

## **HOME Final Rule: Overview Webcast Transcript**

Hello and welcome to HUD's Office of Affordable Housing Programs, Overview Video on the HOME Program Rule. I am Marsha Tonkovich with ICF International and I'm joined by Ginny Sardone.

Hi! I'm Ginny Sardone, the Acting Director of the Office of the Affordable Housing Programs at HUD. We administer the HOME Program.

This video is one in a series of videos about the New HOME Rule changes. This video will provide an overview of those changes to the Rule, but it's also followed by a series of other videos, which are summaries of the major sections of the Rule, and then what we're calling Micro Videos, which are a very limited specific topics, very short videos, which will cover not only the Rule requirement, but also some of the things you can do to implement the Rule at HOME. As you know, the HOME Program is the largest federal block grant of funds to state and local governments for Affordable Housing Programs and it's actually assisted more than 1.1 million units since its inception. The new Rule provides some additional flexibility, as well as some additional requirements related to the HOME Program. This video, as I said, is one in a series and we encourage you to look at all the other videos for additional detail as this webinar will provide an overview of the requirements. So Ginny, I know there were several factors that led to the implementation of the New HOME Rule. Can you give us a highlight of why HUD changed the Rule this time?

Absolutely! While we didn't publish our proposed Rule for HOME until late in 2011, we had been working on and considering a number of different types of changes to the Rule for a number of years, and in fact, we had conducted listening sessions with participating jurisdictions and with the associations that represent them early in 2010 to try and get their input into possible changes and their comments on many elements of the existing HOME Regulations. So some of the changes that you see in the Final Rule that was published on July 24 are actually in direct response to the suggestions that we received from Participating Jurisdictions.

Right.

So one example of that would be the elimination of the previous prohibition on PJs charging monitoring fees to owners of rental housing. Another example would be the establishment -- the establishment of a new role for CHDOs as owners of rental housing. In addition, there were a number of things that we did that were really clarifications of language that had existed in the previous HOME Rule and it was just really clear to us that participating jurisdictions sometimes misunderstood the intent or the actual -- how to implement those Rules. So we made a lot of clarifications just to make things a little bit more understandable. Then there were a number of changes that are in the HOME Final Rule that were really the result of HUD monitoring of PJs that we've done over the years. For instance, one of the things that we found is that there is a really strong correlation between a PJ having and following written policies and

procedures for their program and compliance or noncompliance. Therefore, you see in the Rule that we've established a requirement that all participating jurisdictions have written policies and procedures, because we feel that that will minimize noncompliance. Then of course there are a number of changes with respect to CHDO performance, and we've been concerned for some time about the performance of some CHDO organizations that had difficulty bringing projects to completion. So the new CHDO capacity requirements and the new deadlines for CHDO expenditure are a result of those concerns. And then of course in the HOME Program, timeliness and outcome reporting have always been very important to us. So in response to continuing concerns about that, we've established new deadlines related to project completion and project sale or project occupancy. And then finally, there were some existing HUD determinations or policies that have been longstanding policies in the program, but which are contained in administrative guidance, and we have added those to the regulations just for clarity. So an example of that would be for the first time the Rule reflects our longstanding policy that contract for deeds or land sale contracts are not a form of homeownership under the definition of homeownership in the HOME Rule.

Thanks Ginny for that review of why the changes in the HOME Rule were done at this point in time. Let's talk about those top 10 changes that were included within the new Rule, and we're going to be covering each of these 10 changes over the next sections in this video. So the first of those was a change to the definition of commitment and what counts toward the commitment definition. There also are a series of new deadlines that Ginny will go over that will cover some of the major changes in the way that you complete projects and report on that completion. Next, we're going to talk about CHDO capacity and CHDO roles and some requirements related to that, and then a series of requirements related to underwriting, subsidy layering, market assessment. On a similar note, we're going to talk about some new requirements related to financial oversight of frontal projects and how do you address troubled rental projects. Then we're going to move on to some things about homeownership units; so we'll talk about the changes in the value limits and the changes related to significant homebuyer program policies and how you assist homebuyers. The next important kind of change we want to talk about relates to income determination and how the definitions of income and the determination of income has been changed. Finally, we're going to talk about property standards and program administration and how each of those major changes affect PJs implementation of the HOME Program. Ginny, the new Rule revises the definition of commitment, can you discuss those changes?

