

# 2009 NSP MANUAL

## TABLE OF CONTENTS

---

Chapter 1: Introduction .....	1
Introduction.....	1
Applicable Regulation Summary.....	1
General Information.....	1
Meeting the National Objective .....	1
Manual Design .....	2
Summary .....	2
Getting Under Contract.....	4
Acquisition Steps .....	5
Rehabilitation Steps .....	6
Homebuyer Education .....	6
Homebuyer Education .....	7
Resale Steps .....	8
Definitions.....	9
Chapter 2: Pre-contract Activities.....	13
Contract Negotiations .....	13
General Requirements.....	14
Contract Execution.....	18
Chapter 3: Benefits .....	19
NSP National Objective.....	19
Providing Low-, Moderate-, and Middle-Income Benefit .....	19
Definitions.....	20
LMMI Households.....	20
LMMI Persons .....	20
Total Annual Income .....	20
Fairness and Equitable Distribution of Benefits .....	20
Special Needs/ Supportive Housing.....	21
Low Income Homeownership.....	21
Low-Income Homeownership Model .....	21
Recordkeeping .....	26
Chapter 4: Grant Management.....	27
Project Management .....	27
Progress Reports .....	30
Final Closeout Reports.....	30
Real Property .....	33
Personal Property .....	33
Nonexpendable Personal Property .....	33
Expendable Personal Property .....	34
Reporting Requirements .....	37
Chapter 5: Financial Management .....	39
Definitions.....	39

Accounting.....	39
Budgeting.....	39
Procurement .....	39
Property Management.....	39
Delivery Costs.....	40
Activity Costs.....	40
Closing Costs .....	41
Performance Pool.....	41
Internal Controls and Audits.....	42
Internal Control.....	43
Accounting.....	44
Transactions .....	45
Monthly Reports .....	47
Chart of Accounts .....	47
Cash Management.....	48
Completion Report.....	49
Administrative Costs.....	49
Minimum Balance.....	49
Payment of Invoices.....	49
Electronic Transfers of NSP Funds.....	52
Project Budget.....	53
Budget Revisions .....	53
What is Program Income?.....	54
How Can Program Income Be Used? .....	54
Performance Pool.....	55
Tracking Program Income .....	55
Chapter 6: Acquisition .....	59
Overview: The Role of Realtors and Bankers .....	59
Regulations .....	65
Steps in the Acquisition Process .....	65
Identify Properties to Be Acquired .....	66
Issue Preliminary Acquisition Notice .....	66
Conduct “As Is” Appraisal.....	67
Establish “As Is” Value .....	68
Provide Written Offer to Purchase and Negotiate the Purchase .....	68
Complete the Purchase.....	69
Notice of Intent Not to Acquire .....	69
Relocation Assistance and Anti-Displacement .....	70
Chapter 7: Qualifying a Prospective Homebuyer .....	73
Intake.....	73
Income.....	75
Liabilities .....	75
Lender Ready .....	76
Income and Asset Verification.....	76
Federal Equal Credit Opportunity Act.....	76
Not Lender Ready .....	78

Affordability .....	79
Chapter 8: Housing Rehab .....	82
Construction Contract .....	82
Federal Construction Contract Language .....	83
Classifications .....	84
Designations.....	84
Lead Safe Work Practices Training .....	85
Pre-Qualifying Contractors .....	85
Standards for General Contractors .....	85
Advertising for Contractors .....	86
Direct Solicitation of Contractors .....	86
Contractors' Information Meeting .....	87
Using the Pre-Qualified Contractors List .....	87
Conducting the DHCD HQS Inspection .....	87
Master Specifications.....	89
Specification Format.....	90
Organization of Work Items .....	90
Cost Estimating.....	90
Pre-Bid Conference.....	92
Addenda .....	92
Bid Opening .....	92
Pre-Construction Conference.....	93
Change Orders .....	94
Inspections .....	94
Role of Local Building Code Official.....	95
Certification of Final Completion and Acceptance .....	96
Final Payment .....	96
Chapter 9: Grant Closeout Procedures.....	99
Letter of Conditions .....	99
Final Closeout Reports.....	99
Administrative Closeout .....	102
Conditional Closeout .....	102
Final Closeout .....	102
Final Audit Requirements.....	103
Index for 2009 NSF Manual .....	105

THIS PAGE INTENTIONALLY LEFT BLANK

# CHAPTER 1: INTRODUCTION

---

## *Introduction*

Congratulations on being awarded a Neighborhood Stabilization Program (NSP) grant. The Virginia Department of Housing and Community Development (DHCD) is the state-agency that will be administering funding under the U.S. Department of Housing and Urban Development's (HUD) *Housing and Economic Recovery Act of 2008*. NSP is a new allocation under the existing Community Development Block Grant (CDBG).

The intent of the program is to stabilize existing neighborhoods hard hit because of the recent foreclosure crisis in Virginia, by purchasing foreclosed and abandoned properties, rehabilitating them and reselling them to low-moderate- and middle-income families.

## *Applicable Regulation Summary*

The federal regulations governing NSP projects can be found within Title III of Division B of the *Housing and Economic Recovery Act of 2008* and Part 570 (Community Development Block Grants) of Title 24 of the *Housing and Urban Development Act of 1974*. However, there are other regulations that also apply. They are referenced in the chapter to which they pertain.

## *General Information*

All of the funds made available under the NSP are to be used for individuals and families whose incomes do not exceed 120% of area median income.

NSP defines the target group to be served as "low-, moderate- and middle-income" (LMMI) households.

Not less than 25% of these funds are to be used for the purchase and redevelopment of abandoned and foreclosed upon homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50% of area median income.

## *Meeting the National Objective*

NSP allows for the use of only the LMMI benefit national objective. Addressing urgent community development needs or just the elimination of slums and blight are NOT eligible activities.

To accomplish this goal and in keeping with the expediency of the legislation, Grantees must adhere to an aggressive timetable:

- Grantees must obligate funds before **September 17, 2010**
- All funds, including program income, must be expended by **July 30, 2013**.

NSP funding will be distributed through four methods:

- Planning Grants
- Open Submission
- Competitive Application
- Performance Pool.

