

DEKALB COUNTY  
STANDARD SPECIFICATIONS  
FOR  
RESIDENTIAL REHABILITATION

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STANDARD SPECIFICATIONS  
FOR  
RESIDENTIAL REHABILITATION

SECTION I

GENERAL

1. SCOPE of work shall include all labor, materials, equipment, drawings, and services necessary for the Proper completion of the rehabilitation of the property identified in the work write-up.
2. THE WORK WRITE-UP shall take precedence over the basic specifications and when in conflict, the material, equipment, workmanship, etc., called for in the work write-up will be required.
3. THE CONTRACTOR is responsible for all permits and applicable fees. The contractor shall provide and maintain for the duration of the work, temporary toilet facilities for the use of workmen. The contractor shall be responsible for the acts and omissions of his employees and sub-contractors and shall employ only qualified persons, skilled in the job which is assigned to him.
4. THE OWNER shall provide utilities as necessary at no cost to the contractor when the property is occupied during the performance of the work.
5. THE DRAWING of floor plans are for diagram and illustrations only and are not to scale nor do they show all of the work required, exact dimensions or construction details.
6. CHANGES in work, including substitutions of material and changes in the scope of workmanship will not be made unless it is found to be necessary or desirable. Any changes proposed by either the contractor or the owner shall be in writing, stating the cost change, and agreed to by the contractor, the owner and the LPA, before any change in work is started.
7. MATERIALS shall be new, in good condition and of the grade required by the work write-up or specifications unless otherwise agreed to. Materials damaged in shipment or prior to owners acceptance shall be replaced at the contractor's expense.
8. WORKMANSHIP shall be done in accordance with the trades standards as "Workmanlike Manner" or "Acceptable Standards of Workmanship."
9. REPAIRS shall be made to all surfaces damaged by the contractor resulting from his work under this contract at no additional cost to the owner. Where "repair" of an existing item is called for in the work write-up, the item or feature (wall, floor, door, etc.) is to be placed in "Equal to New Condition" either by patching or replacing. (Taking into consideration the fact that existing structures cannot be "Restored as New," and that some lines and surfaces cannot be level, plumb, true and without slight irregularities). All damaged, decayed, missing, or rotted parts shall be replaced and loose parts shall be secured or replaced so that the finished work shall match the adjacent work in design and dimension. Such patching or replacement shall be made to blend with existing work so that the patch or replacement is inconspicuous.
10. INSPECTION of the work by authorized inspectors shall be facilitated by the contractor during normal working hours. All work performed shall be subject to the inspectors approval and acceptance.
11. SUBCONTRACTORS shall be bound by the terms and conditions of this contract insofar as it applies to their work, but this shall not relieve the General Contractor from the full responsibility to the owner for the proper completion of all work to be performed under this agreement. The General Contractor shall not be released from his responsibility by a sub contractual agreement he may make with others nor shall anything contained in the contract documents create any contractual relation between any subcontractor and the owner.

## SECTION I continued

12. BIDS OR PROPOSALS will be submitted at the bidders risk and the owner reserves the right to reject any or all bids or proposals.
13. CODES All work performed shall be in accordance with applicable local codes and subject to their regulations. Where no local codes have been adopted, all work shall conform to the Georgia State Construction Codes.
14. TRADE NAMES are used in the Basic Specifications to establish quality and type of material required; exact material to be used on a specific property may be described in the work write-up for that specific property thereby overriding the specifications.
15. WHEN ADJACENT PROPERTY is affected by any work done under the contract, it shall be the contractors responsibility to take whatever safeguards or precautions necessary for the protection to the adjacent property and to notify the owner thereof of such actions.
16. CLEAN UP and removal of all debris and materials resulting from his work, shall be the responsibility of the contractor who will, upon completion of his work, leave the premises in broom clean condition.
17. COMPLY with HUD'S "Lead-Base Paint Poisoning" Prevention Act.

## SECTION II

### DEMOLITION

- a. The contractor shall Complete demolition work as indicated on the drawings or in the work write-up.
- b. All debris resulting from demolition operations shall be removed as it accumulates and not allowed to be stored on site.
- c. Debris shall not be burned on the site.
- d. Demolition shall be conducted in a safe and workmanlike manner.
- e. Portions or parts of the structure or property not to be demolished, and intended to remain intact, shall be repaired or replaced.
- f. All surplus materials to be removed shall become the property of the contractor and shall be removed from the premises unless otherwise directed.

## SECTION III

### CONCRETE WORK

1. The concrete mix shall be one part Portland cement, 2 parts clean washed sand, and 5 parts clean gravel by volume. The water shall not exceed 8 gallons per bag of cement, and shall be potable.
2. No concrete shall be poured when the temperature of the surrounding air is below forty degrees F without taking protective measures from freezing.

### SECTION III continued

3. Concrete in footing shall have an ultimate compressive strength of not less than 2500 pounds per square inch at 28 days.
4. Yard pavement shall be 4" thick with a float and broom finish.
5. Floors shall be 4" thick with a steel trowel finish poured of no less than a 3,000 pound concrete mix.
6. Footings shall be a minimum of 8" thick and not less than 1 1/2 times the pier or foundation projection and shall be on virgin soil.
7. All concrete shall meet ACI Standard 301-72.

### SECTION IV

#### A. MASONRY

##### 1. Tuck Pointing

Cracks in masonry shall be tuck pointed as follows:

Cut away defective mortar to a depth of 1/2" with hand or power tools. Remove all loose material. Pre-hydrate mortar by mixing all ingredients dry, then mix again adding only enough water to produce a damp unworkable mix which will retain its form when pressed into a ball. After one to two hours, add sufficient water to bring it to the proper consistency; that is, somewhat drier than conventional masonry mortar. To insure a good bond, wet the mortar joints thoroughly before applying fresh mortar.

#### B. MORTAR TYPE

1. 1rpe N = 1 part Portland cement, 1 part type S hydrated lime and 6 parts sand, proportioned by volume.
2. Pack mortar tightly in thin layers until joint is filled, then tool to a smooth concave finish to match existing mortar work.
3. All areas are to be left clean and free from deleterious substances.
4. Color may be added to match existing mortar. Retempering of mortar shall not be allowed. Use of lime or shrinkage inducing lignins shall not be allowed.

#### C. WALL MASONRY, including foundations, chimneys and piers as described on the work write-up shall include the following:

1. Wall masonry shall match existing.
2. Items built into masonry walls to include joint reinforcement, anchors into adjoining surfaces, and other items shown or required by the work.

## SECTION IV continued

3. Rework existing chimneys by rebuilding from roof up or tuck pointing chimney and repairing fireplace including damper if fireplace is to be used, or, unused and deteriorated, chimney shall be removed to within 2 feet of the roof line and properly capped. All interior openings shall be sealed with masonry material.
4. Wall ties shall be 22 gauge, installed at each bearing point, a maximum of 24" O.C.
5. Foundations, masonry piers and curtain walls shall include the installation of a concrete footing as detailed in Section III.
6. Proper tooling of all joints.
7. Clean up and protection of adjoining and surrounding surfaces.
8. Provide weep holes maximum of 4' O.C.
9. Provide full head and bed joints.

### D. GENERAL

1. All work will conform to best masonry trade practices and in accordance with code requirements for type wall.
2. No masonry shall be installed or repaired when the temperature is below 40 F without taking protective measures from freezing.
3. Installation shall be plumb, true to line, with level and accurately spaced courses. Mortar joints shall not exceed 1/2" unless existing work requires larger joints to match.
4. Cleaning shall be accomplished by the use of stiff brushes.
5. Acids or other cleaning agents shall not be used without explicit consent of the LPA and only as recommended by the manufacturer.

### E. PIERS

Concrete Block Piers shall be a minimum of 3" x 16" on proper footings. Maximum height of piers shall be 4 times the least dimension of block (plus cap block) for hollow block and 10 times the least dimension of block (plus cap block) for solid block.

## SECTION V

### A. CARPENTRY

Framing lumber shall be grade marked; Douglas Fir, Const. grade or better; of Southern Pine, stud grade or better, of adequate size and dimension to meet span tables as specified in the SPIB lumber table.

1. Bearing partition stud walls shall not be less than 2" x 4" studs, set with long dimension perpendicular to the wall, a maximum of 16" on center.

## SECTION V continued

2. All openings shall have double studs. Headers shall be constructed of two pieces of framing material set on edge. Corners will be constructed of three full length studs.
  3. Double top plates shall be installed on walls and bearing partitions. Framing shall be constructed so as to accommodate the proper installation of trim, cabinets, plumbing, heating ducts and other attached work. Single plates are permitted where trusses are used provided trusses rest directly over stud.
  4. Framing shall fit closely; set to line and level indicated and fastened in place rigidly. Framing members shall not be cut, notched, or bored more than 1/4 of their depth without adequate approved reinforcing. Boring shall be in the middle 1/3 of the member. Floor joists shall not be cut, notched or bored more than 1/6 of their depth and shall not exceed 2" in diameter and shall be in the end 1/3 of span only.
  5. Floor joist spacing shall be no more than 16" on center when applying 25/32" flooring directly to the joist. Joists may be spaced 24" O.C. provided minimum of 5/8" subfloor is used.
- B. SUBFLOOR shall be plywood or common boards.
1. A minimum of 5/8 plywood sub-floor shall be used for areas that are to be covered in resilient tile, linoleum or carpet.
  2. Boards not exceeding 8" width or less than 3/4" thickness may be used for subfloor. Boards shall be nailed with 8D common or 6D threaded nails.
  3. Allow 1/2" clearance at walls on all subfloor. Apply with outer plies at right angles to joists. Stagger end joints of adjacent panels and locate end joints over center line of supports. Plywood panels to be continuous over two or more spans. Fifteen pound felt shall be installed between the sub-floor and underlayment or finish flooring.
- C. UNDERLAYMENT shall be grade stamped Underlayment Grade.
1. A minimum 3/8" underlayment may be installed over existing floor and/or subfloor. Underlayment Grade plywood shall be used in kitchens, baths and laundry areas.
  2. All joints shall be staggered with respect to panel joints in subfloor. Provide approximately 1/32" spacing at joints where panels butt. Nail with 6D common shank nails 6" C.O. at all edges and 8" O.C. over bearings. All floor joints (sub-floor and underlayment) shall meet and be secured over joists.
  3. Underlayment shall be level, smooth, free from defects and suitable for the finish floor covering.
  4. Plywood Wall Sheathing shall be applied vertically with the ends extended to top plate and sills. Nailing schedule same as underlayment.
  5. Roof Sheathing. Repairing of roof includes replacing deteriorated, inadequate and missing components of the roof structure including roof decking, rafters gable studs, collar beam, ridge board or any other inadequate member.

### SECTION V continued

6. If new sheathing is required, it shall be 1/2" plywood or 3/8" plywood with clips, with exterior glue, provided the rafters are no more than 24" O.C. or 3/4" boards to match existing sheathing. All sheathing shall be securely nailed, even, sound and thoroughly clean and dry. Rafters shall be properly braced before roofing is applied.
7. Leveling of floors as specified in the work write up shall be accomplished to the extent feasible and practicable. In no case shall the variation in the floor exceed 3/4" in 12 feet. The contractor shall repair all damage to the structure that may occur as a result of leveling.
8. Adequate backing and deadwood shall be installed to accommodate the proper fastening of gypsum drywall, bath accessories and fixtures, etc.
9. Material shall be stored and protected on site in a manner which prevents warping, absorption of moisture or damage to the material.
10. Framing material in direct contact with slab or masonry or within 8" of the soil or otherwise subject to moisture, shall be pressure treated and shall be grade stamped as such.
11. Girders within 12" of the soil and joists within 18" of the soil shall be pressure treated lumber. (If these members are to be replaced during rehabilitation of the structure.)
12. Shop drawings shall be furnished as required in the work write-up.

#### D. FINISH CARPENTRY AND MILLWORK

1. Finish lumber shall be of a species suitable for its intended use, kiln dried B, or better, of adequate dimension, free from tool marks and objectionable defects. Approved factory made finger joints are permitted for painted finish but not allowed for natural finish. Interior trim shall match existing, adjacent or adjoining work in design and dimension unless specifically stated otherwise. Nails shall be set and puttied.
2. Wood Doors where replacement is called for in the work write-up shall be:  
Exterior: 1 3/4" solid core of stock size and design unless work write-up specifies that they match existing doors or openings, and shall meet requirements of Georgia State Energy Code for Buildings. Replacement includes: damaged or worn door jambs, door stops, thresholds, casings, hardware and weather-stripping when existing components cannot be restored to normal conditions by repairing. Doors shall be plumb with 1/8" clearance at head, jamb and threshold and adjusted to open, close and lock properly.
3. Screen doors shall be of wood or aluminum as specified, complete with aluminum screen wire, closer, hinges and latch, fitted to existing opening, of better grade residential quality.
4. Interior: 1 3/8" minimum thickness, paint grade unless work write-up specifies "match existing doors," or where doors are to be stained or finished natural. Replacement includes all components when existing components cannot be restored to normal condition by repairing. Doors shall be plumb with 1/8" clearance at head, jamb and threshold, etc.
5. Repair Existing Door: Make repairs necessary to existing door and its components to restore to normal condition as above. (Interior, exterior and screen door repair).

## SECTION V continued

E. HARDWARE shall be repaired or replaced as follows:

1. Interior doors shall be installed with tow butt hinges, 3 1/2" x 3 1/2" and privacy locks or passage locks, properly mortised. Bath room doors shall be provided with privacy locks sets, chrome one side and closet doors shall be provided with closet lock sets.
2. All exterior doors shall be hung on 3-3 1/2" x 3 1/2" butt hinges and provided with entrance lock set or dead bolt set.
3. Screen or storm doors shall have a safety door check. Windows shall have positive sash locks and lifts.

F. WINDOWS

1. Furnish and install new windows as specified on work write-up complete with sash locks and lifts. New windows shall comply with Georgia State Energy Code.
2. Repair or replace any interior and exterior areas affected by the installation of the new window.
3. Repair existing window shall include replacing all damaged, decayed or broken components, including sash, glass, hardware, putty, sash cord and weather stripping.

G. NEW WINDOW SCREENS

Wood or aluminum as specified, complete with aluminum wire hooks and hangers, properly fitted to opening. Repair existing window screen. Rescreen existing frame using aluminum screen wire. Replace or repair damaged components as necessary.

H. WEATHER STRIPPING AND THRESHOLD

1. Weather stripping shall be installed on all exterior doors.
2. Thresholds shall be installed at all exterior doors, set in caulking compound, firmly secured with counter-sunk screws and shall be weather tight.

I. EXTERIOR SIDING

1. Repair all cracked, decayed or deteriorated siding. Material shall be of a species suitable for its intended use, kiln dried, free from tool marks and other objectionable defects and shall match existing siding, butt joints and adjacent runs shall be staggered. New work shall be primed upon installation.
2. Exterior coverings including factory prefinished materials, shall be commercially produced material, recommended by its manufacturer for covering exterior surfaces of exterior walls and supplied with instructions for water tight application. Install in accordance with mfgs. instructions and provide written warranty.
3. CORNICES to be repaired shall include replacing all rotted and other deteriorated parts with new parts matching existing original work. This includes fascia, soffit, frieze and rake mold. New material shall be primed upon installation.



## SECTION V continued

### J. CLOSETS

1. Linen Closets shall be a minimum of 14" in depth and 18" in width. A minimum of four shelves spaced no closer than 12" apart, bottom shelf 18" to 24" above floor and topmost shelf not more than 74" above floor.
2. Clothes Closets shall have a minimum dimension of 2' in depth and 3' in width. Doors shall be installed with all hardware as required under "Doors". Bifold doors are subject to approval of the City. The hanging space shall be a minimum of 5' and the shelf shall not be over 74" above the floor. There shall be 2" clearance between rod and shelf.
3. Rod and Shelf: Each clothes closet shall contain a minimum of one rod and one shelf of suitable material and design provided that the finished product meets the following standards: The shelf shall support a uniformly distributed load of 30 lbs. per sq. ft. with vertical deflection not to exceed 1/4". The rod shall support 10 lbs. per linear foot with vertical deflection of not more than 1/4". Not more than one intermediate support may be provided for rods and shelves for 4 to 8 feet in length. Shelving material shall be 3/4" Pine, 8 or better, or 3/4" plywood edge with screen mold.

### K. PANELING

1. Paneling to be installed as specified in the work write-up shall be a minimum of 1/4" in thickness and shall include the paneling, trim, furring, setting and putting nails, clean up and protection. Paneling shall be class 1 or 2 decorative hardboard or labeled hardwood plywood showing grade, species and finish.
2. Installation shall be in accordance with the mfgs. Recommendations and in a workmanlike manner.

### L. INSULATION

1. Insulation indicated in the work write-up shall include: insulation, preparation of existing areas to receive insulation, cleanup and protection of work and certification of material.
2. Insulation material may be "Insulite", blown rock wool, blown fiber glass, rock wool batts and fiber glass batts: John Manville or equal. Batt shall be full-thick and blown wool shall be a minimum thickness to provide an R-19 rating. Provide minimum 1" airspace between roof decking and insulation baffle around perimeter of attic.
3. All insulation shall be installed as per mfg. recommendations and shall comply with Georgia State Energy Code.

### M. DAMPPROOFING AND WATERPROOFING that is specifically indicated in the work write-up shall include, but not be limited to the following:

1. Sealing interior/exterior foundation walls to prevent the penetration of moisture and water.
2. Installation of drain tile where necessary.
3. Installation of vapor barrier under slab.
4. Concrete and brick sealers on exterior walls.

## SECTION V continued

5. Installation of sump pumps in basement and crawl spaces where positive drainage cannot otherwise be obtained.
6. Materials used for waterproofing must be one that is manufactured specifically for that use, installed per mfg. recommendations and approved by the City prior to application.
7. Below grade coating must comply with Federal Spec. SS-A701. Below grad slab vapor barrier shall meet ASTM C173-69 standard.
8. Surfaces subject to coatings shall be completely dry and clean prior to application of coating. The application shall be in accordance with the manufacturers recommendations, using an approved applicator.
9. Adjoining or adjacent areas shall be protected.
10. To provide positive drainage the installation of sump pumps shall be mandatory where gravity flow positive drainage in a basement or crawl space cannot be obtained. Installation of a sump pump shall include: Grading crawl space to provide drainage to a low area where a concrete well shall be built. This well shall accommodate an automatic sump pump of adequate capacity A 110 volt outlet and discharge line to the exterior of the building is considered part of the installation.

## SECTION VI

### STUCCO, PLASTERING AND WALLBOARD

#### A. STUCCO

1. Exterior stucco work indicated on work write-up shall comply with ANSI "Standard Specifications for Portland Cement Stucco and Portland Cement Plastering." A42.2 71.
2. Metal lath shall weigh not less than 1.8 lbs. per sq. yd. and openings not in excess of 4 sq. inches shall be used. Felt shall be 15# type. Metal reinforcement with attached paper backing may be used provided it meets specifications for mesh and backing and is made especially for plastering.
3. Expansion joints shall be zinc sheet, US Gypsum or equal.
4. Wood framing and sheathing to receive stucco shall be properly constructed to provide a non-yielding structure.
5. Flashings shall be acceptable installed prior to beginning of plaster work, i.e., at tops and sides of all openings where projecting trim occurs and at all points where flashing can be used to prevent water from getting behind stucco.
6. Surfaces to be stuccoed shall be covered with 1.8 metal lath lapped at ends and sides a minimum of 1" and nailed 16" O.C. vertically and 6" O.C. horizontally. Wood surfaces shall be covered with 15# felt with 3" laps prior to installation of metal lath. Mesh shall be fured not less than 1/4" with galv. furring nails.
7. Apply two coats on masonry to a minimum thickness of 5/8". Apply three coats over wood surfaces to a minimum thickness of 7/8".

## SECTION VI continued

8. Mortar for all coats shall be a mixture by volume of 1 part Portland Cement to not less than 3, nor more than 5 parts of damp loose aggregate. Finish coat color and texture to be approved by the owner before starting application.

### B. PLASTERING materials shall be standard commercial brands.

1. Application and mix shall be in accordance with American Standard Specifications for Gypsum Plastering ASTM C28-68. Apply plaster in 3 coats or 2 coats double up work, minimum thickness 1/2".
2. Gypsum lath shall be applied with long dimensions across supports and with end joints staggered.
3. Nail lath with 12 or 13 gauge lath nails having approximately 3/8" heads with nails spaced not more than 4" O.C. Minimum of 4 nails each lath, 6 nails for 24" wide lath. Nails shall penetrate horizontal supports at least 1" and vertical supports 3/4".
4. Portland Cement Plaster shall not be applied over gypsum lath. Existing wood lath shall be securely nailed and wetted down prior to applying plaster.
5. Metal lath shall be applied in accordance with mfg. recommendations.
6. Wall board shall be U.S. Gypsum wall board or equal, carefully fitted and sized prior to nailing in place.
7. Installation shall be performed in accordance with mfg. recommendation.
8. 1/2" Wallboard shall be used unless otherwise specified.
9. M/R Moisture resistant 1/2" sheetrock shall be used on bath room walls.
10. Joint cement, fasteners, tape and corner bead shall be as recommended by wallboard mfg. and shall be applied as recommended.

### C. ONE HOUR FIRE RESISTIVE CONSTRUCTION

Where required by Georgia State Building Code.

1. Partitions shall be at least 2 x 4 studs, spaced 16" O.C. covered with 5/8" type X gypsum board or 1/2" XXX gypsum.
2. The wall board shall be applied to both sides of the party wall and shall extend from floor to ceiling.
3. Ceiling shall be the same material as the walls and installed in accordance with mfg. recommendations. See Georgia State Building Code for exception.

## SECTION VII

### A. GLASS AND GLAZING

1. Windows shall be glazed or reglazed where required, with single strength clear glass, grade B.

## SECTION VII continued

2. Door Lites and side lite glass shall be glazed with safety glass or tempered glass.
3. Putty shall be DAP or equal.
4. Glass shall be bedded in putty secured with glazing points and face puttied. All excess putty shall be removed and the glass left clean.
5. Mirrors shall be polished plate grade No. 1.