Well, we really made three major changes to the definition of commitment. The first was the elimination of non-project specific CHDO reservations as commitments. So beginning on October 23, 2013 there will no longer be non-project specific reservations of funds to CHDOs. Commitments to CHDOs will actually have to be commitments to specific projects.

Okay.

The other major change that we made and this was in response to the realization that we had in reading public comments on the proposed Rule that many participating jurisdictions didn't understand the appropriate point in time at which HOME funds could be committed to a project. So we've actually clarified the definition of commitment to make it clear that a PJ can only commit funds to a specific project, when it has secured all the necessary financing to complete the project, when it has established a budget and a schedule for construction, and when it's completed the underwriting and the subsidy layering.

The other change that we made to the definition of commitment had to do with participating jurisdictions, primarily urban counties or consortia, but also other participating jurisdictions, entering into written agreements with related sub-recipients or PJ instrumentalities. And specifically what we mean here are organizations that are really part of the PJ governmental entity, even though they may be a separate organization. We have -- while those agreements can still be entered into, we will no longer be counting those as commitments for the purpose of meeting the commitment deadline.

Let's move on to the next issue. The new Rule establishes a number of project specific deadlines and deadlines for requirement of expenditure of funds. These changes were made in order to address timeliness concerns and ensure that programs are operated efficiently. Ginny, can you summarize some of these significant timeline changes? Sure! There actually are four new deadlines that are being established in the Final Rule. The first has to do with completion of projects. So under the new Rule a PJ must complete a project within four years of project commitment. And if the project isn't completed within that timeframe, HUD will consider the project to be terminated before completion, which essentially means that it's ineligible, and that the fund, the HOME funds would have to be repaid to the HOME account by the PJ. Now, there is an ability for PJs to come in and ask for a one year extension to that deadline, and in order to obtain such an extension they would have to submit to us information, like evidence of financing being secured, construction schedule, and information on the status of the project so that we could be assured that the project would actually be completed within the one year.

The second new deadline and this relates to rental housing, is for initial occupancy of rental units. So what the Rule requires is that if a new HOME unit, rental unit comes online and has not achieved initial occupancy within six months, HUD will ask the Participating Jurisdiction to submit information about the marketing on the unit that's already taken place, and if appropriate, HUD may also ask for an enhanced marketing plan, because we want to make sure that units that are put online are actually occupied and are benefiting low and very low income tenants. If the PJ could not achieve initial occupancy after 18 months from that initial completion, then the PJ would have to repay its HOME account the funds that invested in that particular unit. The third deadline has to do with the sale of homebuyer units. And essentially what we're requiring is that the Participating Jurisdiction ensure that homebuyer units that are rehabilitated or constructed with HOME funds are sold to a low income homebuyer within nine months.

If the property--excuse me--If the unit is not occupied by a homebuyer within that period of time, then the PJ would be required to convert the unit to HOME assisted rental housing that complied with all of the requirements of 92.252, or alternatively, if a conversion was not possible, they would be required to repay the HOME funds invested in that unsold unit to their HOME account.

All the rental requirements. Okay.

Correct, all the rental requirements. The final deadline that's new is a separate five-year expenditure deadline for CHDO set-aside funds. So we've always had in the HOME regulations a five-year expenditure deadline for all HOME funds, and what we've found is that good performance in a portion of a PJ's project has often obscured a lack of progress or a lack of expenditure of CHDO set-aside funds. So under the new Rule, beginning for deadlines that occur on or after January 1, 2015, we will be measuring CHDO commitments separate--excuse me--CHDO expenditures separate from all other expenditures in the HOME--of a PJ's HOME allocation to ensure that CHDO funds are being expended within five years.

Okay. Alright let's move on to the next most important set of Rule changes and that does relate to CHDOs, as you were just describing. So CHDOs of course nationwide have played a major role in the creation of affordable units, that million plus units that we talked about earlier that HOME has created. But in some places, in some communities, CHDOs really don't have the capacity to complete those projects that they've taken on, and as you just mentioned, in some places the money has been left on the table. Can you highlight some of those major Rule changes that you've made to the CHDO definition and the CHDO Rules?

Absolutely! You're absolutely right, Marsha, that there is definitely a problem in certain areas of the country in particular with respect to CHDO capacity, and what we have found is that in some places CHDOs may have been operating for a number of years without actually ever really attaining the capacity to develop and complete projects. Not the purpose of the program.