This program pays for performance, distributing funds to those Grantees who demonstrate success in reaching their project deliverables. By adhering to the

guidelines outlined in this manual/compact disk (CD) you will be better able to expedite grant draw downs and be eligible for future funds in the Performance Pool.

### ***Manual Design***

DHCD has designed this manual to help you get started as quickly as possible. Because the focus to this program is to expedite the acquisition, rehabilitation and transfer/resale of abandoned and foreclosed residential properties, some of the usual CBDG requirements such as multiple public hearings and job creation are not included in this program or manual. Other federal statutes (e.g. fair housing, equal opportunity requirements, environmental compliance) still apply and are explained in detail.

DHCD staff has strived to develop a resource that is as user-friendly as possible while preserving the required federal regulations and incorporating new information. Each chapter begins with an overview of the chapter's contents, followed by the responsibilities of the Grantee and associated parties. Samples, models and forms are located in the appendices at the end of the narrative. Additional copies of the manual in portable document format (pdf), as well as many of the required forms, may be downloaded at [www.dhcd.virginia.gov](http://www.dhcd.virginia.gov) under the Neighborhood Stabilization section.

Several icons have been created to enhance your ability to use the manual. These icons and their meanings are listed below:



Call your DHCD Community Representative for clarification or further assistance.



A timing concern.



A Best Practices suggestion.



**Critical information.**

While many scenarios were considered in developing the content of this manual, there may be situations and circumstances which are unique to your situation where you will need additional guidance. In these, and most other situations requiring technical assistance, consult your Community Representative.

We also welcome your input. If you have suggestions or comments, please feel free to complete the Comments & Suggestions Form found in the rear of the Appendices.

### ***Summary***

This summary was added to help Grantees better understand the program and may also be used to distill the process and distribute it to management team members or stakeholders. More detailed information can be found in each corresponding chapter. A section of Frequently Asked Questions (FAQs) follow this summary.

There are four primary activities within NSP:

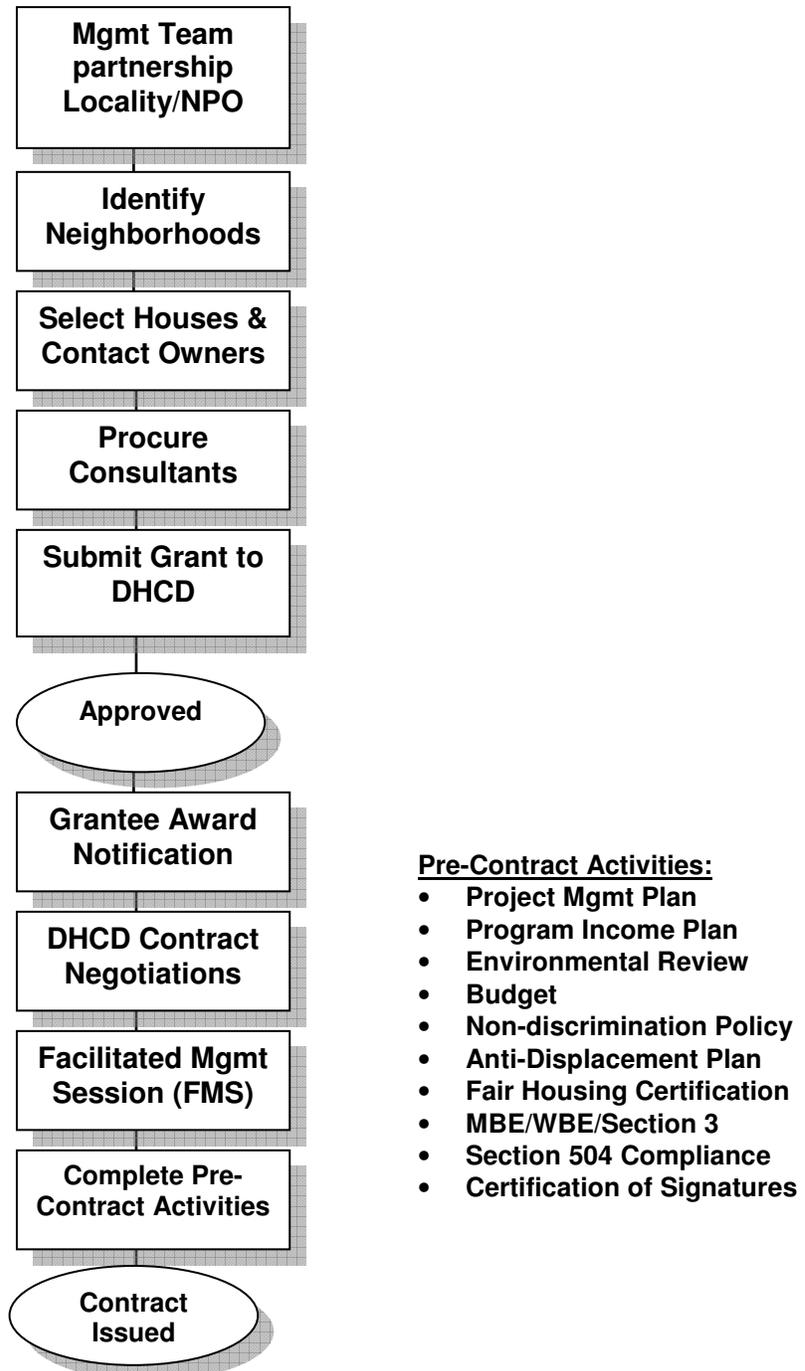
1. Acquisition of foreclosed and abandoned residential properties;
2. Rehabilitation;
3. Preparation of new homebuyer to purchase a home, and
4. Obtaining a mortgage and sale of house to new a homebuyer.

