2019 Building HOME Webinar Series IV, Chapter 4

Kris Richmond: Good afternoon, everybody. My name is Kris Richmond. I am with ICF and I am accompanied today by my colleague, Les Warner, and we are continuing our virtual delivery of building a home.

Today, we will be going over the homeowner rehab activities. That's chapter 4. It's a pretty short chapter. And then last, we'll begin with chapter 5, homebuyer. We'll probably take a break after he's got started. And then we will continue on with homebuyer. It's a lot of material that we're going to be going over for the next couple of weeks. So it's going to be really important that if you haven't done so already, that you review the chapters after the sessions and do the homework.

We're going to be meeting tomorrow to do our office hours. So if we are unable to answer any questions that you brought up today, we'll make sure we try to address those tomorrow during our office hours. We'll be reviewing the answers to the homework tomorrow during our office hours. And then we also find it helpful during the office hours to review materials, the questions that came in that are pretty general and would be helpful for everybody to know the answers. Because I know it's hard to listen and take notes and then, look at the question panel at the same time. So we try to review some general questions that we think everybody would benefit from.

So I just want to say a little bit about myself because I wasn't able to join the last couple weeks. I've been with ICF for 20 years. Before that, I worked in local government, in Rockford, Illinois. And HOME is my expertise area. I have spent the last three weeks training on the lead-safe housing rule.

So I was in Buffalo and Chicago, and yesterday, I was in Kansas City going over the amendment for what to do with elevated blood lead level children living in your unit. I also work with communities on their [inaudible] and fair housing. And I may be the person that answers your questions on e-snaps, if you're working on your containment of care application. So that's a little bit about me. HOME is my favorite activity and program that I get to work with. So happy to spend some time with you today.

So let's get started. I think we're going to start with a poll. Since I can't physically see you, John's going to open the poll up so we can see how many people are funding a homeowner rehab activity. While you're entering that question of whether you're actually doing this activity or not, I should remind everybody if you have a question about the material that we're reviewing today, if you weren't quite sure of that concept that I explained and you need a little further explanation, you want to go into the Q&A box and click on that box and type in your question. And Les is answering that right now, and then, when Les is training, I'm going to be answering that.

And then if you have a functional issue, if, for some reason, you can't hear things anymore or there's a problem with your screen, you want to go into the chat box and send a note to the ICF event host. That's John; he's helping to support us today and he will get you back on your way. So John, were we able to get the results of the poll? Oh, there we go. Okay. So for those of you that answered, it looks about half and half. Half of you are currently running a homeowner rehab program, and the other half are not. Well, hopefully, after you learn about the different activities that you're able to do with homeowner rehab, you will maybe consider using the HOME funds in your area, using this program.

Before we dive too deeply into all the details, I just want to give you a real general overview. I mean, homeowner rehab is one of my favorite activities. I think it's really flexible. It allows a PJ to design the kind of program that'll work best for their community so they can target neighborhoods.

They can do revitalization in particular neighborhoods if they want to. They could target special needs populations. Maybe they want to target the elderly. They would identify that in their consolidated plan, that they wanted to target a specialized group. Or you could have a community-wide program. So I've worked with PJs that have done all different variations of that.

And then the PJ also can decide how they want to design their homeowner selection. Are they going to set up their program so it's first come, first served? Are they going to do a lottery? Are they going to set up some type of selection criteria? And if they do that, they'll receive all the applications. They'll rank those applications based upon some pre-established criteria, such as what is the need, what is their income level, that type of thing. So lots and lots of flexibility within the homeowner rehab program.

Let's talk about what we can actually do. So the PJs can assist existing owner-occupant - you might hear me refer to owner-occupant or homeowner rehab. It means the same thing, with two common types of rehab activity. So there's rehabilitation and there's reconstruction. But when I mention rehabilitation, I mean alterations, improvements, modifications to the unit, to the house. That's what I mean by rehab. And then we have reconstruction, and reconstruction is we're actually demolishing the existing structure and we're replacing it with the same type of unit.