Exactly! So in response to that we have strengthened the CHDO capacity requirements. So essentially what we're saying is that in order to be designated as a CHDO the PJ has to certify that the CHDO has capacity and that capacity has to be demonstrated by the CHDO having paid staff with demonstrated capacity to perform the role for which the CHDO is being funded. It specifically prohibits the use of the experience of Board members, of donated staff, parent organization staff, or volunteers to meet the capacity requirement, which by the way is not the same thing as saying that you cannot use any of these individuals to assist the CHDO. It's simply for the purposes of the capacity test that we would not count the experience of those folks.

Those are the folks in Augment.

Exactly! And then with respect to consultants, we are going to limit the period of time that the capacity of a CHDO can include the capacity of a consultant. We did

experience some problems with that in the past, and so what the new Rule requires is that a new CHDO that is in its first year of participation as a CHDO in the HOME Program can count the capacity brought to the table by a consultant toward that capacity test, but after that one year period is over the CHDO would have to demonstrate capacity based only on its paid staff. In terms of the other change related to CHDOs, we've made some changes to the roles that CHDOs play. The HOME statute states that the CHDO set-aside can only be used for housing owned, developed, or sponsored by a CHDO. Now, for many years the description of what each of those roles is has been in administrative guidance, and so this new Rule for the first time promulgates those roles or codifies them in regulation. But we have made some changes to the roles that have been previously described, which we think will actually help more organizations to access the CHDO set-aside. So the two that I'll focus on is the new owner role for CHDOs. One of the biggest challenges that CHDOs have had is developing and maintaining development capacity to function on a continuing basis as a developer, and in a lot of cases small organizations or organizations in rural areas just didn't operate on a scale that made it feasible for them to develop or maintain development capacity. So with this new owner role a CHDO will be able to own and operate rental housing that it did not develop. This is really a very major change to the HOME Program. And essentially, a CHDO could acquire standard housing that did not need rehabilitation and own it as rental housing, or if it was going to acquire housing that either needed to be newly constructed or rehabilitated, the CHDO could hire a project manager or directly contract with the developer to oversee the development of the property, which it would then operate during the period of affordability. That is really going to increase access to the HOME Program for a lot of organizations that haven't been able to access the CHDO set-aside in the past.

Yeah, great!

The other change that we've made in the roles for CHDOs has to do with sponsorship, and we've kept the existing sort of role of sponsor, which is a CHDO developing a property on behalf of another nonprofit, sort of a turnkey kind of a model, but in addition to that, we have -- we've established a sponsorship role which would involve ownership and development of a project by a wholly-owned subsidiary of the CHDO or a partnership of which the CHDO or its wholly-owned subsidiary is either the sole managing member or the sole general partner. So this sort of eliminates some of the questions and problems that we've encountered in the past about who signs the agreement, who gets the loan, how do the HOME funds go into the deal. And so this really clarifies exactly how PJs should be treating projects owned in partnership in particular, which is very common for tax credit projects.

Yeah, it's been a really common set of questions that we've seen and it sounds like those role changes should really help a lot more nonprofits to participate. So let's move on to the next set of changes which have to do with financing and underwriting and market assessment and around subsidy layering as well. And these Rules have been changed to really look at project feasibility and financial viability and make sure that HOME projects really remain viable over that affordability period. These requirements

were referenced in the 2012 Appropriation and continue on in the new Rule. Can you give our viewers a sense of those requirements?

Sure! We're very concerned that our Participating Jurisdictions really look at the viability of a project with respect to, first of all, getting it developed and completed, but then also the sustainability of the project during the period of affordability, given the limitations on HOME rents. So essentially, we've always required subsidy layering in HOME projects, where HOME funds were being provided in combination with other sources of public funding. What's new in the Final Rule is we're going a step further and we're requiring our Participating Jurisdictions to establish written underwriting standards that ensure that HOME investment and developer return is not excessive. We're requiring PJs to assess the capacity of the developer to complete the development process, and also their fiscal soundness to ensure that they have adequate resources and liquidity to make it through the development process and get the project completed. Finally we're requiring PJs, as part of this underwriting process, before they commit HOME funds to a property, to assess the current neighborhood market demand for the project. And I think it's important for PJs to understand that the nature of that assessment is going to vary greatly with the project. You would expect to see a much more full market study done for a 200 unit rental project than you would for five HOME ownership units. But we feel as though these new requirements will really focus our Participating Jurisdictions on the ability to get projects done and to make sure that they're sustainable over the long-term.