Each of these steps is illustrated, beginning with the preliminary activity of getting under contract with DHCD. A listing and timeline for major activities is represented below:

<b>Action</b>	<b>Responsible</b>	<b>Timeframe</b>
Administration and Compliance	Grant Administrator and/or Management Consultant	Ongoing
Identify property owner	Grant Administrator, Acquisition Specialist	2-3 weeks
Appraisal	Grant Administrator, Acquisition Specialist, Appraiser	2 weeks
Rehab Estimate	Grant Administrator, Rehab Specialist	2 weeks
Acquisition	Grant Administrator, Acquisition Specialist, (Realtor)	1-2 weeks
Rehab	Grant Administrator, Rehab Specialist, Contractors	3-4 weeks
Inspections (weekly)	Rehab Specialist	Through rehab completion
Identify Homebuyer Pool	Non-Profit Organization (NPO) Partner, Grant Administrator	2-4 weeks
Homebuyer Counseling	NPO Certified Housing Counselor	Weekly
Facilitating the acquisition of a mortgage loan	Grant Administrator and Housing Counselor	2 weeks
Loan Processing	Loan Specialist, Lender	3-4 weeks
Sale of Property	Grant Administrator, Realtor	
Monitoring/Closeout	Grant Administrator, Finance Person	Ongoing

## ***Getting Under Contract***

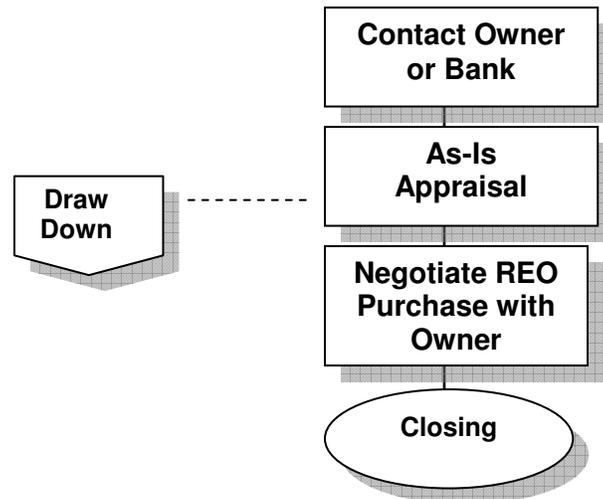
Grantees must develop a management team comprised of key community stakeholders thereafter defining their roles and responsibilities including the development of a management plan designed as a tool for effective grant implementation. The following major actions progress from the organization of the management team and the completion of pre-contract activities necessary to get under contract with DHCD.



### ***Acquisition Steps***

The Grantee must first acquire an eligible property at a 15% discount so that it can be rehabilitated and sold to an eligible low-, moderate-, to middle-income household. Below are anticipated steps in the acquisition process.

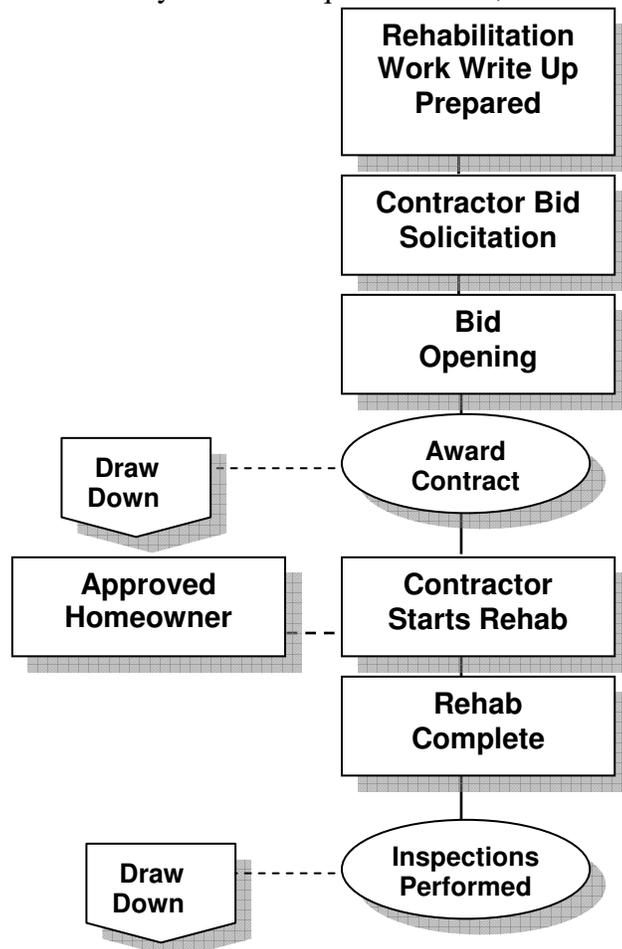
- a. Identify eligible property with help of realtor or acquisition specialist;
- b. Identify current owner (i.e. bank or lending institution);
- c. Perform initial cost assessment (purchase and rehab) less required 15% discount;
- d. Negotiate purchase with owner, coordinate closing with title company; and,
- e. Request and drawdown funds for purchase from DHCD.



## ***Rehabilitation Steps***

The Grantee has contracted improvements to the property ranging from minor repair to construction rehab (not to exceed \$25,000 per house) necessary to bring the property up to DHCD Housing Quality Standards (HQS) while keeping the home's integrity in line with the character of the surrounding neighborhood.

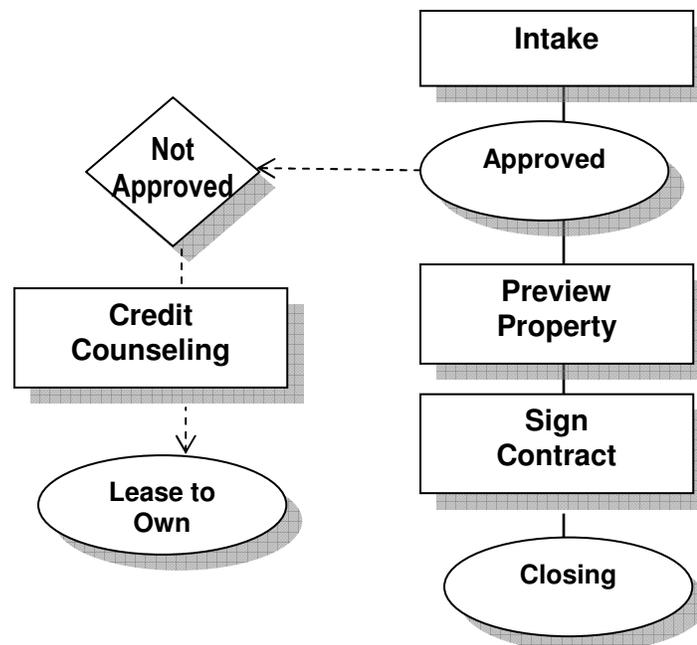
- a. Procure Rehab Specialist and pre-qualify contractors;
- b. Complete HQS inspection to identify deficiencies;
- c. Prepare cost estimates and work write-ups;
- d. Host pre-bid conference;
- e. Solicit bids from area contractors;
- f. Review of bids and award of rehabilitation contract;
- g. Pre-construction conference takes place;
- h. Contractor rehabilitates the property to HQS;
- i. Post-rehabilitation DHCD HQS inspections are performed;
- j. Punch list is developed and completed as necessary;
- k. House is ready for sale to qualified low-, moderate- or middle-income family.



