HUD NSP TA Open Forum Q&A & NSP 3 Slow Spenders, 11/19/13

Kent Buhl: Today's webinar is one in an ongoing series of open forum question-and-answer sessions with HUD headquarters staff. NSP grantees and their affiliates are encouraged to use this opportunity to ask questions you have about NSP rules, regulations, or any other NSP issues of interest.

And this is also a terrific place to be if you're worried about your NSP 3 expenditure deadline, as tips and thoughts on how to meet your deadline will be shared, and that will happen first today.

So we have with us today a number of leaders at HUD, without whom NSP as we know it would not exist. So from HUD headquarters on 7th Street SW in Washington, DC, please welcome back John Laswick, David Noguera, and Hunter Kurtz. Jennifer Hylton was supposed to be with us today but is not able to attend. So we've got John, David, and Hunter. Hello, guys.

Hunter Kurtz: Hello. How're you doing, Kent?

Kent Buhl: Doing very well, thank you very much. And let me get this handed over to you.

Hunter Kurtz: Well, thank you. This is Hunter. Before we start our regular Q&A we just wanted to talk to all of you out there, NSP 3 grantees, and just go over some tips and tricks to help you with your expenditure deadlines.

First of all, before we get too far I want to give an update as to where we stand. As of yesterday, about 71.5 percent of the $970 million has been expended, which is fantastic. That still leaves about $276 million -- you can see there I've ever got the 51 extra cents in there -- left to spend in about four months. That's still quite a big number. And 26 grantees currently are under the 50 percent expended number.

John Laswick: That's almost 10 percent of NSP 3 grantees.

Hunter Kurtz: Yeah. And that was the number you're supposed to be at March of this year.

So if we can go to the next slide we'll talk about some tips and thoughts to meeting your expenditure deadline. A lot of these you've heard before but we'll just sort of repeat and/or go over briefly.

The first one is what an expenditure? What does "expend" mean? It's not the same as "draw down" in DRGR. You notice the third check there; we use "draw" or "drawn" a lot in HUD discussions and terminology, but it's different than what you actually expend. You've got to report it in your QPR, and we'll talk a little more about that in a second.

But also want to mention that if you're on an accrual method of accounting, accrued costs can count. Sort of talked about that DRGR thing, though. There are about 26 grantees right now that are under 50 percent, and a handful of those have drawn more than what they've reported as expenditures. So you need to get in there and update those accounts. I looked at it last night, and there's about a $10 million discrepancy between draws and expenditures. So grantees have drawn $10 million more than they've reported as expenditures. So you go in there and fix that up and you might be a lot closer than you think you are.

John Laswick: Well, in reality, expenditures should be a higher number than draws because you expend the money as soon as you incur an obligation, and you typically aren't going to draw it until you write the check. But since you reported it separately, it tends to lag.

Hunter Kurtz: Yes. Also, make sure that you have all your expenditure reports from subrecipients, developers, things like that. Just make sure you have all that in so you can enter that into the system and get credit for what you've already done.

So examples of some expenditures include payments, invoiced amounts owed to contractors for goods or properties received or services performed. That's key there; that you want to make sure that you're only counting as expenditures stuff that you've already spent or for things you've already received, not for things that are about to happen. And amounts paid to third-party sellers of foreclosed-upon real properties.

Some other examples include accrued salaries, including fringe benefits of employees and indirect expenses incurred. As always, that requires indirect cost allocation plan. Or you can use our 3 percent indirect cost that we allow all grantees who don't have a plan to use.

Just real quickly. Remember you need to have documentation for all these expenditures. Here's a list here; I'm not going to go through all of those, but I think you guys get the picture and understand.

Special cases with expenditures. Payments to developers; a lot of times grantees will have retainage [sic] amounts in the sense that they will pay a developer to develop and then rehab and sell a home, and then retain a little bit as an incentive for them to finally sell that home. As long as all of the work is done and you're just waiting for the home to be sold, we will consider those retainage amounts to be actual expenditures.