## SECTION VIII

### A. ROOFING AND SHEETMETAL

1. Repairing the roof shall include the replacement of decayed or missing components including decking, rafters, studs, ridge board, flashing, etc., and meet requirements of Georgia State Energy Code for Buildings.
2. Replacement of existing roof shall include the removal of all old roofing material, including felt, the repair, and if necessary, replacement of any roofing components, securely nailing the roof decking, installation of felt, flashings and roofing shingles.
3. Roofing shingles shall be Celotex 240# self sealing shingles or equal.
4. Asphalt shingles shall be installed in exact accordance with mfg. directions and shall have a written 15 year warranty.
5. Built up roofing when called for shall be installed in exact accordance with the mfg. directions and shall have a 10 year warranty.
6. Raised metal seams shall be flattened prior to installation of any new roofing.
7. Where "recoating" of existing roof is called for in the work write-up, all flashing shall be made water tight, bubbles shall be cut out and repaired, and at least one coat of tar and 1 ply of 30# felt added. Plys which are cut to remove bubbles, shall be replaced and a coat of tar applied between each ply.

### B. FLASHING

1. Upon installation of roofing shingles, all flashings shall be replaced; including chimneys, valleys, eaves drips and any other critical areas.
2. Flashing or counter flashing material shall be a minimum of 26 gauge galvanized or 28 gauge aluminum.
3. All vents and stacks projecting through roof shall have approved flashing.

## SECTION VIII continued

### C. GUTTERS AND DOWNSPOUTS

1. Gutters and downspouts shall be no less than 26 gauge galvanized or aluminum. Gutter shall be 5" O.G. unless otherwise stated. The pitch shall be not less than 1/16" per ft. The downspouts shall be 3" and extend to within 4" of the finish grade, and securely fastened. The splash-block shall be concrete. Minimum size 12"x 24".

## SECTION IX

### A. CAULKING

1. "Exterior joints around windows and door frames; openings between wall panels; openings at penetrations of utility services through walls, floors and roofs; and all other such openings in the building envelope shall be caulked, gasketed, weather-stripped or otherwise sealed in an approved manner."
2. Caulking material used shall be the proper material as recommended and installed in accordance with the mfg. instructions.
3. Caulking shall be a smooth bead, uniform, straight, clean, and crisp.

## SECTION X

### A. PAINTING AND DECORATING

1. All paint and other finish materials shall be of a good quality, manufactured by a nationally recognized mfg., i.e., Glidden, Sherwin Williams, Pittsburg or approved equal.

### B. PREPARATION OF SURFACE

1. Plaster or wall board shall be sound, smooth and free from holes, cracks and irregularities. All old wall paper shall be removed entirely unless otherwise specifically noted in the work write-up; in any case, all loose wall paper shall be removed and the remaining edges "feathered."
2. Wood surfaces to be painted shall be cleaned to remove loose and scaling paint and rough spots. Where previous coats have chipped and peeled, the edges shall be sanded to a feather edge before new paint is applied. Puttying and caulking shall be done prior to the finish coat of paint.
3. All colors shall be approved by the owner prior to commencing painting.
4. All materials shall be delivered to the job in the mfg. sealed containers, containing labels giving mfg. name, type of paint, color, etc.
5. Application shall be by brush or roller and shall be applied uniformly, smooth and free from runs, sags, foreign matter, defective brushing or rolling. Edges of paint adjoining other material or colors shall be straight, sharp and clean.
6. Exterior paint will not be applied in damp rainy weather or when the temperature is below 40° F. Materials to be painted shall be clean and dry. Paint application shall be as per the work write-up.

## SECTION X continued

7. On previously painted surfaces one coat application may suffice, provided it covers the previous finish.
8. On new work, one coat of primer and 2 coats finish material will be applied. The sides and all edges of exterior doors shall be primed within 3 days after being hung.
9. All paint application shall be in accordance with the mfg. recommendations.

### GENERAL

“Paint” shall also mean varnish, lacquer, shellac, urethane finish or other material as specified on the work *write-up*. All paint shall be that which is intended for the purpose used, i.e., masonry paint on masonry, porch and deck enamel on steps and porches, rust-inhibitor paint on wrought iron, exterior, non chalking paint on wood trim, etc.

Surfaces not scheduled for paint shall be protected, i.e., shrubbery, hardware, floors, roofing, screens, glass, etc.

Mold and mildew shall be removed and neutralized by washing with a solution of 2 oz. trisodium phosphate, 8 oz. sodium hypochloride (clorox) to 1 gal. of warm water. Rinse with clear water and allow to dry thoroughly before painting.

## SECTION XI

### FLOORS

#### A. HARDWOOD FLOORS

1. All broken, damaged or deteriorated flooring shall be replaced with lumber that matches the species, size and color of the adjacent flooring. The joints shall be staggered. Floors shall be sanded to a smooth surface, with the grain, and filled with filler recommended by the mfg.
2. Renail existing flooring as necessary to provide a sound floor. Apply one coat of sanding sealer and two coats of finish as called for on the work write-up. The finish may be gym finish varnish, polyurethane or other suitable finish.
3. All finish material shall be applied in accordance with mfg. instructions.

#### B. RESILIENT FLOORING

1. Linoleum shall be Armstrong or equal. Tile shall be vinyl, vinyl asbestos or rubber with a minimum thickness of 3/32”, and shall meet Federal specifications SS-T-312.
2. The color shall be selected by the owner.
3. Installation of all floor covering, including adhesive shall be in accordance with the mfg. recommendations.
4. Material shall be stored in original containers at not less than 70 degrees F for at least 24 hours immediately prior to installation. Maintain room temperature between 70 degrees F and 90 degrees F for 24 hours prior to installation and 48 hours after installation.

## SECTION XI continued

5. Border tile or linoleum shall fit within 1/16" of abutting surfaces.
6. Clean and wax as recommended by the mfg.

## SECTION XII

### PLUMBING

- A. PLUMBING FIXTURES, equipment and material shall comply with and be installed in accordance with current applicable plumbing code or the Georgia State Plumbing Code.
1. All vents protruding through the roof shall be properly flashed.
  2. Valves shall be 150# brass with ends similar to fittings. Valves shall be provided at each fixture or each piece of equipment.
  3. Unions shall be provided to permit removal of equipment without cutting pipe.
  4. Gas pipe shall be black steel pipe installed in accordance with NFPA Standard No. 54.
  5. Provide 125# brass gas stops where required.
- B. WATER HEATER shall meet requirements of the Georgia State Energy Code, and be equal to the American Standard "Acroglass" standard, glass lined, complete with all controls and with a written 10 year tank warranty. The type (gas or electricity) and capacity will be given on the work write-up, or replacement will be with size and type required by number of bedrooms and baths.
1. An approved pressure-temperature relief valve with a 3/4" discharge line shall be provided.
- C. PLUMBING FIXTURES which exist and are to remain shall be placed in good working order.
1. Missing or defective parts shall be replaced.
  2. Fixtures shall be left in clean sanitary condition.
  3. Fittings shall be chrome plated and supplies to each fixture shall be equipped with stop valves.
- D. BATHROOM FIXTURES called for in the work write-up shall be:
1. Water closet, vitreous china, free standing, close coupled, closet combination with reverse trap, suspended rear shelf, tank cover, china or porcelain stud caps, complete tank fittings and supply stop valve and designed to use a maximum of 3,5 gal. per flush.
  2. Lavatory, enameled cast iron, front overflow, acid resisting, complete with hanger, supply lines, P trap and trim.
  3. Bath tub 5' long, enameled steel with over rim bath filler, or fiberglass tub enclosure with shower rod.
  4. New shower heads shall be designed to use a maximum of 3.0 gallons per min. @ 60 p.s.i.

## **SECTION XII continued**

- E. GENERAL PLUMBING system including sewers shall operate free of fouling and clogging and not have cross connections which permit contamination of water supply or back siphonage between fixtures. Waste lines shall be tied-in to an approved sewer system. Bath accessories shall include:
1. Medicine cabinet, minimum size, 12" x 18" with plate glass mirror (1) or plate glass mirror over 30" vanity.
  2. Soap and Grab (1)
  3. Toilet Paper Holder (1)
  4. 18" Towel Bar (1)
  5. 24" Towel Bar (1)

## **SECTION XIII**

### **HEATING SYSTEM**

New heating system shall be Bryant, Luxaire or equivalent meeting requirements of Georgia State Energy Code. A 1 year warranty shall be provided. Installation shall be in accordance with City code requirements. The heating system shall be adequate to heat all rooms to a temperature of 70 degree F 3 feet above the floor when the outside temperature is 10 degrees F. Space heaters, floor furnaces and all other gas-fired fixtures shall be properly vented.

"All work shall conform to requirements of Georgia State Energy and Heating & Air Conditioning Codes."

## **SECTION XIV**

### **ELECTRICAL**

- A. The minimum distribution service panel shall be 60 amps. For demands in excess of 20 kilowatts, a service panel in excess of 100 amps shall be installed.
1. All Electrical panels, wiring, fixtures and equipment shall be installed within the requirements of the National Electrical code (or City code).
  2. Existing wiring, equipment or fixtures not to be used shall be disconnected and/or removed. Existing electrical devices and material in good condition and meeting code requirements may be left in service.
- B. Light fixtures shall be installed by the contractor as required. The work write-up shall indicate which fixtures are to be replaced and shall stipulate the allowance for fixtures. The owner shall select the fixtures and shall pay any additional cost above the allowance.



## SECTION XIV continued

- C. NOTE: It shall be the contractor's responsibility to determine the additional wiring, outlets, panel size, etc., to conform to City code and his bid price shall include these costs:
1. The bathroom fixtures shall be controlled by a wall switch not readily accessible from the tub or shower.
  2. Every habitable room shall have one overhead light fixture and two separate wall outlets, or three wall outlets, one of which is controlled by a wall switch.

## SECTION XV

### LANDSCAPING

1. ROUGH GRADING: Fill material shall be free of debris or other detrimental material. All fill shall be compacted to a density that will avoid damaging settlement. Fill shall be placed when ground is frost free and weather is favorable.
2. TOP SOIL: shall be a minimum of 4 inches (compacted depth). Free of stones, debris, and other material detrimental to plants. The surface soil shall be compacted lightly to minimize settlement. Top soil shall be placed when ground is frost free and weather is favorable.
3. SEEDING: Seed quality shall be a minimum purity of 85%, minimum germination of 80% and weed content not exceeding a maximum of 1/2%. Seed mixture shall be not less than 85% (by weight) permanent grass and 15% (by weight) annual grass.
  - a. Application -Rate of spread as recommended by the producer but not less than 4 pounds per 1,000 square feet. Roll with a light roller and water thoroughly with a fine spray, avoiding erosion of seed bed. Seeding shall be done when the ground is frost free and weather is favorable.
4. SODDING: Sod shall be fresh cut, taken from a thick stand of permanent lawn grass, reasonably free from weeds and coarse grass. It shall be at least one inch thick, uniform in thickness and cut in strips.
  - a. Application - Lay sod in strips avoiding wide joints. Sodding shall be done when ground is frost free and weather is favorable.
5. FINISH GRADE: Minimum fall of protective slope around buildings shall be 2% for a minimum of 4 feet. Grades from 3 to 1 to 2 to 1 shall be sodded. Maximum slope shall be 2 to 1.

Grading shall be accomplished to allow drainage of surface water away from buildings and off site.

## SECTION XVI

### TILE

- A. Ceramic wall tile shall be Mosaic standard grade or equal, 4 1/4" x 4 1/4" glazed with matching trim and accessories, unless otherwise specified.
- B. Floor tile shall be Mosaic or equal, 1" x 1/4" unglazed, Hexagon floor tile, or 4 1/4" x 4 1/4" unglazed floor tile unless otherwise specified.
- C. Tile shall be installed in accordance with mfg. recommendations including bedding agents, adhesives and grout.
  - 1. Wall tile shall be installed in mortar or on water resistant wall board in accordance with mfg. instructions.
  - 2. Ceramic tile floors installed on slab shall be with cement mortar according to ANSI A108.3. Ceramic tile floors installed on plywood base shall conform to ANSI A108.4.
  - 3. Align joints in walls and follow horizontally and vertically throughout entire job. Layout work to minimize cut tile. "Average" out work throughout entire dimension.
  - 4. Align joints in floor tile at right angle to each other and parallel to walls.
  - 5. Provide all trim pieces required.
  - 6. All surfaces shall be true, straight, flush and free from defective or discolored tile.
  - 7. Grout, polish and clean tile according to mfg. instructions. Use of acid is not permitted.

### CARPET

- A. All carpet and pad shall meet HUD FHA requirements and a written mfg. certification shall be submitted, or carpet shall be labeled per U.M. 44C.
  - 1. Colors shall be selected and approved by the owner prior to installation.
  - 2. Carpet shall not be installed until all interior work is completed.

### TERMITE TREATMENT

- A. Where infestation of termites, borers or powder post beetles is determined, such infestation shall be eliminated by treating in accordance with the requirements of the State of Georgia, Pest Control Commission and damage shall be repaired.
- B. A certification by the exterminator shall include: The property is clear of all vermin infestation; should infestation occur within 1 year from the date of treatment, the premises shall be retreated at no cost to the owner; furthermore, should damage occur as a result of infestation during this period, the exterminator shall repair such damage at no cost to the owner.

## EXHIBIT D

### EQUAL EMPLOYMENT OPPORTUNITY

Federally assisted construction contracts, including contracts for demolition, alteration, extension, and repair, are required to include an equal employment opportunity clause under which the contractor agrees not to discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin; to make his nondiscrimination policy known to employees and applicants; and to include the prescribed equal employment opportunity clause in certain subcontracts. A contract for an amount over \$10,000 is subject to Executive Order 11246, and to the regulations of the Department of Labor and requires the inclusion of additional contract terms relating to the maintenance of records and the submission of reports that may be required.

Contracts subject to Executive Order 11246 includes the following Language:

During the performance of this Contract, The Contractor agrees as follows:

- (a). The Contractor will not discriminate against any employee or applicant for employment because of race, creed, color, or national origin, and after October 13, 1968, because of race, color, religion, sex or national origin. The Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, creed, color or national origin, and after October 13, 1968, without regard to race, color, religion, sex or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the Local Public Agency setting forth the provisions of this nondiscrimination clause.
- (b). The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, creed, color or national origin, and after October 13, 1968, without regard to race, color, religion, sex or national origin.
- (c). The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract for understanding, a notice, to be provided, advising the labor union or workers' representative of the Contractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965; and shall post copies of the notice in conspicuous places available to all employees and applicants for employment.
- (d). The Contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- (e). The Contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor or the Secretary of Housing and Urban Development pursuant thereto and will permit access to his books, records, and accounts by the local Public Agency, the Secretary of Housing and Urban Development, and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

## EXHIBIT D

### EQUAL EMPLOYMENT OPPORTUNITY continued

- (f). In the event of the Contractor's noncompliance with the nondiscrimination clauses of this Contract or with any of such rules, regulations, or orders, this Contract may be cancelled, terminated, or suspended in whole or in part and the Contractor may be declared ineligible for further Government Contracts or federally assisted construction contracts in accordance with procedures authorized in Executive order 11246 of September 24, 1965, or by rules, regulation, or order of the Secretary of Labor, or as otherwise provided by law.
  
- (g) The Contractor will include the provisions of paragraphs, A through G in every subcontractor purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the Local Public Agency or the Department of Housing and Urban Development may direct as a means of enforcing such provisions, including sanctions for noncompliance:  
Provided. However, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the Local Public Agency or the Department of Housing and Urban Development, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

# CHAPTER 19: THE NSP PROGRAM



## CHAPTER PURPOSE & CONTENTS

This chapter provides a general overview of the Neighborhood Stabilization Program, including a brief synopsis of the history of the program, a summary of the objectives of the program, the rules and requirements of the program and a summary of the process for implementing NSP activities.

SECTION	TOPIC
19.1	Program History & Primary Objective
19.2	NSP Regulations
19.3	Deadlines
19.4	Areas of Greatest Need
19.5	Key Definitions
19.6	Eligible Activities
19.7	Ineligible Activities
19.8	LMMI National Objective and Beneficiary Requirements
19.9	Long Term Affordability
19.10	Other Requirements Under NSP
19.11	NSP Resources

### 19.1 Program History & Primary Objective

✓ This section explains the history of the NSP program and its goals.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ Reason NSP was established</li> <li>✓ NSP primary objective</li> </ul>
Regulatory/Statutory Citations	<p>Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub. L. 110-289)</p> <p>Division A, Title XII of the American Recovery and Reinvestment Act of 2009 – Community Development Fund (Pub. L. 111-5)</p> <p>Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act: Additional Assistance for Neighborhood Stabilization (Pub. L 111-203)</p>
Other Reference Materials on This Topic	Not applicable



- ✓ The Neighborhood Stabilization Program (NSP) is authorized under three appropriations by Congress.
  - The NSP program was enacted in 2008 under the Housing and Economic Recovery Act or HERA and is referred to as NSP1. This appropriation provided \$3.92 billion to local and state governments hardest hit by the foreclosure crisis nationwide on a formula basis.
  - The second round of funding or NSP2 for \$2 billion was appropriated under the American Recovery and Reinvestment Act (ARRA). NSP2 funding was competitively awarded to qualifying nonprofits and government agencies.
  - The third round of funding or NSP3 was appropriated under the Dodd-Frank Economic Reform and Consumer Protection Act of 2010. Like NSP1, the \$1 billion appropriation was allocated on a formula basis to local and state governments hardest hit by the foreclosure crisis.
- ✓ Each funding round provided as supplemental CDBG appropriation
- ✓ Congress created the Neighborhood Stabilization Program to help cities, counties and states deal with community problems that are the result of the mortgage foreclosure crisis in the nation.
- ✓ Neighborhood revitalization in areas hardest hit by the foreclosure crisis is achieved through NSP by providing funding to communities to buy up and rehabilitate or redevelop abandoned, foreclosed, and vacant properties.
- ✓ The NSP regulations set forth eligible activities and the national objectives that each activity must meet. As recipients of NSP funds, grantees are charged with ensuring that these requirements are met.

## 19.2 NSP Regulations

- ✓ This section provides an overview of the NSP regulations.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ Regulatory basis for NSP</li> <li>✓ Key regulatory requirements</li> </ul>
Regulatory/Statutory Citations	<p>Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008 – October 6, 2008 (FR-5255-N-01)</p> <p>Notice of HUD's Fiscal Year (FY) 2009 Notice of Funding Availability (NOFA); Policy Requirements and General Section to HUD's FY2009 NOFAs for Discretionary Programs – December 29, 2008 (FR-5300-N-01)</p> <p>Notice of Fund Availability (NOFA) for the Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act, 2009 – May 4, 2009 (FR-5321-N-01)</p> <p>Notice of Fund Availability (NO FA) for Fiscal Year 2009 Neighborhood Stabilization Program 2 under the American Recovery</p>



	<p>and Reinvestment Act of 2009 – Correction June 11, 2009 (FR-5321-C-02)_</p> <p>Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008; Revisions to Neighborhood Stabilization Program (NSP) and Technical Corrections – June 19, 2009 (FR-5255-N-02)</p> <p>Notice of Fund Availability (NOF A) for Fiscal Year 2009 Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act of 2009; Correction – November 9, 2011 (FR-5321-C-03)</p> <p>Notice of Fund Availability (NOF A) for Fiscal Year 2009 Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act of 2009; Correction – January 21, 2010 (FR-5321-C-04)</p> <p>Notice of Definition Revision to Notice of Fund Availability (NOFA) for Fiscal Year 2009: Neighborhood Stabilization Program 2 (NSP2) under the American Recovery and Reinvestment Act of 2009; Change in Definitions – April 2, 2010 (FR-5321-N-04)</p> <p>Notice of Change in Definitions and Modification to Neighborhood Stabilization Program (NSP) – April 9, 2010 (FR-5321-N-03)</p> <p>Notice of Neighborhood Stabilization Program Reallocation Process Changes – August 23, 2010 (FR-5435-N-01)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p>
<p>Other Reference Materials on This Topic</p>	<p>Not applicable</p>

- ✓ CDBG forms the regulatory basis for NSP. Except where otherwise stated in NSP statutes and regulations, NSP follows CDBG rules and requirements.
- ✓ The regulations implementing NSP can be found in a number of notices published for each of the three rounds of NSP including:
  - **NSP1:**
    - NSP1 Federal Register Notice – October 6, 2008
    - NSP1 Federal Register Bridge Notice – June 19, 2009
    - Notice of NSP Relocation Process Changes – August 23, 2010
  - **NSP2:**
    - NSP2 Notice of Funding Availability – May 4, 2009
    - NSP2 Notice of Funding Availability (NOFA) Correction – November 9, 2009
    - NSP2 Notice of Funding Availability (NOFA) Correction – January 21, 2010



- Notice of Definition Revision to NSP2 NOFA for FY2009 – April 2, 2010
  - **NSP3:** NSP3 Federal Register Notice – October 19, 2010
  - **NSP1, NSP2, and NSP3:** Notice of Change in Definitions and Modification to NSP – April 9, 2010
- ✓ A copy of the NSP regulations and statutes can be found at:  
<http://www.hudnsphelp.info/index.cfm?do=viewLawsandNotices>.

## 19.3 Deadlines

- ✓ This section goes over the key deadlines for obligating and expending NSP funds.