## ***Homebuyer Education***

Homeownership counseling is a required and essential component of NSP. Grantees will partner with a HUD certified housing counseling agency usually a local non-profit organization (NPO) to manage these activities. Counseling is preceded with locality outreach in the target area to raise awareness of the program and to attract potential low-, moderate- and middle-income homebuyers.

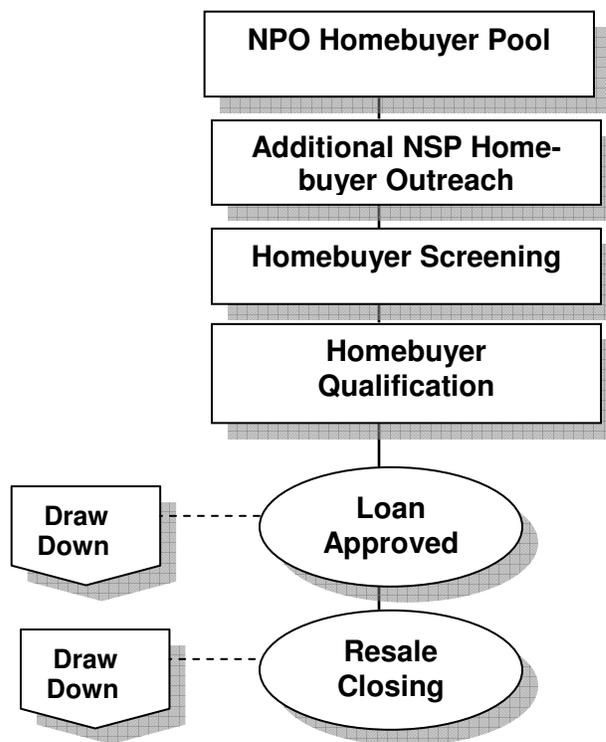
- a. Intake (screen eligible homebuyers, verify status, income, etc., to determine eligibility);
- b. Homebuyer education;
- c. Application process.



### ***Resale Steps***

The Grantee has identified an eligible homebuyer who has received the required 8 hours of homebuyer counseling and is able to secure a mortgage with a lender in addition to down payment assistance and closing costs.

- a. Rehabilitated property matched with eligible LMMI household;
- b. Loan is processed;
- c. Homebuyer completes home inspection;
- d. Closing and homebuyer takes possession (file copy of homebuyer sales contract);
- e. Grantee closes out project and returns Program Income to DHCD.



## ***Definitions***

The following are definitions of words and phrases used throughout this manual:

- “Abandoned” refers to a home where mortgage or tax foreclosure proceedings have been initiated, no mortgage or tax payments have been made by the property owner for at least 90 days, AND the property has been vacant for at least 90 days;
- “As-Is Appraisal” is an opinion of a property's fair market value, based on an appraiser's knowledge and experience, current condition, and on comparable sales within the neighborhood;
- “As-Is Appraised Value” means the value of a foreclosed upon home or residential property that is established through an appraisal made in conformity with the appraisal requirements of the URA at 49 CFR 24.103 and completed within sixty days prior to an offer made for the property by a Grantee, developer or individual homebuyer;
- “Beneficiaries” refers to those low-moderate-middle income (LMMI) individuals or households who choose to participate in, or are directly affected by, a NSP-funded project and, as a result, receive direct or indirect assistance;
- “Blighted” means a structure that exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare;
- “Broker’s Price Opinion (BPO)”  
The BPO is a method that a real estate **broker** (or a sales agent acting on behalf of their employing **broker**) uses to estimate the probable selling **price** of a real estate property/house. The estimate of **price** is submitted in a BPO report (2-3 pages) that includes local and regional real estate market information, neighborhood analysis, and comparable properties (comps) that compare to the house (subject) that is being evaluated.
- “Closing” - The finalizing of the sale of a property, as its title is transferred from the seller to the buyer. Also called settlement.
- “DHR” refers to the Virginia Department of Historic Resources;
- “DOL” refers to the U. S. Department of Labor;
- “Deliverables” refer to the products or tasks as outlined in the contract;
- “Draw” or draw down is a reimbursement against the remaining grant funds reserved for your project;
- “Foreclosed” under state or local law, the mortgage or tax foreclosure is complete, after the title

- for the property has been transferred from the former homeowner under some type of foreclosure proceeding or transfer in lieu of foreclosure, in accordance with state or local law;
- “Governing Body” refers to the Grantee’s Town Council, City Council, Board of Supervisors, Board of Directors or Board of Commissioners;
  - “Grantee” refers to the unit of local government, non-profit or redevelopment and housing authority awarded a contract;
  - “Grant Administrator” refers to the individual designated by the Grantee to oversee the project and ensure that the activities outlined in the NSP Agreement are achieved, completed on time, within budget and in compliance with the program requirements;
  - “Grant Agreement” refers to the contract between DHCD and the Grantee;
  - “HQS” refers to Department of Housing and Community Development (DHCD) Housing Quality Standards;
  - “HOME” refers to the National Affordable Housing Act program that provides formula grants to states and localities and nonprofit partners to provide housing assistance (i.e. down payment assistance) for low income households.
  - “HUD” refers to the U. S. Department of Housing and Urban Development;
  - “Leverage funds” are all non-NSP funds that have been committed to the project by the Grantee;
  - “LMMI” refers to low- moderate- and/or middle income as determined by HUD data;
  - “LMMI persons” refers to persons who are members of a household whose cumulative household annual income is at or below 120% of the median income of the County or City of the Commonwealth (whichever is greater) in which a NSP project is located;
  - “Market Value Appraisal” is a property's last reported sale price or its current bid and asking prices ; i.e. the price as determined dynamically by buyers and sellers in an open market. Also called market price.
  - “NSP Agreement” refers to the DHCD contract offered to the Grantee for NSP funds;
  - “Performance Pool” is designated for use by *high performers* – entities that previously received NSP funds and have demonstrated the ability to spend these funds in a quick, responsible and efficient manner. They will be distributed by contract amendment and are derived from unobligated funds, recaptured funds and Program Income.