So that can be a big help, because we know a lot of folks are still trying to get some homes sold and working with the developers. It's a good business practice and we want to give you credit for that good business practice.

John Laswick: It can be a contractor, too, if you're doing contractor work with a rehab contract.

Hunter Kurtz: And then disbursements into loss reserves for third-party loans and lump sum drawdowns; also, instances in which expenditures do count.

So what's not an expenditure? Future admin costs. And we've talked about this in past webinars, thinking about the future, how you're going to pay for staff and monitoring expenses, those are not things that you can count as an expenditure today, unfortunately.

Property under construction but not completed, you can't count the whole cost of that property as an expenditure. And property to be purchased by the grantee that is under a purchase agreement but is not yet closed. So it doesn't count as an expenditure until you're at the closing, until you have title or deed for the property.

Number 2, is your DRGR current with program activities? Again, if it's not in DRGR it's not being done; we don't count it as an expenditure. So think about if you problems with getting your stuff into DRGR. Do you have staffing limitations, capacity, those types of things? Consider that and getting some technical assistance if you need help with DRGR. We have a link to get TA.

Plus, we did a webinar back in January about putting expenditures into DRGR and the QPR. You can check that out and get some tips and advice for how to get the stuff into DRGR.

But going back, thinking about those 26 grantees, we already know that some of those folks just need to update their records and there'll be over 50 percent. And I bet you there's a lot more grantees out there right now who are over 100 percent but just haven't updated the records. So just keep up-to-date on your DRGR and it will help you out in the long run.

John Laswick: We will be posting these, if they're not posted already, so you can look up the addresses on the website.

Hunter Kurtz: Yes.

Third tip, what is your timeline to expend the funds? This is just something you need to keep in mind, how you're going to get from today until the expenditure deadline. Is your production on schedule? If not, why? Just think about these things. Think about what's wrong, what's happening that's causing roadblocks.

What can you control? Marketing conditions versus project design. Maybe you need to think about a multifamily property rather than single family. Maybe you need to think about a different developer or different contractors. You just need to keep in mind all the issues that you may be facing and try to take a true and good self-assessment of your program and think about where you stand.

Are you expending as expected? And then also keep in mind the other program goals for NSP, including the 25 percent set-aside, national objectives. Just make sure that not just expenditures but everything you're taking into consideration so that you don't get yourself in trouble later on down the road.

Fourth thing, sort of goes with the third, is acquisition in the market. Grantees have difficulty acquiring properties; can't move fast enough, problems with appraisals, price is too high, don't get early access to properties, and competition with investors. These are all things that sort of go back to the third. Take these into consideration when you're looking at why you're not expending at the rate you want to be.

So if you are having problems acquiring properties, think about broadening your search, using brokers, national entities, our First look program. Be flexible with the price. I mean, maybe you're paying a little more than you think you should, but, hey, that's going towards expenditures as long as you have that discount that's required.

Look at other census tracts and just think about maybe using a local land bank or diversifying your strategy. Don't be set on multifamily; maybe you need to do single family. Or vice versa; don't be set on single family; think about maybe a multifamily property or other strategies you can use to acquire properties.

John Laswick: One of my favorite statistics so far this year is that 53 percent of projected housing units being affected by NSP are now going to be multifamily, which I think is about 52 percent more than anybody ever thought at the beginning.

Hunter Kurtz: Yeah. And then finally, amendments. This really should be your last resort, because they're time-consuming and they're not as easy as maybe looking at what you have.

But one thing to remember about amendments -- or just in general -- any time you leave the census tracts you're going to be working in, that typically constitutes a substantial amendment. And we have a new mapping tool to help you look at your target area that makes it a lot easier to get your score and everything else that you need to retain for your area. So use that, play around with it, and think about if you need to move. But again, this is something that should sort of be a last resort.

Also, make sure that you're in contact with your field office as soon as you start thinking about this process, because they can guide you through the process and help you in ways that you might not think of.

And also, don't forget that you still need to abide by the 15-day public comment period. So right there you have half a month that is eaten up by the amendment process. So if you are going to do this, I would encourage you to do it soon and make sure you really think about it.

