2017-2018 Building HOME Webinar Series IV
Chapter 4 - Homeowner Rehab Activities

Kris Richmond: All right. Welcome back, everybody, chapter four: homeowner rehab activities. My name is Kris Richmond. I'm with ICF, and I'm joined by my colleague Shawna Moraille today. So we're going to start off with chapter four: homeowner rehab activities. It's a fairly short chapter, and then Shawna's going to start her presentation on chapter five, the homebuyer's section. We'll take a 10-minute break around 2:00 o'clock or so, and then Shawna will finish out the remainder of her chapter.

I want to remind everybody that tomorrow we have our office hours. Again, that will be at 1:00 o'clock Eastern Time. That session will be recorded. If you're unable to join us, we will be reviewing our homebuyer exercise. Shawna will task you with that, and we'll go over those answers tomorrow.

And then next week on Wednesday, February 7th we'll be having a two-hour session on chapter six, the rental chapter. So we're going to take the whole time next Wednesday going over rental, and then on Thursday, February 8th we'll be reviewing the tenant-based rental assistance chapter and then finishing that out with office hours. So next Wednesday we'll just be doing rental, and then Thursday we'll do TBRA and office hours, and that Thursday will still only be an hour though. So we'll be able to review all that material.

I want to remind everybody, if you need to ask a question about the content, if you didn't understand what I said or you had a question about something that you're doing in your community, you want to type that in in the Q&A box. That's the question and answer box. You can see the icon at the top of your screen. You just click on that, and you can type in your question and push send. And then if you have a technical issue, if you can't hear anymore, or something goes crazy with your screen, you want to click on the chat box and type in your note in the chat box and send that and Mike is helping to support us today and he'll be able to get back to you quickly on the chat box. So let's get started.

We are going to be starting off with a poll so that we can see how many of you are actually funding a homeowner rehab activity. So if you could go into the poll, Mike is going to open up that poll, and if you could just say yes, we're doing homeowner rehab or no, that gives us a good sense as we start our training today on who's administering this type of activity.

Michael Reich: The poll is closing in 15 seconds.

Kris Richmond: Thanks, Mike. Great. Okay. So it looks like about half of you are administering a homeowner rehab program, and the other half are not. So hopefully, after you hear the information today, you'll feel like this is a good activity and that you might have these types of needs in your community that you want to look into designing this type of program.

So there are different ways to set up this type of program. A lot of PJs or participating jurisdictions, they might decide to have a homeowner rehab program in a targeted neighborhood within their jurisdiction. Maybe they've identified a particular neighborhood that they want to really focus and concentrate on and revitalize that specific neighborhood. So they might have a targeted neighborhood for their homeowner rehab program. They might decide to do community-wide.

So maybe it's their whole jurisdiction, that whole geographic area is eligible for their program. Maybe you're working a PJ and you want to work with a special needs population. So maybe you're setting your program up specifically to work with special needs, or maybe you want to set it up to work with a target population such as the elderly. So these are all different decisions, design decisions that the PJ would make when they're setting up this type of program. You just would want to make sure it's clearly identified in your consolidated plan what type of program you're going to be administering.

You also want to think about how are you going to select your homeowners as well. Are you going to set up your program to be first come, first serve? Are you going to do a lottery, or maybe you're going to set up some type of selection criteria? Maybe you're going to accept all applications, and then you have a selection criteria identified or you're going to rank those applications perhaps based upon some pre-established criteria, maybe such as need or income level. So different ways you can set up these programs.

So PJs can assist existing owner occupants with different types of rehab activities. So the two most common that we see are rehabilitation or reconstruction. And so rehabilitation is alterations, improvements, and modification, and then reconstruction is where you're demolishing the existing unit and you're replacing it with the same type of unit. And when we talk about the same type of unit, we mean if it's a stick build house and we're demolishing it, we're replacing with stick build house. That's [inaudible] by the same type of unit.

Also needs to have the same number of units. If we decide to add more units, that's not considered homeowner rehab. That would be new construction, and we would need to be following different rules for that. So we're not adding any number of units under the homeowner rehab program. We can, though, however, add more bedrooms or we can reduce the number of bedrooms. So bedroom size and numbers can change, but we cannot change the number of units. So rehab or reconstruction, those are the two types of eligible activities we would undertake.

