

**FREQUENTLY ASKED QUESTIONS REGARDING THE TRANSFER OF NEIGHBORHOOD
STABILIZATION PROGRAM (NSP) PROGRAM INCOME**

*U.S. Department of Housing and Urban Development Office of Community Planning and
Development*

August 16, 2017

December 2019 Updated

Note: As of September 12, 2019 (see 84 Federal Register 48165), NSP grantees may elect to transfer all or part of any un-obligated program income as well as any future program income the grantee expects to receive.

GENERAL QUESTIONS

1. Why is HUD allowing the transfer of NSP program income to the Community Development Block Grant Program (CDBG) program?

A: The voluntary transfer of NSP program income to a CDBG program was put in place to assist grantees to expend all the awarded grant funds. In order to closeout an NSP grant, the grantee must have had expended all the awarded grant funds (line of credit). For many grantees reaching line of credit funds is, in many instances, administratively unworkable for the following reasons:

- For NSP grantees that are generating a substantial amount of program income, the requirement to use this program income prior to drawing additional funds from the grant's line of credit is impeding their ability to completely expend their NSP grant funds. These grantees are unable to close their NSP grants until all program income is spent, which could be at a point very far in the future.
- Some grantees no longer have an adequate pool of NSP-eligible foreclosed or abandoned properties in their target areas although they do have other needs that CDBG funding could be used to address.

2. The NSP Program Income Notice states that NSP program income can be transferred to the CDBG program. Can NSP program income be transferred to the HOME program or other grants also listed in IDIS?

A: No. The Notice of the Neighborhood Stabilization Program: Changes to Closeout Requirements related to Program Income (81 Federal Register 38730) published June 14, 2016, permits grantees under the NSP program who are also grantees under the CDBG program or have an open state CDBG grant to transfer program income. The Program Income Notice does not apply to grant recipients under other CPD-funded programs, including the HOME program.

3. Am I required to transfer my NSP program income to my CDBG program, or is it optional?

A: No, this is not a requirement. HUD is making transfer option available to NSP grantees as solution to address the issue of being able to expend line of credit (grant funds). Use of the transfer feature is solely at the discretion of the grantee.

What is the approval process for obtaining authorization to transfer NSP program income to the CDBG Program?

A: The grantee must send a written request to the field office identifying the amounts of unused NSP program income and, if the grantee chooses, the sources and expected future revenue streams of NSP program income proposed for transfer. The field office will verify the amounts in Disaster Recovery Grant Reporting (DRGR) system and ensure that the 25% set-aside has been met.

4. If we have not closed out our NSP grant, and we transfer some NSP program income to the CDBG program, can we transfer it back to NSP for use on an NSP activity, if needed?

A: No. Once a grantee has transferred NSP funds to the CDBG program, transferred NSP program income becomes CDBG program income upon receipt in the Integrated Disbursement Information System (IDIS) subject to all CDBG statutory and regulatory requirements for program income. CDBG funds are not eligible for transfer back to the NSP program.

5. If NSP program income is transferred to the CDBG program, and used for a CDBG homeowner assistance program activity for down payment, with a recapture provision, if the homeowner defaults, when the funds are returned, are they NSP or CDBG?

A: Once NSP funds are transferred into a CDBG program, they will always be CDBG funds and subject to all CDBG requirements but no NSP requirements.

6. What rules do I follow for spending program income earned through NSP after I have transferred the funds to CDBG?

A: Any transferred program income to CDBG becomes CDBG and is subject to all CDBG rules and regulations. If the grantee has held back some program income or has received more program income after a transfer and wants to keep it in the NSP program, the grantee follows the NSP rules and regulations.

ENTITLEMENT AND CONSORTIA GRANTEES

8. What if my organization is not a CDBG entitlement? How is program income treated for my organization before and after closeout?

A: Non-entitlement direct grantees and non-profit consortium members in NSP2 grant consortia that receive revenues generated by NSP projects do not have access to the state and municipal CDBG tracking systems. Therefore, the transfer option will not be available for private non-profit grantees. Non-entitlement communities may transfer program income to a CDBG program if that community has an open state CDBG grant.

Grantees that are not direct formula CDBG grantees (non-profits and non-entitlement local governments, including those that are part of a consortium), HUD requires that revenues generated by projects funded before closeout but received within 5 years after grant closeout must be used for NSP-eligible activities and meet NSP benefit requirements only; no other federal requirements apply to income earned more than five years after closeout. Program income received by a nonprofit more than five years after closeout will be treated as miscellaneous revenues, although HUD encourages such grantees to apply NSP principles to subsequent uses of the funds.

