using the IRS 1040, making sure it's the same definition being used for all of the projects for your Homeowner Rehab Program. And then from the compliance review, again, we're checking to make sure that the household size was compared with the income limits, the income limits are published yearly.

And income limits were recently published a couple of weeks ago and they will be put into effect in June. And then we also want to make sure that we looked at anticipated income, all the household members were counted, and that the analysis was done within six months of funding commitment.

So we did want to make sure that this was done currently, if more than six months has passed from you doing their income review in that household receiving assistance, we would need to do the income determination again, so we want to make sure that that timing is being met. So now let's look at specific requirements that apply during the project review and selection stage of the process.

So we're going to focus on the requirements related to the property and its eligibility for HOME assistance, and the PHA must ensure a unit or the home complies with these requirements before it commits to providing HOME assistance. So eligible form of ownership. So before committing HOME funds to a project, the PJ has to verify that the property is actually owned by the applicant.

And the applicant -- there's a number of different forms of ownership. The most common form you see is fee simple title. This is the most common one. PJ's may run into a number of other ownership situations and this list provides approved forms of ownership for the HOME program. So you might run into some of these other forms of ownership.

So for properties with complicated ownership issues, such as inherited property with multiple owners, who might not reside in the property or life estates or an inter vivos trust or beneficiary deeds, the homeowner provides guidance at 92.254(c) about these other types of ownership, but the key thing is to determine whether the occupant is low income and are they living in the home as their principal residence.

So the PJ's file must contain a copy of the title search or recent search of records for the property, so we need to have this title search or the record search documentation of that in the file. We do want to let you know the copy of the deed alone is not sufficient documentation. The property must be the owner's principal residence.

And for the documentation, there's a couple of different ways this can be documented. The most common I see is the owner self-certification, though many PJs require having the owner attached to this being their principal residency. Sometimes it's in the application, sometimes it's a separate form that's signed. Other PJs may use utility records or tax records to ensure that the household -- that the name in the utility records, the tax records match the household's application.

And the PJ's policies and procedures should specify how the PJ is going to document principal residency in their policies and procedures. How are they going to meet this? Are they going to do owner certification, are they going to be checking different kinds of records? This needs to be identified in the PJ's policies and procedures for them to be able to meet compliance.

So all of the requirements have to be met before the PJ can make a commitment of HOME funds. And the PJ can impose additional requirements to tailor its program to meet local needs. So any type of housing is eligible in the homeowner rehab as long as the property is considered single family and in the HOME Program, we call single family one to four units, or it's a cooperative, and this would be in a state where cooperative has identified its ownership.

There are some states where cooperative is identified as a rental. So if you live in a state where it's considered rental, you would not be able to use the cooperative property for homeowner rehab. But if you're in a state where it's considered ownership, and it would be eligible, as well as condominiums.

So single family and cooperatives or condominiums are eligible types of housing that you can use for your Homeowner Rehab Program. They do have to be checking to make sure that the after-rehab value of the home is less than or equal to 95 percent of the median purchase price. And the PJ can identify this in two different ways. Most PJs use the HUD-issued value limits to determine the 95 percent of median purchase price. These value limits are published by HUD.

But if the PJ doesn't think that the HUD limits represent their local market area, they can conduct their own market analysis, but it must be submitted to HUD, it has to be approved by HUD before it can be implemented. So you're either using the HUD-issued limits or you're doing your own market analysis, but again that has to be submitted to HUD and approved in advance before being able to use.

You also need to be meeting the environmental review compliance or any site-specific requirements. If you need to look more at environmental review, you can check out Exhibit 21-1. So for the Homeowner Rehab Program, there might be a program wide release of funds and a tier 2 reviews for specific properties, but the project cannot move forward until this process has been completed.

So for documentation, the file has to document that the property complies with each of these property requirements. And in your policies and procedures, you're going to identify which method did you use to determine the after-rehab value. And again, this is done before we're committing HOME funds.

We're not determining after-rehab value after-rehab, we're determining it before we've done any work on the property. We're trying to determine is this property actually eligible because we're going to use modest housing for our Homeowner Rehab Program. So three different ways that PJ can determine this, they should choose one and put it in their policies and procedures and follow it, most common receives an appraisal.

So you have a work write-up, the work write-up is handed to an appraiser and the appraiser does an appraisal based upon what would the value be if this work was conducted. So that's the most common so you would see a copy of their appraisal in the file or you could decide to do an estimate of value by qualified PJ staff.

So your staff would need to have to understand the value that may be added to a property after-rehab -- this had been conducted so that's another method that could be used or tax assessment could be used, but it's looking at the market value of comparable post rehab units. So any of these three methods are eligible through the HOME program. You need to decide which one you're going to use and that should be in your policies and procedures, and then documentation to support that needs to be in the policies and procedures -- I mean, need to be in the file.