So since all HOME projects must meet certain codes and standards, we cannot have weatherization, emergency repair, or handicapped accessibility as a stand-alone program. We can do different components of weatherization and emergency repair, handicapped accessibility in combination with a rehab program, if we are bringing the entire property up to codes and standards. Weatherization, emergency repair, or handicapped accessibility are better served stand-alone programs with the CDBG program, not with the HOME program, because remember every time we use HOME funds, our entire property needs to meet our minimum property standards upon completion.

So there's many different ways and forms to provide assistance. The PJ's going to choose to finance -- they might just choose to finance all of the rehabilitation costs, or perhaps they just fund a portion of the cost. So that's the decision that's going to be made in the design phase, but what the PJ decides to use as a subsidy, again, is really up to the PJ. So HUD allows the PJ the flexibility to design their program based upon the needs in their area. And remember we talked about this when we were together the first week.

We reviewed these in the general program rules section. The most common that we see in the homeowner rehab program are grants. This is where the money is given outright. We also see deferred payment loads. Sometimes you hear these referred to as DPL. It may be where they're repaid, or maybe it's repaid upon transfer of title. You also might see below market interest or non-interest bearing loans.

If the owner has the ability or perhaps they have the income ability to pay on a monthly basis, you might see the low interest loans. Some other assistance could be loan guarantees. This is a written promise to pay the lender a certain percentage. Perhaps you have interest subsidies as we're buying down the interest rate. There's lots of choices. You have to pick the one that matches your community needs and is really politically tolerated.

So what can our HOME money pay for? Well, there's lots of different eligible costs. You need to remember that rehab is subject to the minimum and maximum subsidy requirements, and remember the minimum is $1,000. If it's a single unit, one unit, that's $1,000. If you're working with a property that's two to four units, that $1,000 is an average of the minimum amount, and then we have that maximum subsidy requirement that's we provide -- we receive that from our HUD office.

But we can use our HOME money to pay for hard costs, soft costs. There's a really nice chart that you can find on page 4-4. So if you don't have the chapter printed in front of you, you might want to write down page 4-4, and it's exhibit 4-1 is the exhibit number that provides some examples of hard and soft costs that are eligible. So some examples of hard costs for rehab or reconstruction, these would be materials, maybe wood, roofing, siding, cabinets, those types of things. Perhaps some of the soft costs would be financing fees, credit reports, appraisals, any type of accessibility units can be paid for, utility connections, relocation costs.

So remember this is a voluntary program. So if we are dealing with a single unit, the Uniform Relocation Act is not triggered, but we can use our HOME money to pay for temporary relocation. Perhaps that household can't stay in that unit during the rehabilitation. Maybe there's some safety issues. Maybe they don't have access to water or a bathroom or kitchen. We would want to temporarily relocate them. We can use our HOME money to pay for that. If we're working -- if our program is set up to work with two to four units and we have tenants that are living in those other units, then the Uniform Relocation Act is triggered, and those tenants are protected by the Uniform Relocation Act. And we would use our HOME money to help pay for relocation costs for them as well.

We are not allowed to use HOME money for luxury items or off-site infrastructure. Remember only on-site infrastructure is eligible, but HUD wanted to remind you that air conditioners, dishwashers, and minor landscaping is not considered luxury. So you can include those in your work write-ups, if there's a need for those items. And sometimes you might find that you want to use more sustainable items, maybe a better -- a certain fixture or maybe certain countertops. Maybe they have a longer life. If you are able to document that they are cost-reasonable and that return on investment is there -- maybe there's a longer useful life or maybe there's better energy efficiency, then that's okay. We just need to be able to document that.

So refinancing cannot be a stand-alone activity, but it can be done in combination with rehabilitation. So if you have a rehab program, you can rehab and refinance, but you're not allowed to have refinance only. So as long as it's done in combination with your rehabilitation program, you could do refinancing, but you need to ensure that the house is owner-occupied, that this is the one time where HUD determines the type of subsidy that's going to be used. So if you are doing refinancing and rehabilitation, this is the one time that HUD says these funds must be loaned.

So no grants allowed if you're doing rehab and refinancing. It must be loaned. You must be able to document that the cost of rehab is exceeding the debt to be refinanced and that you're showing that the cost to the borrower is being made more affordable so that you are able to show that it's more affordable to that household to continue living in that unit if you refinance the loan for them.