For grantees that receive NSP funding from States, the options for transferring program income are determined by the State. The sub-awardee of State NSP funds, must first obtain approval from the State to transfer NSP program income to the grantee's open CDBG grant. Then the State, as the grantee, must request approval from the local HUD office. Templates for requests can be found on the HUD Exchange.

9. Can an entitlement that is part of a non-entitlement NSP Consortium transfer program income to its CDBG program?

A: It depends on the terms of the consortium funding agreement between the lead applicant and the entitlement consortium member. NSP has maintained since the inception of the program that the members of a consortium are grantees, not subrecipients. If the consortium funding agreement allows the entitlement consortium member to retain NSP program income and the funds are not needed to ensure that the consortium as a whole meets NSP2 original requirements (such as the 25% set-aside), the entitlement may: 1) transfer the NSP funds to CDBG at grant closeout without the permission of the lead applicant; or 2) secure the lead applicant's permission to transfer the NSP program income to CDBG at any time including grant closeout. On the other hand, if the consortium funding agreement requires that program income be returned to the non-entitlement lead applicant, the only way NSP program income may be transferred is if the lead entity amends the agreement to give the program income to the entitlement member. In either case, if the transfer is carried out, the lead entity must ensure that DRGR reporting and program records correctly record the change.

STATE GRANTEES

10. Can States transfer NSP program income to their own CDBG program?

A: If the State requires in its agreement with their subrecipients and/or sub-grantees that all NSP program income is returned to the State, or the State has its own NSP projects, then yes.

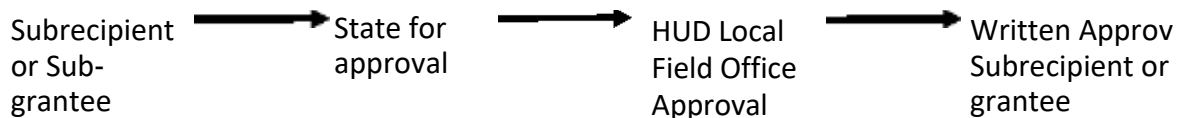
The State has the option of transferring some or all the NSP program income to their CDBG program. However, when they do so the **waiver granted allowing States to use NSP grant funds directly is lost** and the CDBG regulations take over. States must revert to their approved method of distribution to re-allocate any transferred NSP program income to a State CDBG program.

11. As a State NSP1 and/or 3 grantee, what actions must I take for transfers of NSP program income to either Entitlement or non-entitlement CDBG programs?

A: The state is required to develop written policies and procedures outlining the options for transfer of NSP program income either to an Entitlement CDBG program, non-entitlement open state CDBG grant, or to the state CDBG program. Further, the state must include the process their sub-grantees are to use when requesting state approval of a transfer. State approval is required before HUD is contacted for approval.

12. What approvals are required for transferring NSP program income if I am a subrecipient or sub-grantee of my state for NSP funds?

A. The first step is for the subrecipient or sub-grantee is to determine how much NSP program income is to be transferred. Then they must obtain written approval from the state for the transfer. Once the state has provided written approval, the subrecipient or sub-grantee is to follow the instructions provided in the “NSP Program Income Transfer Instructions” issued August 8, 2016.



13. I'm a sub-grantee from my state for NSP1 and NSP3. The agreement with the state allows me to keep and re-use NSP program income on NSP-eligible activities. Am I eligible to transfer NSP un-obligated program income to my CDBG program?

A: Any sub-grantee of a state NSP grant, may with state approval, transfer any or all of its NSP1 and/or 3 un-obligated NSP program income or any anticipated future program income to an open CDBG program (entitlement or non-entitlement) provided that either the original state NSP grant agreement or additional agreement clearly states that a transfer to CDBG is allowable and that the state approves of the transfer.