But the final thing here -- and again, we just want to do this quickly before we did our Q&A -- don't forget, you're going to need to eventually complete and meet a national objective -- each NSP property -- before you can close out. So do not buy just to meet the expenditure deadline. You're not going to be able to close out your grant if you have a property you can't sell. You have to meet a national objective for everything that you have spent any funds from your line of credit on to close out your grant.

And even if you close out, for your program income property you're still going to eventually need to meet a national objective. So it's key and incredibly important that you think about this as you're expending funds.

So that was the 15-minute quick NSP 3 slow spenders thoughts. We'd love to get some questions so we can try to help you here. But thank you for listening.

Kent Buhl: Very good. Thank you, Hunter. And we do have a question here, and it's from Lauren. I'm going to go back to the slide that she was referencing when she asked it, which is this one here.

Lauren asks, "Does special cases include developers' fees that are only paid upon the sale of the home?"

Hunter Kurtz: Yes. That's what we consider like a retainage amount?

Kent Buhl: The developer fee. Yeah.

John Laswick: The key here is that they've earned it already. A developer fee might be a little less clear-cut than, say, a contractor fee because you know you could go out and you can see that they put the roof on and so that part's done.

But I think you can exercise your judgment as far as developers' fees go. If they have met the requirements in your contract with them, then that would be a legitimate expenditure.

Hunter Kurtz: Paul Webster, our sort-of financial guru here, has stated that it's typically, in a situation like that, the developer would consider that fee, even though they haven't received it, as income in their taxes. So we would then consider that an expenditure, even though you have not paid that out yet until they've sold the home.

Kent Buhl: Thank you, Lauren.

Let's go back here. Just to remind folks how you can ask questions, you can type them directly into the Q&A box and we'll get it that way. Or if, for the few of you that are connected by phone and you have the phone icon to the left of your name, you can also click the "raise hand" button that is right underneath the participant list.

Pretty good turnout of folks today; glad to see you all here.

Hunter Kurtz: That the only question I get?

Kent Buhl: Hard to imagine. Just got to allow some time for the wheels to turn.

So questions can be about NSP 1 or NSP 2 as well; doesn't just have to be about slow-spending NSP 3 grantees.

John Laswick: So fortunately all of our NSP 2 grantees have met their expenditure requirement. There are still a couple of lagging NSP 1 grantees.

I guess there's one other thing that we didn't put on a slide -- if that red print on completions wasn't scary enough -- we want you to know that we have recaptured funds from grantees that could not spend in NSP 1, and not just the stakes that were in the first round based on the formula approach. They have been some grantees who failed to meet the 100 percent expenditure deadline last spring and received some additional time to complete their programs and were not able to. And we are in the process now of getting funds returned and closing down those lines of credit.

So I think that we were pretty generous coming through the deadline process, but we have to be responsible for the public funds here. So it's not a sure thing that you're going to get an infinite amount of time to complete the requirement. We are taking funds back and we will take more funds back in the future, I'm sure.

Kent Buhl: Here's a few questions coming in now; thank you all.

Let's start with Glory's, who asks, "Could the deposit on a foreclosed property be counted as an expenditure while the property is in escrow?"

John Laswick: Not unless it's nonrefundable. Most deposits are refundable -- well, I guess they aren't all refundable. If it's a nonrefundable deposit, then it's an expenditure.

Kent Buhl: And Susan asks, "Does expenditure occur when a grantee signs an agreement committing loan dollars to a developer for rehab, or when the developer submits invoices for the work?"

David Noguera: When you get the invoices.

John Laswick: Right. The signing the contract is an obligation, but that's not the same as an expenditure.

Kent Buhl: Okay. And Kate asks, "Please expand on developer fees as an expenditure."

Hunter Kurtz: Just to be clear, it's not that just because you have a developer fee does it count as expenditure. It has to be a situation in which -- we call it a retainage amount. Typically, like John was saying, it's probably easier to explain with a contractor.