So then we need to show that the value limits, so we need to have a copy of those value limits for that particular year that we're trying to determine that we're not exceeding those value limits. If you did do your own analysis, there needs to be evidence in your program file but what the methodology was followed that it was published in your action plan, and there's evidence that it was approved by HUD.

And then from environmental review, this RE, that stands for Responsible Entity. So for environmental reviews, you need to have a responsible entity copy of the request to release the funds and then any evidence of compliance of property specific requirements. And then if the property is in a floodplain, we need to have a copy of the flood insurance.

I do want to note that a program may decide to limit assistance and not provide assistance in a flood zone area or a floodplain area or they may decide we are going to do work in a floodplain area and we're going to elevate the units, along with maybe providing protection of systems such as the HVAC system for future damage. So that's up to your program design but if you do decide that you are funding properties in a floodplain, you do need to have a copy of the flood insurance in the file.

So the PJ has to adopt written rehab standards and this written rehab standard, those details, the methods and the materials and the requirements that the home must meet upon completion. And the standards must include certain elements as listed in 92.251 and it must incorporate any applicable local and state codes or national rehab standard. It also has to address health and safety concerns; it needs to incorporate [inaudible] as well as accessibility requirements.

We also need to be looking at our useful life of major systems. And so what do we mean by major systems? So a major system is a structural support, it's roofing, cladding and weatherproofing, plumbing, electrical heating, ventilation and air conditioning. That's what I mean by a major system, right? So major systems must be replaced if the remaining useful life is less than five years. So this has to be part of the rehab write-up if it's not going to last more than five years, then it has to be replaced.

A PJ can adopt stricter standards. Maybe they want to have a useful life of eight years of major system or a PJ can set system specific standards. So maybe they've set a standard where the HVAC system has to have a 10-year useful life. So this would all be decided in your property standards, what your useful life and major systems would be. And then the PJ must have an inspection policy.

So at a minimum, the inspection policy has these three different parts. So first is the pre-rehab, that's your initial inspection to identify what the deficiencies are and this is what's necessary for you to develop that scope of work. And then we need to have in-room inspections. This is where typically they're tied to draws or invoice requests so as you go through or you want to make sure that the work was done, and it's meeting the standards, and then we need to have a final inspection and this final inspection is ensuring that it's met everything in the work write-up and it's met all of the rehab standards and the state and local codes as well.

And then you do need to ensure that your inspector is meeting their minimum requirements or that they've had proper training, that they understand the property standards and construction practices. And then we have this property standard tools, this same tool that we've had throughout the sessions. Let me just get to this one. So we're looking at rehab. I'm scrolling down a little bit. You may need to scroll down as well using that gray box.

So for rehab, we've listed a different property standards here for rehab and what the documentation is as well so it's another resource you can go back and look as well. This is one of the handouts that was provided to you in the link where you found the training slides as well. All right, so to document your property standards, I've been talking about these policies. You need to check the policy to make sure it identifies what the written rehab standards are as well as the inspection policy.

And then for each project, we need to be looking at the contract and the scope of work. We need to make sure that the approved work write-up is in there and that the initial inspection, progress inspections, final inspections were conducted, all that documentation needs to be in there, that we have to be able to show that it's meeting the major systems with the useful life. If their useful life is less than five years then it's replaced or if you have more stringent requirements that you're following your more stringent policies.

We also need to have -- if there were any life-threatening deficiencies that were identified during that inspection, that they are addressed immediately. If you live in an area prone to disasters, floods, fires, hurricanes, that type of thing, that you are providing disaster mitigation within your codes and standards.

And then for any pre-'78 housing, you need to make sure that you are following the Lead-Safe Housing Rule subpart J for rehab, and you would look at Exhibit 24-1 full Lead-Safe Housing Rule compliance review. And Les and I are going to be teaching the Lead-Safe Housing Rule subpart J and subpart K starting next week. So if you have not signed up for that yet, go to the HUD Exchange and you can sign up and learn more about the Lead-Safe Housing Rule.

So lastly, we're going to talk about procurement and cost reasonableness. So the PJ has to determine all the home -- that all the HOME costs are eligible and that they're also reasonable. And so many programs use a bidding process based on the scope of work to ensure that the cost is reasonable. And as part of this bidding process, the PJ typically conducts an internal estimate to establish that the estimate is cost reasonable.

So if a PJ is selecting the contractor, they do need to follow 2 CFR 200 for procurements that starts around 200.317 that's covered for state. 318 is general procurement standards, 319 is competition so you want to look in the 300 for procurement. And then if the owner selecting the contractor, then the Federal Procurement rules do not apply, but the PJ has to ensure that the costs are still reasonable.

And you can look at Exhibit 7-34 and 34-3 for a review of the program requirements for procurement. And then for documentation, we need to make sure that there's a copy of the cost estimate we're looking to see that's eligible and it's reasonable that there was a review that was done. We want to look at the work write-up, we want to look at the general contractor contract that's what GC stands for, and the final project budget we want to make sure that they're being consistent with what we're going to pay for.