The language in the grant agreement will need to be amended or an additional agreement executed to cover the transfer of any NSP program income funds. The same terms and certifications that are included in a state CDBG grant agreement must be in any amendment or additional agreement. Also, in some cases, a substantial amendment to the current year's action plan may need to be amended on the CDBG side. The minimum requirements for a substantial amendment to a grantee's CDBG program are:

- Change in allocation priorities or method of distribution
- Carrying out new activities with CPD funds
- Change in purpose, scope, location or beneficiaries
(24 CFR 91.501 and the grantee's Citizen Participation Plan)

14. I am a state sub-grantee for NSP1 and 3. What NSP program income rules must we follow?

A: As with the Entitlement programs, states should develop written policies and procedures outlining the options for transferring NSP program income. Generally, the terms are set in the grant agreements between a state and its subrecipient or sub-grantee. Below are the most common scenarios for States:

Subrecipient or Sub-grantee is an Entitlement Community: If the agreement between the State and subrecipient or sub-grantee allows those entities to retain their earned NSP program income then 1) the State may allow them to transfer all or some or any future program income to their own CDBG programs; or 2) require that they continue with the NSP program; or 3) ask for the any or all future and/or any un-obligated NSP program income to be returned to the State for re-distribution using the state's established method of distribution of funds for CDBG activities. Items 1 and 3, require amending the agreement.

Subrecipient or Sub-grantee is NOT an Entitlement Community: When a subrecipient or sub-grantee is not an Entitlement Community, the State may 1) approve transfer of any un-obligated and/or any and all future NSP program income to the subrecipient or sub-grantee's open State CDBG grant; 2) require that they continue with the NSP program; or 3) request transfer to the state's CDBG program for re-distribution for CDBG eligible activities. Again, the grant agreement will need to be amended.

15. I'm a State NSP1 and 3 grantee. If I were to allow our subrecipients or sub-grantees to transfer NSP program income to their respective CDBG programs, am I required to also do a substantial amendment to my NSP action plan or my Consolidated Plan Annual Action Plan?

A: On the NSP side, most likely not. For CDBG, yes (question 2 above).

LOW-INCOME 25% SET ASIDE

16. How can I verify if I have met the 25% Set Aside Requirement for my Line of Credit and? Program Income?

A: Because it will become CDBG funding, the program income on hand that is being transferred is not subject to the 25% set-aside requirement. Therefore, first deduct the amounts of any unused NSP program income proposed for transfer (NOT including anticipated future revenue). Next calculate the amount of funds expended or obligated for set-aside projects. Divide that set-aside amount by the total grant amount plus program income used to date. If the result indicates that no less than one-quarter of the funds that would remain NSP funds after the transfer are for the 25% set-aside, this calculation will suffice to document the transaction to the field office and permit a transfer to go forward.

17. If I have NOT yet met the 25% Set-Aside Requirement, can I retain only the amount of program income needed to meet the set-aside requirement and transfer the remaining program income? Or must I meet the Set-Aside Requirement prior to any transfers?

A: A grantee does not have to have met the 25% set-aside prior to requesting a program income transfer. However, HUD has the discretion to determine the risk that the grantee will fail to meet the 25% set-aside (for grant funds plus program income expended to date) and decide regarding a transfer in that context. HUD may disallow the transfer if the risk of non-compliance with any NSP requirement is high or would be increased by the transfer. HUD may also allow a partial transfer of NSP program income to CDBG, requiring the grantee to retain enough NSP funds to meet the set-aside requirement.

18. If I transfer all NSP program income to the CDBG program, does this mean the 25% Set-Aside requirement does not apply to the transferred PI regardless of thresholds after closeout (annual PI that does not exceed \$25,000, and annual PI that exceeds \$250,000)?

A: That is correct because the former NSP program income is instead subject to all CDBG requirements, such as timely expenditures, income limits at 80% of Area Median Income, etc. The 25% set-aside amount is calculated on two figures: 1) The original grant amount, and 2) Any program income expended or obligated to date. As long as

that requirement has been satisfied, NSP requirements no longer apply to the transferred funds.

ADMINISTRATIVE AND PUBLIC SERVICE CAPS

19. Will the CDBG expenditure caps apply to the NSP program income funds transferred to the CDBG program? 20% for admin, 15% for public service?

A: Yes. After transfer, the transferred funds will be CDBG funds in all respects.

120% AREA MEDIAN INCOME HOUSEHOLDS

20. Can I still serve households up to 120% Area Median Income with amounts earned in NSP program income after transferring the funds to the CDBG program?

A: No. Program income transferred from NSP to the CDBG program will be subject to all CDBG statutory and regulatory requirements and loses the NSP requirements as well as NSP flexibility. The CDBG program is restricted to serving households up to 80% Area Median Income and so transferred funds will be subject to this same restriction, and grantees will NOT be able to use transferred funds to serve households at 120% Area Median Income.