That's great, and should really help in terms of ensuring that we have more viable HOME projects throughout the affordability period. Great! Okay, so let's move on then to our next set of questions and these relate to facts -- we are staying on rental projects and dealing with the issue of projects where there might not have been that rigorous underwriting, or maybe there was and the market has changed and we're now seeing issues related to the ongoing viability of that project and trying to address those troubled rental projects. Can you talk a little bit about the thinking behind these requirements and what the new changes are?

Absolutely! We've worked with a number of Participating Jurisdictions over the last several years that have projects that are financially or physically troubled, and what we learned from that process of doing work-outs, financial work-outs on these projects is that early intervention is the key to success. And so we wanted in this new Rule to make sure that we were setting Participating Jurisdictions up to be able to intervene early and increase the likelihood that they could work out the problems in a project. So in order to make sure that we had that early warning, we've established in the new Rule a requirement that for projects with 10 or more HOME assisted units, the PJ must assess sort of the financial condition of that project at least annually.

During the affordability period.

During the period of affordability, so that if they find that there are problems; revenue slipping, vacancy rates increasing --

...Rates going up.

Exactly! That they are in a position, either individually or with HUD's help, to intervene in that project so that it remains affordable housing for the intended period of time. And along with that requirement we've also put a new section in the Rule that didn't exist before. It's at 92.210, and it's called Troubled Projects. And in a number of cases where we've done work-outs with PJs, we've had to grant waivers and sort of make other accommodations. So we now understand sort of what the range of things are that we might want to do to facilitate a work-out. And so by establishing this new section we're giving ourselves in HUD headquarters the ability to take these actions without having to go through the waiver process. Work-out processes tend to be time-consuming and we don't want to have to layer a waiver process on top of that. So we feel this will give a lot more flexibility to HUD and to PJs to get work-outs done and to be able to put troubled projects on the right path.

So for example, a PJ could come to HUD headquarters and ask to put more HOME money into a troubled project and you would take a look at that and the new Rule enables you to do that without a waiver.

Exactly! The kinds of things that we can do under this section that we couldn't do before without a waiver are putting additional HOME funds in during the period of affordability, even using HOME funds for activities or cost that aren't typically eligible, like funding and operating reserve, and also reducing the number of HOME units in a project, if that's what's necessary to resolve the financial problem.

If required.

Exactly!

Terrific! Great! Well, those sound like some really important changes which will help address some of these troubled projects that we're seeing across the country. So let's talk about homebuyer programs, let's move on to homebuyer programs, and we know there has been a lot of conversation due to some of the changes that happened a couple of years ago related to the maximum HOME value limits and old 203(b) requirements. Can you talk a little bit about how this change to the 95% medium purchase price and the impact of that?

The HOME statute requires that either the sales price or the after rehab value of a HOME unit for homeownership not exceed 95% of the area median purchase price. So we're dealing with a statutory requirement. Since the beginning of the HOME Program we had been using the 203(b) limit, also known as the single-family FHA mortgage limit as a proxy for 95%. Over time the 203(b) limit became less and less of an accurate proxy for 95%. And based upon legislative changes that were recently made to the 203(b) limit, it is now pegged at a much higher purchase price than 95%. So we at HUD found ourselves in a position where we could no longer use the 203(b) limit as a proxy. We did in the proposed Rule sort of put out an approach for dealing with 95%, and I think for new construction we felt that what we had in the proposed Rule was going to work. But we got a lot of comments from PJs about their concerns about the price of

existing housing. So essentially, where we landed in the Final Rule is that we will be establishing separate 95% limits, what we call homeownership value limits, for new construction and for existing housing units.

By jurisdiction.

By jurisdiction, or by MSA, and in calculating those figures we are going to be using FHA data and GSE data. So essentially, what that accomplishes is it takes -- it removes from our sort of our universe of sales sale of housing units that are in very poor condition, because one of the comments that we got from Participating Jurisdictions, and particularly in rural areas, is that sort of in jurisdictions where the condition of housing stock is generally very poor, it was depressing the sales price. So we're using data that is likely to yield a higher median sales price, that is more in line with the sales price of housing that's in decent standard condition, which after all is what we're doing in the HOME Program. We're not --

We're not trying to buy at a sub-standard level, right--

Exactly! So we're using that data. And you're going to update these periodically?