Key Topics in This Section	✓ Applicable deadlines for obligating and expending NSP funding
Regulatory/Statutory Citations	<p>Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008 – October 6, 2008 (FR-5255-N-01)</p> <p>Notice of Fund Availability (NOFA) for the Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act, 2009 – May 4, 2009 (FR-5321-N-01)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p>
Other Reference Materials on This Topic	<p>NSP Policy Alert: Guidance for Tracking and Reporting the Use of NSP Funds: Obligations for Specific Activities – April, 23, 2010</p> <p>NSP Policy Alert: Guidance on the NSP1 Recapture and Reallocation Notice – August 26, 2010</p> <p>NSP Policy Alert: Guidance on Developers, Subrecipients, and Contractors – August 27, 2010</p> <p>NSP Policy Alert: Guidance on NSP Loan Loss Reserves – December 7, 2010</p>

- ✓ Different deadlines apply to NSP1 versus NSP2 and NSP3.
- NSP1 included an 18 month obligation deadline requiring grantees to “use” 100 percent of their funds within 18 months following execution of their grant agreement with HUD. HUD defined “use” to mean that a contract was signed for a project.
  - NSP1 grantees are required to expend 100 percent of their allocation within four years following execution of their grant agreement with HUD.
  - Under NSP2 and NSP3, grantees are required to expend 50 percent of their total allocation within two years and 100 percent in three years from the date their grant agreement is signed with HUD.
- ✓ HUD recovers funds if not committed or expended within these timeframes.
- ✓ Program income expenditures count towards the overall expenditure goals.





## 19.4 Areas of Greatest Need

Key Topics in This Section	✓ Areas of Greatest Need (Target Areas)
Regulatory/Statutory Citations	<p>Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub, L. 110-289)</p> <p>Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008 – October 6, 2008 (FR-5255-N-01)</p> <p>Notice of Fund Availability (NOFA) for the Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act, 2009 – May 4, 2009 (FR-5321-N-01)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p>
Other Reference Materials on This Topic	Not applicable

- ✓ NSP requires that grantees define areas of greatest need in their NSP Action Plan and invest NSP funding in those areas.
- ✓ Areas of greatest need are also called target areas.
- ✓ The methodology for determining target areas can take into account some local factors and must take into account all of the following:
  - Percentage of home foreclosures
  - Number of homes with sub-prime loans
  - Areas likely to see rise in rate of foreclosures
- ✓ All NSP funded activities must be located in the areas of greatest need defined in each grantee's HUD approved NSP Action Plan.
- ✓ An eligible non-housing assisted NSP activity undertaken in a target area must document how the activity supports NSP efforts and neighborhood revitalization in the area.
- ✓ Target areas can be changed if needed through a Substantial Amendment to the Action Plan.



## 19.5 Key Definitions

- ✓ This section provides definitions of key NSP topics and terms.
- ✓ The definitions included below are in addition to the Key Definitions found in 1.3.

Key Topics in This Section	✓ Key definitions needed for NSP
Regulatory/Statutory Citations	<p>Notice of Change in Definitions and Modification to Neighborhood Stabilization Program (NSP) – April 9, 2010 (FR-5321-N-03)</p> <p>Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008 – October 6, 2008 (FR-5255-N-01)</p> <p>Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008; Revisions to Neighborhood Stabilization Program (NSP) and Technical Corrections – June 19, 2009 (FR-5255-N-02)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p> <p>24 CFR Part 92 HOME Investment Partnerships Program Final Rule</p>
Other Reference Materials on This Topic	Not applicable

**Affordability:** The requirements of the NSP Program that relate to the cost of housing both at initial occupancy and over established timeframes, as prescribed in the NSP statute and HOME Final Rule. Affordability requirements vary depending upon the nature of the NSP assisted activity (i.e. homeownership or rental housing).

**Abandoned:** A property is considered abandoned if one of the following is true:

- ✓ Mortgage/tax/tribal leasehold no payments 90 days
- ✓ Code inspection determines not habitable and no corrective action within 90 days
- ✓ Subject to court-ordered receivership/nuisance abatement or state definition of abandoned
  - When property meets both foreclosed & either abandoned or vacant definitions, grantee must treat as foreclosed

**Blighted:** A structure is blighted when it exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare.

**Foreclosed:** A property is considered abandoned if one of the following is true:

- ✓ Property is 60 days delinquent under Mortgage Bankers of America delinquency calculations and the owner has been notified
- ✓ Property owner is 90 days or more delinquent on tax payments



- ✓ Foreclosure proceedings have been initiated or completed
- ✓ Foreclosure proceedings are complete and the title has transferred to an intermediary that is NOT an NSP grantee, sub, contractor, developer, or end user

**Home:** A permanent residential unit.

**Land Bank:** Public or non-profit entity created for a single purpose: to acquire, manage, maintain, and repurpose foreclosed properties.

**Low, Moderate and Middle Income:** Low, moderate and middle income (also referred to in this manual as LMMI) means a family or household with an annual income less than 120 percent of the area median income based on the Section 8 Low Income Limit as established by HUD.

**Middle-Income Household/Family:** A household/family having an income equal to or less than 120% of area median income based on the Section 8 Low Income limit established by HUD, but greater than the Section 8 Moderate Income limit (80 percent of area median income) established by HUD.

**Residential Property:** Homes and any vacant residential land and multifamily properties located on the property.

**Substantial Amendment:** A Substantial Amendment to a grantee’s annual action plan and/or consolidated plan as described at 24 CFR 91.505. Circumstances under which a Substantial Amendment is required include changes: in scope, location, beneficiaries, or activities. As a supplemental CDBG appropriation and new program, NSP Action Plans are considered Substantial Amendments.

**Total Development Cost:** The total cost invested by a grantee or partner to acquire and rehabilitate or redevelop a residential property.

**Vacant:** Unoccupied or demolished structures or vacant land that was previously developed.

## 19.6 Eligible Activities

- ✓ This section describes the range of activities that are eligible under NSP.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ Five eligible activities under NSP</li> <li>✓ Types of properties eligible under each activity</li> <li>✓ Typical methods for undertaking NSP eligible activities</li> </ul>
Regulatory/Statutory Citations	<p>Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub. L. 110-289)</p> <p>Division A, Title XII of the American Recovery and Reinvestment Act of 2009 – Community Development Fund (Pub. L. 111-5)</p> <p>Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act: Additional Assistance for Neighborhood Stabilization (Pub. L 111-203)</p> <p>24 CFR 570.202 (b)</p> <p>24 CFR 570.205</p>



	24 CFR §570.201(d)
<b>Other Reference Materials on This Topic</b>	Guidance on NSP-Eligible Acquisition & Rehabilitation Activities – December 11, 2009 Guidance on Property Types Under Each Eligible Use – December 3, 2009

- ✓ There are five eligible activities or uses under NSP:
  - Eligible Use A: Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties
  - Eligible Use B: Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon
  - Eligible Use C: Establish and operate land banks for homes and residential properties that have been foreclosed upon
  - Eligible Use D: Demolish blighted structures
  - Eligible Use E: Redevelop demolished or vacant properties
- ✓ The regulations and statutes place certain requirements and stipulations on eligible uses and not others. For example, the regulations and statutes under NSP2 and NSP3 cap the amount of funds that can be used on demolition activities. Additionally, the eligible use may dictate the costs that are eligible, the national objective under which the activity falls, and the rules that are triggered.
- ✓ Only three possible property types can be acquired or rehabbed under NSP:
  - Foreclosed
  - Abandoned
  - Vacant
- ✓ All uses can include direct and related activity delivery costs
- ✓ Please refer to the NSP regulations for a more complete description of each of these eligible activities and for an overview of how and when each eligible activity may be undertaken.

### **19.6.1. Eligible Use A: Financing Mechanisms**

- ✓ Eligible Use A: Financing Mechanisms, allows grantees to provide financing mechanisms for the purchase and redevelopment of foreclosed upon homes and residential properties.
- ✓ Grantees can provide financial assistance to a household to purchase a property or a developer to buy or redevelop homeowner or rental property.
- ✓ Some examples of financing mechanisms eligible under Eligible Use A include:
  - Soft second loans
  - Loan loss reserve
  - Equity sharing.



- Housing counseling for households that are purchasing an NSP, CDBG, or HOME funded home
- ✓ Assistance must be provided as a loan, not in the form of a grant.
- ✓ In many cases, eligible activities under Eligible Use A can be done under Eligible Use B or E but there are some cases when Eligible Use A is necessary, for example if a grantee wants to establish a revolving loan fund.

### **19.6.2. Eligible Use B: Acquisition and Rehabilitation**

- ✓ Eligible Use B is for the purchase and rehabilitation of homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties.
- ✓ The property can be owner or rental housing.
- ✓ Eligible activities under Use B include:
  - Acquisition
  - Disposition
  - Relocation
  - Direct homeownership assistance
  - Rehabilitation
  - Housing counseling for participants
- ✓ Demolition of a structure on a property as part of reconstruction is Eligible Use B and is not considered under Eligible Use D.

### **19.6.3. Eligible Use C: Land Banking**

- ✓ Eligible Use C is intended for land banking homes and residential properties that have been foreclosed upon.
- ✓ In order to land bank a property, the property must be a specific, defined area.
- ✓ By definition, land banks must be operated by a public or nonprofit agency.
- ✓ The property cannot be land banked for more than 10 years.
- ✓ At the end of the holding period, there must be a plan for the re-use of the property and the re-use must be eligible under NSP and meet the LMMI national objective.

### **19.6.4. Eligible Use D: Demolition**

- ✓ Under Eligible Use D: Demolition the demolition of blighted structures is an eligible activity.
- ✓ Prior to demolition, the property can be any type of property including residential, commercial, or industrial.
- ✓ Demolition can include:
  - Demolition of buildings and improvements



- Removal of demolition products (rubble) and other debris
  - Physical removal of environmental contaminants or treatment of such contaminants to render them harmless
  - Movement of structures to other sites
  - Leveling and seeding the site and/or stake surveys where local codes require it
- ✓ Under NSP2 and NSP3, only 10 percent of the grantee's total funding allocation can be used on Eligible Use D unless otherwise authorized by HUD.
- ✓ Demolition may be an end use and therefore qualify as an activity under Eligible Use D or, when involving acquisition of the property, it may be done in coordination with Eligible Use B or E and qualify under that activity as described in the table below:

<b>Demolition: Meeting eligibility requirements and national objectives</b>			
		<b>Eligibility</b>	<b>National Objective</b>
<b>Demolition as End Use</b>	Blighted property	D - Demolish <u>blighted</u> properties	LMMA
	Concentrated neighborhood demolition strategy or plan	D - Demolish <u>blighted</u> properties	LMMA
<b>Demolition as Preliminary Use</b>	Land banked Properties	D - Demolish <u>blighted</u> properties	LMMA
	Reconstruction (Rehabilitate housing)	B - Purchase and rehabilitate homes and residential properties that have been <u>abandoned or foreclosed upon</u> in order to sell, rent, or redevelop such homes and properties	LMMH
	Redevelopment (New construction of housing)	E - Redevelop <u>demolished or vacant</u> properties as housing	LMMH
<b>Demolition for Subsequent Uses</b>	Public Facilities (community gardens, parks, etc...)	NSP1 Eligible under E - Redevelop <u>demolished or vacant</u> properties D – Demolish <u>blighted</u> properties	LMMA
	Side Lots (Give to LMMI neighbor or an easement if not LMMI)	D – Demolish <u>blighted</u> properties	LMMA

- ✓ If a blighted structure is demolished, the lot can be made available to any adjacent residential property



- If owner of adjacent property qualifies as LMMI, the lot can be donated as a side yard under LMMA
- If owner does not qualify as LMMI, grantee should continue to own the lot but grant an easement to neighbor to use and maintain it

### 19.6.5. Eligible Use E: Redevelopment

- ✓ Under Eligible Use E, grantees can redevelop demolished or vacant properties.
- ✓ Prior to redevelopment, the property can be any type of property including residential, commercial, or industrial.
- ✓ Redevelopment may include:
  - Acquisition
  - Disposition
  - Public facilities
  - Public services for housing counseling for prospective tenants/owners
  - Relocation
  - Direct homeownership
  - CBDO, new housing construction
  - Rehabilitation
- ✓ Under NSP1, redevelopment activities can include public facilities but under NSP2 and NSP3, all redevelopment activities must relate to housing.
- ✓ Demolition of a structure on a property as an integral part of a redevelopment activity is Eligible Use E and is not considered under Eligible Use D.

### 19.6.6. Eligible Uses by Property Type

Eligible Uses	Foreclosed Homes and Residential Properties	Abandoned Homes and Residential Properties	Blighted Structures	Demolished Properties	Other Vacant Properties
<b>A Financing Mechanisms</b>	Yes	No	Only if Foreclosed	N/A	Only if Foreclosed
<b>B Acquisition and Rehabilitation</b>	Yes	Yes	If Foreclosed or Abandoned	N/A	No
<b>C Land banks</b>	Yes (Homes only)	No (Foreclosed only)	Foreclosed home or residential property	No	No
<b>D Demolition</b>	Only if Blighted	Only if Blighted	Yes	N/A	Only if Blighted
<b>E Redevelopment</b>	Only if Vacant	Only if Vacant	Only if Vacant	Yes	Yes



### 19.6.7. Planning and Administration

- ✓ NSP funds may be used for planning activities (§ 570.205). Such activities might include:
  - Comprehensive plans;
  - Community development plans (including the Consolidated Plan);
  - Functional plans (for housing; land use and urban environmental design; economic development; open space and recreation; energy use and conservation; floodplain and wetlands management; transportation; utilities; historic preservation; etc.);
  - Other plans and studies (e.g., small area and neighborhood plans; capital improvements program plans; individual project plans; general environmental; urban environmental design; historic preservation studies; etc.); and
  - Policy planning, management, and capacity building activities.
- ✓ Grantees may also use NSP funds for program administration activities (§ 570.206). Such activities may include:
  - General management, oversight and coordination;
  - Public information;
  - Fair Housing activities;
  - Indirect costs;
  - Submission of applications for Federal programs; and
  - Costs to pursue Section 17 of the United States Housing Act of 1937.
- ✓ Planning and administration activities are capped at 10 percent of the grantee’s total funding allocation.

### 19.7 Ineligible Activities

- ✓ This section describes activities that are not eligible under NSP.

Key Topics in This Section	✓ Ineligible activities under NSP
Regulatory/Statutory Citations	Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub. L. 110-289) Division A, Title XII of the American Recovery and Reinvestment Act of 2009 – Community Development Fund (Pub. L. 111-5) Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act: Additional Assistance for Neighborhood Stabilization (Pub. L 111-203) 24 CFR Part 570.207
Other Reference Materials on This Topic	Not applicable





- ✓ The general rule is that any activity not specifically authorized under the CDBG program or NSP regulations and statutes is ineligible to be assisted with NSP funds.
- ✓ Unless specifically cited as an eligible activity in the NSP regulations, if an activity is ineligible under the CDBG program, the activity is also ineligible under NSP.
- ✓ The eligibility differences between NSP and CDBG are covered in detail in this and the three subsequent NSP chapters.
- ✓ Some examples of activities that are ineligible under NSP:
  - Foreclosure prevention
  - Demolition of non-blighted structures;
  - Acquisition of property or structures that are not abandoned, foreclosed or vacant
- ✓ The Housing and Community Development Act states that no more than 50 percent of the down payment required by the private lender can be provided as down payment assistance to a homebuyer. Closing cost assistance and other financial assistance is not capped.

## 19.8 LMMI National Objective and Beneficiary Requirements

- ✓ This section describes the national objective requirements all NSP funded activities must meet and the requirement to ensure that a certain percentage of funds serve low income households.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ LMMI National Objective</li> <li>✓ 25% Low Income Set Aside</li> </ul>
Regulatory/Statutory Citations	<p>Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub. L. 110-289)</p> <p>Division A, Title XII of the American Recovery and Reinvestment Act of 2009 – Community Development Fund (Pub. L. 111-5)</p> <p>Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act: Additional Assistance for Neighborhood Stabilization (Pub. L 111-203)</p> <p>Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008 – October 6, 2008 (FR-5255-N-01)</p> <p>Notice of Fund Availability (NOFA) for the Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act, 2009 – May 4, 2009 (FR-5321-N-01)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p>
Other Reference Materials on This Topic	Chapter 3: National Objectives



### **19.8.1. LMMI National Objective**

- ✓ 100% of NSP funds must meet the low/moderate/middle income (LMMI) National Objective as defined under NSP
  - LMMI is a person or household with an annual income less than 120 percent of the area median income based on the Section 8 Low Income Limit as established by HUD.
  - The LMMI National Objective requires NSP grantees to expend 100% of NSP funds on activities that benefit LMMI persons.
- ✓ The LMMI National Objective follows the same rules and requirements as the LMI National Objective under CDBG.
- ✓ “Low/mod job creation”, “slum/blight” and “urgent need” National Objectives are not applicable or allowed
- ✓ There are three categories that can be used to meet the LMMI national objective:
  - Housing activities
  - Area benefit activities; or
  - Limited clientele activities;
  - Job creation or retention activities are NOT eligible under NSP
- ✓ The housing category of LMMI benefit national objective qualifies activities that are undertaken for the purpose of providing or improving permanent residential structures which, upon completion, will be occupied by LMMI households. LMMH is the most common national objective under NSP.
- ✓ The area benefit category or LMMA is one that benefits all residents in a particular area, where at least 51 percent of the residents are LMMI persons. The activity must serve all the residents in a primarily residential area and may include a park or other public facility.
- ✓ Under the limited clientele category, 51 percent of the beneficiaries of an activity have to be LMMI persons. This category is used for special needs project and shelters and does not count toward the 25% low income targeting requirement described in the next section.
- ✓ Further information regarding how to document compliance with the LMMI national objective can be found in Chapter 3: National Objectives.

### **19.8.2. 25 Percent Low Income Set Aside**

- ✓ NSP statute requires that no less than 25 percent of each grantee's total NSP allocation be used for the purchase and redevelopment of abandoned, foreclosed upon, vacant or demolished properties to house individuals or families whose incomes do not exceed 50 percent of area median income.
- ✓ In order to qualify for the 25 percent low income set aside, the activity:
  - Must be a housing activity, as defined by CDBG; and
  - Occupants must be at or below 50 percent area median income.
- ✓ The following Eligible Uses may count toward the 25 percent set aside requirement provided that the end use is housing and the occupant beneficiary is low income:



- *Eligible Use A: Financing Mechanisms*
  - *Eligible Use B: Purchase and Rehabilitation*
  - *Eligible Use C: Land Banks* only if operated as permanent rental housing for low income
  - *Eligible Use E: Redevelopment*
- ✓ Non-residential property may be used towards the 25 percent set aside if the project is completed under Eligible Use E: Redevelopment and is turned into affordable housing.
  - ✓ The 25 percent set aside applies to the overall grant allocation, not to the number of units created.
  - ✓ Program income resulting from NSP1 and NSP3 activities is subject to the 25 percent set aside. HUD must publish a Notice to require that program income generated under NSP2 is subject to the 25 percent set aside; HUD expects to publish this Notice shortly and grantees should plan for it.

## 19.9 Long Term Affordability

- ✓ This section describes the rules and requirements to ensure long term affordability for NSP funded homeowner and rental projects if NSP grantees adopt the HOME long term affordability rules.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ Long term affordability requirements for NSP rental and homebuyer projects</li> <li>✓ HOME program rules for ensuring long term affordability</li> </ul>
Regulatory/Statutory Citations	<p>Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub. L. 110-289)</p> <p>Division A, Title XII of the American Recovery and Reinvestment Act of 2009 – Community Development Fund (Pub. L. 111-5)</p> <p>Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act: Additional Assistance for Neighborhood Stabilization (Pub. L 111-203)</p> <p>Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008 – October 6, 2008 (FR-5255-N-01)</p> <p>Notice of Fund Availability (NOFA) for the Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act, 2009 – May 4, 2009 (FR-5321-N-01)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p>
Other Reference Materials on This Topic	<p>Basically HOME: Chapter 2: General Program Rules</p> <p>NSP Homebuyer Programs: Financing and Long Term Affordability</p>



- ✓ Under NSP, grantees are required to define how they will ensure long term affordability for all NSP funded housing projects.
- ✓ NSP grantees may adopt the HOME program long term affordability rules as a safe harbor or, with HUD approval the NSP grantee may impose more stringent standards. Most NSP grantees have elected to adopt the HOME rules for determining and tracking long-term affordability.
- ✓ If an NSP grantee adopts the HOME rules for long term affordability, the length of the affordability period is dictated by the amount of NSP investment per unit as described in the table below:

NSP Investment per Unit	Length of the Affordability Period
Less than \$15,000	5 years
\$15,000 to \$40,000	10 years
More than \$40,000	15 years
New construction of rental housing	20 years
Refinancing of rental housing	15 years

- ✓ The amount of investment per unit and therefore the length of the affordability period under the HOME rules depend on whether the project is a rental or a homebuyer project.

### **19.9.1. Rental Projects**

- ✓ Under NSP, grantees are required to define ‘affordable rents’ in their NSP Action Plan. Rents must continue to remain “affordable” as defined by the NSP grantee in their NSP Action Plan for the entire affordability period.
- ✓ NSP assisted rental units must be occupied by LMMI households. Income eligibility is determined when the rental household occupies the property and must be verified again if and when an LMMI household leaves the unit and it is during the affordability period.
- ✓ If a unit is counted toward the 25% low income set aside, the unit must remain available to households  $\leq$  50% AMI

### **19.9.2. Homebuyer Projects**

- ✓ For NSP grantees that adopt the HOME long term affordability requirements, the grantee must select whether the homebuyer program is subject to resale or recapture requirements.
- ✓ Under the resale approach, the affordability period is based on the total HOME investment in the property and must include the total amount of NSP assistance to the homebuyer as well as the total amount of NSP funds provided to the developer.
- ✓ Under the recapture approach, the affordability period is based on the total amount of NSP assistance to the homebuyer. This is also known as the ‘direct subsidy’ and may include



down payment assistance, mortgage assistance, homeowner or title insurance, closing cost assistance, or assistance that reduces the purchase price for the homebuyer below market value.

- ✓ If there is no “direct subsidy” to the homebuyer than the grantee must select the resale requirement.