CONSOLIDATED PLAN AND AMENDMENTS

21. Will I have to do a substantial amendment to my Consolidated Plan/Action Plan if I decide to transfer funds?

A: This is likely. This will depend on whether your intended use of the program income will change from the use described in your existing NSP1 or 3 substantial amendment or your NSP2 proposal, and whether this change meets the CDBG requirements for a substantial amendment. The regulations at 24 CFR 91.105(c) identify a change in the use of CDBG funds from one eligible activity to another as requiring a substantial amendment. For example, a small amount of program income transferred from an existing NSP rehab program to an existing CDBG rehab program covering the same geography might not trigger a substantial amendment. Grantees should also review their citizen participation plans.

The regulations at 24 CFR 91.105(c) and 91.505(b) require the citizen participation plan to specify the criteria the jurisdiction will use for determining what changes in the jurisdiction's planned or actual activities constitute a substantial amendment to the consolidated plan.

22. Will I have to do a substantial amendment to my NSP Action Plan in DRGR if I decide to transfer funds?

A: No, but you must look to the CDBG program to determine whether an amendment will be required to the CDBG Action Plan. This will depend on the scope and nature of the change. For example, if you dismantle an NSP RLF and direct its unused amounts and anticipated future revenue to the CDBG program, you will have some work to do in DRGR. On the other hand, if you are simply transferring unused NSP program income on hand and any anticipated future NSP revenue to the CDBG program, you should complete any affected activities, then upload to the Action Plan your written permission from HUD and annotate the overall QPR narrative in DRGR.

23. When transferring NSP program income to the CDBG program, what CDBG action plan year will it affect?

A: CDBG program income will be accounted for in the year that the program income was received into the CDBG program.

DRGR AND IDIS PROCEDURES

24. What changes need to be made in DRGR and IDIS to complete the transfer of NSP program income to the CDBG program?

A: In DRGR, any receipted un-obligated program income will have to be canceled. This is done at the activity level. Program income is receipted to the activity which earned it but is used on any activities set up in the grantee's action plan before any program funds are used.

25. What happens to NSP program income that is not transferred and stays in DRGR?

A: Funds not transferred to the CDBG program must continue to be used for NSP-eligible purposes and meet NSP reporting and compliance requirements before and after closeout.

Will HUD approval be needed each time NSP program income is receipted in IDIS or

will one approval cover all future transfers?

A: It depends. The frequency of approval is determined by the scope of the grantee's request to the Field Office. A grantee may request a one-time transfer of program income on hand. A grantee may also identify and ask for transfer of all expected program income from a activity or group of activities (such as a rehab portfolio). The two approaches may also be combined. Please note that HUD strongly recommends combining the two approaches to include all unused NSP program income on hand plus all future program income from identified sources. Once HUD permission is granted, then the grantee may receipt the amounts identified in accordance HUD's written permission.

However, the grantee is required to report all program income used and disbursed until the end of all affordability periods or for some grantees (nonprofits) the program income can be miscellaneous income (See NSP Closeout Guide for parameters).

27. How does the transfer of NSP program income to the CDBG program affect reconciliation of data in DRGR?

A: The grantee must make sure that its local financial records clearly record the transfer as permitted by HUD. Once a grantee has received HUD approval for the transfer of program income on-hand and any future program income, program income does not have to be receipted in DRGR, but the grantee remains responsible for reporting on any and all program income transferred to their CDBG program throughout the end of all affordability periods.

28. If I have transferred all my program income to CDBG, are there any ongoing reporting requirements in DRGR?

A: Only NSP projects funded from line of credit or un-transferred NSP program income will need to be reported in DRGR. Transferred funds will become CDBG funds and subject only to CDBG requirements. If the grantee receives additional program income before closeout it should be receipted in DRGR to the activity that earned the program income or immediately transfer it to CDBG with HUD's written approval. After closeout, program income is receipted in DRGR if the grantee intends to use the program income for continuing or new NSP activities. In all cases the grantee is responsible for reporting all program income received and either transferred to CDBG or receipted and used for activities.

29. What information needs to be reported on an ongoing basis in IDIS after the transfer of NSP program income?

A: Once NSP program income has been receipted in DRGR, it will be subject to the standard CDBG statutory and regular requirements. All IDIS reporting will follow the CDBG regulations.

30. What is the property registry referenced in the Notice? Draw the answer from this from the NSP part of the Closeout Notice?

A: The “property registry” referenced in the NSP Closeout Notice refers to the listing of NSP-treated properties that must be tracked in DRGR until the property is dropped from the grantee’s NSP property portfolio (registry). See Perf Rept 03 and 03b in DRGR MicroStrategy reports for required information.