Yes. We will be updating these figures annually.

Great!

With respect to existing housing, so this would be housing that we're buying and rehabbing, or it could be housing that's being purchased through a down payment assistance program or a homeowner rehab program, the 95% limit will be the greater of the HUD calculated 95% figure or 95% of the statewide median purchase price for existing housing. And so once again we feel as though the numbers that we yield through these two calculations should be in most markets fairly comfortable.

There's a couple of other changes on homebuyer programs also that relate to some of what we've seen in the recent foreclosure crisis over the last several years, and other lessons I think that you guys have learned as you've been out there looking at homebuyer programs and reviewing them and as the field offices have reviewed them. Can you talk a little bit about those changes to the homebuyer programs in general?

Well, I think everyone who is involved in the housing field has been very concerned about the foreclosure crisis that occurred for a number of years in the country, and thinking more about how we can avoid a repeat of that in the future. And so from the HOME Program perspective we felt that it would be appropriate for us to require Participating Jurisdictions to develop and implement homebuyer policies that would ensure or do more to ensure sustainability of the HOME ownership situation for the low income homebuyer over time.

Makes sense. Yeah.



So essentially, the first thing that our PJs are going to have to do is to develop underwriting standards for the homebuyer that are going to take into account housing debt, total debt, the household's recurring expenses, and their assets that are available for the purchase.

So can they afford?

Exactly! And they're also going to have to move away from the types of programs that some of them have run in the past, where every applicant receives the same amount of down payment assistance.

Ten thousand for everybody.

Exactly, irrespective of their need. So what we're really talking about here is underwriting each homebuyer to ensure that we're giving them down payment assistance that is going to ensure that this is a sustainable situation, but also --

For that family.

--for that family, but also not over-subsidizing people who have more assets, for instance, to contribute to a sale than maybe some others do. The other policy that PJs are going to have to adopt is what we're calling sustainable lending policies. Some people might call that anti-predatory lending. And what this really means is that PJs are going to have to examine the terms of private first mortgages that homebuyers secure, homebuyers who are receiving, for instance, down payment assistance or buying a property.

...Or something like that.

Exactly, or buying a property that was developed with HOME funds to ensure that the terms of the loan are reasonable and sustainable. So you would be looking at the terms of an RM, for instance, to make sure that there were not undo increases that could potentially occur in the future. Then the third policy that our PJs will have to adopt have to do with refinancing of those same private first mortgages that homebuyers have secured in the past. So we have many homebuyers right now who want to refinance and take advantage of the low rates, and that's absolutely understandable. PJs however will be required to look at the terms of the new mortgage to make sure that once again those terms are reasonable and sort of standard for the industry and there's nothing predatory or unsustainable about the refinancing. So essentially, PJs will be approving before they re-subordinate their loans.

Their existing HOME loans.

Their existing HOME loans on these units. Then sort of a separate requirement that's not really part of these policies and procedures, we will be requiring that every low income homebuyer who either receives HOME assistance to purchase a HOME or

purchased a HOME that was constructed or rehabilitated with HOME funds receive housing counseling.

Okay.

Now, we have given our grantees, our Participating Jurisdictions, flexibility to determine the length, the content, and the form of the housing counseling, but they have to ensure that some kind of housing counseling takes place that prepares the homebuyers, most of whom are going to be first time homebuyers, for dealing with not just the process of the purchase, but also sort of what is expected in a homeownership situation.

So it's not just my budgeting, but it's my ability to maintain the HOME and everything else during that affordability period.

Exactly, that's correct!

Okay. So that really takes a lot of lessons learned from the last couple of years about some things that we know didn't work and really puts in some new requirements to help ensure long-term viability of this housing. All right! Well, let's move on from homeownership and begin talking about income documentation and determination. So the Rule makes some changes about the definitions of income and how it's documented and determined. Can you--And a lot of that was common things we saw from PJs that they just didn't understand, and also there's been some changes in the Rules and some clarity. So can you give us a recap of how the income Rules are going to change?

Well, the first thing that we did was eliminate the Census' long form definition of annual income as an eligible form or an allowable definition of income.

Which nobody used anyway.