## 19.10 Other Requirements under NSP

- ✓ This section describes some other requirements under NSP including property standards; property purchase discounts, caps on the sales price for homebuyer units and tenant protection requirements.

<p><b>Key Topics in This Section</b></p>	<ul style="list-style-type: none"> <li>✓ Property standards under NSP</li> <li>✓ Property purchase discount under NSP</li> <li>✓ Caps on the sales price of homebuyer units</li> <li>✓ Tenant protection requirements</li> </ul>
<p><b>Regulatory/Statutory Citations</b></p>	<p>Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub. L. 110-289)</p> <p>Division A, Title XII of the American Recovery and Reinvestment Act of 2009 – Community Development Fund (Pub. L. 111-5)</p> <p>Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act: Additional Assistance for Neighborhood Stabilization (Pub. L 111-203)</p> <p>Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008 – October 6, 2008 (FR-5255-N-01)</p> <p>Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008; Revisions to Neighborhood Stabilization Program (NSP) and Technical Corrections – June 19, 2009 (FR-5255-N-02)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p>
<p><b>Other Reference Materials on This Topic</b></p>	<p>Guidance on NSP Tenant Protection Requirements Under the Recovery Act – Updated August 12, 2010</p> <p>Guidance on Allocating Real Estate Development Costs in NSP, January 13, 2011</p>



- ✓ *Tenant Protection Requirements:* Tenant protection requirements instated under ARRA require that all NSP grantees ensure that “bona fide” tenants in occupancy when property is acquired by initial successor in interest through foreclosure (usually lender) receive proper notification. The lender must provide 90 day notice to vacate to “bona fide” tenant occupants.
- ✓ *Appraisals:* Appraisals are required for purchases of foreclosed homes and properties and must be conducted within 60 days prior to final offer.
- ✓ *Purchase Discount:* Foreclosed properties acquired with NSP funding must be purchased at a 1% discount below the current appraised value of the property. The appraisal must be conducted within 60 days prior to the purchase of the property.
- ✓ *Property Standards:* NSP grantees must define the property standards that it will apply in its NSP Action Plan. NSP2 and NSP3 grantees are required to incorporate green building and energy efficiency improvements in their rehabilitation standards.
- ✓ *Homebuyer Counseling:* NSP-assisted homebuyers must complete at least 8 hours from HUD-approved counseling agency
- ✓ *Sales Price Cap:* The sales price of NSP assisted properties sold to eligible LMMI households cannot exceed the total development cost or the total hard and soft costs to acquire and rehabilitated the unit.

### 19.11 NSP Resources

The NSPTA Resource Exchange website is located at [www.hudnsphelp.info](http://www.hudnsphelp.info) and provides the following types of resources to help grantees and their partners implement NSP:

- ✓ Laws and Notices
- ✓ Policy Alerts and Guidance from HUD
- ✓ Frequently Asked Questions
- ✓ Toolkits including templates, sample forms and procedures, and guidebooks on designing NSP programs
- ✓ Ability to ask questions and submit requests for technical assistance
- ✓ Webinars including presentation, transcript, and recording
- ✓ Problem Solving Clinic presentations and handouts

### Acronyms

NSP	Neighborhood Stabilization Program
NSP1	Round 1 of Neighborhood Stabilization Program Funding Authorized under Housing and Economic Recovery Act (HERA)



NSP2	Round 2 of Neighborhood Stabilization Program Funding Authorized under American Recovery and Reinvestment Act (ARRA)
NSP3	Round 3 of Neighborhood Stabilization Program Funding Authorized under Dodd-Frank Wall Street Reform and Consumer Protection Act
LMMI	Low Moderate Middle Income





# Green Housing Development Guide



## About this Tool

### Description:

The Green Housing Development Guide is intended for use by Neighborhood Stabilization Program (NSP) grantees, sub grantees, and contractors wishing to incorporate green building into single-family housing development or rehabilitation programs. NSP grantees and subrecipients who are new to green building are urged to view the issue holistically, including site location, materials use, interior air quality, and long term maintenance. Green building standards offer myriad benefits to occupants, the community, and the environment as a whole.

The guide outlines eight green building categories that have been shown to be cost-effective in affordable housing in reducing energy and maintenance costs, improving the health and safety of the building for residents, and reducing environmental impacts. These eight categories include: 1. Integrated Design; 2. Location and Neighborhood Fabric; 3. Site Improvements; 4. Water Conservation; 5. Energy Efficiency; 6. Materials Beneficial to the Environment; 7. Healthy Living Environment; and 8. Operations and Maintenance. The green building measures described in this guide apply to new construction, substantial rehabilitation, and moderate rehabilitation.

### Source of Document:

Primary source documents for this guide are the Enterprise Green Communities Criteria and “Incremental Cost, Measurable Savings: Enterprise Green Communities Criteria”, an evaluation of green-built affordable housing projects by Enterprise Community Partners. Both documents can be found at [www.greencommunitiesonline.org](http://www.greencommunitiesonline.org).

### Disclaimer:

This document is not an official HUD document and has not been reviewed by HUD counsel. It is provided for informational purposes only. Any binding agreement should be reviewed by attorneys for the parties to the agreement and must conform to state and local laws.

This resource is part of the NSP Toolkits. Additional toolkit resources may be found at [www.hud.gov/nspta](http://www.hud.gov/nspta)



# Green Housing Development Guide

## A. Overview of Green Building Standards

### Introduction

The Neighborhood Stabilization Program is an unprecedented opportunity to use HUD funds for incorporating a green building standard into a public or non-profit housing program. Comprehensive green building standards improve the lives of residents, support community revitalization, and protect the environment as a whole. There are significant social, environmental, financial and health benefits to incorporating a comprehensive set of green building standards. While some housing programs may start off with a partial approach to “going green,” the greatest benefits accrue from adopting a holistic green building standard that results in resource conservation, healthier living environments, and restored neighborhoods.

NSP grantees who are unfamiliar with green building may feel a bit overwhelmed at the prospect of identifying and adopting new standards. Yet because the NSP clearly encourages use of green building strategies, and does not require the subsidy layering such public funding often requires, it offers an extraordinary opportunity to integrate these approaches into public housing programs. Grantees should consider using NSP funds to adopt green building principles, develop a pilot project or demonstration program, increase local capacity to develop green buildings, and spur local demand for such housing.

Efforts to provide comprehensive green building standards began in the 1990s with LEED (Leadership in Energy and Environmental Design), which was developed by the U.S. Green Building Council (USGBC) and initially focused on commercial buildings. In the early 2000s, a few affordable housing developers began to apply green building standards to their projects and a few cities begin to promote their own standards for affordable housing and other residential development. Seattle’s SeaGreen standard was an early and effective example.

### *Examples of National Green Building Standards*

Enterprise Green Communities  
[www.greencommunitiesonline.org](http://www.greencommunitiesonline.org)

LEED for Homes [www.usgbc.org](http://www.usgbc.org)

NAHB National Green Building Standard [www.nahbgreen.org](http://www.nahbgreen.org)

In 2004, the Green Communities Criteria were created as a green standard specially designed for use with affordable housing development. The Criteria were developed by Enterprise Community Partners, with input from USGBC, Southface Energy Institute, the Natural Resource Defense Council and other industry advisors. The Criteria apply to new construction, substantial rehabilitation, and—uniquely—moderate rehabilitation.

In 2004, the National Association of Home Builders (NAHB) published a set of green building guidelines, which by 2008 had evolved to a “National Green Building Standard” focused primarily on market-rate residential new construction and related land development.

Also in 2008, the U.S. Green Building Council released its “LEED for Homes” rating system. This standard applies to new and substantially rehabilitated housing, both single-family and multifamily—including mid-rise but not high-rise buildings. USGBC has made special efforts to encourage adoption by affordable housing developers.

Energy Star is an energy-conservation standard that was developed as a joint effort of the U.S. Environmental Protection Agency and the U.S. Department of Energy. It is designed to help consumers save money and protect the environment through improved building and energy performance and the selection of energy efficient products and practices. Appliances that reach a certain level of energy efficiency can earn an Energy Star label, as can homes. Several national and regional green building programs use this program as the basis for their residential energy criteria.

This guide is based primarily on the Enterprise Green Communities Criteria, a national green building program designed specifically for affordable housing. The Criteria ensure that homes are cost effective to build, and durable and practical to maintain. In addition, the principles work together to help produce green affordable housing that:

- Results in a high-quality, healthy living environment
- Lowers residents’ utility costs
- Enhances residents’ connection to nature
- Protects the environment by conserving energy, water, materials and other resources
- Advances the health of local and regional ecosystems

Like other comprehensive residential green building programs, the Criteria are divided into categories that address multiple aspects of housing development, including:

1. Integrated design
2. Site, location, and neighborhood fabric
3. Site improvements
4. Water conservation
5. Energy efficiency
6. Materials that benefit the environment
7. Healthy living environment and
8. Operations and maintenance of properties

Data in this guide on the performance and costs of green building measures came from *Incremental Cost, Measurable Savings: Enterprise Green Communities Criteria*, a study by Enterprise Community Partners of 27 affordable housing projects that incorporated the Green

Communities Criteria. It found that when the Criteria were adopted comprehensively, they offered measurable health, economic and environmental benefits.

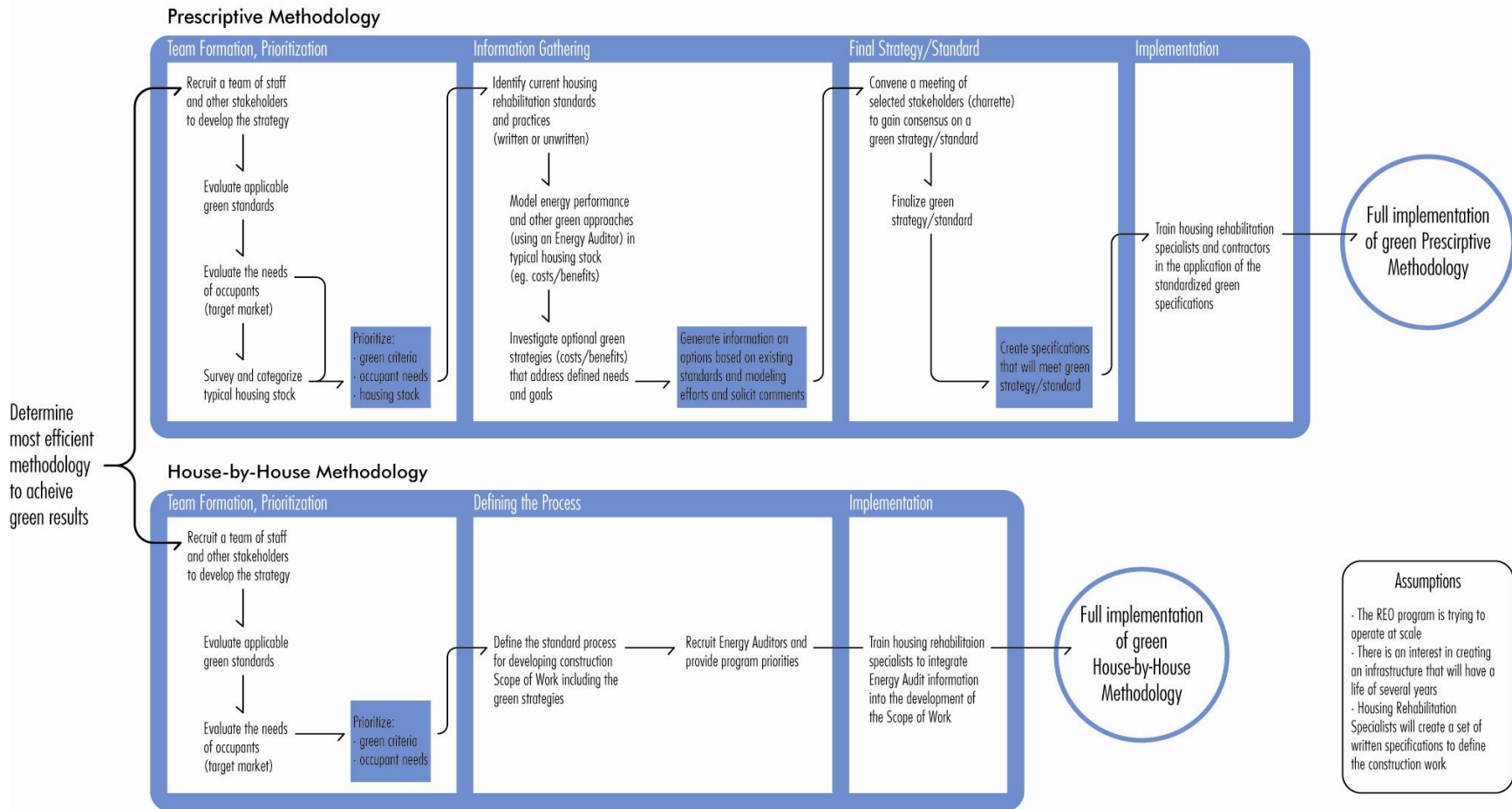
From a strictly financial standpoint, the Enterprise study found that the projected “lifetime” utility cost savings - averaging \$4,851 per dwelling unit discounted to 2009 dollars - were sufficient to repay the average \$4,524 per-unit cost of implementing the standards in all eight areas. These are described in more detail below, along with their key elements. To achieve the greatest benefit, and to ensure they are addressing all facets of green building, developers are urged to take an integrated design approach to green construction and rehab and use the Green Communities Criteria as a guide for establishing cost-effective green strategies early in the design and development process.

### **Strategies for Adopting Green Building Standards**

NSP grantees have multiple options for ensuring that green building standards are incorporated into housing programs. The first is to adopt a set of standards that is applied to all NSP-assisted housing (known as the “prescriptive method”). The second is to evaluate each house individually, the “house-by-house” approach. The prescriptive method is useful when operating a high volume program, while the house-by-house approach is suitable when there are fewer properties addressed. The graphic on the following page illustrates the components of each method.

In the prescriptive approach, the grantee assembles a team of staff and other stakeholders to review potential green building standards and options, assess the local housing stock and the local availability of products, and develop the standards. Before final adoption, there should be a review process in which a broader array of partners and stakeholders can comment on the proposed standards. Once adopted, the grantee should create a corresponding set of specifications to be implemented by participating developers and their contractors. Providing training to housing rehab specialists, energy auditors, and other staff on how to work with the new standards and specifications is imperative, as well as training for local contractors on the proper implementation of these green strategies.

## Greening an REO Housing Production Program



The house-by-house approach also begins with assembling the development or construction team to assess green standards, orient them to the target housing and occupant needs. The team agrees on the standards to be used, and provides training to housing rehab specialists, energy auditors, and other staff in how to apply them. Training for local contractors and developers will also be necessary.

For help in incorporating the recommendations of this Guide, NSP grantees are encouraged to look at the “*Sample Single-Family Housing Rehabilitation Standard*”; the “*Sample Single-Family Housing Rehabilitation Specifications Including Green Specs*”, and the “*Sample Single-Family Housing Rehabilitation Checklist*”. These can be found at [www.hudnsphelp.info](http://www.hudnsphelp.info).

## **B. Specifics of Green Building Standards**

### **1. Integrated Design**

Integrated design addresses sustainability from the outset by connecting the design of the units or buildings to the local climate, and using a total-systems approach to the development process. The goal is to create a more efficient development process in consideration of a holistic green strategy and to place the responsibility of accomplishing each portion of the green standard on a specific professional team member. The promotion of good health and livability throughout the building’s life cycle is also considered. An integrated design process can result in substantially lower development costs and greater health, economic and environmental benefits for residents, property owners and communities.

To be effective, however, integrated design principles need to be part of the project planning from the outset. When developing or renovating rental housing, property management and maintenance staff should be consulted about issues such as tenant preferences, the durability of materials, and design features that improve the way buildings operate and the quality of life for residents. The integrated design process should result in a written plan that guides the development process and the long-term management of the property. Key elements of the plan include:

- a) The name and role of each member of the professional design and development team;
- b) A statement of the project’s overall green development goals, and the expected intended outcomes of addressing those goals;
- c) A description of the process used to select the green building strategies, systems and materials to be incorporated into the project;
- d) A description of the rationale for choosing each of the green features;
- e) Identification of which design and development team members are responsible for implementing the green features;
- f) A description of follow-up measures to be taken throughout the design, permitting, construction and operation phases to ensure that the green features are included and

correctly installed, and that the owners or tenants receive information about the function and operation of these features.

On average, Enterprise's study of the application of Green Communities' Criteria found that the integrated design process added an average of \$94/dwelling unit, or a weighted average cost per square foot of \$.09. It is difficult to quantify exactly the actual cost savings and other benefits from following an integrated design process. Clearly, improving communication and planning efforts among the different designers—site planner, architect, civil and mechanical engineers—is fundamental to achieving the comprehensive results that green standards are intended to achieve. It can also avoid costly design mistakes or over-specifying. For example, focusing on design elements such as orientation of the housing, location of the windows and optimization of daylight into the housing, can lead to less expensive mechanical and electrical system purchases, allowing room in the budget for other measures such as healthier building materials.

## **2. Location and Neighborhood Fabric**

Choosing smart sites for housing is a key principle of green housing design. Smart sites are adjacent to existing development, jobs and services. They maximize use of existing infrastructure, encourage walkable neighborhoods, and minimize sprawl. Careful site selection can help clean up and redevelop brownfields and to fill in gaps in the built environment. By avoiding damage to or loss of fragile eco-systems they protect natural resources. Finally, locating housing adjacent to development and services reduces residents' travel distances and costs, reducing strain on their budgets and increasing their opportunities for being involved in their communities. Key criteria of smart sites for housing include:

- a) Locating the development on a site with access to existing roads, water, sewers and other infrastructure, and within a quarter mile walk to facilities such as libraries, supermarkets, schools, pharmacies, or places of worship. Developments should not be sited within 100 feet of wetlands, steep slopes, or 1,000 feet of a critical habitat.
- b) Employing densities which are at minimum seven units/acre for detached or semi-detached houses, 12 for town homes and 20 for apartments.
- c) Creating sidewalks or suitable pathways within a multifamily property or single-family subdivision to link the residential development to public spaces, open spaces and adjacent development. Walking and bike paths that connect the property to other neighborhoods offer even stronger benefits.
- d) Using passive solar heating and cooling strategies such as increasing natural shading, or optimizing daylight through the design of the structure and how it is situated on the lot.
- e) Building on grayfield, brownfield, or adaptive reuse sites.
- f) Locating developments close to public transportation.

In the study Enterprise conducted, the cost of incorporating these measures ranged from a low of zero for locating a project next to other development, to a high of \$109/unit (about \$.11 a

square foot) for creating walkable neighborhoods. Some of the financial benefits of choosing a smart site include an increased marketability to residents, along with the potential for appreciation of market values, if homes are being sold. There are also social and financial benefits to residents of homes located within short distance to community amenities and mass transit.

### **3. Site Improvements**

As noted in 2, above, green building includes utilizing infill sites or brownfields rather than raw land (also referred to as “greenfields”). Because brownfields have a history of prior use it is vital to conduct testing to determine whether these sites contain hazardous materials. Abating any hazards found will also be necessary before building can begin.

During the construction process the site must be managed to prevent erosion and limit sedimentation of nearby water bodies. Once construction of the buildings is completed, landscaping should be designed to help absorb rainfall and divert runoff into retention ponds. Long term energy use can also be reduced by planting trees that provide shade during summer months and allow for solar gain in the winter. Use of native species, for example xeroscaping in desert climates, reduces energy usage further. Strategies for the green handling of site improvements include:

- a) Conducting an American Society for Testing and Material (STM) Transaction Screen or a Phase I Environmental Site Assessment, and (if required) a Phase II Abatement plan.
- b) Implementing the U.S. Environmental Protection Agency’s (EPA’s) Best Management Practices (BMPs) for erosion and sedimentation control during construction.
- c) Using local species in landscaping that will be less susceptible to disease, which reduces the burden of the occupant to replant at a later date. In dry climates, local species will also require less water.
- d) Overall, landscaping with plants that are drought resistant will require less water, reducing energy and water costs.
- e) Using tree plantings to promote shading and reduce heat island effect.
- f) Installing site improvements to capture and, where possible, to re-use rainfall for irrigation. Such measures might include the use of rain barrels or rain gardens, incorporating permeable surfaces (such as gravel paths), and minimizing impervious surfaces (such as pavement) that do not allow stormwater infiltration.
- g) Labeling storm drains to indicate where they lead, which reminds people not to dump garbage or pollutants into the drains.

Among those projects reporting additional costs for site improvements, the weighted average cost per square foot was \$.52 or \$227 per dwelling unit. Installing erosion and sedimentation controls added \$.06 per square foot, or \$11 per dwelling unit. Surface water management added \$.30 per square foot, or \$764 per dwelling unit. For larger projects, a Phase I, and potentially a Phase II site assessment is required for the use of any federal funds, so this should

be a part of standard policies and procedures for housing programs involving new construction or substantial rehabilitation of larger properties.

Single-family projects are not usually subject to Phase I or II environmental assessments if the NSP grantee has completed what is called a “Tier One” environmental assessment for a target area. In that case, a “Tier Two” review is usually limited to historic review, floodplain issues, and a limited number of other site-specific reviews.

#### **4. Water Conservation**

Showers and faucets account for about 25% of indoor water use, and toilets account for an additional 20%. Low flow faucets, shower heads, and toilets are widely available and easy to install. Due to increasing attention in the media they are also accepted and increasingly expected by consumers. To ensure that the right fixtures and appliances are utilized, developers should research these in advance and specifically list them in project plans and specifications so subcontractors know what to use. Water conserving strategies should include:

- a) Toilets that use no more than 1.28 gallons per flush or better, and showerheads, kitchen and bathroom faucets that are at 2.0 gallons per minute or less.
- b) Installing energy efficient landscape irrigation (if this is needed at all) by using graywater (from sinks, showers and tubs), roof water, or collected site runoff.

Water conservation also conserves energy use that may be associated with pumping, heating, flushing, and treating water, and has the added benefit of being relatively inexpensive to achieve.