- “PMO” refers to the Program Management Office of DHCD, which oversees the NSP program;
- “Products” refer to the deliverable or task as outlined in the contract;
- “Program year” refers to the twelve-month period following the effective date of the NSP Agreement;
- “Project” refers to all of the activities undertaken that result in meeting the terms and conditions of the NSP Agreement;
- “Revenue” has the same meaning as program income, funds derived from the sale of improved or unimproved real estate;
- “REO- (Special Asset Management) Real Estate Owned” is property which is in the possession of a lender as a result of foreclosure or forfeiture.

THIS PAGE INTENTIONALLY LEFT BLANK

## CHAPTER 2: PRE-CONTRACT ACTIVITIES

---

This chapter outlines the activities the Grantee must successfully complete during the contract negotiations period in order to receive the NSP Agreement. While the number of activities can seem to be overwhelming to new Grantees, this manual was developed to easily guide Grantees through the process.

For purposes of clarity, this chapter is divided into the following sections:

- Contract Negotiations;
- Prior Authorized Costs;
- General Requirements;
- and
- Contract Execution.

### ***Contract Negotiations***

The grant implementation process begins with the Governor's letter, offering a grant to the local governing body. After the Grantee has been officially notified, the Project Management Office's Associate Director will set up a contract negotiation meeting. This is the first step in getting an NSP Agreement.

The Contract Negotiation Meeting marks the beginning of the sixty-day period known as the Pre-contract Activities Phase. During this phase, the Grantee *must* complete all of the requirements outlined at the contract negotiation meeting and any other conditions subsequently determined to be necessary to assure the successful implementation of the project. Shortly after the meeting, DHCD will send a follow-up letter to the Grantee, summarizing what these activities are and the expected completion date.

In the letter, the need for a Facilitated Management Session (FMS) will be identified. This is an on-site visit conducted by a facilitator and your Community Representative. At the FMS, responsibility for completing the Pre-contract Activities will be assigned. These Pre-contract Activities are discussed in greater detail in this chapter.

**\* Failure to complete the Pre-contract Activities within sixty (60) days puts the grant offer in jeopardy.**

### **Prior Authorized Costs**

Most Grantees will incur administrative costs related to the Pre-contract Activities before the NSP Agreement is executed. These costs are eligible for reimbursement with NSP funds if the Grantee makes a written request to DHCD. The request must outline the activities and associated costs to be undertaken and when these costs will start to be incurred. In addition, the request must acknowledge that, if an NSP Agreement is not issued, the Grantee is responsible for the costs.

DHCD will review the request and, if it concurs, approve it. DHCD will identify the approved effective date for incurring prior authorized costs and the total amount that will be eligible for grant reimbursement. Authorization is conditioned on the NSP Agreement being signed within the sixty-day Pre-contract Activities Phase, unless specifically extended by DHCD in writing.

In rare cases, the Grantee may wish to incur implementation costs, including

design and/or construction costs, before the issuance of the NSP Agreement. As with Pre-contract administrative costs, implementation costs cannot be incurred without prior written authorization from DHCD. The Grantee's written request for prior authorization must identify the nature and estimated amount of costs to be incurred and why they are being requested.

No request for prior authorization of implementation costs will be considered until after the Environmental Review of the project is completed.

See Appendix 1 for a sample Request for Prior Authorization letter.

**\* If prior authorization is not received, all costs incurred during the Pre-contract Activities Phase must be paid for with leverage funds.**

### ***General Requirements***

All Grantees are required to complete the general Pre-contract requirements. Each must be reviewed and approved by the assigned Community Representative before the end of the Pre-contract Activities Phase. A summary of each requirement follows.

### **Project Management Team**

DHCD requires the formation of a Project Management Team to oversee the project. The Team is made up of stakeholders who have direct responsibility or oversight of specific activities necessary for the successful completion of the project. Typically, the Team consists of the Chief Administrative Officer (who serves as the chair); grant administrator, management consultant, rehabilitation specialist, acquisition specialist, engi-

neer or architect, housing counselor, building official, attorney, appraiser, lender, realtor, and agency funding representatives.

**\* The purpose of a Project Management Team is to monitor the project's progress and to assure the project's success. To accomplish this purpose, the team members must be committed to doing the following:**

- Attend meetings regularly;
- Carry out assignments between meetings;
- Come prepared to report back on the progress of assigned tasks;
- Fully participate in discussions; and
- Be committed to the project being completed on time, questioning any delays and identifying corrective action.

### **Environmental Review Record (ERR)**

The environmental effects of Virginia's targeted activities carried out in the NSP will be assessed in accordance with the selected provisions of the *National Environmental Policy Act (NEPA)* and related authorities listed in HUD's implementing regulations at 24CFR58. DHCD will certify that it has complied with NEPA and request the approval of the release of funds for all Grantees with the exception of entitlement areas, who will prepare or amend their own Environmental Review Record.

Virginia’s targeted activities are projects that involve housing counseling, down-payment assistance and other financing mechanisms, acquisition, rehabilitation, and transfer/resale of existing residential dwellings, or a combination of those activities.

DHCD will aggregate this similar group of activities into one project for environmental review purposes. This means that the NSP will be defined as one project with one Environmental Review Record for the state, excluding entitlement areas.

For environmental review purposes, the activities undertaken in the Virginia NSP will be determined CATEGORICALLY EXCLUDED. All Grantees, entitlement and non-entitlement, must complete, sign and date the Statutory Checklist found in Appendix 2b for each property and comply with whatever mitigation is deemed necessary.

Any house constructed more than 50 years ago and/or located in a historic neighborhood or a neighborhood eligible for historic listing shall be documented on the Department of Historic Resources (DHR) “Project Review Application Form.” See Appendix 2d and 2e for more details.

⌚ For entitlement areas, the ERR process can take up to thirty (30) days to complete as it involves review and comment periods, publication or posting of the Notice of Intent to Request the Release of Funds and preparation of the record. Therefore, it is imperative that the entitlement Grantee starts this process immediately after the contract negotiation meeting, if it has not already been done as part of a planning process.