Let's take a quiz here. So Mike's going to set it up as a poll, but if you could choose which of the following is not an eligible cost. So go ahead. I see the poll is up there. So if you could choose A, B, C, D, or E, whichever you think is the correct answer. Which of these eligible -- which of the following is not an eligible cost?

Michael Reich: The poll is closing in 15 seconds.

Kris Richmond: Great. So I see that the majority of you got the correct answer. The correct answer is C. Jacuzzi tubs is not considered an eligible cost. Windows, air conditioning, and cabinets are considered eligible. You would want to make sure those are identified in your property standards so that eligible homeowners would know what the PJ is going to pay for and what they're not. Some people might say, oh, what if it's an elderly person and they have a medical reason for a Jacuzzi tub? Well, that's a special circumstance that would need to be reviewed. That would be part of your policies and procedures as to whether you would allow that or not, but in general Jacuzzi tubs are not considered an eligible cost in the HOME program.

So let's move on. How can we use our nonprofit partners for us to assist low-income homeowners in our community? Well, there's many different ways that nonprofits can play a role in your homeowner rehab program. They can work as subrecipients. So remember this is subrecipients and nonprofit or a public agency who administers a program on behalf of the PJ. So they could be running the homeowner rehab program for you. They could work as competitively procured administrators. Maybe they're going to do certain parts of the program, perhaps marketing.

Maybe they're going to be translating materials into a different language. They could work as community advocates or advisory groups. They could also work as counselors to owners. Perhaps they are going to be giving counseling on how to do home repairs or maintenance or keeping your home up. Those are all different ways they could be working with the homeowner. And we do want to remind you that homeowner rehab is not an eligible CHDO set-aside activity but a CHDO could wear that subrecipient hat and they could administer the program for you as a subrecipient but they would be using those regular program dollars. Cannot be using CHDO set-aside funds for homeowner rehab.

So what kind of property can a PJ assist using HOME under the home rehab activity? Well, remember it has to be owned, because this is homeowner rehab, and it has to be occupied by an income-eligible homeowner. So that's somebody who is at or below 80 percent of the median family income. So at or below 80 percent is what we're considering income-eligible in the HOME program. Now, maybe your PJ is having a lower income level and that's okay but HUD sets it at at or below 80 percent.

It also needs to be the owner's principle residence. So the PJ is going to define what they consider the principle residence, and principle residence is where the resident lives the majority of the calendar year. Most PJs that we work with don't have a problem with this. There are some PJs -- there's a number in Florida where they have a lot of snow birds that come down, and sometimes this is an issue.

And so they define in their policies and procedures what they consider a principle residence, and they'll say -- a number of them that I've seen have listed out; you must live in this home 11 out of the 12 months of the year. That's what they're considering the majority of the time, but it is up to the PJ to define what they're considering majority of the calendar year.

In the homeowner rehab program we are working with single-family housing, and in the HOME program single-family housing means one to four units. We could also help rehabilitate or recon- -- rehabilitate a single unit in a condominium unit or perhaps a cooperative or mutual housing unit, if it's recognized by state law as home ownership, or we could rehabilitate a manufactured home. Again, it's up to the PJ to decide what types of properties they want to assist. I've worked with a number of PJs that have said, we don't want to rehabilitate manufactured homes, and that's okay. They just identified in their policies and procedures what they are going to be funding, what they consider an eligible property type for their homeowner rehab program.

All right. To be eligible, the unit has to be owner-occupied, and we need to be able to identify and define what type of ownership is going to be acceptable. So the HOME program allows a number of different types of ownership. The most common that we see is the fee simple title. You also can be eligible for this program if you have a leasehold. So if you have a 99-year leasehold interest or if you are on a community land trust or restricted Indian lands, it can be a 50-year leasehold, or if you're working in insular areas, that would be a 40-year leasehold.

So different types of leasehold interests the years vary depending on what type of interest it is. If you have ownership in a condominium, that is considered eligible, or again, like I said, if your own cooperative or mutual housing project and it's recognized by that state law as ownership. There are some states that recognize cooperatives as rental. If you're in such and lives in one of those states and you work in those states, then it would not be eligible, but if it is identified as ownership, then it would be eligible.