Nobody used it, and there are a lot of changes that have taken place with respect to the Census Bureau and the long form is not something that is still being used. So we felt that it was appropriate to eliminate it and notably we didn't receive one single comment on the proposed Rule where we proposed eliminating it.

Nobody is going to miss it.

Nobody is going to miss this. The other thing that we're doing, and this has been something that we've been telling PJs for a long time and we have in some other kind of guidance, but we've put it in the Rule for the first time, that Participating Jurisdictions need to use a single definition of income for each type of program that they run. And that's been policy for a while.

That's been policy for a long time. So what that really means is that if you're running a down payment assistance program that you choose a definition of income and that is the definition of income by which all applicants are evaluated for income eligibility. So you can't try different definitions on Mrs. Jones when she applies for down payment

assistance. Now, with respect to rental projects, we will permit different definitions in different projects, but the PJ has to determine which definition of income, so Part 5 or Section 8 definition of income or the IRS Adjusted Gross Income definition, they're going to permit a rental owner to use in a specific project.  
Okay.

So this is really all about equitable treatment, all applicants, but with respect to the rental projects allowing the definition to be established by project rather than for the entire rental program permits the Participating Jurisdiction to align requirements with other funding sources. So if it's a low income housing tax credit project, they're going to want to use the Part 5 definition, because that's what's used in tax credits. However, if it's a duplex or a triple-decker with a small owner or individual owner, the IRS Adjusted Gross Income definition is a lot simpler and that would be more appropriate for that type of project. So it's the PJ's choice, but we are requiring consistency.

And you want that in the policies and procedures.

Exactly! And then the other change that we made is that the Rule requires that when a Participating Jurisdiction or sub-recipient, state recipient project owner does an income determination to determine eligibility of an applicant for HOME assistance that they look at two months of income documentation. The HOME Rule was previously silent on what period of time or how long a period of documentation the PJ had to obtain. However, the technical guide to determining income and allowances for the HOME Program, which was first written back in the 1990s, has always required three months. So we decided that we really needed to put something into the HOME Rule and after obtaining comment on the proposed Rule, we determined that two months was a more appropriate timeframe and it was consistent with what private lenders require as well.

Great! That makes sense. And I'm sure you guys will update those resource materials in concert with that.

Yes, absolutely, we will.

Okay. Terrific! Well, let's move on then from income and let's start talking about property standards, because there are a number of major changes related to which standards apply and how frequently you have to inspect, and some of this was necessitated by things outside of HUD, where some of the national codes were changed many years ago and getting in line with that. But then there also are other inspections done for other types of financing and I think you wanted to sort of make HOME consistent with some of those other sources. So can you talk a little bit about these property standards changes?

Yes. So the new Rule establishes property standards for HOME assisted new construction, for rehabilitation, acquisition without rehab, and for manufactured housing. As in the existing Rule, PJs are required to ensure that HOME assisted projects comply with state and local building codes and standards, and in the absence of such codes

PJs are required to follow the codes that are cited in the regulation; so for instance, the international residential code. We delayed the effective date of the Property Standard Requirements for 18 months to provide HUD with adequate time to issue minimum standards for rehabilitation that will be based upon the Uniform Property Condition Standards or UPCS, and also to allow time for PJs to develop rehab standards that address at least those minimums that we publish or promulgate. Now, for projects with more than 26 total units that are being rehabilitated with HOME funds, we're now requiring a capital needs assessment. New manufactured housing is now going to be required to be on permanent foundations, and existing manufactured housing that's being rehabilitated must be permanently anchored in order to be eligible for HOME funding. So if you have a unit which for reasons of age cannot be anchored in any manner, it would not be eligible for HOME assistance and at that point in time we would recommend replacement of the unit.

Okay, which HOME could do.

Absolutely could do! Project inspections and completion inspections are now specifically required in the Rule. Obviously these were things that people were doing. It's been policy, but yeah.

And it's been policy, and that's construction management or rehab management process one-on-one. But we have had some situations where those kinds of inspections were not being conducted and so we've put that into the Rule to ensure that in all cases we have progress inspections and completion inspections to make sure that the work that's contracted is being done, and then at completion that the property meets the applicable property standards. Now, PJs can do these inspections themselves or they can contract out for the inspection to be performed by an individual contractor or under MLA with another funder.