⌚ For entitlement communities that receive CDBG funds directly from HUD and will be using State NSP funds to supplement existing CDBG projects, the Environmental Review Record must be amended to include the new NSP activities, a Notice of Intent to Request the Release of Funds (NOI RROF) must be published (with a seven day comment period and 15 day objection period) or posted, and a Request for Release of Funds must be submitted to DHCD. Copies of the NOI RROF must be mailed to the Department of Environmental Quality and others as warranted (see Appendix 2).

## **Performance-based Project Budget**

Grantees must prepare a project budget, using the required format. This budget must reflect current budget activities and funding sources (both NSP and leverage funds). Typically, the project budget will be similar to the budget proposed in the Grant Proposal but includes any DHCD-related or other adjustments made during contract negotiations.

The most significant adjustment is that all NSP administrative costs are *performance-based* i.e., costs are paid only after the attainment of pre-determined thresholds. These are negotiated between DHCD and the Grantee after the completion of the Project Management Plan. The payment thresholds will outline the respective tasks and how much DHCD will pay upon the completion of each task.

See Appendix 3 for more details in preparing the budget and the required budget form.

## Non-discrimination Policy

Grantees must have an adopted policy stating that they will not discriminate in hiring and employment practices against any individual on the grounds of race, age, handicap, creed, religion, color, sex or national origin.

The following steps must be undertaken to accomplish this task:

1. Adoption of the non-discrimination policy by the Grantee's governing body;
2. Post a large, legible copy of the policy where job applicants and employees can see it; and
3. Include in all advertisements for employees a Telecommunication Device for Deaf persons (TDD) number or a Teletypewriter (TTY) number, and that the Grantee is an "Equal Opportunity Employer."

See Appendix 6 for a sample policy.

## Section 504 Requirements

Section 504 of the *Rehabilitation Act of 1973* requires Grantees to take actions to assure non-discrimination based on disability. The following steps must be undertaken to meet this requirement:

1. Designate a 504 Coordinator by the Grantee's governing body;
2. Publish "Public Notice of Non-discrimination Based on Handicap" as a display advertisement in the local newspaper;
3. Place proof of adoption and publication in the project file;

4. Implement effective communication, including the listing of a TDD number on all required notices and advertisements;
5. Conduct a Self-Evaluation; and
6. Adoption of the Grievance Procedure by the Grantee's governing body.

See Appendix 7 for Section 504 Requirements and samples.

## Anti-displacement Plan

Grantees must commit to minimizing project-related displacement and the hardships it imposes. This includes direct displacement resulting from real property acquisition, rehabilitation, demolition, and conversion and any indirect displacement. DHCD requires that this commitment assure that:

Individuals who are displaced or relocated because of an eligible project activity are fairly and fully compensated.

The following steps must be undertaken to meet this requirement:

1. Adopt the Residential Anti-displacement and Relocation Assistance Plan Certification by the Grantee's governing body;
2. Place proof of adoption in the project file; and

See Appendix 8 for a model plan.



The model plan commitment is geared solely towards residential displacement and relocation.

## Fair Housing Certification

For each program year in which the NSP Agreement is active, the Grantee must take affirmative steps to further Fair Housing. To meet this requirement, the Grantee must certify that it will undertake at least one fair housing activity in each project year. A list of activities can be found in Chapter 4: Grant Management.

The Fair Housing Certification is to be taken very seriously. The solicitation of potential home buyers, the housing counseling component, the sale of homes, all activities relating to the Virginia Neighborhood Stabilization Program must all be done in conformance with Title VI of the Civil Rights Act of 1968. See Appendix 9 for a copy of the required Fair Housing Certification.

## Leverage Funds

Leverage funds *must* be in hand and ready to be used for the purposes stated in the Grant Proposal before the NSP Agreement can be issued. The Grantee must document the availability of all leverage funding identified in the Grant Proposal e. g., firm letters of commitment from other funding sources.

**\* Lacking all required project funds calls into question the Grantee's ability to deliver the necessary benefits. DHCD reserves the right to alter the terms of the grant offer until either the leverage funds are committed or replacement funds are secured.**

## Procurement of Services

The Grantee is required to publish a request for qualifications for necessary professional and non-professional ser-

vices in a regional newspaper and to select the consultant(s) during this time. The Grantee must submit the proposed contracts to DHCD for review and concurrence.

**\* No agreement for services may be signed until after the effective date of the NSP Agreement unless prior written authorization to do otherwise is granted by DHCD. The exception is those contracts that DHCD authorized to be executed during a planning grant.**

## Contracts and Agreements

The successful completion of the project may require the Grantee to enter into various contracts and agreements. Examples include:

- Professional and non-professional services contracts; and
- Interagency agreements with other entities that will be involved in the implementation of the project.

The necessary contracts and agreements will be identified at the contract negotiation meeting. The Grantee must prepare drafts of the documents and submit them to DHCD for review and concurrence. This review is in addition to the review and concurrence of the Grantee's Attorney.

See Appendices 10 through 12 for more details on the contracting process and sample agreements.

## Plans and Program Designs

Depending upon the project type, various plans and/or program designs will be required. Examples of them include:

- Project Management Plan;
- Program Income Plan;
- Residential Anti-Displacement and Relocation Assistance Plan;
- Operations/Management Plan for multifamily, investor-owned or lease-purchase properties;

These documents outline the policies and procedures that the Grantee will observe during the project's implementation. The proposed plans and/or program designs must be submitted to DHCD for review and concurrence. As each is specific to the Grantee no representative models are provided. See Appendices 12 and 13 for more details on plans and program designs.

## Resolution of Prior Grant Conditions

Any outstanding issues related to previous DHCD/PMO projects must be resolved during the Pre-contract Activities Phase. Examples would include late or delinquent audit reports, unresolved compliance review findings, failure to achieve the appropriate level of project close-out and failure to submit required information and documentation.

### *Contract Execution*

As previously noted, upon the completion of the Pre-contract Activities, your Community Representative will conduct an initial review to ensure everything was done properly. Once the review is done and any identified issues are resolved, an NSP Agreement will be

prepared by DHCD and two (2) copies will be forwarded to the Grantee for execution. The Chief Administrative Officer, as designated by the Grantee's governing body, must sign the NSP Agreement and return one (1) original to DHCD/PMO.