The new rule change expanded the definition of ownership. These new definitions now allow PJs to assist homeowners that have these types of ownership, if the occupant is low income and it's their principle residence. We still need to be determining, verifying income, that they're low income, and that we're documenting it's their principle residence. So it could be inherited property. This is where they're going to share ownership with other non-resident heirs.

The owner occupant does need to be low income, and they need to document that they're paying for the cost and the maintenance of the home. If they're able to do that, then you could assist somebody who's living in an inherited property. You can also assist somebody who has a life estate. This is where they have the right to live in the home until they die. They also are not paying rent to live in that life estate. You can assist someone who has an inter vivos trust. This is sometimes also referred to as a living trust.

This is where all beneficiaries of the trust have to be low income, though, in order for that to be eligible. And then the last new definition of ownership that's now accepted in the HOME program is called a beneficiary deed. This is where the document that's used to determine who gets the property when the original owner dies. Sometimes you hear it referred to as a transfer on death. It helps avoid probate but is not accepted in all states as ownership. So you want to work with your attorney and your counsel to make sure that beneficiary deed would be considered accepted in your state, if you're going to include that in your policies and procedures.

All right. The HOME program is focused on improving modest housing, and in order to use HOME funds the after rehabilitation value must not exceed 95 percent of the median purchase price for that area. So there are HUD value limits that are posted online, and you would need to determine the after rehab value and check that against the home ownership limits.

My next slide's going to talk about how we do that, but let's talk about what these value limits are. So they're published by HUD, and you would want to check against that. If for some reason the PJ believes that the home value limits understate the housing prices and they're not allowing the PJ to help owners in their jurisdiction, they might want to conduct their own local market survey.

That's acceptable. You're allowed to do that. It is something that you need to be updating annually. It is going to have to be submitted and approved by HUD before you're able to use it, and it is going to take staff time to put together. So just a couple things to keep in mind if you decide not to use the home ownership limits. If you want to go that local market survey route, just keep those different things in mind. It's going to take staff time, has to be approved by HUD, and you have to update it annually, but it is an option, if you decide that the home ownership limits that are published are not going to work for your community.

So to establish project eligibility for after rehab value, we have to establish that prior to the work being performed. So there's three different ways to determine if the housing is modest. The most common that we see is the appraisal. So the work write-up is done. The work write-up is handed to an appraiser who will determine what the value of that house will be looking at the work write-up as if the work was done. What would that value be? So they determine what that is. Again, no work has been completed yet. We haven't even started work. We're still in the phase of determining eligibility. So we take that work write-up, hand it to the appraiser. They would tell you this would be this particular value, and then you would check it against your value limits.

Another way that you can do this is to get an informed estimated value by the PJ staff. You do want to make sure you're document the basis for value, or you can do a tax assessment, if it's based on the market value of a comparable unit to post rehab. So we're just determining the after rehab value, and remember we need to make sure that we're doing this before any work is performed. We are really checking the eligibility of the property. So we have to check the eligibility of the owner. Remember it has to be owner occupied. They have to be low income and this stage is checking the eligibility of the property.

As with all HOME-assisted units, the properties rehabilitated with the HOME funds must meet certain standards. So they have to meet state and local codes. If there are no state and local codes in your area, it needs to follow the International Existing Building Code. Okay. So that's the first one and -- and -- so we usually have an "and" here. So I'm going to put the plus sign -- you have to have -- it has to meet your PJ written rehabilitation standards. And remember we talked about this last time. The rehabilitation standards describe the methods and the materials used for rehab.

So couple areas that were expanded with the new HOME rule. You have to meet health and safety of occupied units. So if they're life-threatening deficiencies, they have to be addressed immediately, if the unit's occupied and it's most likely. We're doing homeowner rehab. So it's going to be occupied. You have to meet the useful life of major systems, and remember for this we talked about these were structural support, roofing, cladding, weatherproofing, plumbing, electrical, heating, ventilation, air conditioning. That's what we're referring to as major systems. And for the homeowner rehab program at completion of the rehab all major systems must have a useful life of five years. If they don't have a useful life of five years, then they need to be replaced and identified in that work write-up that those systems are going to be replaced.

We need to be meeting the lead based paint standards. This is for all units that were built before 1978. These regulations are found at 24 CFR Part 35. We need to be meeting accessibility standards, if it's needed by the owner or if it's part of the PJ's property standards. And we need to have disaster mitigation, if applicable.

