

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

Special Attention of:

All Secretary's Representatives
All State Coordinators
All CPD Division Directors
All HOPE 3 Program Grantees

Notice: CPD 99-2

Issued: March 23, 1999
Expires: March 23, 2000

Cross Reference: 24 CFR Part 572

SUBJECT: HOPE 3 Program - Procedures for Closing Out HOPE 3 Program
Implementation Grants and for Returning funds to HUD

I. Introduction

The purpose of this notice is to provide instructions for closing out Homeownership for People Everywhere (HOPE 3) Program Implementation Grants authorized by the National Affordable Housing Act of 1990, as amended by the Housing and Community Development Act of 1992. This notice supersedes prior closeout instructions contained in CPD Notice 97-13, issued November 19, 1997.

The HOPE 3 Program regulations provide, at 24 CFR 572.210(g), that recipients will comply with closeout procedures as issued by HUD. Closeout of HOPE 3 Implementation Grants will provide a systematic process of assuring that major program requirements have been met as specified in the program regulations at 24 CFR Part 572. These procedures apply to grants where the grantee has provided at least 70 percent of the homeownership opportunities in the HUD-approved application for the HOPE 3 Implementation Grant or the number of homeownership opportunities subsequently approved in an amendment to the application. Grants not meeting this criterion will be closed on a case-by-case basis with the assistance of Headquarters, Office of Affordable Housing staff.

II. Grant Closeout Procedures

- A. Criteria for Closeout. A HOPE 3 Implementation Grant will be closed out when HUD determines, in conjunction with the grantee, that the following criteria have been met:
- (1) Property Transfer and Project Completion Reports for all properties utilizing grant or match funds from the grant to be closed out have been submitted and entered in the HOPE 3 Program's Cash and Management Information (C/MI) System, and discrepancies in C/MI System data, if any, have been resolved.

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- (2) With respect to rehabilitation activities, the work to be assisted with HOPE 3 grant or match funds, or contributed as match, has actually been accomplished and the properties have been transferred to homebuyers. (NOTE: Where the homebuyer or another party remains responsible to complete some required rehabilitation with non-HOPE 3 funds, the grant may be closed out, although the grantee must monitor completion of such work.)
- (3) Other activities of the grantee under the grant agreement and applicable laws and regulations have been carried out satisfactorily, or, the grantee is in compliance with any corrective and remedial actions imposed by the Field Office as specified in 24 CFR 572.225.
- (4) All costs, except those related to closeout costs, contingent liabilities or replacement reserves as specified in the closeout letter, to be paid with HOPE 3 grant and match funds have been paid.
- (5) All required matching cash and other match contributions have been made.
- (6) A final grant amount has been determined by HUD after any adjustment for unallowable costs, and any amount of previously disbursed HOPE 3 funds found not allowable has been returned to HUD by the grantee.

B. Closeout Action.

- (1) When it is determined that the criteria for closeout have been met, the Field Office shall request a final Annual Performance Report from the grantee. The final APR shall include an accounting of all proceeds of initial sale, resale proceeds, and program income earned and expended during the grant period. The accounting of resale proceeds shall include proceeds returned to HUD as well as proceeds retained by the grantee. Grantees must submit the final APR within 90 days of the Field Office request.
- (2) Based on the information provided in the performance report and other relevant information (such as information contained in the Program's Cash and Management Information System), the Field Office, in consultation with the grantee, will prepare a letter agreement for closeout in accordance with paragraph (C) of this section. See Attachment A for a Model Letter Agreement for Closeout.
- (3) After receipt of the letter agreement executed by the grantee, HUD will cancel any unallowable portion of the awarded grant, determined under Paragraph II. A. Any unexpended or unallowable grant funds disbursed from the U.S. Treasury which are in the possession of the grantee, except for costs identified in Paragraph C. 1. below, shall be refunded to HUD. (See Section V. of this Notice.)

- (4) Any funds paid with HOPE 3 Implementation Grant, funds which have not been audited shall be subject to coverage in the grantee's next single audit performed in accordance with 24 CFR Part 44. The grantee may be required to repay HUD any disallowed costs based on the results of the audit.

C. Letter Agreement for Closeout.

Any grantee obligations remaining as of the date of closeout shall be covered by the terms of the closeout agreement. See Attachment A for a model closeout letter agreement. A HOPE 3 grant shall not be closed out subject to conditions other than those provided for in the attached model letter agreement. The letter agreement shall be prepared by the HUD Field Office in consultation with the grantee. The Field Office shall prepare an original and three copies of the letter agreement. Upon execution of the letter agreement by the CPD Field Office Director, the agreement shall be forwarded to the grantee. When the terms of the agreement are accepted by the grantee, the original and two copies of the agreement executed by the grantee must be submitted to the Field Office within 30 days of the date of execution by the CPD Field Office Director. If the agreement is not executed and returned to the Field Office within 30 days, the Field Office and grantee may need to renegotiate the terms of the agreement, since the program income, proceeds of initial sale and resale proceeds figures may be out of date. See Paragraph III below for instructions on distribution of the executed closeout letter. As shown in the attached model, the closeout letter agreement shall identify the grant being closed out, and include provisions with respect to the following:

- (1) Identification of any closeout costs, contingent liabilities or replacement reserves, subject to payment with HOPE 3 grant funds after the closeout agreement is signed;
- (2) Identification of any grant funds to be canceled by HUD.
- (3) Identification of any proceeds of initial sale or resale proceeds, and, where applicable, program income in the possession of the grantee at the time the closeout agreement is signed;
- (4) Description of the grantee's responsibility after closeout for compliance with all program requirements, certifications and assurances in using proceeds of initial sale, resale proceeds or program income on deposit at the time the closeout agreement is signed and in using any other remaining HOPE 3 funds available for closeout costs and contingent liabilities. HOPE 3 proceeds of initial sale and program income on hand at time of closeout must be used for costs eligible under 24 CFR 572.135(a) and (c) (proceeds of initial sale) and (d) (program income), respectively. HOPE 3 proceeds of initial sale, resale proceeds and program income received after closeout may be used for the activities described in 24 CFR

572.135, may be contributed to the HOME Investment Partnerships Program (HOME) as a cash matching contribution in accordance with the applicable HOME program rules, or may be used for other affordable housing activities as determined by the grantee. Grantees are not required to return to HUD any portion of proceeds generated from the use of resale proceeds. Proceeds generated from the use of the proceeds of the initial sale of HOPE 3-assisted property or from the use of the grantee's share of the proceeds of the initial resale of such a property are not subject to HOPE 3 program requirements. **NOTE, however, 50 percent of net proceeds from the initial resale of the property must continue to be returned to HUD.**

- (5) The agreement shall authorize monitoring by HUD, and shall provide that findings of noncompliance may be taken into account by HUD, as unsatisfactory performance of the grantee, in the consideration of any future grant awards.

D. Termination of Grant

Grant assistance provided under 24 CFR 572 may be terminated in whole or in part before the completion of the assisted activities, in accordance with the provisions of 24 CFR Part 84 or Part 85, as applicable. The grantee shall not incur new obligations for the terminated portions after the effective date, and shall cancel as many outstanding obligations as possible. HUD may allow full credit to the grantee for those portions of the obligations which could not be canceled and which had been properly incurred by the grantee in carrying out the activities before the termination. Proposals to terminate grants must be reviewed and approved by the Office of Affordable Housing Programs. At a minimum, grant termination proposals forwarded to Headquarters for review should include a summary of the activities approved in the application, the status of the grant, including units acquired and transferred, match contributed, the reason(s) for the termination, etc., and the Field Office's recommendation for actions to be undertaken by the grantee to terminate the grant.

III. Distribution of Grant Closeout Documents

Upon receipt of the original and two copies of the executed agreement from the grantee, the Field Office shall retain the original copy as the Field Office official file copy, forward one copy of the closeout agreement to the Fort Worth Accounting Center, Department of Housing and Urban Development, 1600 Throckmorton Street, Post Office Box 2905, Fort Worth Texas, 76113-2905 and a copy to the Office of Affordable Housing Programs, CPD, 451 7th Street, S.W., Room 7158, Washington, DC 20410, Attention HOPE 3 Program. In instances where HUD must cancel any undisbursed portion of the awarded grant (see paragraph II. B. (3) above), Field Offices must include a request to recapture the undisbursed funds with the Fort Worth Accounting Center's copy of the Closeout Agreement.

IV. Recordkeeping Responsibilities

The Field Office will keep all records concerning HOPE 3 Program grants for three years from the date of closeout. Each grantee shall retain records that clearly document its performance for a period of three years from the date of closeout of the HOPE 3 Implementation Program Grant. Records with respect to proceeds of initial sale and resale proceeds shall be maintained for as long as such proceeds are received and shall be retained for 3 years after the final proceeds have been received. The date of closeout is the date the closeout agreement is executed by the Field Office CPD Director.

V. Procedures for Returning Resale Proceeds and Other Funds to HUD for Remittance to the U.S. Treasury

- A. Remitting Funds in Amounts Less Than \$2,000. Funds being remitted that are in amounts less than \$2,000 may be returned using the Department of Treasury Financial Communications System (TFCS) described in this section or by sending a check payable to the Department of Housing and Urban Development. If funds are being remitted by check, recipients should send the check to:

Department of Housing and Urban Development
P.O. Box 277303
Atlanta, Georgia 30384-7303

The recipient should indicate the grant number, tax identification number, and property number, if applicable, on the check and include the following information in a cover letter accompanying the check:

- (1) Grantee Name
- (2) A statement that the funds are being remitted for the HOPE 3 Program
- (3) HOPE 3 grant number
- (4) Tax Identification Number (TIN)
- (5) Explanation of remittance, e.g., net resale proceeds, disallowed costs, etc.

A copy of the letter should be sent to: HOPE 3 Program, P.O. Box 23997, L'Enfant Plaza Station, Washington, DC 20026.

- B. Remitting funds in amounts greater than \$2,000. Funds being remitted in the amount of \$2,000 or greater should be wired to the U.S. Department of Treasury Financial Communications System (TFCS). In order for funds and deposit messages to be routed efficiently, all wire transfer messages must conform to the structured format described below:

- (1) ABA Number 021030004
- (2) Receiver Information: TREAS NYC/CTR/BNF=/AC-86-01-1101

- (3) Third Party Information: **HOPE 3 PROGRAM** (Name of Recipient, Recipient Grant Number, Recipient Tax Identification Number)
- (4) Explanation, e.g., net resale proceeds, disallowed costs, etc.
- (5) ATTN: HOPE 3-CPD

All wire transfers must be remitted through the HOPE 3 recipient's local financial institution. If the local financial institution is not a member of the TFCS, it must have a correspondent bank relationship with a member bank that will actually make the wire transfer to Treasury.