The NSP Agreement specifies the outcomes and benefits the Grantee is expected to provide and the timeframe involved. The Grantee may not alter the scope of the project or reduce the level of LMMI benefit once the NSP Agreement is executed. Should the need arise, the NSP Agreement may be amended as outlined in Chapter 4: Grant Management.

**\* In order to avoid any necessary delays, Grantees should have their attorney review the NSP Agreement during the Pre-contract Activities Phase. See Appendix 14 for a sample copy of the NSP Agreement.**

# CHAPTER 3: BENEFITS

---

This chapter outlines DHCD's benefit policies for projects awarded funding. These policies support the objective of the NSP program, which is to provide benefits to low-, moderate-, and middle-income (LMMI) households.

For purposes of clarity, this chapter is divided into the following sections:

- NSP National Objective;
- General Benefit Responsibilities;
- Definitions;
- The 25/50 Rule;
- Housing Eligibility; and
- Recordkeeping.

## *NSP National Objective*

All NSP-funded projects must meet the objective of providing low-, moderate- and middle-income benefit.

Twenty five percent of all NSP funds must be spent for the objective of benefiting families or individuals at or below 50% of the area median income for the geographical area in which funds are spent.

## *Providing Low-, Moderate-, and Middle-Income Benefit*

There are two ways in which persons may benefit from the NSP Program: Area or Direct Benefit. It is DHCD's expectation that the majority of NSP-funded projects in Virginia will be direct benefit.

## *Direct Benefits*

All NSP projects are funded with the objective of providing direct benefits to primarily LMMI persons. Direct LMMI beneficiaries are those persons identifiable by name and income status who receive direct, permanent and measurable benefit from project activities.

Examples of direct benefit housing activities providing or improving permanent residential structures that will be occupied by a household whose income is at or below 120% of area median income include:

- Acquisition, rehabilitation, rental, sale, conversion, construction of housing units;
- Homeownership assistance; and,
- Infrastructure for housing as part of redevelopment.

## *Area Benefits*

NSP improvements which benefit a geographic area, but may or may not have a measurable impact on a given person constitute an area benefit. Examples would include demolition of deteriorated vacant residential structures, creation of a community park or other re-use of unimproved properties. It is not expected that Virginia NSP-funded projects will include these activities.

- Generally, the only area benefit activities funded through NSP are incidental to a larger neighborhood project which has a high level of direct LMMI impact.

## **General Benefit Requirements**

By executing the NSP Agreement, the Grantee commits to provide specific outcomes and benefits to LMMI persons.

**\* As noted in Chapter 1: Introduction, altering the scope of the project and reducing the level of LMMI benefit is not permitted once the NSP Agreement has been executed. Failure to achieve the required benefits could result in proportional repayment of the grant funds.**

### ***Definitions***

Unless otherwise noted, the Grantee is expected to use the following definitions pertaining to LMMI persons.

### ***LMMI Households***

For all NSP-funded projects LMMI persons are those persons living within an LMMI household. Household is defined as all persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together, or any group of related or unrelated persons who share living arrangements.

### ***LMMI Persons***

LMMI persons are defined as persons who are members of a household whose cumulative household annual income is at or below 120% of the median income of the County or City or the non-metropolitan area of the Commonwealth (whichever is greater) in which the project is located. LMMI status is determined from HUD's Section 8 Income Guidelines. These guidelines are updated and published annually. They are available at [www.huduser.org](http://www.huduser.org) and Appendix 48 of this manual.

### ***Total Annual Income***

Total annual income includes wages, child support, alimony, salaries, tips, interest and investment income, retirement income, social security, pensions, stock dividends, welfare payments, aid-to-dependent children, and other sources of public assistance.

Total annual income does not include employment income of children under the age of 18 years, foster childcare payments, foster care payments, hostile fire pay, inheritance income, medical cost reimbursements, lump-sum asset payments, educational scholarships or the income of a live-in aide.

### ***Fairness and Equitable Distribution of Benefits***

The program may not act to deny reasonable benefit to minority, elderly or female-headed households through its guidelines and loan structuring.

### ***The 25/50 Rule***

DHCD has reserved at least \$9,687,483 (25%) of Virginia NSP funds for housing individuals and families whose incomes do not exceed 50 percent of area median income. Funds will be specifically targeted or escrowed to meet this 25 percent requirement. DHCD's general expectation is that all funded NSP projects will devote at least 25% of their grant award to meeting the 25/50 requirement. Proposals must contain the Grantee's plan for meeting this requirement. If a Grantee's proposal does not contain a plan for meeting the 25/50 requirement, DHCD may reduce the grant award by up to 25%.

DHCD recognizes that meeting the 25/50 rule will likely require activities that are unique to a Grantee's proposed NSP program. DHCD will additionally consider Grantees that seek to target 100% of their

NSP funds toward the 25/50 rule. Grantees seeking to solely target the 25/50 requirement are still expected to submit a proposal that meets the requirements and intent of the NSP program.

Potential strategies for meeting the 25/50 rule include:

### ***Special Needs/ Supportive Housing***

Appropriate Supportive Housing options that are in response to a recognized community need is the top priority of the Virginia NSP 25/50 reservation. Due to the nature of these hard to serve populations, this is the only area DHCD anticipates making an NSP award with the possible expectation that no NSP funds will be returned as program income. An applicant seeking to use NSP funds for projects involving supportive housing will need to keep in mind the following:

- In order to count toward the 25% set-aside the supportive housing must serve residents that are documented to be below 50% of area median income. Income limits are available in Appendix 48.
- Special Needs / Supportive housing must be **permanent** housing. Most shelters or temporary residential programs would not be considered housing since they are short-term. Grantees must clearly show how their intended use qualifies as permanent housing.

### ***Low Income Homeownership***

Special programs targeting low-income homeownership are allowed under NSP and DHCD may agree to a partial repayment of NSP funds to facilitate these programs. Grantees will need to show adequate capacity on the part of non-profit organizations or other partners pursuing low-income homeownership creation and provide a detailed timeline for implementation. Meeting the 25/50 requirement is based on actual occupancy, so the low-income household will have to become homeowners within the term of the grant.