Use of water conserving fixtures and appliances added \$128 per unit on average in the Enterprise study, but the estimated lifetime water savings was \$935 per unit.

#### **5. Energy Efficiency**

Energy efficiency measures have the combined benefit of increasing resident comfort while reducing utility bills and lowering carbon emissions. On a global scale, these criteria help to mitigate the cumulative burdens of energy production and delivery, extraction of non-renewable natural resources, air quality degradation, global warming, and increasing concentrations of pollutants. For maximum benefit, these measures should be included in the project planning and design from the outset, as it is less expensive to incorporate them into the early stages of construction than to add them later. As with water conservation, many energy efficiency measures, such as creating a tight building envelope or use of Energy Star appliances, have a payback of less than 10 years. Key energy efficiency measures include the following:

- a) Meeting or exceeding nationally established standards such as Energy Star, or American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE). This can be achieved by using a Home Energy Rating System (HERS) or Building Performance Institute (BPI) certified rater.



- b) Installing Energy Star clothes washers, dishwashers and refrigerators when providing new appliances.
- c) Installing Energy Star–labeled lighting fixtures or the Energy Star Advanced Lighting Package in all interior units, using Energy Star or high-efficiency commercial-grade fixtures in all common areas as well as outdoors, and installing daylight sensors or timers on all outdoor lighting.
- d) Tracking individual residents’ energy consumption through the installation of individual or sub-metered electric meters. Raising their awareness of their usage may help them reduce it.
- e) Installing renewable energy measures such as photo-voltaic panels, thermal hot water heaters, and wind turbines.

In Enterprise’s study, the estimated incremental cost per unit of meeting Energy Star, HERS, or exceeding ASHRAE standards by 15% was \$1,784 per unit. However, these measures produced an estimated lifetime energy savings of \$3,916 per unit and had an estimated payback of nine years. Installing photovoltaic panels without public subsidies averaged \$8,018 per unit and had a payback period of 40 years. When subsidies were available this option became far more attractive, reducing the added per unit cost to \$108 and providing a one year payback. Subsidies may be available from city, state, or federal programs; NSP grantees are encouraged to research the incentives available in their own areas, including layering with federal weatherization subsidies.

## **6. Use of Materials That Benefit the Environment**

There are many techniques and building products on the market that conserve natural resources and reduce emissions associated with manufacturing and transporting raw materials. The three primary strategies for managing materials in a way that benefit the environment are to reduce, reuse and recycle waste. Reduction can be achieved by choosing products for the project that eliminate waste or energy costs, such as obtaining locally made building materials, or using engineered framing materials that avoid use of old growth trees for framing timbers. Reuse of wood and other materials salvaged from residential or commercial projects eliminates the costs of disposing of those products and manufacturing new ones. Finally, when options for reducing or reusing products are exhausted, purchasing products manufactured with recycled content, or incorporating recycling practices on site such as capturing rainwater or stormwater runoff for irrigation, can help shrink the environmental footprint of the project.

This area of green development is in its early stages, so access to information about costs and the availability of materials is limited. However, recommended components of green development include:

- a) Ensuring that at least 5 percent of construction materials are re-used from other projects or contain recycled materials.
- b) Using at least 50% (by cost) wood products and Forest Stewardship Council–certified materials, salvaged wood or engineered framing materials.

- c) Using water-permeable materials, such as pervious interlocking concrete paving blocks, concrete grid pavers, perforated brick pavers, and compacted gravel in at least 50 percent of walkways and driveways to reduce run-off.
- d) Use of Energy Star-compliant (i.e., reflectivity of greater than 6.5) and high-emissive roofing with an emissivity of at least 0.8 when tested in accordance with American Society of Testing and Materials 408 (ASTM 408), or to install a green (vegetated) roof on at least 50 percent of the roof area.
- e) Installing light colored and/or open grid pavement with a minimum Solar Reflective Index of 0.6, over at least 30 percent of the site's hardscaped area to reduce heat island effects and resulting loads on the building's cooling system.

Additional costs from these components ranged from \$.17/square foot for installing water permeable walkways to \$.61/square foot for paving parking areas with water permeable material. As the industry gains experience in this area the ability to track costs and measure benefits will improve. While these cost figures can be used as a guide, actual costs are likely to vary according to the locale and the individual project.

## **7. Healthy Living Environments**

The importance of a healthy living environment is a significant green building issue directly affecting residents. Creating a healthy environment involves using materials that do not cause negative health impacts for residents, especially for more sensitive groups such as children, seniors, and individuals with existing respiratory problems and compromised immune systems. Creating a healthy living environment requires minimizing residents' exposure to toxic materials by using safe, biodegradable materials. Proper home ventilation and minimal moisture buildups are crucial to maintaining healthy indoor air quality and reducing the potential for mold growth in living areas and basements. Development strategies that can promote healthy living environments include:

- a) Ensuring that all interior paints and primers comply with current Green Seal standards for low volatile organic compound (VOC) limits.
- b) Using low VOC adhesives that comply with Rule 1168 of the South Coast Air Quality Management District. All caulks and sealants must comply with regulation 8, rule 51, of the Bay Area Air Quality Management District.
- c) Avoiding use of exposed particleboard (which contains added urea-formaldehyde, a toxin), unless the exposed area has been sealed. Formaldehyde exposure can cause watery eyes, nausea, coughing, chest tightness, wheezing, skin rashes, allergic reactions and burning sensations in the eyes, nose and throat.
- d) Avoiding installation of carpet in basements, entryways, laundry rooms, bathrooms or kitchens because of potential problems with moisture retention and mold growth. If carpeting is installed in other parts of the home, use the Carpet and Rug Institute's (CRI's) Green Label-certified carpet and pad, which have low VOCs.

- e) Installation of Energy Star-labeled bathroom fans that exhaust to the outdoors and are equipped with a humidistat sensor or timer, or operate continuously. Also required in kitchens — except in moderate rehabilitation projects — are Energy Star-labeled power vented fans or range hoods that exhaust to the exterior. Properly sized and controlled exhaust fans in bathrooms and kitchens reduce moisture condensation, lowering the potential for indoor mold growth that may yield odors and pose health hazards to residents.
- f) Installation of a ventilation system for the dwelling unit that provides 15 cubic feet per minute of fresh air, per occupant. Various means exist for achieving this standard, such as whole-house mechanical ventilation systems, constantly running low-speed exhaust fans, and “slit” ventilators in window frames.
- g) Sizing heating and cooling equipment in accordance with the Air Conditioning Contractors of America, Manuals J and S, to prevent short cycling of heating or air conditioning, and ensure adequate dehumidification.
- h) Installing tankless water heaters, or conventional water heaters in rooms with waterproof floor coverings, and drains or catch pans piped to the exterior of the dwellings. The use of heaters with drains and catch pans prevents moisture problems caused by leakage or overflow.
- i) Insulating exposed cold water pipes in climates and building conditions susceptible to moisture condensation to prevent condensation that can lead to mold growth.
- j) In wet areas of buildings, installation of materials with smooth, durable, cleanable surfaces, instead of mold-propagating materials, such as vinyl wallpaper and unsealed grout. Shower areas must have a one-piece fiberglass or similar enclosure. Alternatively, when using any form of grouted material, use backing materials, including cement board, fiber cement board, fiberglass-reinforced board or cement plaster.
- k) Installing vapor barriers under all slabs in basements or under living areas, since water can migrate through concrete. Vapor barriers and waterproofing materials greatly reduce the migration of moisture that can occur even in non-saturated soils. Installation of radon-resistant features reduces concentrations of radon, a cancer-causing soil gas that leaks into homes through cracks in slab and foundation.
- l) Installing foundation drainage systems to divert surface and underground water down to the lowest level of concrete, away from windows, walls and foundations. This also requires that foundation walls be carefully waterproofed on the exterior to avoid moisture migration, and that surface water be diverted away from the building by gutters, downspouts, drainage systems and proper grading of lawns, patios and walkways.
- m) Installation of a continuous air barrier between the conditioned (living) space and any unconditioned garage space to prevent the migration of any contaminants into the living space. In single-family houses with attached garages, developers must install a carbon monoxide (CO) alarm inside the house on a wall attached to the garage or outside the sleeping area.

- n) Exhausting clothes dryers directly to the outdoors, to reduce moisture buildup in living areas.
- o) Sealing all wall, floor and joint penetrations to prevent pest entry, including providing rodent- and corrosion- proof screens (e.g., copper or stainless steel mesh) for large openings.
- p) Renovating properties built before 1978 using lead-safe work practices during renovation, remodeling, painting and demolition. Any activity that disturbs painted surfaces or building components in pre-1978 dwellings that contain lead-based paint may generate and spread lead dust and debris, increasing the risk of lead poisoning for exposed children and families. Controlling lead dust and debris helps minimize lead in the environment.
- q) Use of non-vinyl, non-carpet floor coverings, such as non-vinyl composite tile, colored concrete, ceramic tile, natural linoleum and wood, in all rooms. Carpeting can serve as a sink for dust, allergens and other substances that may pose health hazards to susceptible residents.
- r) Installation of whole-house vacuum systems with high-efficiency particulate air filtration.

Costs for construction strategies that promote healthy living environments vary on average from a low of \$.01/square foot for use of water and mold resistant materials in wet areas to a high of \$.58/square foot for use of healthy flooring materials that minimize dust and mold growth. As to health benefits, Enterprise Community Partners commissioned a study of the Seattle Housing Authority's Breathe Easy Homes, part of the Seattle Highpoint HOPE VI redevelopment , to assess the costs and benefits of the original investment after one year of occupancy. The following health-related results were identified:

- Children with asthma experienced a 65% increase in symptom-free days
- For all 35 households, the number of emergency room or urgent doctor visits declined by two-thirds, from 61.8 to 20, in a three-month period
- The caretakers of asthma sufferers also reported an increase in their quality of life

The health benefits of these homes are impressive, but these results show that the health benefits from living in a green home can produce a financial reward, as well. For example, the second bullet highlights the significant decrease in the number of emergency room visits. If each emergency room visit were to cost \$300, before living in green homes these 35 households would have spent \$18,540 cumulative on emergency room visits over a three-month period. In comparison, for the three months of this study when these 35 households were living in green homes, they spent just \$6,000, a 68% decrease.

The study was titled "Green Housing Series: A New Prescription for Asthma Sufferers: Healthier Homes" and can be found at [www.seattlehousing.org](http://www.seattlehousing.org).

## 8. Operations and Maintenance

The benefits of integrating green building features into a project are maximized only if building systems are well maintained and residents understand how the use of their homes and surrounding space can affect not just their utility bills, but also their own health and the environment.

Both residents and Operations and Maintenance staff are the essential links between the initial design and construction of a building that incorporates green features, and a building that will continue to be green and realize the planned benefits once it is occupied. Without guidance on specific measures —such as re-painting with low-VOC paints, using CRI Green Label carpets, changing air filters regularly, irrigating according to the landscape architect’s water efficiency guidelines, continuing to use compact fluorescent lamps, etc. — green projects will likely perform beneath their potential over time. Strategies to ensure proper operations and maintenance include:

- a) Creating operating manuals for homeowners or tenants describing the intent, benefits, use and maintenance of green building features, and encouraging additional green activities such as recycling, gardening and use of healthy cleaning materials. For rental property managers and maintenance staff, manuals should include routine maintenance plans, instructions for all appliances, HVAC operation, water-system turnoffs, lighting equipment and other systems that are part of each unit; information on how to maintain the site’s green features, including paving materials and landscaping, and an occupancy turnover plan that describes in detail the process of educating tenants about proper use and maintenance of all building systems.

Sample guides for both homeowners and renters can be found on Enterprise’s website [www.enterprisecommunity.org](http://www.enterprisecommunity.org).

- b) Conducting a walk-through and orientation to the homeowner or new resident that reviews the building’s green features and operations, and maintenance processes.

Typical costs for implementing these strategies are about \$.01/square foot, or from \$6 - \$15 per dwelling unit. The benefits are difficult to quantify in dollars. However, it is clear that building managers and residents should be educated in how to use and benefit from green building features. Otherwise, the financial savings (from energy conservation) and health benefits will be diminished. Rather than simply providing a manual, which may never get read, NSP grantees and developers are urged review the manual and its key points with prospective homeowners and tenants. This could be done in homebuyer education classes or as part of tenant orientation sessions.

### Considerations for Housing Rehabilitation

In the Enterprise study, the incremental cost of incorporating the Enterprise Green Communities Criteria was lowest among moderate rehabilitation projects. The predicted lifetime savings for these projects was two times the reported incremental costs of complying with the Criteria, giving moderate-rehab projects the highest return on investment of any

subset of the 27 projects surveyed. Substantial rehabilitation projects had the highest cost premium for compliance. At the same time, these developments were projected to have remarkably high lifetime utility cost savings.

## **Conclusion**

The Neighborhood Stabilization Program was established to help bring stability to neighborhoods across the country that have been crippled by abandonment and foreclosure. Green building helps stabilize communities by providing housing that offers lower utility bills, reduces maintenance, and creates healthier living environments. These increase the likelihood that tenants and homeowners will remain in their homes for the long term.

Enterprise's study, "Incremental Cost, Measurable Savings", demonstrates that, when green strategies are included in the planning and design from the outset, they can be implemented with reduced cost and yield substantial benefits in terms of reduced energy usage, lower environmental impact, and improved resident health and safety. The average cost per dwelling unit to incorporate the energy and water criteria was \$1,917, returning \$4,851 in predicted lifetime utility cost savings (discounted to 2009 dollars). In other words, the energy and water conservation measures not only paid for themselves but also produced another \$2,900 in projected lifetime savings per unit.

Examples of measures that did not have easily identifiable direct financial savings, but that have clear indirect financial benefit, included the integrated design process, ensuring a healthy living environment, reducing construction waste, and providing operations and maintenance manuals. In fact, tradeoffs between cost expenditures and financial savings underscore the importance of executing an integrated design approach. Focusing from the start on design elements such as orientation of the housing on the site, location of the windows, and optimization of daylight into the units, can reduce the cost of mechanical and electrical system purchases, allowing room in the budget for other measures such as the use of healthier building materials.



# Guide to Property Acquisitions in NSP Programs

## About this Tool

### Description:

This guide is intended to provide advice and information to NSP grantees, subrecipients, and developers that are acquiring properties with funds from NSP1, NSP2, and NSP3. It addresses NSP eligibility criteria, discusses other selection criteria to consider, market research, identification of properties, evaluation of properties, purchase agreements, and closings. The guide also explains and points to other resources for compliance with NSP requirements for appraisals, purchase discounts, tenant protections, Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) compliance, and environmental reviews. Appendices include process charts, a sample file checklist, and forms related to compliance with URA and recently enacted tenant protection laws.

### Source of Document:

US Department of Housing and Urban Development, "Accessing REO Properties" (PowerPoint); Enterprise Community Partners, "NSP Property Acquisition Checklist;" The NSP Toolkit's "Sample NSP Single-Family Development and Sales Program Manual"; HUD guidance documents and guide forms; and FAQs from the NSP Resource Exchange.

### Disclaimer:

This document is not an official HUD document and has not been reviewed by HUD counsel. It is provided for informational purposes only. Any binding agreement should be reviewed by attorneys for the parties to the agreement and must conform to state and local laws.

This resource is part of the NSP Toolkits. Additional toolkit resources may be found at [www.hud.gov/nspta](http://www.hud.gov/nspta)



# Guide to Property Acquisitions in NSP Programs

## 1. Introduction

The purpose of this guide is to provide NSP grantees, subgrantees, sub-recipients, and developers with practical tips and strategies for using NSP funds to acquire properties for rehabilitation and redevelopment, and to provide a better understanding of how to satisfy relevant NSP compliance requirements. This guide covers NSP1, NSP2, and NSP3. In the event there is a difference, this will be noted in the appropriate section below. While much of the advice in this guide applies to land bank acquisitions, there are other NSP Toolkit documents covering special considerations for land banking and readers are encouraged to search for those on the NSP resource exchange, [www.hudnsphelp.info](http://www.hudnsphelp.info).

Most of this guide follows the typical sequence of tasks in acquiring properties. Sections 2 and 3 address the preliminary steps of determining property selection criteria. Sections 4 through 7 follow the typical sequence of acquisition tasks: market research, identifying properties, evaluating properties, options and purchase agreements, and closing the purchase. At the appropriate points in this sequence of events, the guide points out typical industry practices, NSP-specific requirements and other federal requirements. Section 8 provides more background and details on key federal requirements.

Federal requirements under the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (known as URA) and the National Environmental Policy Act (NEPA) are complex and cannot be covered comprehensively in a Guide of this size. Therefore, use of this guide alone will not assure compliance with these and other applicable federal regulations. Each section presents an overview of key issues and provides links to websites or other documents where more information can be found.

See Appendix A for *Typical Process Steps for NSP Acquisitions*. Appendix A is intended to be used as a concise reference tool that lists the essential steps involved in the acquisition process in the order in which they should typically be completed to follow standard industry practices and to comply with NSP requirements. This guide provides more detailed advice on those process steps. Also included (as Appendix B) is a *Sample Property Acquisition File Checklist*. This checklist is designed to be used in paper files of documentation for individual properties.

This guide focuses primarily on acquisition of residential properties for residential use, which are the primary focus of NSP programs. Although acquisitions of property for commercial uses and public facilities are allowed under NSP1, they have special considerations for selection, marketability and feasibility that are not addressed in this guide.

In this guide, the term “you” or “buyer” refers to an NSP grantee, sub-recipient, developer or other entity that is acquiring properties with the intent to redevelop them using NSP funds or to transfer the properties to another entity that will be using NSP funds to redevelop them.



## 2. Property Eligibility: Statutory and Regulatory Issues

NSP was initially authorized in 2008 to help stabilize neighborhoods by providing funds for the redevelopment of abandoned and foreclosed homes and residential properties. As HUD and NSP grantees gained experience in implementing the program, HUD amended the definitions of “abandoned” and “foreclosed” in order to broaden the inventory of eligible properties, increase grantee capacity, and to help expedite program implementation. NSP grantees may apply the new definitions as of the date of submission of their Substantial Amendment and Action Plan to HUD, regardless of the current status of acquisition, redevelopment or disposition activities already undertaken. Be aware that these changes in definition do not affect other NSP program requirements which still must be satisfied. The actual wording changes in the definitions can be found in the Notes to Table 1, and more information can be found at [http://hudnsphelp.info/media/resources/FedRegister\\_NSPDefinitionChange.pdf](http://hudnsphelp.info/media/resources/FedRegister_NSPDefinitionChange.pdf).

It is crucial to pay close attention to NSP property eligibility criteria, as they are treated differently under the five eligible uses established in the NSP Notices of Funding Availability (NOFA). The eligible uses are as follows:

- A. Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-second, loan loss reserves, and shared-equity loans for low- and moderate-income homebuyers.
- B. Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties.
- C. Establish land banks for homes that have been foreclosed upon
- D. Demolish blighted structures
- E. Redevelop demolished or vacant properties

Table 1, below, describes what types of properties qualify for acquisition under each eligible use.

**Table 1: NSP Eligible Uses by Property Status**

	Eligible Uses	Foreclosed Homes and Residential Properties	Abandoned Homes and Residential Properties	Blighted Structures	Demolished Properties	Other Vacant Properties
<b>A</b>	<b>Financing Mechanisms</b>	Yes	No	Only if Foreclosed	N/A	Only if Foreclosed
<b>B</b>	<b>Purchase and Rehab</b>	Yes	Yes	If Foreclosed or Abandoned	N/A	No
<b>C</b>	<b>Land banks</b>	Yes (Homes only)	No (Foreclosed only)	Foreclosed home or residential property	No	No
<b>D</b>	<b>Demolition</b>	Only if Blighted	Only if Blighted	Yes	N/A	Only if Blighted
<b>E</b>	<b>Redevelopment</b>	Only if Vacant	Only if Vacant	Only if Vacant	Yes	Yes
<b>Comments</b>				<i>Locally defined. Not limited to residential structures.</i>	<i>Not limited to residential structures.</i>	<i>Land or structures. Not limited to residential property.</i>

**Notes to Table 1:**

NSP Notice Definition: Abandoned. A home or residential property is abandoned if either:

- (a) A mortgage, tribal leasehold, or tax payments are at least 90 days delinquent, or
- (b) A code enforcement inspection has determined that the property is not habitable and the owner has taken no corrective actions within 90 days of notification of the deficiencies, or
- (c) The property is subject to a court-ordered receivership or nuisance abatement related to abandonment pursuant to state, local or tribal law or otherwise meets a state definition of an abandoned home or residential property.

NSP Notice Definition: Foreclosed. A home or residential property has been foreclosed upon if any of the following conditions apply:

- (a) The property's current delinquency status is at least 60 days delinquent under the Mortgage Bankers of America delinquency calculation and the owner has been notified of this delinquency, or
- (b) The property owner is 90 days or more delinquent on tax payments, or
- (c) Under state, local, or tribal law, foreclosure proceedings have been initiated or completed, or

d) Foreclosure proceedings have been completed and title has been transferred to an intermediary aggregator or servicer that is not an NSP grantee, contractor, subrecipient, developer, or end user.

*Use E, Redevelopment.* The eligible uses of NSP1 funding for redevelopment are rehab and new construction of housing, commercial space or public facilities that meet NSP requirements and CDBG national objectives. However, NSP2 and NSP3 funds can only be used for housing that meets NSP requirements under Eligible Use E.

*Homes and Residential Properties:* HUD interprets “homes” as any type of permanent residential dwelling unit, such as detached single family structures, townhouses, condominium units, multifamily rental apartments (covering the entire property), and manufactured homes where treated under state law as real estate (not personal property). “Residential properties” includes all of the above plus vacant land that is currently designated for residential use, e.g. through zoning.