We want to look at the budget to make sure our HOME funds are being used for eligible costs. And then if the PJ had to procure the contractor, that they followed all the federal procurement rules, and that they're following the policy and determination with me that that policy was actually followed. So Les, is there any questions that have come up or Monte, in the first two sections of the requirements?

Les Warner: Yeah. So we have some questions that are relating to loans on these and affordability periods. And so the key here is that, of course, homeowner rehabilitation doesn't have within the home regulations a requirement for an affordability period. So it's very common, if not normal for PJs to impose that as part of their program design.

And we'll be talking about that a little bit in the second half of this. But I just -- my general comment would be, keep in mind that you need to follow what your policies and procedures are that you have adopted not only covering the HUD regulations but also your own program design. So things that are your rule, not HUD's rule, you do have the ability to waive, but you need to be consistent, and your policies and procedures would describe that.

So we had a question about, I've adopted a 20 year, sounds like a payment term for a loan, can I reduce that to 10 years? Those things you have the flexibility on but you need to be consistent on that. We also had questions about using the term "recapture" or "resale provisions," can they be different so that's a homebuyer provision.

So you have the flexibility under homeowner rehab to adopt whatever program design you choose to do, these could all be grants, but generally we see them as a deferred forgivable loan or they could be an amortized loan. But that would all be spelled out as part of your program design, and then detailed in your policies and procedures which you then would follow in implementing that. Monte other things from your list that you think we should raise here?

Monte Franke: Yeah. I just want to re-emphasize the point of the -- of this program does not trigger resale recapture provisions, if it does not trigger the affordability period. So again, what you define in terms of notes and mortgages and what they pay back, everything else is all a matter of local policy and I agree with you on that.

Another one that I saw that I just want to mention briefly is affirmative marketing came up as a question on that, and the affirmative marketing, Kris covered that and she mentioned that those -- there are requirements, make sure you look at 92.351(a), there are five specific things required in there. The one thing she was not mentioned that was not on the slide was that you're supposed to be evaluating the results of your affirmative marketing procedures as well.

So working with you -- if it's you running the program or your subrecipients, you should plan to do that on a regular and ongoing basis. And then we get a lot of questions on title, legal ownership, things of that nature. We aren't lawyers and aren't going to answer questions about what is okay, you've got to establish that the occupancy applicant has the ownership interest. Ownership on the homebuyer side is described simply as fee simple or long-term ground lease. But HUD gave you those four other options that Kris went through --

Kris Richmond: Les, can you still hear Monte?

Les Warner: I cannot.

Kris Richmond: I don't either. Okay. Monte, we can't hear you --

Monte Franke: I'm sorry. I accidentally hit the mute button with my arm. I just wanted to -- I don't know where I cut off. But the other four options of ownership under homeowner rehab are there to deal with situations, usually parent and child relationships of one sort or another, where either the current ownership or the future ownerships been conveyed for the benefit of the person that's occupying.

Make sure you follow those requirements that are in 92.254(c) and it doesn't -- if your ownership situation doesn't fit one of those, I would urge you to seek advice from HUD because you do need to establish homeownership within the regs.

Kris Richmond: Great. Thanks, Monte. Les, anything else before we hand things over to you?

Les Warner: No. I think we can move ahead.

Kris Richmond: Okay.

Les Warner: Kris is handing off the controls to me. And I'm going to move the slide ahead. And I'm the presenter. Hallelujah. All right. Let me just get set up with a pointer so I can try to be as interactive as Kris is. She's very good with marking things. So we're now going to be covering the administrative requirements as we move along here.

All right. So our home subsidy amount. So you probably recall, we have minimums and maximums. So the minimum is $1,000. Probably not hard to meet in this but you also then need to be tracking and making sure you're in compliance with the maximum HOME subsidy. Now, I would think many of you probably have set your program limits lower than that maximum so whichever of those is more restrictive, but in meeting the HOME compliance, you're going to have to be able to show that you were tracking and making sure that your program was going to be in compliance with that.

Also, you're required to have the subsidy provided in an eligible form. So things that will be included in that would be things like grants, deferred loans, and amortized loans which is what we typically see as part of this. So for the documentation, you're going to need to show that you've got a work write-up and then it would be, I think, helpful to have something that shows that you actually did a comparison.

So before you signed on the dotted line is that at least $1,000 is it within either the maximum HOME subsidy or if you have a more restrictive program limit, then making sure that you compare that and so have documentation on that. And then also, keep in mind that over time, you might be executing change order. So also, you would have to watch with change orders to make sure that you still were within those subsidy limits.

So typically, as part of this documentation, we want to see a paper trail that shows that you knew what the requirement was in the [inaudible] process, to be able to compare that as opposed to, I accidentally was in compliance, but I wasn't really checking so looking for some process and documentation as part of that.