But in this case with a developer, usually the developer has site control, has rehabbed and completed the home, and is just trying to sell it. The amount that you're holding back is only going to be given to the developer on condition of sale of the home. And that amount, in that case, it would be considered an expenditure.

Now, if the home is not completed, that amount would not be able to be counted as expenditure. But when the house is completed and it's actively trying to be sold, then you can count it as an expenditure.

John Laswick: You shouldn't pay it; you should hold it. But it counts for accounting purposes as an expenditure.

Kent Buhl: Diana is wondering about the developer subsidy cap. "We're having trouble selling our homes at the current price, which has the maximum amount of developer subsidy already. Does HUD have a cap on the subsidy amount?"

John Laswick: Well, no. Can you read that again, Kent? I'm not sure I follow.

Kent Buhl: Yeah. So Diana's asking, "We're having trouble selling our homes at the current price, which has the maximum amount of developer subsidy already. Does HUD have a cap on the subsidy amount?"

John Laswick: No, we don't. And in fact, that's a good question, because I think in some markets the prices being desired by the grantees may still be unrealistically high.

Now, in this case we wouldn't say you shouldn't increase the developer fee or the subsidy on that side of it, but what you would probably want to do is to increase the buyer subsidy in the form of soft second mortgages so that you are making the house easier to purchase without artificially lowering the value and without giving a windfall to either the developer or the buyer.

So you would come in and let's say you've got a $100,000 house and you're trying to sell it and you're planning to give a $20,000 soft second. You could go to $25,000 if that's what it takes to sell the unit. That's still secured with a second mortgage that could potentially be earned out, that the buyer could pay off by staying in the house long enough. But it makes the monthly payment and so forth that much more affordable for the family. And there is not limit on that except that you don't want to unduly enrich anybody in the process.

Kent Buhl: Thank you for that one, Diana.

Barry asks, "When those funds are recaptured, where do they go?"

Hunter Kurtz: To a fund set up for disaster recovery.

David Noguera: Sanctions fund.

John Laswick: Effectively they go back to the disaster program to be used for tornadoes and things like that.

Kent Buhl: Interesting. Very good. Thanks for that, Barry.

Kate again; she's asking, "What kind of documentation will be required for developer fees not paid but earned?"

Hunter Kurtz: Well, I think you would need to be able to document that the home has been completed and that there's no more construction taking place. And then I think you would need to have some sort of documentation demonstrating that they're actively trying to sell the home.

John Laswick: Yeah. I think the thing to keep in mind is performance there.

You know, they have to have done what they said they would do. And it's a little bit of a gray area because selling the units is part of the developer's responsibilities, but it's not the same as purchasing construction materials and building a house or rehabbing a house and that sort of thing.

So if it's not as clear as you want it to be in your development agreement, you might want to get some technical assistance to help you take a look at that. But for the most part, once they've completed the work, they have performed the task that you engaged them for, the primary task. I could see you might want to consider part of that developer fee to be something related to the sale of the family and you might want to discount it a little bit.

I think the documentation would just be a memorandum for the file with perhaps a certificate of occupancy, a copy of your C of O or something like that to show that the unit's complete. A lot of places don't have those for residential properties, so there may be some other kind of documentation from the funding agency or something like that.

David Noguera: One other thing I was just thinking is that the developer's fee typically comes out of the proceeds from the sale of the home. So if you're going to go ahead and pay the developer prior to the home being sold, then you are going to need to revisit the developer agreement and make sure that you're not technically double-paying them for that work.

John Laswick: They don't actually have to pay them, though, to count them as an expenditure. If they've earned them, then they kind of have the best of both worlds.

David Noguera: Right. So what John's saying is it's more an accounting fix to your records rather than additional funding.

Kent Buhl: This is a question from Diana that HUD folks here may be able to answer, but also would be interested in any of the people out there in webinar land who have ideas. She's wondering, "Any thoughts on how to advertise a home buyer subsidy, since it would change from buyer to buyer? How have you done that, letting people know that there's a subsidy without being able to be specific until people actually apply?"

John Laswick: Right. And this would be a good one for people to write or call in with because I'm sure there's some good ideas out there.