So it has to be the same type of unit and the same number of units. You can increase the number of bedrooms or you can decrease the number of bedrooms. We cannot add additional units. If we add additional units, it would become new construction. And the reason that's important is because that would trigger an affordability period.

And for homeowner rehab, we do not have an affordability period. So if you're doing reconstruction, you need to replace it with the same type and the same number of units. And then all the work that we do within our homeowner rehab program, it must be performed according to the PJ's written rehab standards, and the unit has to be brought up to all applicable state and local codes.

So HOME may not be used for programs that only address a portion of the property's needs, such as a weatherization program or an emergency repair program or a handicapped accessibility program. Since all HOME projects must meet certain codes and standards, these types of programs cannot be a stand-alone program. When I worked for a city, we had a ramp program, and we used our CDBG money to pay for that ramp program. So these programs - these types of programs are better to be funded with your CDBG money, not your HOME money.

So there's many different ways and forms to provide assistance. PJs can choose to finance all of the rehab costs or a portion of the rehab costs. Just depends on how they set their program up, what are the needs of the households that you're assisting. So remember, this was talked about in the first week that you all met in the general program rules. But just to talk a little bit about the specifics for homeowner rehab. So grants are the most common that we see in the homeowner rehab program. This is where the money is actually given outright, no strings attached. They agree to be their principal residence and the money is given to them for the home to be rehabilitated.

We also have deferred payment loans. You might hear - refer to these as DPLs. Sometimes, I see these being repaid after a certain amount of time or at transfer of title. There's also below-market interest or non-interest-bearing loans. This might be an option if you have an owner who has an ability.

They have the income to be able to pay on a monthly basis, to pay back on a loan. So most of the households we're working with often do not have that ability to pay on a monthly basis, but if you are, if you're working with households that are able to do that, then you could choose to use below-market interest or non-interest-bearing loans.

HUD also allows you the flexibility to provide loan guarantees. This is where there's - the PJ provides a written promise to the lender to pay a certain percentage if the homeowner defaults on their loan. That's what a loan guarantee is. There's also interest subsidies. This is where the PJ would buy down the interest rate. And if you come up with another form of financial assistance, you would need to provide that in writing to HUD and have it approved before you're able to implement it.

So there are lots of choices. The PJ just needs to pick the one that best matches their community needs and is going to be politically tolerated. So I've worked in a lot of communities where they wanted to give out grants. And then I've worked in other ones where they wanted all their money back. And so, they decided they were going to do a loan. So just depends on what's going to work best in your area.

So remember, we talked about the minimum and the maximum subsidy requirements. So the minimum is $1,000 per unit. And so, if it's a single household, if it's one unit, the minimum would be $1,000. If you're working with two to four units, the $1,000 is an average of the minimum amount. And then we have that maximum subsidy, and that's the amount that you're going to get from your local HUD field office.

Now, most PJs, the households that they're working with need way more than $1,000. And so, that's usually not an issue. The maximum subsidy amount is usually fairly high. Sometimes, it's in the $200,000 to $300,000, and most PJs don't want to provide that much HOME money because they want to try to spread it out. So I've seen homeowner rehab programs anywhere from $20,000 to $70,000. So it'll vary around the country and definitely on the program design of what's going to work.

So almost all hard costs are eligible. Hard costs, we mean materials, wood, roofing, siding, cabinets. Those are all types of hard costs. Accessibility improvements are also eligible, as long as it's part of the entire house rehab. Remember, we're not only doing a ramp program. We are rehabilitating the entire house, bringing it up to the codes and standards. If that household needs a ramp in addition to a new roof and new flooring and new bathroom, then we can certainly provide accessibility improvements, but that's in combination with a full rehab. We can also use our funding for utility connections. We can pay for soft costs. Some examples of soft costs might be financing fees, credit reports. We can also pay for relocation costs. So relocation is - the Uniform Relocation Act is not triggered for homeowner rehab if it's a single household, if it's one unit.