31. When will IDIS enhancements to allow NSP registry and program income tracking be released?

A: HUD does not anticipate that will occur. NSP property may not be transferred to the CDBG program, but anticipated program income arising from the sale of NSP property may be identified as amounts to be transferred to CDBG. In such a case, the NSP property will be tracked in DRGR (post-closeout), but any program income would be receipted to the CDBG program in IDIS. Property registries will remain in DRGR for the foreseeable future.

32. Prior to the IDIS enhancement, will there be a way to perform the transfer of NSP program income?

A: Yes, on the HUD Exchange under the NSP program, one can find program income transfer instructions for the field offices and grantees in addition to these FAQs..

33. When I receive additional NSP program income after I have received approval to transfer my current NSP program income to my CDBG program, where and how do I track additional program income received?

A: Grantee’s must receive written HUD approval for all transfers to program income to a CDBG program. As of September 12, 2019, HUD now allows grantees to request a blanket approval for any and all future program income. All grantees must maintain their own program income documentation (spreadsheet is fine) outside of DRGR. After transfer to CDBG, the program income is tracked and reported in IDIS as CDBG program income.

Transferred program received after closeout is treated than same as before closeout. It is tracked as per a grantee’s established (preferably in writing) policies and procedures for the handling of and tracking of program income. It must be reported (transferred or not) in a grantee’s annual report after closeout and before closeout in the QPRs.

FREQUENCY AND TIMING OF TRANSFERS

34. Can I transfer NSP program income to my CDBG Program prior to grant closeout?

A: Yes, an NSP grantee may transfer NSP program income to its CDBG program at any time before, during, or after NSP closeout, as described in the Program Income Notice. Note that program income transfers must first be approved by the local HUD field office.

35. Can I transfer program income earned but unused prior to the issuance of the Notice - or do the changes in the Notice apply only to funds earned after the notice was issued?

A: Yes, a grantee may transfer program income earned but unused prior to the issuance of the Program Income Notice. NSP program income on hand at the time the Notice was issued, and program income received following the issuance of the Notice may be transferred to the CDBG program at any time before, at, or following grant close out.

36. After the initial transfer of NSP program income on hand, can I continue transferring subsequent program income into IDIS as it is earned until such time as there is no program income remaining?

A: Yes. HUD encourages grantees to identify future sources of NSP program income and are now allowed to request a blanket transfer approval for any and all future program income.

37. Is there a deadline by which the transfer of funds must occur?

A: No. After a grantee receives written HUD approval for a one-time or blanket approval for the transfer of any and all future program income, the transfer to IDIS must be done in a reasonable timeframe.

38. Will HUD waive or extend deadlines for meeting the CDBG 1.5 ratio due to an influx of NSP program income transferred into the CDBG program? Will HUD at least permit the transfer, understanding that it will impact the 1.5 ratio compliance as long as the Grantee submits a Plan indicating how it will address the issue?

A: There is no waiver but HUD will take into consideration a grantee's CDBG timeliness in approving requested transfers of NSP program income and for the first year after a transfer is made. The grantee's management of all their Federal grants will also be considered.

39. Can I transfer NSP program income on hand now so that I can access my line of credit funds, but retain program income earned in the future for NSP purposes? Or must all program income go to CDBG once the transfer option is selected?

A: As previously noted, use of the program income transfer option is voluntary. The grantee has the option of identifying which present and future NSP program income to transfer or not. HUD does expect the decision, once HUD grants permission, to be final for the identified amounts and any future sources. HUD strongly cautions grantees against choosing a transfer approach that involves multiple permissions from HUD as the staff resources are limited and processing delays could result.

40. Is there a limit on how much program income can be transferred to the CDBG program?

A: No. However, if a grantee transfers a large amount relative to its annual CDBG grant, the grantee is strongly advised to immediately develop and implement a work-plan (which may include a substantial amendment) to use the funds expeditiously and prevent CDBG timeliness issues in future years. Alternatively, the grantee may make several transfers of NSP program income in order to avoid imbalances in its CDBG program. Keep in mind also that large transfers will likely trigger a CDBG Action Plan Amendment.

RESOURCES AND TECHNICAL ASSISTANCE

41. Is there technical assistance available to help with the transfer process?

A: Yes, HUD and its technical assistance providers are finalizing a schedule for “DRGR Office Hours” to allow grantees to receive customized support from the best DRGR experts. It can be requested by sending an email to nsp-questions@hud.gov.

42. Will there be training for the updates to IDIS as it relates to the NSP program income transfer?

A: IDIS already has substantial guidance available on-line on how to receipt CDBG program income.