But you can still advertise discounts without specifying an amount of money. You can advertise non-amortizing loans without giving an amount. You can talk about maybe some minimum amount that you know that you're going to need in your market given the price of the homes and the incomes of the people that are dealing with them.

Hunter Kurtz: Or range. You know the minimum, so it's $5,000 to whatever the maximum that you're going to do -- $25,000.

David Noguera: Up to. Right.

Kent Buhl: So if anyone has additional ideas on advertising methods that have worked for you, you can just submit those in the Q&A box as well.

Here we go, from Nera. Her question is in regard to direct home buyer subsidies. Her question is, "When a property is resold during the affordability period, does NSP limit the recapture amount to the lesser of the net proceeds from the resale or the balance of the direct subsidy? And does NSP allow recapture of the full subsidy amount regardless of net proceeds?"

John Laswick: Well, we've looked at the HOME regulations in 57092.254, I think, and there are different ways of doing that. So you have flexibility there; you can recapture the full amount. Sometimes it makes it harder to attract families if they think that they'll spend 10 years in a house and then still have to pay back the full amount.

You can prorate it, but when there aren't sale proceeds, you can't come after the borrower for additional funds. That's not allowed. How you split the proceeds that you do generate, I think you have some flexibility that you can look at some of the methods in 254 in the HOME regs and see how they think about that.

And realistically, you're not limited only to those, although I think they cover most of the bases. I mean, you don't want to penalize the home buyer, and in some of these markets you're in and some of these submarkets, if prices drift down over the next few years it's not really the buyer's fault. There's just less to go around.

But many places will have a scaled payment system where if it's a 10-year soft second they'll reduce the amount of principal every year by 10 percent so that that burns off. And hopefully at that rate then after five years they only owe half of what they borrowed and maybe the proceeds will still cover that. But you can't make them pay a negative amount. If your sale proceeds don't retire the second mortgage, you can't go after the buyers for that.

Kent Buhl: That's for the question, Nera.

Debra says that, "In our area, banks are starting to shy away from allowing soft seconds, thus making it more difficult to sell the home with conventional mortgages. Is there a national banking NSP agreement to allow such buyer assistance?"

John Laswick: No. Banks set their own rules. In those circumstances hopefully you can find another lender. FHA has been something of a fallback. FHA insurance gives lenders some higher level of confidence that they're going to get their money back, and FHA allows soft seconds under most circumstances.

So it's a tough problem, and we've seen different incarnations of this lender reluctance all through the program. I think the least frustrating solutions have been to find a lender that will work with you on those.

David Noguera: The smaller banks, typically regional banks, have been more open to working with municipalities, from my experience. But you also may want to reach out to the stabilization trust. They work with banks on the acquisition side; they can also help put you in contact with the right representatives to articulate how your program is designed so that it's clear what this soft second is doing.

John Laswick: Yeah. I mean, the soft second should be something that makes the banks feel more comfortable because they are not going to be lending as high a percentage of the property's value as they might otherwise. But they have little confidence in the market or if they just don't like doing these kind of projects, I just don't think it's cost-effective in terms of your time to try to change the bank's policies. They arrive at these policies for a lot of reasons that may have nothing to do with your particular community, and the bigger banks are not quick to change them.

But as David pointed out, the smaller local banks have tended to be more responsive in these kind of situations, and there are some national lenders who are perfectly comfortable doing soft seconds.

Kent Buhl: Thanks for that question, Debra.

Moving on to Art. "How can we avoid depressing the home values of properties immediately surrounding an NSP property when the NSP property after rehab is appraised for $100,000, total development cost is $130,000, and a potential buyer wants the $100,000 selling price? Do we refuse to sell it? Do we provide home buyer assistance?"

Hunter Kurtz: You have to sell it for $100,000.

John Laswick: You have to sell it for the lower of total development cost or appraised value.

And this has been a problem since the very beginning of NSP, is that for a variety of reasons these properties have tended to -- many of them -- have appraised for less than what a lot of people think they're worth.