Regardless of the property status or the Eligible Use, NSP-assisted properties must be in designated target areas that grantees identified as part of their initial applications to HUD. Some grantees have adjusted their target areas via HUD-approved changes to their Substantial Amendments, for example adding eligible census tracts that proved to have strategic properties in them. However, this can be a lengthy process and NSP1 grantees, especially, should weigh the advantages of pursuing these changes against the impending deadline for obligating funds.

### **3. Other Selection Criteria to Consider for Property Acquisitions**

Properties identified for purchase must be located in the target areas designated by NSP grantees. Naturally, they should also be marketable to homebuyers or renters, and their redevelopment should help contribute to overall neighborhood stabilization. Targeted use of NSP funds can help communities achieve broader goals of redevelopment and sustainability. Some strategies and criteria to use when evaluating properties for purchase include:

#### **A. Owner Occupancy Rates**

For home sales programs, look for blocks or clusters of blocks that already have stable homeownership but where target properties need to be addressed to stabilize the neighborhood. Areas with high numbers of investor-owned and vacant homes are typically not attractive to homebuyers unless a high concentration of vacant and investor-owned properties are being redeveloped as owner-occupied homes at one time.

#### **B. Suitable Locations for Rental Housing**

When the goal is to produce rental housing—either single-family or multifamily—a high ownership rate is less important. Choose housing or sites that are accessible, near public transportation, stores, employment, services, good schools (if family housing) etc. Access to public transportation may be particularly important for tenants with incomes under 50% of median income.

#### **C. Crime Rates**

High crime rates can discourage both potential buyers and renters. Check crime statistics block by block if possible and choose locations where rates are lower or where your efforts can have a significant effect on lowering the rate of crime (e.g. vandalism).

#### **D. Schools**

Buyers and renters with children will be concerned about the quality of the schools. Choosing sites or housing with good quality nearby schools will help market properties to families.

#### **E. Proximity of Public Transportation**

Some grantees (for example, Denver) purposely selected focal areas within NSP target areas—or “micro-target areas”—that are near new light rail or other new public transit lines to help encourage non-auto commuting.

#### **F. Smart Site Location**

Choosing “smart” sites for housing is a key principle of green housing design. Smart sites are adjacent to existing development, jobs, public transit and services. They maximize use of existing infrastructure, encourage walkable neighborhoods, and minimize sprawl. Careful site selection can help clean up and redevelop brownfields and to fill in gaps in the built environment. By avoiding damage to or loss of fragile eco-systems they protect natural resources. Finally, locating housing adjacent to development and services reduces residents’ travel distances and costs, reducing strain on their budgets and increasing their opportunities for being involved in their communities. Examples of “smart site” criteria can be found at Criteria at <http://www.greencommunitiesonline.org/tools/criteria/> (the Green Communities Criteria) or the LEED website at [www.usgbc.org](http://www.usgbc.org).

#### **G. Concentration of Acquisitions**

Encourage neighborhood stabilization and redevelopment by concentrating acquisitions in blocks or neighborhoods instead of doing scattered acquisitions that may have less impact.

### **4. Researching the Market and Identifying Properties**

Understanding the market is vital to identifying and successfully acquiring properties for NSP redevelopment activities. Critical elements include:

- Understanding the source of properties in your community (this may be Fannie Mae, Freddie Mac, FHA, private lenders, or some combination of these)
- The ability to purchase units in volume
- Price points and trends (is the market continuing to drift downwards, has it stabilized, or is it edging back up?)
- The quality of the housing stock (how much renovation will it require; will the cost of renovation far exceed the after rehab market value?)

- Other buyers in the market who will be competing for the same units you want.

### **A. Finding Properties when Using a Local Broker**

Identifying eligible NSP properties in a timely way and negotiating acquisitions can be challenging, especially when competing with private investors who are able to make purchases quickly and pay cash for them. Some NSP program implementers have sufficient trained staff to be able to identify properties, but if not they hire real estate professionals to do property research and identify properties. It is important to hire “REO specialists” since they typically have relationships with REO holders and may be able to get access to properties when first listed or even earlier. This can be done on a typical realtor fee basis but if the value of the properties is low the broker may have to be paid a higher than usual commission (as high as 8 or 9 percent) to provide sufficient incentive. Another option is to hire the same broker to do the property identification and to serve as the seller’s agent once the properties are acquired and ready for resale to homebuyers. If using this approach, be sure to verify that the broker is skilled at both roles. Some grantees have hired brokers and others to do general market research and identify “micro target areas” for a flat fee or hourly rate, not connected to acquiring specific properties.

### **B. Finding Properties when Managing the Purchase Process Internally**

If you are managing the purchase process internally, go to the websites below to identify NSP properties in your NSP target area. Their databases allow searches by state, county, city, and zip code. Note that the private lenders are just examples of the biggest owners of REO; try searching on any bank and adding “REO” or “properties for sale” after the name to learn about foreclosed inventory they are trying to sell. Major sources of REO properties are as follows:

1. HUD/FHA- [http://portal.hud.gov/portal/page/portal/HUD/topics/hud\\_homes](http://portal.hud.gov/portal/page/portal/HUD/topics/hud_homes)

FHA has a number of programs that offer discounted REO properties to local governments and approved nonprofits (see the list below). For updates on the FHA REO program opportunities check HUD’s NSP TA website at [www.hudnsphelp.info](http://www.hudnsphelp.info).

#### a) Initial Listing

- Properties can be obtained at up to a 30% discount
- Available for only the first 5 days a property is listed

#### b) Bulk purchase program

- Must be an NSP grantee or sub-grantee
- Purchase 2 or more properties
- Properties have been on the market for 60+ days
- Sliding discount scale based on appraised value

#### c) \$1 Homes

- Property must have been on the market for 180+ days

d) First Look

- This program for HUD-owned homes became effective on July 15, 2010 and will remain in effect until May 31, 2013. It allows NSP grantees and subrecipients to register to receive notices of new property listings before they are made available to the broader public. See the following link to view the Federal Register notice: <http://edocket.access.gpo.gov/2010/pdf/2010-17335.pdf>

e) Asset Control Areas

Local government units or approved non-profits may enter into a two-year contract with HUD. The contract requires HUD to sell properties in a defined geographic area, within a HUD-defined revitalization area, to the ACA participant. The discount price is based upon the property's appraised value, as determined by HUD. The ACA participant must rehabilitate and re-sell the property to income eligible borrowers at 115% of the net development costs.

HUD's four Home Ownership Centers (HOCs) monitor the M&M Contractor's administration of the REO Disposition program. Find the HOC for your state at <http://www.hud.gov/offices/hsg/sfh/hoc/hsgfhocs.cfm>.

2. Fannie Mae - [www.homepath.com](http://www.homepath.com)
3. Freddie Mac- [www.homesteps.com](http://www.homesteps.com)
4. Wells Fargo- <http://www.pasreo.com/pasreo/public/content.do?pageID=2000576>
5. Bank of America- <http://bankofamerica.reo.com/search/PropertySearch.aspx>
6. CitiGroup- <https://www.citimortgage.com/Mortgage/Oreo/SearchListing.do>
7. JP MorganChase- [www.chase.com/reo](http://www.chase.com/reo)

### C. Finding Properties when Using an Intermediary

Many NSP grantees are working with intermediaries who have the knowledge and capacity required to do bulk purchases of properties from sellers and servicers. Because they buy in bulk they can negotiate improved access to properties and obtain better prices. There are several of these "aggregators"; two examples are listed below.

1. The National Community Stabilization Trust ("the Trust") [www.stabilizationtrust.com](http://www.stabilizationtrust.com)

The Trust facilitates the transfer of foreclosed and abandoned properties nationwide from financial institutions to local housing organizations to promote productive property reuse and neighborhood stability. In collaboration with state and local governments, the Stabilization Trust builds local capacity to effectively acquire, manage, rehab and sell foreclosed property to ensure that homeownership and rental housing are available to low- and moderate-income families. The Trust was created through a collaborative effort by Enterprise Community Partners, NeighborWorks® America, the Housing Partnership Network, LISC, National Council of La Raza, and the National Urban League. It is currently working with

Freddie Mac; Fannie Mae; Federal Housing Administration (FHA); Deutsche Bank; Nationstar Mortgage; Ocwen Financial Corporation; U.S. Bank; Saxon Mortgage Services; Wells Fargo; Citigroup, Bank of America; JP Morgan Chase; GMAC, and is active in more than 160 communities in 38 states.

The Stabilization Trust REO transfer model uses:

- a) Pre-negotiated purchase agreements that;
  - Cover NSP regulatory requirements.
  - Allow limited local customization.
- b) Streamlined processes:
  - Quick responses to property offering required;
  - 30-day closing timeline.
- c) Single point of contact:
  - Local programs work directly with the Stabilization Trust;
  - Agreed upon pricing system; and
  - Applies the net realizable value approach to REO properties.

## 2. REO Clearinghouse- [www.reo-ch.com/](http://www.reo-ch.com/)

The REO Clearinghouse connects servicers who have aged and distressed foreclosed properties (REO) to cities, counties and nonprofit organizations who want to obtain these properties as part of their targeted revitalization or stabilization programs. The Clearinghouse:

- a) Aggregates the inventory of multiple servicers and provides a list of REO properties each month to local partners.
- b) Assists in negotiating the purchase or donation of selected properties.
- c) Can assist communities in identifying the servicer for strategic properties.
- d) Currently operates in over a dozen markets and works with multiple national servicers.

## **5. Evaluating Properties**

The entity acquiring the property is responsible for property investigations. Grantees and sub-recipients can charge time to the NSP grant for this work. Typically, developers recoup the costs of investigations through a developer fee, if such fee is indicated in the NSP Agreement. Following are typical steps in evaluating a property before deciding to make an offer. More details on specific NSP compliance issues can be found in Section 6, below.

## **A. Inspection**

Inspect the site and structures. If the property was built prior to 1978, conduct a lead hazard risk assessment. Then complete a preliminary\_rehab/construction cost estimate in format that is acceptable to the Grantee. It is a good practice to have the inspector document in a written, signed, dated and filed report that the property is vacant and there is no personal property on site; or that it is occupied or has personal property on site. This will help determine whether the URA, 104(d), or tenant protection requirements may be applicable to the acquisition.. See section 5(E) below for more information on these important requirements.

## **B. Project Budget**

Complete a project budget that includes all proposed NSP-funded expenses for acquisition, relocation, site work, rehab/construction, holding costs, marketing/sales costs, closing costs, developer fee (or estimated project management costs for grantees and sub-recipients), and other soft costs; HUD's "Planning and Budgeting for Relocation Costs for HUD Funded Projects" is a helpful publication if your project involves relocation. The publication is available at the following link: <http://www.hud.gov/offices/cpd/library/relocation/publications/1045.pdf>

## **C. Estimate of Property Value; Appraisals**

While it is not required for voluntary acquisitions in an NSP program at the pre-offer stage, it is advisable to obtain a professional evaluation of the as-is market value of the property to determine the cost-reasonableness of the asking price or proposed offer price. Brokers' opinions and electronic appraisals are examples of low-cost assessments that might be used for the purpose of informing offers.

With voluntary acquisitions, as an alternative to the informal appraisal above, obtain a full URA-compliant appraisal if the property is foreclosed upon and the buyer plans to execute a sales agreement on the property within 60 days. For foreclosed properties as defined by NSP, an appraisal must be completed within 60 days of an offer made for the property, to confirm that the offer or sale price is at least 1% below appraised value, as required by NSP. Some NSP buyers complete these before they make an initial offer, while others want to make sure the initial offer is accepted before they incur this cost prior to a final offer. If a full appraisal is required by NSP (remember, in voluntary acquisitions, they are only required for foreclosed properties) and if not obtained before making the offer, then the option or purchase agreement must be conditional upon receiving an appraisal that confirms the required discount.

URA-compliant appraisals are also required for involuntary acquisitions subject to threat or use of eminent domain powers, which in practice is rarely being done in NSP programs but is possible. At the link below, see HUD's acquisition guidance, which describes the specific URA requirements for notifying the owner, appraising the property, inviting the owner to accompany the appraiser, review the appraisal, establishing just compensation, making the offer, and completing the sale or settlement.

<http://www.hud.gov/offices/cpd/library/relocation/policyandguidance/handbook1378.cfm>

## **E. Verification of Vacancy**



Most NSP program implementers intend to purchase only vacant properties. If that is your intent, it is advisable to verify and document in a property file that the property is vacant and there are no personal possessions onsite. Documentation should include a signed and dated inspection report, photos, and notes from interviews with neighbors (if available) indicating the approximate last date of occupancy. If information from neighbors is not available, documentation should include data from a utility company or the local Post Office indicating the date service was terminated. See Section IV regarding relocation requirements and protections for tenants in occupied properties.

#### **F. Compliance with Tenant Protection Laws**

Prior to making an offer to purchase a property, assure that you have obtained proper and sufficient documentation that the rights of tenants in foreclosed properties were properly protected in compliance with recently enacted federal laws regarding tenants in foreclosed-upon properties, or that the laws are not applicable. See section 8(B) below for more details.

#### **G. Notices to Occupants and Other Compliance with URA Relocation Requirements**

If you decide to make an offer on an occupied property as a voluntary acquisition, the URA requires you to send a “*General Informational Notice*” (GIN) to all occupants other than an owner-occupant. A GIN informs such persons that in the event they are displaced by this project they may be eligible for relocation assistance and payments under the URA (and/or in some cases section 104(d) relocation assistance). GINs should be provided to property occupants early in the property acquisition process and prior to making an offer. See sample forms attached as Appendix C. If you proceed to acquire the property, URA requires that occupants be surveyed, a relocation plan created, a Notice of Relocation Eligibility or Notice of Non-displacement be provided, along with assistance for eligible persons to make a permanent or temporary move.. See section 8(d) below.

In a voluntary acquisition, owner occupants are not eligible for relocation assistance under the URA and there is no requirement or need to provide them with a General Information Notice (details of the proposed acquisition and their entitlements will be contained in the Notice to Owner). On the other hand, tenant occupants may be eligible as a result of such acquisitions and must be provided a GIN and a Notice of Eligibility for relocation assistance or a Notice of Nondisplacement. In some cases, the GIN should address the potential for temporary relocation if they may be required to move temporarily for rehabilitation of the property. Additionally, if the acquisition does not fall under the URA voluntary requirements of 49 CFR 24.101(b)(1)-(5), owner occupants should be issued a Notice of Relocation Eligibility since an involuntary acquisition of their property will entitle them to relocation assistance.

## **6. Agreements to Purchase; Relocation Requirements**

### **A. Options and Purchase Agreements**

Some NSP grantees require that developers and sub-recipients obtain their approval before entering into an option or purchase agreement for a property to be redeveloped using NSP funds, unless the property was identified in a developer or subrecipient agreement.

If an environmental review has not been completed prior to making the offer, the purchase agreement must be conditional upon that review being completed and accepted by the “responsible entity” (usually the grantee). The following language, or something similar to it, must be included in the purchase contract:

Notwithstanding any other provision of this Contract, Purchaser shall have no obligation to purchase the Property, and no transfer of title to the Purchaser may occur, unless and until [Responsible Entity] has provided Purchaser and/or Seller with a written determination, on the basis of a federally required environmental review and an approved request for release of federal funds, that purchase of the property by Purchaser may proceed, subject to any other Contingencies in this Contract, or may proceed only if certain conditions to address issues in the environmental review shall be satisfied before or after the purchase of the property. [Responsible Entity] shall use its best efforts to conclude the environmental review of the property expeditiously.

Likewise, if the property is “foreclosed” as defined by NSP, then the purchase agreement should also be conditional upon obtaining a full, URA-compliance appraisal that demonstrates that the purchase price is at least 1% below the appraised value. (Congress added this provision to the NSP enabling legislation to ensure that lenders and other entities holding foreclosed properties were selling them at a discount to market value.)

## **B. Relocation Requirements at the Purchase Agreement Phase**

In most NSP voluntary acquisitions, the execution of the option or purchase agreement will be considered the “Initiation of Negotiations” (ION). ION is term of art in the Uniform Act and related regulations and does not necessarily refer to the beginning of negotiations to buy a property. ION is the event that triggers a cluster of relocation-related requirements. When executing sales agreements for tenant-occupied properties or involuntary purchases of owner-occupied properties, NSP funding recipients should be well-prepared and ready to provide relocation assistance and payments by this time, including but not limited to notices, replacement housing and maximum replacement housing payment determinations, as well as information on moving costs reimbursement, etc.

Entities undertaking acquisitions under NSP should avoid negotiating for the purchase of occupied properties unless they have the desire and capacity to comply with related URA requirements. When subrecipients and developers are carrying out projects, the NSP grantee should make it clear in the written agreements what entity has financial and programmatic responsibility for URA compliance. If you are acquiring an occupied property, you will be well advised to have completed a tenant survey and relocation plan prior to executing the purchase agreement. If the speed of negotiating process prevents this from occurring—such as in instances where there is competition for a property—these steps need to be taken immediately after the purchase agreement is signed.

As indicated in Section 5(G) above, General Information Notices should be given to occupants, when required, at the earliest possible stage of property evaluation.

Be mindful, however, that initiation of negotiations is only one of several events that can cause a person to be “displaced” for purposes of the URA. For other triggering events, consult 24 CFR 570.606(b)(2) and 49 CFR 24.2(a)(9).

### **C. Relocation Requirements for “Contributed” Properties**

There is another possible scenario for acquisition, in which a developer or subrecipient previously acquired a property without federal funding, then apply for an NSP loan or grant to rehabilitate or redevelop the property. In this case, ION occurs upon the execution of the loan or grant agreement between the grantee (or State or state recipient, as applicable) and the person or entity owning or controlling the real property. (This requirement follows from the definition of ION in the CDBG program regulations at 24 CFR 570.606(b)(3): ION occurs upon the execution of the loan or grant agreement between the grantee (or State or state recipient, as applicable) and the person owning or controlling the real property. URA requirements are then triggered if a tenant-occupant is displaced as a direct result of privately undertaken rehabilitation or demolition.

Be mindful, however, that initiation of negotiations is only one of several events that can cause a person to be “displaced” for purposes of the URA. For other triggering events, consult 24 CFR 570.606(b)(2) and 49 CFR 24.2(a)(9).

## **7. Closing the Purchases**

Following are typical procedures followed by NSP developers to prepare for closings:

- Obtain a title policy binder for the property to ensure that the property is being purchased free and clear of all encumbrances.
- Complete the legal review of the closing documents to ensure that they are in order.
- Take the following steps to schedule the closing with the title company:
  - Prepare an acquisition draw request to the grantee (or internally if the grantee is acquiring the property) and transmit it to the NSP grantee along with copies of all documents required by the grantee.
  - When the draw request has been approved by the grantee and submitted through the DRGR system, schedule the closing. Make sure that the draw request is submitted a sufficient number of days prior to the scheduled closing date. Draw requests first have to be processed internally by the grantee, and then typically require three to four days to process with HUD. At this point the you should make best efforts to expend the NSP funds within three days of receipt but in no case more than 10 days. To summarize, the number of days it will take to close is based on the grantee’s internal processing time, plus an estimated four days to process and receive the NSP funds, then spending the funds at the closing within three additional days.

- Confirm that the grantee has wired or otherwise paid the required funds into an escrow account for the closing.

At the closing, a developer or sub-recipient may be required to execute a promissory note and mortgage deed (or deed of trust) in favor of the grantee for an open-ended amount, with the maximum amount equal to the projected NSP funding described in the project budget or another amount approved by grantee. The purpose of these liens is to give the grantee the ability to foreclose on the property if the terms of the developer agreement are not met.

When the closing is completed, developers and sub-recipients are typically required to transmit copies of their deed to the property, as well as the settlement sheet, to the grantee as documentation that the acquisition has occurred.

## **8. Ensuring Compliance with NSP Requirements**

NSP comes with many requirements that are driven by the NSP statutory language, CDBG statute and regulations, and other applicable Federal requirements except where expressly waived or superseded. This guide summarizes the compliance issues you will need to pay careful attention to, and provides some insights as to how to do this. If you need more information, consult the NSP help desk at [www.hudnsphelp.info](http://www.hudnsphelp.info). There you can search FAQs, websites, and other informational resources, ask a specific question, or request direct technical assistance.

### **A. Appraisals**

NSP requires a full, URA-compliant appraisal if the anticipated value is greater than \$25,000. If the anticipated value is \$25,000 or less, you may opt to establish the market value of the property through a review of available data made by a person qualified to make the valuation. (See the Bridge Notice, Federal Register June 19, 2009 <http://edocket.access.gpo.gov/2009/pdf/E9-14360.pdf>.)

There is no NSP appraisal requirement for the purchase of abandoned, blighted, demolished, or vacant properties under NSP if they do not also meet the revised definition of foreclosed issued on April 2, 2010 (for NSP-2) or April 9, 2010 (for NSP). For example, if a property is “vacant” or “blighted” but also “foreclosed” per the HUD definitions, an appraisal and the minimum 1% discount are required. With foreclosed properties, the sole purpose of the appraisal is to ensure that foreclosed properties acquired with NSP funds are purchased at a discount of at least 1% of the current market-appraised value of the property. Appraisals must be completed within 60 days of an offer being made on a property. If that requirement is met, there is no need to obtain a new appraisal if the closing occurs more than 60 days after the appraisal is completed.

### **B. Tenant Protection Laws**

There are several recently enacted laws that protect tenants in the event the property they live in is foreclosed upon. These are in addition to requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) which apply to occupants displaced by acquisition, demolition or rehabilitation for a federally-assisted project that are addressed in section 8(D) below.