Your program can provide, it doesn't have to, but it can provide refinancing as part of your Homeowner Rehabilitation Program. So the rules on this, it only can be done when refinancing is going to make that unit more affordable for that household and really the driving force in this is the rehab and so the larger costs in this are going to be the rehab versus funds that are being used to refinance existing debt.

We don't see a lot of refinancing being done under homeowner rehabilitation but you can certainly see how that might help to make a unit more affordable. So if you are doing refinancing, then within that documentation would be your review of that project, your determination on how this is going to make it more affordable for that household we'll mention, I think at another slide or so that if you're doing that in terms of the loan, that you'd have to underwrite that to make sure that it was going to be affordable for folks.

So when you're making a commitment of funds, you need to be able to evaluate each of those projects and have a process you're going to follow through to make sure that all other sources of funding are secured. And so we sometimes see where perhaps we determined that the needed amount for rehab is $40,000, you have a program limit of $35,000, and you're getting another $5,000 from another local source, we would need to make sure that that was all the sources and uses were in place and have been secured.

If you are providing this in the form of an amortized loan so meaning that they are going to make loan payments, then we need to make sure that this is going to be affordable for folks. So in the case with an amortized loan, then underwriting needs to be done and that evidence would be part of your commitment requirements that it was going to be affordable based on your policies and procedures as part of that.

If we've got other funders, we want to see that we've got written funding commitments, that we're doing a subsidy layering to make sure that it's an -- we're putting in an appropriate amount. Keep in mind that of course environmental review requirements are going to apply as part of this. We also need to make sure that construction is going to start within 12 months. Probably not a big issue with homeowner rehabilitation programs, but that would be part of our evaluation and review in making that commitment.

So the documentation that would be in place would be evidence that you've gone through that review of the proposed project. If triggered, also that would include the underwriting review as part of that. So all those sources and uses, your cost analysis on this. If you're doing underwriting that will be part of that. If there are other funds that are being included in that, then those funding commitments would be part of that file and include your subsidy layering analysis on that.

So also evidence of your environmental review process. For a lot of homeowner rehabilitation programs, you might well be doing a program wide, they'd be doing a tiered review, where there's a program wide review and release of funds and then there's a tier 2 checklist that's going to be executed for each individual property, that would be evidence within your files as part of that. And then also a schedule on documenting that work is going to begin within a 12-month period.

We also need to have a written agreement that's in place with the beneficiary. So the PJ would be executing a written agreement with each of the homeowners. And that might be a subrecipient, state recipient that's working on behalf running the program on behalf of the PJ, that there's going to be a written agreement with each of the homeowners.

Those agreements have required provisions. We'll be talking about, I think on the next slide and that project has to be set up in IDIS after that written agreement has been fully executed. So the documentation in place, we're going to need to see that written agreement in each file. It would include all the required elements. Would be fully executed? And then to show that we have compliance, we'd need to be able to double check and see that the date that's set up in IDIS, occurred after that grant agreement had been fully executed.

So just keep in mind that we may have mortgage, promissory notes, mortgages that are going to be executed, those can be executed later but it's that written agreement with the homeowner that is the trigger here. We have had programs that in the past were not meeting this because they simply had they got an application from the homeowner, and they executed promissory note and mortgage without having a written agreement, that's not in compliance with this. You need to have an executed written agreement with the required provisions for each of those homeowners.

So those required provisions, they're found at 92.504, in Section (c)(5)(ii) and so that we need to have signatures by both the PJ and the owner, those will have dates with them, there will be an X estimate of the after-rehab values, because Kris talks about the fact that we need to make sure that these are going to be modest and so that's one of our requirements.

That written agreement would include language about the principal residency requirements, the amount of assistance that we're providing the form to grant loan, the scope of work. So a lot of times the scope of work would be an attachment to that written agreement, and then the property standards would be called out as part of that, and also the expected completion date would all be part of our written agreement and those required provisions that would be expected to see there.

So HUD would likely be pulling some of those written agreements and reviewing them to see that the standard template that you were using did include all the required provisions as part of that. Let's talk a little bit about timelines. So we know that we have a four-year timeline from the point that we commit funds to getting that project completed. There is the possibility if HUD approves it, if you request up to a one-year extension.

We don't typically see that under a homeowner rehabilitation program, I would say we're more likely to see projects being completed within six months to maybe 12 months at longest. But now that the four -year project completion rule does apply. The PJ is also required to enter the project completion information within IDIS within 120 days of final project draw.

So the compliance review on that would be making sure that the PJ's programs are meeting that four-year commitment if they have a one-year extension in placement that could go up to a five-year period and also double checking that IDIS, that information has been updated within IDIS within 120 days of final draw.

That's one of the things that PJs can use some of the IDIS reports to just check the status of files and make sure that they're up to date on getting that information into the system. So record retention. Our records are how we're going to show that we followed and met all these requirements, that we followed our policies and procedures so having those records in place is really important.