Because that household voluntarily came to your PJ asking to have their home rehabilitated. So they're not protected by the URA. But you still can use your HOME funds to pay for temporary relocation. If it's - if the household doesn't have access to their bathrooms or their kitchens during non-work hours, they would need to be relocated. And so, you can use your home funds to help pay for that relocation. If you were working in larger units, maybe you do homeowner rehab with two to four units, then those tenants are protected by the Uniform Relocation Act.

We also want to let you know that you cannot use HOME money to pay for luxury items or off-site infrastructure. We're paying for on-site infrastructure, not off-site. But some people get confused about what's considered a luxury item and what's not. And so, air conditioners, dishwashers, minor landscaping, those are not considered luxury items. So please free to be able to write into your property standards that you are going to pay for air conditioning, if you live in an area where it gets really hot, or dishwashers. So these things are allowed to use your HOME money for.

I want to show you - there's a chart. Hopefully, you can see it here. It's Exhibit 4-1, and it's on page 4-4. This is the chapter 4 for homeowner rehab, and it provides a nice sample chart here if you're not quite sure of what some of the hard costs could be or what are some of the soft costs. We also often get a lot of questions about garages. Can we pay to have our garages rehabilitated? If the garage is attached to the house and it's written in your property standards, then that is okay. If the garage is detached, we cannot pay to have the detached garage rehabilitated.

Also, there's a lot of questions about driveways. Driveways are usually not eligible as a part of a rehab, unless it's considered a health and safety issue. But you might have a local community standard, and it might need to be addressed. So these are just things to look into. You need to look into your own property standards to see what's going to be covered.

All right. Refinancing. So refinancing cannot be a standalone activity, but it can be done in combination with a rehab project. So if you decide to do rehab and refinancing, it does have to be owner-occupied, because we're working in the homeowner rehab program. And this is the one time that HUD is going to tell you what kind of subsidy you need to use.

So if you decide to do homeowner rehab and refinancing, you have to lean the HOME funds. We're not allowed to do grants. It does have to be a loan. We have to be able to document that the cost of the rehab is exceeding the debt to be refinanced. Because, remember, the rehab is the primary reason that we're assisting the household. We're not primarily assisting the household for refinancing. We're primarily assisting the household for rehab.

And then we also need to document in our file that we are reducing the cost to the power and the housing is becoming more affordable as a result of this refinancing. But if you're able to document all those things and write up your program design that it's a rehab program in combination with refinancing, then that is an eligible use under the homeowner rehab program.

So let's do a quick knowledge check here. Which of the following is not an eligible HOME cost in the homeowner rehab program?

John: The poll will be closing in 20 seconds.

Kris Richmond: Thanks. Great. So the majority of you got the correct answer. The correct answer, which is not an eligible cost, is the jacuzzi tub. So C is the correct answer. Windows, air conditioning, cabinets, those are all eligible HOME costs. You will want to have those identified in your property standards that, based upon the conditions, that you would either repair or replace windows, air condition, and cabinets. So C is the correct answer for the quiz.

All right. So there are many different ways that non-profits can play a role in your homeowner rehab programs. Your non-profit might act as a subrecipient. Remember, we identified subrecipients as non-profits or public agencies that are administering a program on behalf of the PJ. So the non-profit could be a subrecipient running the homeowner rehab program for you, the PJ.

You could also competitively procure them as an administrator. They could maybe run certain parts of the program for you. Maybe they could do marketing. Maybe they're translating materials for you. They could work as community advocates or advisory groups. They could also be counselors to the owners. I've seen some counseling programs that cover home repairs, maintenance, that type of thing.

We do want to remind you, though, that homeowner rehab is not an eligible CHDO set-aside activity. So Les talked about the CHDOs last time you were all together. I'm going to go to the sheet cake [ph], which is on slide 14. Let's see if we can get there. Yeah. Here we go. So what said on the last slide is homeowner rehab is not an eligible CHDO set-aside activity. So we cannot use CHDO set-aside funds to pay for homeowner rehab.