Now, in this case you've got an appraisal that's over that cost, you can't put a soft second on for the difference between the development cost and the appraised value if the appraised value is higher. But if the development cost is $130,000 and the appraised value is $100,000, you're not really depressing the values around you.

If you have a good appraisal, that's what those houses are worth as well. And it's a little bit of a chicken-and-egg thing because you obviously don't want to drive your values down and you can't control what your appraisers think of them, although people have worked with their appraisers and really tried to get them to understand the kinds of improvements they're making.

For example, a lot of places are doing much more on energy efficiency than the homes around them. So educating appraisers is something that's a legitimate way to have them understand the true value of the property. But if they're appraising it below total development cost, that's more of a feature of what's going on in the larger market.

These markets, typically the areas, the neighborhoods we're in are not that fast-moving. So if you get a little bit lower appraisal on your property this year, unless everybody else is selling next year it's not going to really have that big of an impact.

Kent Buhl: So looking for other questions that you may have. Go ahead and send them into us -- either the people you're hearing on the other end of the phone, minus Jennifer Hylton.

And here we've got a verbal question. Let's go to Inalbert [ph]. Hello there, Inalbert.

Q: Hello. I hear you well. Thanks for the webinar again. I just have a quick question. I've heard John and David talking about it a little bit last time, but I got a little bit late into the webinar.

I'm having trouble closing some deals on NSP 3, and maybe they're going to take a little bit longer than expected. My question is, can I use the admin funds that I projected for admin to buy new properties so I meet the 100 percent expenditures; then, when I close on the houses that I'm selling, I replenish that account?

John Laswick: Good question, Inalbert. Yes, you can.

We put out a little policy piece back in January this year to clarify that you can sort of push your administrative account. You don't have to sort of go pro rata through your program spending; 10 percent for every month or whatever. So yes. You're taking a little bit of a risk there in the sense that if you don't get the prices you're hoping to get, you might not get it as fast.

But you are entitled to spend up to 10 percent of your grant amount plus program income. It doesn't have to be spent in any particular order. So for example, you could spend all your hard cost money -- or 95 percent of your hard costs to spend 5 percent on admin, and then you have that other 5 percent of admin money as a budget for the future for monitoring. Now, you'd have to get the funds in to do that, but you do have that flexibility.

Q: So let's say I have $300,000 left and I buy two properties and I expand that to 90 (percent). When I sell these properties and I get program income back, can I use it for that money expended?

John Laswick: That can all be spent on admin. I mean, if that was available, if the $300,000 was a legitimate amount that you could spend on admin, you could spend it for hard costs now and then when you get the proceeds from the sales, use the income for admin.

Hunter Kurtz: But just remember, that if you get that -- say you make your $300,000 back -- you still need to meet the 25 percent set-aside requirement for program income.

Q: Yes.

Hunter Kurtz: So even though you have the bank to spend the admin, you still need to make up that 25 percent set-aside.

Q: Right. I get that. We're way above the 25 percent, so it wouldn't be an issue. But that's a great clarification. But I don't want to spend 100 percent of the admin there because I've got to pay my check from there. I've got to keep a little bit of cash for us.

Hunter Kurtz: Yeah.

John Laswick: Yeah. It's sort of a budget limit. And how you reach that limit and when and in what combination of funds and so forth is really up to you, as long as you're meeting your set-aside and national objective requirements.

But yeah. It's a smart strategy if you can afford to kind of push that administrative capacity back into the future.

Q: Yes. Well, I'm just using it as a backup in case I haven't closed the files I need to close so that I have program income to buy more properties. It's just a strategic backup.

Thank you so much, John and David and everybody for the help.

All: You're welcome.

Q: Thank you.

Kent Buhl: Thanks, Inalbert.

As you know, these webinars are archived. Actually already posted is a copy of today's slides on NSP 3, slow spending tips. And shortly within a day or two usually the A/V recording is posted there and the written transcript comes along quickly as well.

Kent Buhl: Let's see. Hoshang [ph] has sent something in about marketing strategy. I think this refers back to Diana's question, perhaps. "Work with the developer and a local bank funding the property partnership with NSP. We can incorporate funding guidelines and track development in sync with the city's residential development plans, attracting migration and job opportunities." There's a macro view of it. Thank you, Hoshang.