So records have to be retained for five years after project completion and so in this case, we don't necessarily have an affordability period, in some cases, you may have imposed them. And so that written agreement needs to be in place for five years after termination. Files need to be done -- so our compliance review, seeing that those files are in place, that they are being held for that schedule of time, and that the written agreements are retained five years after the agreement terminates. So a record retention system is necessary to make sure that you're going to meet this requirement.

So we're going to take a quick poll here. So when HUD monitors the homeowner rehab project, what documents might it review, and then select all that apply? And the poll is now up so if you can go ahead and do that, and then hit the submit button when you're done with that. All right, the poll has ended and here are our results.

All right, so you were to mark all that apply. So A), the homeowner's application, pay stubs, household size, that's definitely something that needs to be in there because we're documenting that they are an eligible household and collecting a lot of the details. B), the agreement of sale when the homeowner purchased the property originally, not something we need as part of that.

I suppose that could be a local program requirement but our principal residency is going to be based on a title search that needs to be done as part of that. Kris mentioned that having the deed alone is not going to be adequate. We're going to do a title search and verify that they still own that property.

C), is something we need the appraisal or PJ estimate of our homes after-rehab value because you have to have the basis to be able to show that you're within those requirements, and then of course, environmental review is something that is going to apply. E), we don't have a threshold that the neighbors think that the owners are responsible, homeowner, thank goodness, that would really complicate things.

So the correct answers here are A, C and D. All right, so we've covered the HOME requirements themselves and now we're going to talk about program design considerations. And I guess I would say, from years of running homeowner rehab programs, because homeowner rehab has in some ways fewer requirements than some of our other activities, we don't have long-term affordability requirements that the PJ particularly under homeowner rehab really needs to think about, how do I want my program to operate?

Who do I particularly want to serve and so what are my requirements going to be? How am I going to -- in a lot of cases, you're going to have a lot more demand than you will have funds available so this becomes a pretty important section for this. So some of the key questions that need to be as part of the PJ's decision on this, if thinking about, what are we trying to -- what's the need that we're trying to address when we address this as part of our consolidated plan, and know who are we going to serve at what level? What are we trying to do?

So we could be targeting this very specifically to particular neighborhoods and pairing that with other investments so we might be doing homeowner rehab and doing some infrastructure work using CDBG funds within that neighborhood or we might be doing this as a city wide or county wide program.

So thinking about the targeting, what kind of impact are we looking for, and that would be part of our upfront design. And then thinking about, we've got low income owners, how are we going to market this program? How are we going to target this? Qualifications can be further restricted. In most cases, we're going to have more -- if we're effectively marketing this, we probably are going to have more demand than we have funds available.

So this could be first come first serve, if that's the case, then is it first application in the door? Is its first complete approved application? In some communities, there's a great deal of demand, and they're doing a lottery on this but you also could choose to make some priorities. And so maybe we are prioritizing particular levels of need or particular neighborhoods as part of this so that we're going to do some rating and ranking as part of this process.

Also, as part of that, we'll be thinking about, you're going to have an open window for taking applications but that's usually what's done with first come first served, or might you do rounds, where you're going to take applications for a period of time, and then all those applications will be rated and ranked and then you'll work your way through based on those priorities that you've put in place.

You also need to make sure that you are appropriately marketing this. And so Kris mentioned about affirmative marketing on this. We want to make sure that those who are least likely to apply know about that opportunity and have the ability to apply. I have dealt with some communities that had had a long waiting list and had not marketed their program in many years and were simply working their way on that list. I'm not sure that that would meet the affirmative marketing requirements on this.

And your policies or procedures may need to address things like waiting lists and will they stay in place and be rolled into the next round or will you start fresh next time you have funds available to accept applications and follow that process? Also need to think about your operations, who's going to administer that. And as we mentioned, in a couple of our sessions, part of monitoring is a really good time to do some evaluation on the PJ's part on how my program is working, where are my risk, where am I experiencing issues?

So one of those things is looking at who's actually running the program. It could be run by the PJ themselves; PJ could have a contractor that they've gone through procurement to put in place to run it on their behalf. But we also see a lot of homeowner rehab programs that are being run by state recipients and subrecipients. And so some evaluation of how that partner is doing, also thinking about when they are done with the program implementation, who's going to hold on to those records? That can be really important. And we've seen some cases where there were some issues about control and access to records after the fact.

You also as part of your program design could target what kinds of units were going to be included in that. In particular, we also see with manufactured housing, the difficulty sometimes in doing rehab, and how much money it makes sense to invest in rehab versus replacements of those units. Those are all things that should be addressed within your policies and procedures so you have a standard methodology, and it's your justification for saying, either yes or no, or how much and making sure that you are consistently dealing with household.

So thinking about how you'll determine the scope of that work, how far -- generally, programs are targeting houses that are not so far deteriorated, that they still are a good target for rehabilitation. All of those things are things that the PJ needs to consider and think about and try to capture within its policies and procedure.