This is part of our regular HOME dollars; right? So a CHDO could work as a subrecipient for you, but we're not able to access those CHDO set-aside funds. They are using the funds directly from our HOME - I call them other HOME funds. Our HOME pot there. Let's see if we can get back to our 124. Yeah. So they could work as a subrecipient, but not eligible to get that credit using that minimum 15 percent of our CHDO set-aside funds.

All right. So what kind of property can a PJ assist using HOME under homeowner rehab? Well, first, is location. We don't have that on the slide, but I want you to write down location, if I can get my pen to work right here. It needs to be located within the geographic area of the PJ. So you want to document that, that, yes, it's definitely in our boundary.

And then it has to be owned and occupied by an income-eligible homeowner. So you're going to do an income verification and you're going to determine that they're at or below 80 percent of the area median income. You might choose to have a lower AIM, but the HOME program, the maximum is at or below 80 percent of AIM to be income-eligible.

We need to document that is the owner's principal residence. So you would get a signed statement. Usually, this is part of your application. Or maybe you're going to check tax records or maybe get a copy of their utility bill, but you're going to check to make sure it's their principal residence. Now, most PJs, this is not an issue because most of the community - most of the populations that you're working with are very low-income and they do not have second homes.

I have worked with a number of PJs in Florida and in some other communities where there's a lot of snowbirds that spend time in two different places and they actually do own two homes. And so, in communities like that, the PJ is the one that really establishes the requirements for the principal residence.

So they identify as where the - principal residence is identified as where the household is the majority of the calendar year. So since the PJ decides what that requirement is, in some of these communities down in Florida, they've identified the principal residence as you must live in your household for 11 months of the year to be able to consider it as your principal residence.

So like I said, you need to look at the conditions of where you are and determine if that's going to be an issue or not. It does have to be a single-family unit, and single-family in the HOME program stands for one to four units.

So if you are working with units that are more than just one and there's going to be tenants in the other units and you are going to use your HOME funds to rehabilitate those other units, then those units, units two through four, would become rental units. So unit one is where your owner-occupant lives. The owner owns the entire building that has the four units. And so, they live in unit one. And then unit two, three, and four would be rental units, if you use your HOME funds to rehabilitate those.

And Les and I are going to talk next week about what the rental rules are, but they would have to be income-restricted. There are certain rents that need to be charged. And they also need to be maintained. If you're working with one to four units and you are only paying for the owner-occupant unit, then you would prorate some of the common area costs, such as the roof, some of those that are common areas. Those would be prorated if you're not paying for units two, three, and four, if you're only paying for the owner-occupant.

Also want to let you know that condominium units, like a single unit, that would be considered eligible, cooperative or mutual housing, if it's recognized by the state law as ownership. Then, that's also eligible under the homeowner rehab program. And then manufactured units are also considered eligible. Have worked with a lot of communities that say we don't want to use our

HOME funds for manufactured units, and that's okay, but HUD just wants to let you know that it is considered eligible if you choose to help that type of property.

So to be eligible, the unit has to be owner-occupied. And there's different says to document and determine ownership. So the most common that we see in the homeowner rehab program is fee simple title. You would do a title check. You'd get a copy of that title or the deed, and you would put it in your file. These other forms of ownership are also considered ownership in the HOME program. So if there's a 99-year leasehold interest, that's considered ownership. If you're on a community land trust or restricted Indian lands; that's a 50-year leasehold. If you're working in insular areas, that's a 40-year leasehold. Ownership in a condominium. And like I said, ownership in a co-op or mutual housing project, if it's recognized by state law as ownership is considered eligible for homeowner rehab.

I do want to let you know, though, that contract for deed is not considered eligible. We often get a lot of questions about that. It's not considered eligible because it doesn't qualify as ownership under the HOME program. Those occupants of a contract for deed are considered renter households, and they don't hold legal title to the property. So contract for deeds are not eligible in the HOME program.

When the new rule came out, it expanded the definition of ownership. I'm going to go over some of these, but they are found in the training manual on page 4-6. And so, you don't have to write copious notes. You can go back to the training manual and look on page 4-6 for a little more explanation about these.