But somebody who is responsible to them. Somebody who is responsible to them and who is representing their interests essentially during that inspection. In addition, PJs must ensure that rental properties meet state and local habitability codes and in the absence of such codes, properties must be inspected for compliance with UPCS, and this is intended to better align HOME with low income housing tax credits and USDA programs.

Right! Which uses those standards.

Correct! The housing world is moving toward those standards just as a --

This is part of that consistency across agencies that we talked about. Exactly! It's part of the attempt to align requirements across federal housing programs. Which makes sense, people are layering resources left and right. And then finally, with respect to ongoing inspections of rental housing, inspections will now or inspection protocols will now be risk-based. So that PJ is going to be required to perform an inspection of the property within 12 months of project completion, and then it

must inspect the property on an ongoing basis at least every three years thereafter. However, if in any of these inspections violations or problems with property conditions are found, the Participating Jurisdiction would have to develop a schedule for more frequent inspections of that project until it was assured that all deficiencies have been corrected and that the property was now being properly maintained.

Back on solid footing over time, okay. Terrific.

Exactly! Right.

Okay, great! All right! Well, our last set of changes deal with a group of different administrative tasks, having to do with monitoring and some about program income. Can you talk a little bit about these administrative changes?

Sure! There are a lot of different administrative changes and sort of new procedures and policies that PJs will have to adopt, but I will just try and focus on, I think probably what are the top three. So first of all, if you look at 92504(a), which is the PJ responsibility portion of the reg, what you'll find is that we are now requiring written policies and procedures be established for all aspects of HOME Program operation by the PJ, and that it has to include policies and procedures for assessing relative risk among funded entities and projects, and PJs also have to put in place procedures for monitoring funded entities or projects. And this was really in response to our findings over the years that there was a strong correlation, as I mentioned earlier, between noncompliance and PJs either not having or not following written policies and procedures.

Right.

So this is the attempt on our part --

Or borrowing the CPBG ones.

Yeah, that's another one. So this is an attempt on our part to sort of raise the floor in terms of PJ practice, so there will be -- we do have a delayed effective date on this, because we understand that it's going to take a while to develop these policies and procedures, but we really do believe that in the end it will improve compliance with HOME Program requirements and result in better projects as well. So that's a really probably major change and it's a big responsibility that PJs are going to have to take on to develop that to the extent that they don't have written policies and procedures ready. There are, without enumerating them, because there are many, there are a number of changes that Participating Jurisdictions are going to have to make to written agreements.

Yes.

Those changes are related to changes in the commitment deadline. They're related to the underwriting and developer assessment requirements. They're related to the new deadlines.

So everything we've covered before is going to capture in the agreements.

Exactly! The requirement for the budget and the schedule. And so all of these things that we've been talking about are going to end up being reflected in these written agreements. And then there are other things that we've -- new requirements that we'd added in the written agreement section of the Rule that primarily relate to PJs including in their written agreements adequate enforcement mechanisms for them when they have noncompliance with a developer who isn't following the terms of the agreement. So what's a PJ going to do?

Right. And what we have found and what some PJs have found over the years is they identified the problem that they had, but they didn't have adequate enforcement mechanisms in their own agreement to try and correct them.

To remedy, okay.

So once again, this is lifting the floor, because by requiring this in the written agreement we're hoping to give PJs more ability to correct and adjust and deal with their developers sort of as they go along.

Makes sense.

And then the next -- the third of the three major changes I think is a requirement that all program income, whether it's received directly by the PJ, or whether it's being permitted to be retained by a state recipient or a sub-recipient, be recorded in IDIS.

That's existing policy.

That's an existing policy, but our Inspector General did a national audit of HOME PJs and they found a lot of noncompliance with that, and so they suggested, and we agreed, that it was appropriate to make it more clear that this is actually the requirement by putting it into the regulations. And I think as most PJs are aware, last year we launched a new module in IDIS that finally permitted correct accounting for program income by PJs, because a large part of the issues that developed over time with respect to receiving program income in IDIS had to do with a lack of appropriate functionality in the system. So that's been corrected. And so PJs really need to ensure that they develop the policies, the procedures, and where they're permitting state recipients or sub-recipients to retain program income, the reporting formats to ensure that all program income is being recorded.

From sub-recipients and state recipients and tracking those somehow.

Right.