And then, of course, the amount and form of assistance that we're going to be providing. So we could provide in this case, we don't have an affordability period, it could be provided in the form of a grant. We have programs that when the amount of homeowner rehabilitation is low, that they're going ahead and simply keeping this really simple and doing it as a grant. But more commonly, we see these in some kind of alone with PJ imposed affordability period. We don't want to spend, let's say $40,000 in rehabbing a house and then have it sold immediately.

And so usually, there's some affordability but that's completely at the discretion of the PJ as part of your program design. So you can put caps in place on what that maximum and minimum, you of course have to live within the HOME requirements but you certainly can be more specific and more restrictive if you choose.

One of the keys on having a successful homeowner rehabilitation project is getting good contractors and that selection process is really important. So when that contract is executed between the homeowner and the contractor, the owner does not fall under federal procurement requirements. And so you're not strictly held to those requirements but the PJ always has the requirement of making sure that things are cost reasonable.

So in most cases, PJ's are going to have something, a bidding process that looks very similar to what we would see a simplified version of federal procurement in recruiting or getting bids from contractors and then making that selection. So the policies would need to define how that process is going to go forward, how that decision would be made. Typically, we're seeing that the owner is making that selection, but there's some specific protocol on the basis or how the contractor will be selected and usually that the PJ is going to approve and enforce that.

You need as part of your program design to think about insurance. And particularly if we're going to provide funding in the form of a loan, I have seen compliance issues raised in particular by an auditor, saying that if we had a lien that was not protected with insurance, that that was an issue. That your policies and procedures need to define what your standard will be on insurance, if you're going to require insurance, what your protocol is being able to document that that occurs.

And then also thinking about communication, not only with the homeowner but because we're going to have a contractor involved and we have a specific scope and some timelines as part of that, the PJ is going to be doing inspections as part of that and making sure that the property meets property standards before we consider it to be complete.

So thinking about how that communication process will fall in place, and then also how conflict resolution, a lot of PJ's have some conflict resolution policy that is in place and part of the written agreement with the homeowner and also within the contract would require that everyone agree to participate in a dispute resolution process to try to get those resolved as quickly as possible.

So one of our key elements of an effective homeowner rehabilitation program is having good rehab standards. So they need to be really detailed and very clear. So we're trying to make sure we get a good value for the public dollars but we also want to make sure that we get good materials and good workmanship.

And so calling out what the PJ will pay for, any standards that they have in place. In some cases, we might see this as a voluntary program but we might have some cases where that homeowner needs to temporarily be relocated somewhere else. And that might be that they simply need to be out of the house during certain hours, but it might be that they need to be out for a few days.

This is voluntary, so it's not triggering uniform relocation act and so if the PJ is going to provide optional relocation assistance, that needs to be spelled out in the policy. And that might be saying that the homeowner is going to be responsible for finding other housing and detailing what costs it would cover.

It might be that you have very specifics about we will pay for up to a certain number of days. This is our maximum per day for lodging, what we will pay for food, provision of storage options, all those things being spelled out as part of that. Things that you use to control costs are things like an internal cost estimate and how that would be used in reviewing bids and when bids would be excluded as not being reasonable.

Also things like change order policies, what your process is going to be, who has to sign off, also retainage. So retainage, for those that are new is, when we're doing rehabilitation, some portion of each draw, being held back until the final completion of that project. So you have, essentially, you're holding enough of the contractor's money that you're going to be able to get them to come back and handle those left items before you release that.

So all of that needs to be captured within your policies and procedures. In some cases, those are going to be policies and procedures, followed by the PJ themselves, but that also may be policies and procedures, that you were requiring your state recipient, your subrecipients to follow, that would be detailed within the written agreement you execute with them when you fund them for that local program.

So thinking about the process of inspections, owner approval, through the process, we mentioned, dispute resolution, and that process for getting the final sign off on that property, all that needs to be captured within your program design. Let's talk a little bit about preparing for HUD monitoring. So 7-26 which is our CPD monitoring checklist looks like that, hopefully you'll familiarize yourself with that.

And you'll notice on our slides, we've been showing the reference question. So you can go to that forum to actually see the actual language on the form. As we mentioned, we're not necessarily covering these in the exact same order that they appear on the checklist to try to make this a little more logical for folks, but we have crops referenced on the slides, the actual question from them.

So as part of the process, HUD's going to be assembling some of the documentation. So they probably are going to be asking for policies and procedures and marketing and application information, looking at your written agreements or rehab standards. Citizen input, particularly where we have no complaints that are coming in, they oftentimes indicate that there's a problem, or there's a pattern of issues that would inform them on what they may want to look at as part of their monitoring.