But if the PG allows, they can decide if the occupant is low-income and it's also the occupant's principal resident that inherited property be eligible for the homeowner rehab program. So inherited property is where you're sharing ownership with other non-resident heirs. But the principal residence, the person living in there, is low-income and they're paying for all the costs and the maintenance of the home. That's what inherited property is.

There's also a life-estate. That would be considered eligible for homeowner rehab. This is where the person has the right to live in the home until they die and they're not paying rent. We also have inter-vivos trust. This is where there is a requirement that all beneficiaries of the trust must be low-income. Sometimes, you hear this referred to as a living trust. That would also be considered eligible.

And then the last one here is a beneficiary deed. This is a document that's used to determine who gets the property when the original owner dies. Sometimes, this is called a transfer on death. It helps avoid probate, but it's not accepted in all states. So if somebody's coming to you with a beneficiary deed, you want to check with your general counsel to make sure that's considered ownership in the state that you're working in.

And like I said, you can go back and look on page 4-6. Or it's found in the requirement - my pen is really not working today. Let's see. 92.254 in the regs. If you're a reg guru and you like to find things in the regs, that's where you can find the reg site about these additional forms of ownership in the program.

All right. Maximum property value. So to establish project eligibility, the after rehab value, so how much is this - what is the value of this property going to be after it was rehabilitated? That has to be established prior to the work being performed. We need to determine is this property going to be eligible? So there's three different ways to determine if the housing is modest, and this is our modest test that we're doing.

So the first way, and the most common way, we see is to do an appraisal. So you would take the work write-up and you would give that appraisal to an - you would do the work work write-up. And then you would give your scope of work to an appraiser. And the appraiser would then determine what the value would be.

So no work has been done, because, remember, this all has to be done for we can approve this project. But the appraiser has the scope of work and they know what the proposed work to be done is. And then they determine what the value would be based upon that tentative rehabilitation. So that's one way.

The second way is an informed estimate of value by the PJ staff. So this staff member understands values. They are also able to look at the scope of work and come up with a value of what the unit would be after the rehab. And then the third is the tax assessment. And the tax assessment is based on the market value of the comparable unit.

So you have to determine what the value is going to be. And then I'm going to skip back a slide here. And we are comparing that value to the HUD value limit. So there's - the HUD value limits are published annually. They're on HUD's - on the HUD Exchange. So we determine that value and we compare it against the HUD value limit.

When we're putting our program together, if we decide the HUD value limits understate the housing prices in our area and it's not allowing us to help our owners, we might want to conduct our own local market survey. So that's allowable. But remember, the - if you do a market survey, it's going to take staff time. It does have to be submitted and approved by HUD before we're able to use it. And it has to be updated annually.

All right. So talking a little more about property standards. So with all home-assisted units, properties rehabilitated with HOME money must meet certain codes and standards. So first, we have to meet all of our applicable state and local codes. And if we don't have any state or local codes, we are following the International Existing Building Code. And then in addition to meeting our state and local codes, I always like to put a plus sign here, we have to meet the PJ's written rehab standards. And so, this was introduced to you one of the first times you were all together.

But just to refresh, first, you have to meet the health and safety standards. So if there's any life-threatening deficiencies, those have to be addressed immediately. We also have to be looking at the useful life of our major systems. Remember, what are our major systems?

Our major systems are structural support, roofing, cladding, weatherproofing, plumbing, electrical, heating and ventilation, air conditioning. That's what we mean by major systems. And in the homeowner rehab program, at the completion of our homeowner rehab project, all the major systems must have a useful life of five years. And if they don't have a useful life of five years, then they have to be replaced.

We have to be following the lead-safe housing rule. This is all for pre-1978 housing. So if you have pre-1978 housing, you need to be following lead-safe housing rule, and that's found at 24CFR part 35, subpart J, is what you would be following for the lead-safe housing rule. If the owner needs accessibility and it's part of your property standards, you could be addressing - you need to be addressing the accessibility standards.