Absolutely! Well, great! So that actually rounds out our top 10 changes to the Rule, and again, we encourage everybody to read the Rule, to download it from the OneCPD website and really read the details, because there's much more than we've been able to cover here. So Ginny, I know that a lot of PJs are wondering how to get this implemented and really begin to integrate some of these important requirements into their program, particularly given the timeline of when everything becomes effective, can you give us a sense of what you -- if you were working with the PJ, what would you recommend that folks do right now to get started on the implementation?

Well, the first thing that I would suggest is that PJs and other program partners or

program participants actually read the Rule. It is long, I understand that. And specifically that they read the preamble, so that they understand, not just what we're requiring in the new Rule, but why we decided to do it. I think that would be really helpful. I would also suggest that PJs and others review the guidance that we are posting on our HOME Final Rule website, and specifically I think at this point in time the most helpful thing that we have available is the section by section summary of the Rule--

Yeah that's really helpful.

--Because it puts it into, I think, more plain English than perhaps some people would think that the Rule is written in and really explains what the requirement is.

In digestible bites too.

In digestible bites and also gives some suggestions about what you may need to do in order to implement this. We certainly will be adding additional guidance to the website as we get it developed and as it becomes available.

And new tools I understand as well.

New tools and toolkits. We are hard at work on all of those different things. I would also suggest that PJs and others watch these webcasts that we're doing. This is the overview webcast, where we're discussing a number of different things, but we will be developing over time a series of other webcasts that we will record and put on our website that either reviews the requirements or gives our Participating Jurisdictions advice about how to actually accomplish certain things or what's required in order to--

Tips and techniques.

--meet the underwriting requirements; tips, techniques, or just a different kind of explanation than you might see in writing on how to actually comply. We're doing some briefings across the country. If possible, I would really encourage Participating Jurisdictions to register and attend one of those. Then in terms of sort of the to-do list, the things that have to be done, if I were a PJ I would sit down with the Rule or with the section by section analysis and really start to make a -- to sort of look at and make a list of the policies or the procedures that I need to change or documents, whether it be --

Written agreements.

-- written agreements that need to be updated, either because HUD specifically requires the written agreement to be updated, or because they find that there is some deficiency related to their boilerplate.

The reseller capture agreements, yeah.

Exactly!

Yeah.

So absolutely, they should start making a running list of the things that they need to be changed, essentially a to-do list, and whatever changes they need to make to their

specific program. And then I would also suggest that they take note of the effective dates. Most of the Rule is effective on August 23, 2013, or in the case of project specific requirements, it's effective to projects to which HOME funds are committed on or after August 23. There are a number of different provisions that do have delayed effective dates.

The CHDO Rules do.

The CHDO Rules are -- it's not so much the Rules as the implementation of deadlines that is being delayed. So the CHDO changes are either effective on August 23 or October 23 of this year. However, HUD is not going to implement those changes in calculating compliance with deadlines until January 1, 2015. So that does give PJs time to look at their CHDOs, the CHDO projects that they have in the pipeline, their CHDO agreements, and to do outreach and sort of training and education for CHDOs about what these new requirements are and how they intend to implement them. So do look at effective dates to ensure that you understand how much time you have. And we have provided additional time for the requirements that we know are going to take PJs some time to implement, so we did give that some thought. And then finally, I guess I have sort of alluded to it with respect to CHDOs, I think that it would be very helpful for PJs to provide training or other outreach to their CHDOs, to their sub-recipients, and to their developers so that these parties understand what the new Rules are and also have an understanding of how the PJ is going to be changing its procedures or its requirements in order to comply with them so that they have adequate time to plan for the new provisions as well.

And PJs could encourage CHDOs to watch these online videos, and there are also other materials on the website, as you mentioned the summary of the Rule and others will be joining, that they could either use to train the CHDOs or have the CHDOs go online and learn for themselves.

Correct! And we also will be doing, in the fall of 2013 we will be doing some CHDO clinics across the country to assist CHDOs with capacity issues and some of the other issues in the Rule.

Thanks Ginny for those suggestions about how folks can implement these new HOME requirements that we've talked about! I think that will really help people to get on the right foot to get this started. So again, thank you for joining us on this video series, Recapping the New HOME Rule Requirements! We're glad you were able to join us. We encourage you to go on to the OneCPD website and you'll see that on your screen and download the Rule and read in its detail. Again, as I mentioned, there are other videos that we encourage you to watch, which provide more detail about these new HOME requirements. Again, thanks for joining us and we look forward to working with you to implement the HOME Rule!