1. The Recovery Act established tenant protections for NSP purposes. NSP tenant protections apply to “bona-fide” tenants of residential properties foreclosed upon after February 17, 2009.
2. A more recent law, the Protecting Tenants at Foreclosure Act of 2009 (PTFA), provides similar protections for tenants facing eviction as a result of foreclosure on virtually all mortgaged rental properties in the U.S.. PTAF requires that tenants residing in foreclosed residential properties be provided notice to vacate at least 90 days in advance of the date by which the immediate successor, generally, the purchaser, seeks to have the tenants vacate the property. Except where the purchaser will occupy the property as the primary residence, the term of any bona fide lease also remains in effect, allowing tenants with written leases to stay in residence for the terms of their leases.
3. Some states and municipalities have enacted local laws that provide an even greater level of protection, so you should check to verify if there are local laws protecting tenants.
4. NSP provides protections for “bona fide” tenants who are in occupancy when the unit is acquired by an “initial successor in interest” (ISII), which is usually a lender, through foreclosure. A bona fide tenant is one who is not a former mortgagor; where the lease/tenancy is an arm’s length transaction; and the rent is not substantially less than the fair market rent for the property. A written lease is not required.

When using NSP to acquire or renovate occupied properties, part of the required due diligence is to determine if the seller followed the new tenant protection laws. HUD strongly recommends that that NSP buyers obtain documentation from sellers that the laws were followed (or are not applicable). Acceptable documentation can include the following:

- a) Information that only the former mortgagor currently occupies and/or occupied the property at the time of the notice of foreclosure ;
- b) Copies of the tenant’s lease, and the notice to vacate from the ISII, to substantiate compliance;
- c) Where a tenancy existed without a written lease, information on the tenancy and the notice to vacate from the ISII to substantiate compliance;
- d) A documentation of compliance with the NSP tenant protections (or documentation of why the tenant protections are inapplicable) from the initial successor in interest.

If the above documentation cannot be obtained, HUD advises that the developer and/or grantee are at risk legal action if a qualified tenant comes forward at a later date. However if the acquisition is still desired, and you and the grantee understand the risks, perform due diligence to determine whether any bona fide tenant occupied the property. Documentation should include a signed and dated inspection report, photos, and notes from interviews with neighbors (if available) indicating the approximate last date of occupancy. If information from neighbors is not available, documentation should include data from a utility company or the local Post Office indicating the date of service

was terminated. Also determine if the tenants were allowed to remain through the end of the lease term or tenancy (as applicable) and whether they received any required notices.

As stated earlier, if the property buyer knows that the ISII did not comply with the NSP tenant protections, and vacated the property contrary to NSP requirements, the transaction should be abandoned. To see HUD's guidance on tenant protections and NSP, see

[http://hudnsphelp.info/media/resources/NSPPolicyAlert\\_TenantProtections\\_8-12-10.pdf](http://hudnsphelp.info/media/resources/NSPPolicyAlert_TenantProtections_8-12-10.pdf)

### **C. URA Requirements, In General**

The Uniform Act provides important protections and assistance for persons displaced by the acquisition, rehabilitation, or demolition of real property for Federal or federally funded projects. This law was enacted by Congress to ensure that when real property is acquired, or persons are required to move as a direct result of projects receiving Federal funds, are treated fairly and equitably and receive assistance in moving from the property they occupy.

### **D. URA Notice to Owner**

This informational notice must be sent to a voluntary seller at the time of the purchase offer in order to comply with URA requirements, except that the notice requirements do not have to be sent to FHA, if FHA is the seller. Sample language for such notices—intended for use with foreclosed properties only—can be found in Appendix D. One version of the notice is intended to be used by purchasers that have eminent domain authority (such as a redevelopment authority – even if it is not using that authority) and another version is for purchasers that do not have eminent domain authority.

**E. Involuntary Acquisitions** As stated above in the section on property evaluations involuntary acquisitions subject to threat or use of eminent domain powers trigger certain different and additional requirements. See the link to HUD's URA handbook in that section as well as this link with a chart that succinctly summarizes the differences between voluntary and involuntary acquisitions.

<http://www.hud.gov/offices/adm/hudclips/handbooks/cpdh/1378.0/1378x23CPDH.doc>

### **E. URA Requirements for Displaced Occupants**

The Uniform Relocation Act protects the rights of persons (including businesses, farms, and non-profit organizations) who are displaced due to certain federally-assisted activities. Such persons may be eligible for URA relocation assistance and payments if they are displaced as a direct result of acquisition, rehabilitation or demolition for a Federally-assisted program or project. Under NSP, all displaced persons, despite income level, are covered by the URA. Lower-income tenants who are displaced from housing that is demolished or lower-income housing which is converted (and lost to the supply of permanent affordable housing) have additional protections under Section 104(d).

After the “initiation of negotiations” as defined by HUD and ultimate purchase of the property, the grantee must assure compliance with URA with regard to property occupants by taking all required actions, such as providing notices, conducting tenant surveys, completing relocation plans, and providing financial and other assistance as required. Providing the “General Information Notice” as mentioned above is the only URA compliance action required with tenants prior to the initiation of negotiations.

HUD guidance and policy documents regarding URA requirements can be found at [www.hudnsphelp.info](http://www.hudnsphelp.info) and a handbook at [www.hud.gov/offices/cpd/library/relocation/policyandguidance/handbook1378.cfm](http://www.hud.gov/offices/cpd/library/relocation/policyandguidance/handbook1378.cfm)

## **E. Environmental Review**

Both NSP 1 and NSP2 are subject to the environmental review requirements governed by NEPA 24 CFR, Part 50 and Part 58. While these can seem very complex, especially if you have encountered them before, there are strategies that that can be followed to make the process more manageable.

A good practice is for a responsible entity, typically the NSP grantee, to complete a tier one environmental assessment of all of the NSP target areas. This should ideally be done up front, before any properties are acquired or renovated. Otherwise, a full environmental assessment will have to be completed for each property.

Once the tier one assessment is completed, site-specific environmental reviews can take place as properties are identified. Site-specific reviews address issues such as historic preservation reviews by state historic preservation offices (SHPOs), floodplain clearance, and in some cases coastal zone management and other issues. Further guidance on tiered reviews is available from HUD Regional or Field Environmental Officers: [www.hud.gov/offices/cpd/environment/contact/localcontacts](http://www.hud.gov/offices/cpd/environment/contact/localcontacts).

## **C. Tracking Acquisition Activities and Expenditures**

NSP grantees must have procedures in place to get information from their own staff, developers, subrecipients and contractors in a standard format. This will ensure program compliance, facilitate required reporting to HUD, and help grantees complete draws from the DRGR system.

Compliance issues prior to obligating the funds include:

1. Ensuring that the properties that are proposed for acquisition and rehabilitation meet NSP requirements (vacant, foreclosed, abandoned, blighted, cost, 25% set aside for very low income households, etc.);
2. Documenting that the required environmental reviews, URA notices and actions, and appraisals have occurred as required and in the right sequence.

Once NSP funds have been obligated grantees need data to monitor the progress of individual projects, compile data from multiple projects, analyze data with spreadsheet tools, produce activity reports for the entire NSP program, and report required data to HUD.

Two examples of tracking spreadsheets that can be obtained from the NSP help website at [www.hudnsphelp.info](http://www.hudnsphelp.info) are the *Sample NSP Site and Rehab Approval Request Form*, and the *Sample NSP Property Development Activity Log*. These two excel spreadsheets are similar, but one is geared towards ensuring the selected property meets NSP criteria, while the second is more about tracking the progress of the project.

#### **D. Obligation and Spending Deadlines**

Finally, a major concern through the acquisition process should be the NSP obligation and spending deadlines. Naturally, acquisitions must occur far enough in advance of the spending deadlines in order to complete the full redevelopment of the property.

NSP1 grantees have 18 months from the time HUD signed their NSP grant agreement to use their funds. “Use” in this context means obligating the entirety of their NSP1 allocation. At the end of the 18-month use period their accounting records and DRGR information must reflect expenditures and unliquidated obligations (funds that have been obligated to a project but not yet expended) that are at least equal to the NSP allocation. In NSP1, expenditures of program income count toward both the obligation and spending deadlines.

Both NSP1 and NSP2 grantees must also ensure that 25 percent of expenditures assist projects that benefit households at or below 50 percent of median income.

NSP2 grantees must spend 50 percent of their award in two years, and 100 percent within three years of receiving their NSP awards.

To avoid the risk that funds will not be available if a purchase offer is accepted after the obligation or spending deadlines, grantees or subrecipients should condition purchase offers on their acceptance by the seller long enough in advance of the obligation or spending deadline to be able to substitute another property.

If actual purchase and rehabilitation costs come in less than the original contracted amount, funds are no longer considered obligated and would need to be obligated to another eligible use or be at risk for recapture. HUD has not yet issued policy on recapture. However, HUD has stated that it will take into account actions beyond the control of the grantee and will not act arbitrarily.



# Appendices

Appendix A: Typical Process Steps for NSP Acquisitions

Appendix B: NSP Sample Property Acquisition File Checklist

Appendix C: Sample General Information Notice (for Tenants)

Appendix D: Sample Notices of Voluntary Acquisition for Vacant Properties

## Appendix A: Typical Process Steps for NSP Acquisitions

Listed below are key steps in the process of using NSP funds to acquire properties.

<p>1. <u>Research Target Areas</u> – Research trends in prices, numbers of foreclosures and other factors to determine whether specific micro-markets are suitable for NSP program purposes (resale, rental, demolition, land banking etc.) and to determine a range of offer prices.</p>
<p>2. <u>Complete Target Areas Environmental Reviews</u> – A good practice is to complete a Tier One Environmental Assessment of NSP target areas. Site-specific reviews are required at a later stage but can be completed much faster if Tier One’s are already done.</p>
<p>3. <u>Investigate properties for sale in NSP target areas</u> –</p> <ol style="list-style-type: none"><li>Seek property lists from REO holders, brokers and others.</li><li>Verify properties are in target areas and appear to be suitable for acquisition/rehab, land-banking, demolition, or redevelopment.</li><li>Depending on the proposed use properties must be foreclosed upon, vacant or abandoned.</li><li>Good practice: Inform seller or broker in writing that you are interested only in vacant properties. If occupied properties are to be considered request that they be identified as vacant or occupied. Keep a record of this written notice in your files.</li></ol>
<p>4. <u>Ensure compliance with URA and tenant protection laws</u> – The time and costs involved in relocation can be significant and should be considered during the feasibility analysis process. If you elect to acquire occupied properties the following steps must be taken prior to making an offer:</p> <ul style="list-style-type: none"><li>Send tenant information notice(s) – (NSP required) The grantee must assure that occupants who may be displaced receive a “General Informational Notice” (GIN) as required by the Uniform Relocation Act (URA). GINs should be provided to property occupants early in the property acquisition process and prior to making an offer.</li><li>Conduct relocation survey - (NSP required) Obtain accurate information on the occupants in order to adequately plan for their relocation and budget for relocation costs.</li><li>The time and costs involved in relocation can be significant and should be considered during the feasibility analysis process. HUD’s Planning and Budgeting Relocation Costs publication is a useful resource and is available at: <a href="http://www.hud.gov/offices/cpd/library/relocation/publications/1045.pdf">http://www.hud.gov/offices/cpd/library/relocation/publications/1045.pdf</a></li></ul>
<p>5. <u>Obtain a preliminary appraisal</u> – Some state laws require government entities and their agents (e.g. developers, subgrantees) to obtain full appraisals before making an offer. Even if this is not the case, it is a good practice to obtain an electronic or opinion appraisal to get an independent estimate of the market value of the property. <i>See Step 13 below about the timing/ purpose of NSP-required appraisals.</i></p>
<p>6. <u>Complete rehab property inspections</u> – A best practice is to hire an experienced inspector to complete interior and exterior site inspections prior to making conditional offers on properties. Good practices include:</p> <ol style="list-style-type: none"><li>Produce a complete work write-up and cost estimate if time permits.</li><li>Otherwise provide a rough scope of work and written rehab estimate.</li></ol>

- c. Take photos of the building exterior, interior and any areas needing site work.
- d. Provide a written, signed statement that the property is vacant or is occupied.

7. Review and file inspection reports – The inspection reports may be needed later to confirm that the property was vacant or occupied, for purposes of bargaining on the price, or for other reasons.

8. Complete feasibility analysis -

- a. Determine if the asking price, projected soft costs, plus the cost of rehab is within your program’s investment parameters;
- b. Determine age of properties and prepare to conduct lead hazard inspections on pre-1978 properties;
- c. If demolishing, land banking or redeveloping a property with NSP funds, analyze suitability of the properties for those NSP-eligible activities;
- d. If relocation (permanent or temporary) is required, consider the associated time and costs as determined from the relocation survey.

9. Make pre-offer decisions - Determine your program’s price targets (thresholds) for the properties being investigated. Some sellers request that you react to their pricing at this stage.

10. Draft standard option or purchase contract addendum – With NSP you must use an option or a conditional purchase contract. Refer to the following web page link for HUD requirements and guidance with regard to conditional purchase agreements.

[http://hud.gov/utilities/intercept.cfm?/offices/cpd/communitydevelopment/programs/neighborhoodspg/pdf/cond\\_purchase\\_agreement.pdf](http://hud.gov/utilities/intercept.cfm?/offices/cpd/communitydevelopment/programs/neighborhoodspg/pdf/cond_purchase_agreement.pdf)

Your attorney should draft an option agreement or a purchase contract addendum that includes the following:

- a. (NSP Required) Completing an acceptable environmental review. See web page link above for recommended language.
- b. (May be NSP Required) Completing a historic preservation review by the state historic preservation officers (SHPO), if required by the SHPO. Some local governments have delegated review authority for certain types of properties per inter-agency agreements.
- c. (NSP Required) Obtaining a full appraisal that indicates the contract price is at least 1% below as-is appraised value. (Good practice: obtain after-rehab appraisal from same appraiser to establish the sale price of the rehabbed home.)
- d. (NSP Required) Paying only a nominal non-refundable fee, if any, to avoid the “choice limiting action” that is prohibited by environmental review regulations.
- e. (Optional) Seller agreeing to sign, prior to closing, a Seller Certification signifying that seller has complied with tenant protection laws.
- f. Obtaining good and marketable title.

11. Execute conditional purchase option/agreement - Make certain that the contract prices and conditions match your requirements, and that your attorney has reviewed contract and

conditions. (Note: A Notice of Voluntary Acquisition must be provided to the property owner at the time of your purchase offer (see below).

12. Send Notice of Voluntary Acquisition – (NSP required) This informational notice must be sent to the seller in order to comply with the Uniform Relocation Act.

13. Complete appraisal(s) – (NSP required, only for foreclosed properties) If not completed earlier, order full appraisal(s) for any foreclosed-upon properties to determine that the sale price(s) is at least 1% below market value. If the grantee uses eminent domain a full appraisal is required for NSP and URA compliance. (Note: acquisitions under threat and use of eminent domain cannot be considered voluntary and as a result are subject to the full acquisition requirements of the URA (see URA regulations @ 49 CFR 24 Subpart B – Real Property Acquisition). The appraisal must not be more than 60 days old at the time of making the final offer. *NSP does not require appraisals for vacant or abandoned properties, nor for closing.*

14. Complete title work – Obtain a title commitment from a title company or an opinion of title from an attorney (which one depends upon prevailing laws and practices) attesting to the property having good and marketable title.

15. Complete site-specific environmental reviews – (NSP required) Complete Assessment described in item #2 above, if not completed previously. Site-specific reviews address issues such as: historic preservation reviews (by SHPOs), floodplain clearance, and in some cases coastal zone management and other issues. Conduct review internally or outsource the review.

17. Prepare for closing - The following items need to be addressed prior to closing:

- a. Review environmental report(s) and appraisal(s) to determine if the properties are acceptable for purchase under NSP requirements.
- b. For bulk purchases, make a list of properties, if any that should be deleted from the purchase because they do not meet requirements.
- c. Request advance draw of NSP funds through DRGR, when you are certain of the final purchase price and any associated closing costs.
- d. Obtain property insurance binder.
- e. For properties where relocation of occupants is required, prepare for relocation. Preparations include but are not limited to locating decent, safe and sanitary comparable replacement housing, preparing notices of relocation eligibility (URA and 104(d) where applicable) including determination of replacement housing payments and moving payments for eligible displaced persons. A person's eligibility for relocation assistance generally occurs on the date of "initiation of negotiations" (ION) as defined by the URA or applicable Federal-agency regulations. Notices of Eligibility for Relocation Assistance should be provided to eligible persons on the date of ION or promptly thereafter. More information and resources are available on HUD's Acquisition & Relocation web site at: [www.hud.gov/relocation](http://www.hud.gov/relocation)

18. Close property purchase – Make sure to keep records documenting the status of foreclosed, abandoned properties and blighted properties to verify NSP eligibility.

19. Secure properties – Make sure properties are properly secured by board-ups, sturdy doors, locks, video surveillance, patrols, etc.

**Appendix B: NSP  
Sample Property Acquisition File Checklist**

Property Address:

**Appendix C: Sample General Information Notices (for Residential Tenants)**

GUIDEFORM GENERAL INFORMATION NOTICE  
RESIDENTIAL TENANT TO BE DISPLACED

Grantee or Agency Letterhead

(date)

Dear \_\_\_\_\_:

\_\_\_\_\_ (City, County, State, Public Housing Authority (PHA), other) \_\_\_\_\_, is interested in (acquiring, rehabilitating, demolishing) \_\_\_\_\_ the property you currently occupy at (address) \_\_\_\_\_ for a proposed project which may receive funding assistance from the U.S. Department of Housing and Urban Development (HUD) under the \_\_\_\_\_ program.

The purpose of this notice is to inform you that you may be displaced as a result of the proposed project. This notice also serves to inform you of your potential rights as a displaced person under a federal law known as the Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA). You may be eligible for relocation assistance and payments under the URA, if the proposed project receives HUD funding and if you are displaced as a result of acquisition, rehabilitation or demolition for the project.

- **This is not a notice to vacate the premises.**
- **This is not a notice of relocation eligibility.**

If you are determined to be eligible for relocation assistance in the future, you may be eligible for: 1) Relocation advisory services including help to you find another place to live; 2) At least 90 days advance written notice of the date you will be required to move; 3) Payment for your moving expenses; and 4) Replacement housing payments to enable you to rent, or if you prefer to purchase, a comparable replacement home. You will also have the right to appeal the agency's determination, if you feel that your application for assistance was not properly considered. The enclosed HUD brochure, "Relocation Assistance To Tenants Displaced From Their Homes" provides an explanation of this assistance and other helpful information.

**(NOTE: Pursuant to Public Law 105-117, aliens not lawfully present in the United States are not eligible for relocation assistance, unless such ineligibility would result in exceptional hardship to a qualifying spouse, parent, or child. All persons seeking relocation assistance will be required to certify that they are a United States citizen or national, or an alien lawfully present in the United States.)**

Please be advised that you should continue to pay your rent and meet any other obligations as specified in your lease agreement. Failure to do so may be cause for eviction. If you choose to move or if you are evicted prior to receiving a formal notice of relocation eligibility you will not be eligible to receive relocation assistance. It is important for you to contact us before making any moving plans.

**Again, this is not a notice to vacate the premises and does not establish your eligibility for relocation payments or assistance at this time.** If you are determined to be displaced and are required to vacate the premises in the future, you will be informed in writing. In the event the proposed project does not proceed or if you are determined not to be displaced, you will also be notified in writing.

If you have any questions about this notice or the proposed project, please contact  
(name) \_\_\_\_\_, (title) \_\_\_\_\_,  
(address) \_\_\_\_\_, (phone) \_\_\_\_\_.

Sincerely,

(name and title) \_\_\_\_\_

Enclosure

=====NOTES

1. The case file must indicate the manner in which this notice was delivered (e.g., personally served or certified mail, return receipt requested) and the date of delivery. (See Paragraph 2-3 I of Handbook 1378.)
2. This is a guide form. It should be revised to reflect the circumstances.
3. Optional paragraphs for displaced residents of public housing projects (may be modified based on the PHA's resident return policy):

“Even though you will be provided all of the assistance the URA requires for a permanent move, the Authority believes that every resident displaced from the site should have the right to reapply for occupancy once this project is complete. For this reason, after project completion, every resident who receives assistance as a “displaced person” will be contacted and offered an opportunity to reapply for occupancy in the newly-revitalized community. Furthermore, because you will be a former occupant who was “displaced” from the site, you will also receive a priority preference to return.

In the event the number of those who request to return and qualify for housing exceeds the number of units available, rating and ranking criteria will be used to identify those who will be offered a unit at the site until all available units are filled. If you do return, the Authority may help defray the costs of the return move. If you have Replacement Housing Payments not yet spent or obligated, you may be asked to forfeit these payments as a condition for returning to public housing, since this assistance will no longer be necessary to meet your housing needs. Such assistance, if not forfeited, must be considered as income and may affect your eligibility and rent.”

GUIDEFORM GENERAL INFORMATION NOTICE  
RESIDENTIAL TENANT NOT DISPLACED

Grantee or Agency Letterhead

(date)

Dear \_\_\_\_\_:

\_\_\_\_\_(City, County, State, Public Housing Authority (PHA), other)\_\_\_\_\_, is interested in rehabilitating the property you currently occupy at \_\_\_\_\_(address)\_\_\_\_\_ for a proposed project which may receive funding assistance from the U.S. Department of Housing and Urban Development (HUD) under the \_\_\_\_\_ program.

The purpose of this notice is to inform you that you will not be displaced in connection with the proposed project.

If the project application is approved and federal financial assistance provided, you may be required to move temporarily so that the rehabilitation can be completed. If you must move temporarily, suitable housing will be made available to you and you will be reimbursed for all reasonable out of pocket expenses, including moving costs and any increase in housing costs. You will need to continue to pay your rent and comply with all other lease terms and conditions.

Upon completion of the rehabilitation, you will be able to lease and occupy your present apartment or another suitable, decent, safe and sanitary apartment in the same building/complex under reasonable terms and conditions. \*

If federal financial assistance is provided for the proposed project, you will be protected by a federal law known as the Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA). One of the URA protections for persons temporarily relocated is that such relocations shall not extend beyond one year. If the temporary relocation lasts more than one year, you will be contacted and offered all permanent relocation assistance as a displaced person under the URA. This assistance would be in addition to any assistance you may receive in connection with temporary relocation and will not be reduced by the amount of any temporary relocation assistance previously provided. You will also have the right to appeal the agency's determination, if you feel that your application for assistance was not properly considered.