And while you're thinking of your questions I can tell you that we do have one NSP webinar on the schedule at the moment. I don't know if Hunter knows of others in the percolator, but this one for sure on December 10th, on disposition strategies.

Hunter Kurtz: We always have more in the percolator; it's just we haven't scheduled them yet. And we'll be coming out with a series of webinars on the closeout notice, as soon as that gets out of here, which is hopefully soon. I know I've said that for a year now.

John Laswick: I guess our thinking -- and it kind of fits in with today's conversation -- is that there are problems selling properties that are related to marketing and finance, and we've heard some questions about that; can we lower the effective price by increasing the soft second and that kind of thing. And that's one set of circumstances and there's part of the country that only have that kind of problem.

And then there's other parts of the country that have -- and I think it's split in most places -- that have a problem with the property wasn't great to start out with; it hasn't gotten enough better to really make a sale possible as a single family residence. So what do you do? If it's NSP 1, maybe you can convert it to some sort of a public facility. Or if it's a vacant lot, what can you do with it that's not housing? If your housing market's not coming back anytime soon, are there some creative things in terms of community gardens or drainage retention swales or things like that that you could do so that you get into those.

And then I think the bigger part of that -- and we were just having a planning session with the consultants on this one this morning -- was how do you know? How do you know when you're not going to be able to sell it? How do you know that you need to shift your strategy from sales or rental to something else? And how do you make that analysis? What can you tell yourself? You don't want to back away from a sale if that's really going to happen, but you have to be honest with yourself.

So that's what we're going to be covering in that session on December 10th, life after acquisition or something like that.

Kent Buhl: Lots of life after acquisition.

John Laswick: We believe in life here; we're just trying to get to it.

Hunter Kurtz: One day we'll have one. [laughter]

John Laswick: Today the JPMorgan settlement was announced. I haven't gotten the details of it; some small amount of that is going to be money that goes to acquisition or demolition of abandoned structures. I don't know how that's supposed to work, but that would be an interesting use of these settlement funds.

Kent Buhl: Yeah. A lot of money to be divvied up there.

We've got a question here from Sarah, asking, "How do we report expenditures taken out of program income at closing?"

Hunter Kurtz: Just like regular expenditures in DRGR.

I'd recommend that Sarah go check out the webinar we did back in January about expenditures in DRGR. That will answer that question a lot better than I can. It's pretty much treated just like any other expenditure.

John Laswick: Right. You have to spend program income first. So we recognize that, and your expenditure requirement of 100 percent is 100 percent of your original grant amount regardless of the source.

And in relatively strong markets where houses are being bought and rehabbed and sold, they're having trouble getting to their grant funds because the program income stream is so robust. You won't be able to close your grant until you spend those original line of credit grant funds. But you get credit for those and it's treated just the way grant funds would be treated.

Kent Buhl: I've got a lot of expertise, as you can tell, from John and David and Hunter, and they're happy to answer any other questions you've got.

John Laswick: I'd be interested in hearing what kind of strategies people are using to advertise their soft seconds. Paul Webster has said you can't really guarantee a certain amount or it can't be a flat rate because then you might be unduly enriching somebody. You can't say "$25,000 to everybody." But you can say -- as Hunter said before -- "subsidies ranging from $10,000 to $25,000" or something like that.

But I don't know what people respond to or how sophisticated some of these buyers are in terms of going after getting as much as they can. So it would be interesting to know from some of you who've had success in that area, just what worked for you.

Kent Buhl: You can send those in the Q&A, or if you're connected by telephone and you have the phone icon to the left of your name in the participant list, you can click the "raise hand" button, too.

One thing that will happen when we're done, you will automatically be taken to a SurveyMonkey website with a few questions there for you. We always appreciate your feedback. Written feedback is especially valuable. Note that that's not a good place to ask programmatic questions where you want a response because it doesn't get to those people for a number of days. Just a place to let us know how we're doing, what you'd like to see more or less of in the future. And thanks in advance for answering that survey.