So that refers to if you're working in an area that's prone to disaster such as earthquakes, hurricanes, flooding, wildfires, you need to include disaster mitigation within your standards. And then the Uniform Physical Conditions Standards deficiencies, this is where you're establishing standards for inspecting the site, the building and exterior, the building systems, the UPCS. So that's what the new Uniform Physical Condition Standards are. So HUD's going to provide more guidance on the UPCS. So please watch for more guidance materials on that.

All right. The HOME rule also expanded that you now need to have inspections, and they need to be documented. It does also speak in the regulations of when those inspections are required. Most of you were doing these anyways, but now it's just identified in the regulations. So you need to do inspections. Initial inspection, this is where you're determining the needs and you're starting to put that work write-up together. You need to do progress inspections. This is during the work.

You often see a lot of progress inspections at times of payment as well. And you need to do a final inspection. This is after everything is done because we need to ensure that the unit is meeting all of our codes and standards. So you have to have procedures in place for steps to be taken if there's an issue or deficiency found during the inspection.

Now, the cost for the staff conducting these inspections are all project costs. So if this is an eligible HOME activity and you can charge those costs to the project. If it's initial and you do the determination and the home is not eligible and does not end up being a HOME project, then you would charge the cost for that initial inspection to your admin costs. But progress and final inspections, these can all be charged directly to the project.

All right. As mentioned earlier, there's no long-term affordability period required or set by HUD for homeowner rehab. So there's no monitoring. There's no restriction on whether you can assist this unit again or not. A lot of PJs decide that they do want to have a period of affordability added. Perhaps they invested quite a bit of money, and that's okay. You're allowed to do that, but you need to have that in your own policies and you want to have that in your written agreement.

And then you would need to follow the rule. So if you do have a period of affordability that you've added as a local requirement and perhaps you make them have it as their principle residence for 10 years, then you need to document for those 10 years that you've been checking to ensure that they're still residing in that unit for that time period.

Also want to point out in the chapter because this is the last slide that we have on these materials -- it's on page -- let's see -- 4-11 and 4-12. If you want to go back later and look at these, it's exhibit 4-3, and it's a really helpful chart that lists -- let me turn to it here -- the key HOME requirement and how you document it. And so it goes over owner income and how do you document that, occupancy, ownership of the property, property type, property location, how do you document minimum and maximum subsidy, property values, property standards, eligible activities.

If you're brand new to the HOME program, this is a really good chart to go back and look at, help remind you again of what the requirements are and then what is that document I need to have in the file so if HUD came to look at my program, I would be able to prove, I'd be able to document that I met that HOME requirement? So again, that -- it's exhibit 4-3. The name of the exhibit is summary of homeowner rehab rules and how to document, and it's found on page 4-11 and 4-12. A really neat chart dear to both myself and Shawna's hearts because we are monitors at heart. That's how we both started our careers in the HOME program.

So that's the last slide I have, Shawna, on homeowner rehab. Was there any general questions that came up that you think might be helpful for everybody here, or did you want to get started on homebuyer?

Shawna Moraille: Can you hear me okay?

Kris Richmond: I can. Yeah.

Shawna Moraille: So a few folks asked about the maximum limit for what's now called the HUD home ownership limits, which is used for homebuyer as well as for unoccupied rehabilitation, and I provided the link in the questions box.

A few questions related to what's considered the area, and it is done by county. It's the same as what was done previously when it was the 203(b) limit, which is the limit we used for years and years and years. And the only limits that are available today that you should be using are for 2017. We expect to get the 2018 limits at some point in the near future, and those of you, just like you registered for this course through the HUD Exchange, we also have a separate mailing list and hopefully you receive the mailing, which is the e-mail that comes out that says here's when the income limits are available. Here's when the value limits are available. Those always go out through a list serve. So I'd encourage you to do that.

A couple questions on garages. I would like to table that until tomorrow because --

Kris Richmond: Okay.

Shawna Moraille: -- only one place that I believe the garage guidance exists, and I need to pull it out and refresh my own memory. But it's a common question, which is why Kris laughed.

I believe that that's it in terms of just sort of common things --

Kris Richmond: -- Okay.

Shawna Moraille: -- here. So I think I have a poll to start out homebuyer. So maybe we can go ahead and get that started here, and then I'll tell folks a little bit about who I am after.

Kris Richmond: Okay. And I'll ask Mike