**(NOTE: Pursuant to Public Law 105-117, aliens not lawfully present in the United States are not eligible for relocation assistance, unless such ineligibility would result in exceptional hardship to a qualifying spouse, parent, or child. All persons seeking relocation assistance will be required to certify that they are a United States citizen or national, or an alien lawfully present in the United States.)**

We urge you not to move at this time. If you choose to move, you will not be provided relocation assistance.

Please remember:

- This is **not** a notice to vacate the premises.
- This is **not** a notice of relocation eligibility.

You will be contacted soon so that we can provide you with more information about the proposed project. If the project is approved, we will make every effort to accommodate your needs. In the meantime, if you have any questions about our plans, please contact:

(name) \_\_\_\_\_, (title) \_\_\_\_\_,  
 (address) \_\_\_\_\_, (phone) \_\_\_\_\_.

Sincerely,

(name and title) \_\_\_\_\_

Enclosure

=====NOTES.

1. The case file must indicate the manner in which this notice was delivered (e.g., personally served or certified mail, return receipt requested) and the date of delivery. (See Paragraph 2-3 I of Handbook 1378.)
2. This is a guide form. It should be revised to reflect the circumstances.

- \* *Based on the applicable HUD program regulations, if “reasonable terms and conditions,” are defined, one of the following statements or other language may also be required in this Notice:*
- a. *Under HOME at 24 CFR 92.353(c)(2)(C)(1): “Your new lease will be for a term of not less than one year at a monthly rent will remain the same or, if increased, your new monthly rent and estimated average utility costs will not exceed: 1) If you are low income, the total tenant payment as defined by HUD (under 24 CFR 5.628), or (2) 30% of the monthly gross household income, if you are not low income.”*
  - b. *Under CDBG at 24 CFR 570.606(b)(2)(D)(1): “Your monthly rent will remain the same or, if increased, your new rent and estimated average utility costs will not exceed 30% of the household’s average monthly gross income.”*
  - c. *Under Section 221 Mortgage Insurance Programs under 24 CFR 221.795(i): “Your monthly rent and estimated average utility costs will not exceed the amount approved by HUD.”*



## Appendix D: Sample Notices of Voluntary Acquisition (for Vacant Properties)

GUIDEFORM  
- NSP VOLUNTARY ACQUISITION OF FORECLOSED PROPERTY -  
- Informational Notice -  
(Agencies/Persons **Without** Eminent Domain Authority)

Grantee or Agency Letterhead

(date)

Dear \_\_\_\_\_:

(Name of Agency/Person) \_\_\_\_\_, is interested in acquiring property you own at (address) \_\_\_\_\_ for a proposed project which may receive funding assistance from the U.S. Department of Housing and Urban Development (HUD) under the Neighborhood Stabilization Program (NSP).

Please be advised that (Name of Agency/Person) \_\_\_\_\_ does not have authority to acquire your property by eminent domain. In the event we cannot reach an amicable agreement for the purchase of your property, we will not pursue this proposed acquisition.

Under the NSP, we are required to purchase residential foreclosed properties (which may include certain residential properties in mortgage or tax default status that meet the NSP definition of “foreclosed”) at a discount from their market appraised value.

The subject property is listed for purchase at \$ \_\_\_\_\_. (If currently listed)

Select one: a) We currently believe that the property’s market value is \$\_\_\_\_\_.

We are prepared to purchase your property; however, depending on the results of the appraisal, our written offer may differ from this amount.

b) Our appraisal indicates the property’s market value is \$\_\_\_\_\_. We are prepared to offer you \$\_\_\_\_\_ to purchase your property.

Please contact us at your convenience, if you are interested in selling your property.

If your property is in default, but foreclosure proceedings have not been initiated / completed, and our offer is for less than the current balance of your mortgage loan(s), we suggest that you seek legal counsel or guidance. We cannot provide you with legal advice regarding any tax, credit, or deficiency judgment consequences to you related to the sale.

In accordance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA), owner-occupants who move as a result of a voluntary acquisition are not eligible for relocation assistance. A tenant-occupant who moves as a result of a

voluntary acquisition for a federally-assisted project may be eligible for relocation assistance as a displaced person. Such displaced persons may include not only current lawful occupants, but also former tenants required to move for any reason other than an eviction for cause in accordance with applicable federal, state, and local law. If your property is currently tenant-occupied or a tenant lawfully occupied your property within the past 3 months prior to our offer, we need to know immediately. Further, you should not order current occupant(s) to move, or fail to renew a lease, in order to sell the property to us as vacant.

If you have any questions about this notice or the proposed project, please contact  
(name) \_\_\_\_\_, (title) \_\_\_\_\_,  
(address) \_\_\_\_\_, (phone) \_\_\_\_\_.

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**NOTES to NSP Voluntary Acquisition Notice (Agency/person without Eminent Domain authority).**

1. The case file must indicate the manner in which this notice was delivered (e.g., personally served or via certified mail, return receipt requested) and the date of delivery. (See 49 CFR 24.5 and Paragraph 2-3 J of Handbook 1378.)
2. Tenant-occupants displaced as a result of a voluntary acquisition may be entitled to URA relocation assistance and must be so informed per 49 CFR 24.2(a)(15)(iv) – Initiation of Negotiations (ION), and 49 CFR 24 Appendix A - 24.2(a)(15)(iv) and <http://www.hud.gov/offices/cpd/library/relocation/nsp/index.cfm>
3. See 49 CFR 24.206 regarding eviction for cause.
4. This guide form may only be used if all of the requirements of 49 CFR 24.101(b)(2)(i) and (ii) or 49 CFR 24.101(b)(3) are met.
5. This is a guide form. It should be revised to reflect the circumstances. NSP defines “foreclosed” to include residential properties in which the property’s current delinquency status is at least 60 days delinquent under the Mortgage Bankers of America delinquency calculation and the owner has been notified of this delinquency, or (b) the property owner is 90 days or more delinquent on tax payments. While considered “foreclosed” for NSP purposes, such properties may still be owned by the mortgagor unless the State foreclosure process is complete and title to the property transferred. Short sales and other foreclosure alternatives are complex transactions involving coordination and cooperation among a number of parties (e.g., owners, lenders, servicers, investors).

GUIDEFORM  
**- NSP VOLUNTARY ACQUISITION OF FORECLOSED PROPERTY -**  
- Informational Notice -  
(Agencies with Eminent Domain Authority)

Grantee or Agency Letterhead

(date)

Dear \_\_\_\_\_:

(City, County, State, other) \_\_\_\_\_, is interested in acquiring property you own at (address) \_\_\_\_\_ for a project receiving funding assistance from the U.S. Department of Housing and Urban Development (HUD) under the Neighborhood Stabilization Program (NSP).

Please be advised that, (City, County, State, other) \_\_\_\_\_ possesses eminent domain authority to acquire property, however, in the event you are not interested in selling your property, or if we cannot reach an amicable agreement for the purchase of your property, we will not pursue its acquisition under eminent domain.

Your property is not a necessary part of the proposed project and is not part of an intended, planned, or designated project area where substantially all of the property within the area is to be acquired.

Under the NSP, we are required to purchase residential foreclosed properties (which may include certain residential properties in mortgage or tax default status that meet the NSP definition of “foreclosed”) at a discount from their current market appraised value.

The subject property is listed for purchase at \$ \_\_\_\_\_. (If currently listed)

Select one: a) We currently believe the property’s market value is \$ \_\_\_\_\_. We are prepared to purchase your property; however, depending on the results of the appraisal, our written offer may differ from this amount.

b) Our appraisal indicates the property’s market value is \$ \_\_\_\_\_. We are prepared to offer you \$ \_\_\_\_\_ to purchase your property.

Please contact us at your convenience, if you are interested in selling your property.

If your property is in default, but foreclosure proceedings have not been initiated/completed, and our offer is for less than the current balance of your mortgage loan(s), we suggest that you seek legal counsel or guidance. We cannot provide you with legal advice regarding any tax, credit, or deficiency judgment consequences to you related to the sale.

In accordance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA), owner-occupants who move as a result of a voluntary acquisition are not eligible for relocation assistance. A tenant-occupant who moves as a result of a voluntary acquisition for a federally-assisted project may be eligible for relocation assistance as a displaced person. Such displaced persons may include not only current lawful occupants, but also former tenants required to move for any reason other than an eviction for cause in accordance with applicable federal, state, and local law. If your property is currently tenant-occupied or a tenant lawfully occupied your property within the past 3 months prior to our offer, we need to know immediately. Further, you should not order current occupant(s) to move, or fail to renew a lease, in order to sell the property to us as vacant.

If you have any questions about this notice or the proposed project, please contact (name) \_\_\_\_\_, (title) \_\_\_\_\_, (address) \_\_\_\_\_, (phone) \_\_\_\_\_.

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**NOTES to NSP Voluntary Acquisition of Foreclosed Property Informational Notice**

1. The case file must indicate the manner in which this written notice was delivered (e.g., personally served or via certified mail, return receipt requested) and the date of delivery. (See 49 CFR 24.5 and Paragraph 2-3 J of Handbook 1378.)
2. Tenant-occupants displaced as a result of a voluntary acquisition may be entitled to URA relocation assistance and must be so informed per 49 CFR 24.2(a)(15)(iv) – Initiation of Negotiations (ION), 49 CFR 24 Appendix A - 24.2(a)(15)(iv), and <http://www.hud.gov/offices/cpd/library/relocation/nsp/index.cfm>
3. See 49 CFR 24.206 regarding eviction for cause.
4. This guide form may only be used if all of the requirements of 49 CFR 24.101(b)(1)(i)-(iv) are met.
5. This is a guide form. It should be revised to reflect the circumstances. NSP defines “foreclosed” to include residential properties in which the property’s current delinquency status is at least 60 days delinquent under the Mortgage Bankers of America delinquency calculation and the owner has been notified of this delinquency, or (b) the property owner is 90 days or more delinquent on tax payments. While considered “foreclosed” for NSP purposes, such properties may still be owned by the mortgagor unless the State foreclosure process is complete and title to the property transferred. Short sales and other foreclosure alternatives are complex transactions involving coordination and cooperation among a number of parties (e.g., owners, lenders, servicers, investors).



## SECTION 3 OVERVIEW

### FOR RECIPIENTS OF HUD HOUSING & COMMUNITY DEVELOPMENT FUNDING

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#### Why HUD Enforces Section 3?

Each year the U.S. Department of Housing and Urban Development invests billions of federal dollars into distressed communities for projects that build and rehabilitate housing; improve roads and community centers; and help families achieve the American Dream.

The Section 3 regulation acknowledges that HUD funding typically results in projects/activities that generate new contracting, employment, and other economic opportunities that not only impact bricks and mortar, but also create a multiplier effect for local housing providers and businesses that provide goods and services.

Section 3 of the Housing and Urban Development Act of 1968 [12 U.S.C. 1701u and 24 CFR Part 135] represents HUD's policy for providing preference for new employment, training, and contracting opportunities created from the usage of covered HUD funds to low- and very low-income residents of the community where certain funds are spent (regardless of race or gender), and the businesses that substantially employ these persons.

#### Applicability of Section 3 to Housing and Community Development Assistance

The requirements of Section 3 apply to recipients of HUD Housing and Community Development funding exceeding **\$200,000**.

Section 3 does not apply on a "per-project" basis, whenever any portion of HUD funding is invested into projects involving **housing construction, demolition, rehabilitation, or other public construction (i.e., roads, sewers, community centers, etc.)**, the requirements of Section 3 apply.

Further, contractors or subcontractors that receive contracts in excess of **\$100,000** for Section 3 covered projects/activities are required to comply with the Section 3 regulations in the same manner as direct recipients.

If the recipient agency receives Section 3 covered projects/activities, but no individual contract exceeds \$100,000, the requirements of Section 3 only apply to the recipient. Accordingly, the recipient must attempt to meet the Section 3 minimum numerical goals found at 24 CFR Part 135.30 by awarding 10 percent of the total dollar amount of all covered construction contracts to Section 3 businesses.

**State and County agencies** that distribute covered funds to units of local government, nonprofit organizations, or other subrecipients, must attempt to reach the minimum numerical goals set forth at 24 CFR Part 135.30, regardless of the number of subrecipients that receive covered funding. The state or county must inform its subrecipients about the requirements of Section 3; assist them and their contractors with achieving compliance; and monitor their performance with respect to the objectives and requirements of Section 3.

## Some Types of Section 3 Covered Housing and Community Development Funding

- Community Development Block Grants (CDBG)
- Home Investment Partnership Assistance
- Housing Opportunities for Persons with Aids (HOPWA)
- Economic Development Initiative (EDI)
- Brownfield Economic Development Initiative (BEDI)
- Emergency Shelter Grants
- Homeless Assistance
- University Partnership Grants
- Neighborhood Stimulus Program (NSP)
- Certain Grants Awarded Under HUD Notices of Funding Availability (NOFAs)
- Section 202 Supportive Housing for the Elderly
- Section 811 Supportive Housing for the Disabled
- Project Based Section 8 Vouchers

\*NOTE: The requirements of Section 3 only apply to the portion(s) of covered funding that were used for project/activities involving housing construction, rehabilitation, demolition, or other public construction.

Section 3 applies to the **entire** covered project or activity regardless of whether the activity was fully or partially funded with covered assistance.

## Section 3 Covered Recipient Agencies

“Recipient” refers to any entity that receives Section 3 covered financial assistance directly from HUD or from another recipient and includes, but is not limited to any of the following:

- States; Units of Local Government; Native American Tribes; or other Public Bodies
- Public or Private Nonprofit Organizations
- Private Agencies or Institutions
- Mortgagors; Developers; Limited Dividend Sponsors; Builders; Property Owners; Community Housing Development Organizations
- Successors, assignees or transferees of any such entity listed above
- Recipients do **NOT** include any ultimate beneficiary under the HUD program that Section 3 applies (i.e., residents or laborers); and does **NOT** refer to contractors.

## What Triggers the Requirements of Section 3?

Each recipient of \$200,000 of covered HUD funding is required to comply with Section 3. Section 3 applies to all projects and activities involving housing construction, rehabilitation, or other public construction that is funded with covered HUD funding.

Section 3 is triggered when the normal completion of construction and rehabilitation projects creates the need for **new** employment, contracting, or training opportunities.

The Section 3 regulations should not be construed to mean that recipients are required to hire Section 3 residents or award contracts to Section 3 businesses other than what is needed to complete covered projects/activities.

If the expenditure of covered funding does not result in new employment, contracting, or training opportunities, the requirements have not been triggered.

### **Recipient Responsibilities Pursuant to Section 3**

Each recipient (and their covered contractors, subcontractors, or subrecipients) are required to comply with the requirements of Section 3 for **new** employment, training, or contracting opportunities resulting from the expenditure of covered funding. This responsibility includes:

1. Implementing procedures to notify Section 3 residents and business concerns about training, employment, and contracting opportunities generated by Section 3 covered assistance;
2. Notifying potential contractors working on Section 3 covered projects of their responsibilities;
3. Incorporating the Section 3 Clause into all covered solicitations and contracts [see 24 CFR Part 135.38];
4. Facilitating the training and employment of Section 3 residents and the award of contracts to Section 3 business concerns;
5. Assisting and actively cooperating with the Department in making contractors and subcontractors comply;
6. Refraining from entering into contracts with contractors that are in violation of Section 3 regulations;
7. Documenting actions taken to comply with Section 3; and
8. Submitting Section 3 Annual Summary Reports (form HUD-60002) in accordance with 24 CFR Part 135.90.

### **Section 3 Residents and Business Concerns**

Section 3 Residents Are:

1. Residents of Public and Indian Housing; or
2. Individuals that reside in the metropolitan area or nonmetropolitan county in which the Section 3 covered assistance is expended and whose income do not exceed the local income criteria of low- or very low-income.

Section 3 Business Concerns Are One of the Following:

1. Businesses that are 51 percent or more owned by Section 3 residents;
2. Businesses whose permanent, full-time employees include persons, at least 30 percent of whom are currently Section 3 residents, or within three years of the date of first employment with the firm were Section 3 residents; or
3. Businesses that provide evidence of a commitment to subcontract in excess of 25 percent of the dollar amount of all subcontracts to be awarded to businesses that meet the qualifications described above.

In accordance with the regulation, residents and businesses concerns seeking Section 3 preference shall certify, or submit evidence to the recipient, contractor, subcontractor or subrecipient (if requested) verifying that they meet the definitions provided above.

Recipients can use their discretion for determining the type of verification that is required by prospective Section 3 residents and business concerns. Some examples include: proof of residency in a public housing authority; proof of federal subsidies for housing, food stamps, or unemployment benefits; and payroll data or other relevant business information.

### **Section 3 Summary Reports (Form HUD-60002)**

Annually, each direct recipient of Housing and Community Development funding is required to submit form HUD-60002 to HUD's Economic Opportunity Division in Washington, DC.

Where the program providing Section 3 covered funding requires the submission of an annual performance report (e.g., CAPERs reports, etc.), form HUD-60002 shall be submitted at the time that the annual report is due.

The Section 3 Summary Report shall follow the same program, fiscal, or calendar year as the annual performance report and should correspond to the covered projects and activities that were administered during the reporting period.

If the recipient is not required to submit an annual performance report, the Section 3 report is due when other reports are submitted to HUD or at the end of each program, fiscal, or calendar year.

**NOTE: Section 3 reports must be submitted by all agencies that receive Housing and Community Development funding in excess of \$200,000 whether new employment, training, or contracting opportunities were created or not.**

### **Determining What Should Be Reported on Form HUD-60002**

Section 3 Annual Summary Reports are intended to measure each recipient's efforts to comply with the statutory and regulatory requirements of Section 3 in its own operations **AND** those of covered contractors, subcontractors, and subrecipients. Each submission of form HUD-60002 should indicate the following:

- The total dollar amount of HUD funding that was [spent] by the recipient for covered projects/activities during the specified reporting period.
- The total number of new employees that were hired by the recipient (or its covered contractors, subcontractors, and subrecipients) as a result of the completion of covered project/activities.
- The amount of new employees that were hired by the recipient (or its covered contractors, subcontractors, and subrecipients), as a result of the completion of covered projects/activities, that met the definition of a Section 3 resident.
- The total number of man hours worked on covered projects (optional).
- The aggregate number of hours worked by Section 3 residents on covered projects (optional).



- The total number of Section 3 residents that participated in training opportunities that were made available by the PHA, its contractors, subrecipients, or other local community resource agencies.
- The total dollar amount of construction and/or non-construction contracts (or subcontracts) that were awarded with covered funding.
- The dollar amount of the recipient's construction or non-construction contracts (or subcontracts) that were awarded to Section 3 business concerns.
- Detailed narrative descriptions of the specific actions that were taken by the recipient (or its covered contractors, subcontractors, subrecipients, or others) to comply with the requirements of Section 3 and/or meet the minimum numerical goals for employment and contracting opportunities.

### **Form HUD-60002 and Section 3 Compliance Determinations**

Absent evidence to the contrary, the Department considers recipients of covered funding to be in compliance with Section 3 if they meet the minimum numerical goals set forth at 24 CFR Part 135.30<sup>i</sup>. Specifically:

- a. 30 percent of the aggregate number of new hires shall be Section 3 residents;
- b. 10 percent of the total dollar amount of all covered construction contracts shall be awarded to Section 3 business concerns; and
- c. 3 percent of the total dollar amount of all covered non-construction contracts shall be awarded to Section 3 business concerns.

**Recipients that fail to meet the minimum numerical goals above bear the burden of demonstrating why it was not possible to do so.** Such justifications should describe the efforts that were taken, barriers encountered, and other relevant information that will enable the Department to make a compliance determination.

Recipients that submit Section 3 reports containing **all zeros**, without a sufficient explanation to justify their submission, are in **noncompliance** with the requirements of Section 3.

Failure to comply with the requirements of Section 3 may result in sanctions, including: debarment, suspension, or limited denial of participation in HUD programs pursuant to 24 CFR Part 24.

Recipients that are subject to annual A-133 Audits may also receive an audit finding for failure to submit form HUD-60002 to HUD.

## Important Notes for Submitting Form HUD-60002

- Recipients must submit a separate form HUD-60002 for each type of covered funding (*e.g.*, separate reports must be submitted for CDBG and HOME funding).
- Use the online Section 3 Summary Reporting System at: [www.hud.gov/section3](http://www.hud.gov/section3) to ensure that form HUD- 60002 is received by the appropriate HUD office in a timely manner.
- If the recipient (or its covered contractors, subcontractors and subrecipients) did not hire any new employees during the reporting period, and/or if no covered construction or non-construction contracts were awarded, the recipient must indicate this in Part III of form HUD-60002 and certify that this information is true and accurate by penalty of law.

## Additional Section 3 Guidance and Technical Assistance

The Economic Opportunity Division is committed to providing recipient's guidance and technical assistance for compliance with the requirements of Section 3.

For additional information, please visit the Section 3 website at: [www.hud.gov/section3](http://www.hud.gov/section3). This webpage provides the following tools and information:

- Section 3 Statute—12 U.S.C. 1701u
- Section 3 Regulation—24 CFR Part 135
- Frequently Asked Questions
- Section 3 Model Programs
- Guidance on Section 3 and Economic Stimulus Funding
- Guidance on Section 3 and the Neighborhood Stimulus Program (NSP)
- Sample Section 3 Certification Forms (residents and business concerns)
- Link to HUD's Local Income Eligibility Calculator
- Link to Section 3 Annual Reporting System(form HUD-60002)
- Downloadable Forms
- Contact Information for Economic Opportunity Division staff
- Email inquiries on Section 3 can be sent to [section3@hud.gov](mailto:section3@hud.gov)

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<sup>1</sup> See Safe Harbor language at 24 CFR Part 135.30(d)

# Areas of Greatest Need