And of course, both the PJ and HUD, as part of their ongoing monitoring, would be looking back at past monitoring, findings. So in the past, if they'd identified an issue, part of corrective actions, oftentimes it's going to lay out, we're tweaking our policies and procedures, so that we make sure that this doesn't happen again. That follow-up monitoring bit would then be looking to see is this now corrected or is this still an issue?

And so, of course, they'll be using exhibit 7-26, and then pulling the applicable HOME limits. So the income, the maximum subsidy limit, after-rehab value limits would all be things that they would be using, if you were monitoring your state recipients and subrecipients, you will be pulling those items also.

Then, of course, HUD's going to look at your open activities report, they're going to be referring back to your con plan, your action plan. What did you say you were going to do with your funds? How was it going to be operated? Who is your target audience on that? So as part of a self-assessment, we've mentioned about the fact that you need to look at the policies and procedures; I would also want to do a quick document review.

So you may have laid out a really good process -- implementation process but unless that file actually reflects that folks are actually following that, you could have some serious compliance issues. So doing a self-assessment, checking those systems and I would say checking up as early as possible, sort of an ongoing self-assessment would be helpful.

And that's certainly what when you're doing your monitoring of subrecipient, state recipients, you're making sure that they are following your protocols and that the files reflect that and making sure that the monitoring questions that HUD is going to be using, we have the appropriate documentation, we're going to be in compliance as part of that.

So for the pre-monitoring, self-assessment, again, policies, procedures, written agreement template, making sure that you know what the regulatory limits and requirements are as part of that, and then looking to see what does IDIS reflect? Is that up to date, and correctly reflecting what you have in your own files and a comparison to, what did you say you were going to do within your action plan? How is the implementation moving along? Are you on schedule? Are you behind schedule? As part of that self-assessment.

So looking at your own monitoring process, your own records, whether you have then followed up and responded to not only prior monitorings with HUD but also with prior monitoring that you've completed with your state or subrecipients as part of that. And then, of course, things like media and citizen complaints.

But also, I think it's a good time to take, again, that evaluation of my staff, and whether that's in-house, or whether that's a partner that's implementing the program of whether you need additional staff, whether there's additional training. Sometimes that's because you're kind of -- you're changing the scope, or the -- some of your policies and procedures.

But there is a self-assessment handout that we've been mentioning as we go along. I would recommend, I think that's a really good starting point as part of a tool but I think you need to add to that thinking about your own program design elements and then evaluating whether you're actually following those, whether they're being successfully implemented as part of that.

So let's mention resources and tools and then we'll take a look at questions before we finish up here. So each time we are highlighting the CPD Monitoring Handbook exhibits, and in this case, we've been talking today about 7-26. Those are available on both hud.gov and also the HUD Exchange and so we do recommend that you familiarize yourself with that.

For me, as a former practitioner, I always found looking at those early on and then thinking about based on the monitoring checklists, what do we need to make sure that we are capturing as we go through the implementation. And so building checklists and file systems that are going to have all of that required documentation in place and then checking along the way to make sure that that's actually being effectively implemented.

On the HUD Exchange on the homepage, there is a section that's specific to homeowner rehabilitation and so that would be a spot to go to looking for additional policy guidance, FAQs, other guidance or resources that would be helpful as part of that so that could be a useful resource as well.

As Kris mentioned, early in the training, so in this training, we are specifically talking about the monitoring exhibits and the requirements as part of that. And we're not really teaching in great detail all these requirements. We're making the presumption that you have a good working knowledge of that.

But for folks that are newer if you have not already taken it, the Building HOME Online Training is over 20 hours that you can do at your own pace. Once you complete the initial required sections, you can then pick and choose based on that menu of things that are applicable for the types of projects and the role that you serve.

So that would be the first spot to go to, to learn more on some of these topics that you're realizing as part of this webinar, gee, I'm not completely sure what some of that is. I need more details. This will be the spot and the link is provided here on that page. Some very good resources.

For those of you that have done the onsite, Building HOME Trainings over the years, because this is a self-paced online training, in many cases, there's either more current information than you would have heard onsite or we have the luxury of time to go a little bit deeper in some of these topics so you may want to revisit that.

Other tools that are available. Kris mentioned before about the fact that the lead-based paint requirements, lead-safe housing rule is going to apply on pre 1978 housing. So we've got a link here to learn more about those requirements. Acquisition relocation might potentially apply, generally will not for homeowner rehabilitation but there's a good link here.

The self-assessment tool that we mentioned for PJ doing the self-assessment prior to that HUD monitoring visit, here's again the link for that. And then there's a handout about property standards, which will be useful for you. As we've mentioned, as we've gone along in these sessions, one of the other resources that you have, PJs do have the ability to request technical assistance.

And so there is the link here on this page to request technical assistance from HUD and that is an option for folks if needed. So before we wrap up and talk about the rest of the schedule for completing this series, Kris and Monte, are there questions that we should revisit?