John Laswick: Yeah. Those are valuable to us. But if you are having a programmatic question, call your field office or write into the Ask A Question box at the OneCPD website. Our volumes in NSP questions has dropped to amazingly low levels; I think that's because you all know what you're doing out there. But the capacity to answer those is still there. They're getting turned around in two to three days.

So if you feel stuck, reach out and get some help. There's no cost. If you need more than just a question to be answered, you can request technical assistance, anywhere from a few hours to onsite technical assistance depending on the situation. That's available.

We're scouring right now through our field offices to look at the grantees that seem to be lagging behind somewhat and try to see if they need some TA. We have capacity for that. Again, there is no charge for those things. We have a good group of technical assistance providers, consultants who've been doing this a long time. So don't hesitate to reach out for a hand there.

Hunter Kurtz: Yeah. There's going to be no penalization for asking your field office or TA for help. We want to help you.

John Laswick: We think that's a good thing.

Kent Buhl: In terms of promoting soft second programs, Hoshang says that perhaps a percentage of the first loan is one way to promote it; that would not encourage undue enrichment. Thank you, Hoshang.

Diana asks, "What could we use to demonstrate that there is not undue enrichment if the development subsidy needs to increase?"

John Laswick: Well, if you mean development subsidy in the HOME sense, the HOME sense of "development subsidy" means the difference between the development cost and the appraised value, in which the development cost exceeds the appraised value.

That is what it is. I mean, nobody's getting enriched unless you're overpaying the developer or overpaying the contractor. The percentage ratio is just a function of the current prices in your market.

I mean, Inalbert works in Orlando; their values went down 70 percent. Construction costs didn't go down 70 percent. So you buy these houses and fix them up, and your costs -- if they're good costs, if they're legitimate, accurate costs -- they are what they are. And that's what we're in business for, because these markets are frozen and they're not functional right now. And in order to get them unfrozen you have to go in there and make these improvements. If you're improving a house that was a blight on the neighborhood, that $30,000 that you lose on it, you think you're losing, is actually an investment in the entire neighborhood.

Now, the other kind of subsidy is a direct subsidy. A direct subsidy is the difference between the market value and what the family pays for it. So there's a couple of basic ways of conveying a direct subsidy, a grant or a loan. It's your call how to split that up or if you use a grant at all.

But most grantees have some sort of a secured soft second that works like a grant, but if the family sells the property after a couple of years, is returned to the grantee for use in other projects. So the way to protect yourself in a direct subsidy situation is to securitize it through a second mortgage, and then you can put whatever terms on that that you want. If the family stays in the house for 15 years and they earn it all, more power to them. If they leave after three years, you get most of it back That's how you protect against undue enrichment in a direct subsidy.

The development subsidy is frustrating. You don't want to pay more than the property's worth. But the reality is right now the properties are worth less than their worth. The appraisals are artificially low in the same way that they were artificially high five or eight years ago. It's just something you go through.

But if we don't respond to that and if we don't step in and fill that gap with the NSP funds, then it continues to fester and the neighborhood gets worse and worse, and the $30,000 that you feel like you lost on that house actually becomes a much more expensive loss for the entire neighborhood.

So that's why we're here. We exist because of market failures. We try to undo the negative effects of that.

Kent Buhl: So at Pacific time we're at high noon; 3:00 on the East Coast. It seems like we've come about to the end of our questions. We'll take others if they come before we actually close. But any final words from John, David, or Hunter today?

Hunter Kurtz: Have a great Thanksgiving.

Kent Buhl: Indeed. That is coming right up, isn't it?

John Laswick: That's true.

Kent Buhl: Well, we would like to thank John, David, and Hunter for being with us today and providing their expert guidance. Thank you so much. Thank you all for being with us today as well, and we look forward to seeing you on December 10th for the to-be-sexily-renamed [sic] dispositions strategies webinar.

Happy Thanksgiving to all of you, too, and we'll see you on December 10th. Thanks, everyone.