There's also disaster mitigation that's required. So if you are working in an area that's prone to disaster, such as earthquakes, hurricanes, flooding, wildfires, you want to make sure you're addressing that. And then we have our minimum deficiency list. So this is the list of inspectable items. HUD is going to be issuing that to us, and that's based upon the UPCS, the Uniform Physical Condition Standard. That's what UPCS stands for.

So the HOME program requires inspections to happen and be documented. They are required at these three different stages. So the first is the initial inspection. This is when you're sending somebody out there and they're - you're trying to determine what are the needs of the unit or the house. This is where you would start to put together your work write-up. Then, we have progress inspections.

This is done during the work. A lot of progress inspections are often tied to payments and payment review. And then we have to have our final inspection. So this is making sure that everything is completed, that we're meeting all of our codes and standards. If you're working with a pre-'78 house, we need to make sure that we're passing all of our clearance and providing all of our proper documentation.

So the PJ does need to have procedures in place for steps to be taken if there's an issue or deficiency that's found during one of these inspections. The project file is where you would keep your inspection checklist and the work write-up in the file as well. And so, the costs for the staff conducting these inspections are considered eligible project costs. So like I mentioned, there is no long-term affordability set by HUD for the homeowner rehab program. So there's no ongoing monitoring. There's no restriction on whether you can assist this household again, because there's no long-term affordability.

Now, many PJs do decide to establish their own local policy and do set up a period of affordability. So if you do decide to do that, you need to make sure that you set and follow your own rules. So if you say there's going to be a 10-year affordability period and they have to live there for 10 years as their principal residence, there should be documentation in their file that you're checking every year to make sure that they're living in there.

I also - this is our last slide. But I do want to show you some of the extra resources that are also in the manual, if you haven't had a chance to peruse the manual yet. Let's see. I think it starts on page 4-11. Scroll down here. We're on 7 - 8, 9 - 11. Okay. So at the bottom of 4-9 is one of the first summary charts that I think is really helpful.

If you're not super-familiar with the other federal requirements and what needs to be covered in homeowner rehab for the other federal requirements, this Exhibit 4-2 chart is a really nice way for you to get yourself acclimated and to learn what are the other federal requirements that apply.

And then there's another really nice chart - let's see. This starts on page either 4-12 or 4-11. Let's look at the bottom of 4-11. Yeah. Starts on the bottom of 4-11. So it's Exhibit 4-3. And it's a summary of what are the rehab rules and how do I document that? So if you're also brand new to homeowner rehab and you're not quite sure. Oh, Kris talked about principal residence, how do I know to document that it's their principal residence?

Well, we often see a clause on a application form. What about ownership? How am I going to document ownership? And so, this talks about the different steps going through your homeowner rehab program and how you document each one. So I highly recommend that you take a look at these two charts as well. So Les, is there any questions that came up that we should address before we dive into homebuyer?

Les Warner: Well, just a reminder to folks. We may not have mentioned it on this session. Folks were saying, well, gee, I guess the part that you're showing, but I can't see the lower [inaudible]. On any of those things, you have to actually scroll down your screen to be able to see full view [inaudible].

Kris Richmond: Oh, yes. I'm sorry. I've been lucky enough to be in-person with people the last couple of weeks.

Les Warner: [inaudible] We should just --

Kris Richmond: Les, you're cutting out a little bit. John, can you hear Les?

John: No.

Kris Richmond: Okay. Well, while we wait for Les to get back on, I'm going to take a look real quick to see if there was any questions that came in. Just let us know, Les, when we - you can hear us again.

Somebody was asking which chapters are we covering. We're covering chapter 4, which I just finished, homeowner rehab, and we're going to be going over chapter 5, the homebuyer program. That's going to be the next one that we go into. Let's see. Somebody was asking about refinancing.

Les Warner: It seems like the system thought I was talking too long.

Kris Richmond: I'm glad to have you back. I was just looking at the questions to see if there's anything we should be highlighting before moving into homebuyer.

Les Warner: I think we can take a pause here. We're going to pause the recording and then restart it, to start on chapter five. And we'll go into chapter 5 for a little bit and then take a break more at the mid-point on that. So John, if you will pause and then restart the recording.