Monte Franke: I will mention a few of them. The issue of records came up a number of times in questions. People were wondering, the five-year retention pertains to the rehab records from the project being closed out. But several people raise the issue of notes and mortgages that may run out for a period of time and that's -- anything that you've created in the program, you really need to keep five years after completion.

So generally while you could only need to maintain the rehab records for that five-year period, any note mortgage, or other legal documents that continues to be enforceable should be kept for the enforcement period plus five years to allow for a look back and monitoring. Another one that came up was the -- this runs to the PJ subrecipient relationship and who gets to keep the records. Bear in mind that HUD considers the subrecipient to be part of your administrative structure.

So what they keep and maintain in their office versus what you maintain in yours is between you and them to determine, as the PJ you are responsible to HUD and you need to make certain that they that your subrecipient is following the rules so that should be part of your regular monitoring of the subrecipient, and you will need to make records available to HUD when they come onsite to monitor. And you may have to have to arrange to get those files brought in for that particular event. But again, that is for you to work out with your subrecipient but ultimately, you are responsible.

Les Warner: And Monte I would just add to that that the additional twist on this is, you might have a state recipient or subrecipient that's hired a contractor who's going to run the program on their behalf. And again, those records are really part of the PJ and the subrecipients program and so all of those agreement with contractors and subrecipients need to call that out within that because we obviously need to maintain access to those records.

Monte Franke: Good point. We also had a couple of questions on manufactured housing and yes, you can rehabilitate manufactured housing that's owned by the homeowner. They can own the unit. They don't have to own the site. They might be in an arc or whatever, but they have to own the unit. There are different provisions; there is a HOME flyers on manufactured housing that I would refer you to.

One of the questions that came up was about first of all the rehabilitation, manufactured housing standards, the rehabilitation standards are listed in 92.251 they run to the HUD installation standards. But also if some PJs have found it useful, or are an economically sounder decision to replace the manufactured unit with another manufactured unit and that is still considered rehabilitation under the definition of reconstruction. Go to 92.2 and read the definition of reconstruction and you'll see it addressed there. Finally -- go ahead.

Les Warner: I would just add to that, that I think that's one of the areas where the PJ or subrecipient will need to have really clear language about what's our decision process on when we will say no, this is not appropriate for rehabilitation that this is now eligible for replacement and having a very clear protocol that is spelled out on that.

Monte Franke: Really good point Les, and that's an important thing to have in policies and procedures because you don't want that decision to be arbitrary where somebody gets a new unit and another person gets a little rehab. So it's important to have that standard set up. The go, no-go decision in homeowner rehab is really important across the board.

There are times when you'll determine that you just can't go in and fix up a house, it's beyond your ability to repair and the amount of money you can commit and the standards of your program. So you should have the feasibility determination or the go, no-go decision that covers your entire program.

Les Warner: Great.

Monte Franke: So one other thing that has just come up was, somebody asked about the 95 percent value limit, the homeownership value limit for our homeowner rehab programs to value the property after-rehabilitation has occurred and wondering whether that -- what kind of a standard that is and whether there's any variation from that.

The 95 percent of area median values of homes sold in the area, 95 percent of median value puts you in the bottom-half of the housing market. When congress passed the act in 1990, they stated that they were intending to assist housing of modest means and the congress imposed the 95 percent limit, so it's not something that HUD has discretion on. It's a statutory thing.

The one thing I will mention is it's a value limit it's not a cost limit. The maximum subsidy limit is separate from that and don't confuse those two. It's not restricting the cost; it is restricting you to the lower half of your local housing market.

Les Warner: And I will just mention that as part of that policies and procedures, if you are doing, under rehabilitation, if you are replacing units, reconstruction, whether that's a manufactured unit or you have a homeowner stick belt unit that you determine it would be more effective for you to tear it down and replace it with a new unit, you could choose to have a tiered approach as part of your form of assistance and the term.

So because you are putting a new unit in place, you might choose to have a longer affordability period and some different terms on that. So that would all need to be spelled out clearly so it was understandable and that you could show that you were consistently following a set protocol on that.

I see we have a number of other questions that seem to be related to the specifics of running a homeowner rehabilitation program. I'm going to suggest that you utilize the online building home for that since our focus today is really on the monitoring exhibits themselves. And it looks like most of these questions are local program design decisions that you need to make and reflect within your policies and procedures.

So let's look at the rest of the schedule. So as Kris mentioned we are in our final week; it's amazing to realize that we have done so many sessions in this series. And so the remaining session will be on Thursday the 13th, and that's looking at long-term rental compliance and I believe that's Kris and I and I think we will have Monte assisting us again on fielding questions.

So with that, I think I will bring this session to a close. You get a little bit of time back in your day and we thank you for participating. We hope that this has been helpful for you. We really encourage you to use this material and think about the self-assessment so that you will have -- be well prepared for when your HUD monitoring next is scheduled. So with that, thanks everybody and we hope you will join us on Thursday. Thanks.

(END)