While DHCD is agreeable to a portion of the NSP investment remaining in a low-income homeownership creation project, the Grantee must clearly identify how this will be used and why this additional subsidy is necessary. Any NSP activity costs that are not recovered as program income through the sale of the home must be clearly tied to the benefit of the low-income purchaser and not directly benefit the housing provider. DHCD has developed a default approach to determining the portion of NSP funds that must be recovered, outlined below.

### ***Low-Income Homeownership Model***

Applicants seeking to provide homeownership opportunities to low-income (50% AMI or below) beneficiaries may subsidize the cost to make these units affordable. A low-income homeowner is permitted to purchase the NSP home on the basis of their maximum qualification for a mortgage according to standard underwriting procedures. The total sales price will be on the basis of the 32% debt-to-income ratio (for mortgage payments), but the return of NSP funds to DHCD must be done on the basis of the maximum amount approved by the lender. This subsidy is only available under the 25/50 rule for NSP.

The following scenario will be allowed:

- Grantee acquires an eligible unit meeting the definition of abandoned and foreclosed with NSP funds at the required 15% discount.
- Grantee rehabs the house using up to \$25,000 of NSP funds.
- Grantee qualifies a low income homebuyer for a mortgage according to standard underwriting qualifications.
- Homebuyer purchases the home, at a discount, through a conventional mortgage based on what is reasonable for their income.
- Grantee must pay back, as program income, the acquisition funds based on the homebuyer's 32% debt-to-income ratio calculated and approved by the lender.
- The difference in the amount of acquisition and rehabilitation, if any, and the amount due to DHCD will be secured with a lien (second deed of trust and note) forgiven over a ten year period.
- NSP funds spent on rehab will be included in the second lien and forgiven.
- The amount of acquisition beyond payback to DHCD and the cost of rehab (NSP

and otherwise) may be secured as a forgivable soft-second by the Grantee. Any NSP funds over and above the mortgage loan must be forgiven at the end of ten years through amortization over the period of affordability.

This approach is illustrated in an example on the following page. This approach is not the only condition DHCD will accept for subsidy with NSP funds. Applicants proposing alternative models must clearly explain their plan and justify why it is appropriate for the proposed 25/50 activities.

### Low Income Homeowner Model Example

Grantee acquires an eligible unit at 15% discount.

***House appraises for \$120,000 and is acquired using \$100,000 of NSP funds.***

Grantee rehabs the house using up to \$25,000 of NSP funds.

***Normal NSP requirements would mean that \$125,000 of NSP funds would be returned as Program Income.***

Low-income homebuyer qualifies for and obtains \$92,000 mortgage. The mortgage is a VHDA 30 year fixed rate mortgage. Qualification is based on what is reasonable based on their income, and used the standard 32% ratio for their mortgage. Assume this makes the monthly payment \$560 for the homeowner.

***Homebuyer buys the house from the Grantee with the \$92,000 mortgage and returns the program income to DHCD. A second set of security instruments (Deed of Trust and Note) are signed by the homebuyer with the Grantee for the remaining balance. DHCD agrees to accept a loss of \$33,000 in NSP funds (\$125,000 - \$92,000) in order to make homeownership a reality for a low-income family.***

The amount of acquisition beyond payback to DHCD and the cost of rehab (NSP and otherwise) must be secured as forgivable soft-second by the Grantee. Any NSP funds secured with this second lien shall be forgiven at the end of ten years through amortization over the ten year period of affordability. ***Depending on the amount of subsidy, the period of affordability may increase. Please consult your Community Rep when calculating the second lien.***

## Lease Purchase

Lease purchase agreements may be made with a client that will be renting the homebuyer unit while working toward homeownership of the same unit. During the period of the lease purchase agreement, the homeowner must receive homeownership education training and intermediary assistance to complete the purchase.

Units with a legally binding lease-purchase agreement will be considered owner-occupied if:

- The lease-purchase agreement enables the lessee to become an owner occupant within three years.
- The lessee undergoes homeownership education and is provided intermediary assistance during the lease period.
- The amount of NSP acquisition and rehabilitation costs will be returned to DHCD through straight-line monthly payments and a lump sum at the end of the lease tenure or three years.
- The monthly payment will be determined based on the estimated principle and interest payment for a 30 year, fixed income mortgage in the amount of the sum of NSP acquisition and rehabilitation costs.
- Rent payments must be based upon the same hypothetical mortgage but may be adjusted to include taxes and insurance to result in an accurate estimate of the future PITI level. The Grantee can use the payment beyond the principle and interest to maintain insurance and taxes on the property.

Lease purchase situations will result in a modification to the eligibility schedule for program delivery expenses. Program delivery expenses will be reimbursed according to the following:

	<i>Lease Purchase</i>
<i>Acquisition / Not to Exceed</i>	\$ 5,000 per unit / N/A
<i>Rehab Specialist / Not to Exceed</i>	10% of NSP rehab cost up to \$ 2,500 per unit
<i>Lease Purchase Commitment</i>	\$ 3,750 for 1 time per household
<i>Completed Purchase</i>	\$ 3,750
<i>Maximum / Unit</i>	\$ 15,000

Only the one occupant of each individual unit will enable the reimbursement of \$3,750. Grantees will have to consider alternatives for recruiting lease-purchase occupants if additional occupants are needed. The completed purchase reimbursement will be available after the lease-purchaser closes on the home.

## Multi-Family Properties

Rental Housing that is targeted for displaced low income households or that is shown to be appropriate to the character of the neighborhood will be considered for NSP investment. Redevelopment of existing properties or conversion of owner to renter tenancy will generally only be allowed to facilitate compliance with the 25/50 rule.

Multi-family properties will be evaluated and negotiated on a case-by-case basis. **DHCD should be contacted early in the process to discuss any potential multi-family projects.**

In general the following program delivery costs will be allowed for these projects: \$2,500, not to exceed \$10,000 per project, is available for occupancy of an eligible tenant if no other developer or administrative fees are available.

## Underwriting

NSP assistance to rental properties (which may include supportive housing) will be underwritten to determine the appropriate amount of public investment and the rent structure of resulting units. Rents must be affordable to the intended beneficiaries. Any Return on Investment related to NSP funding must be returned to DHCD as Program Income.

To facilitate the underwriting and make the best case for NSP investment to remain in the project, Grantees are encouraged to provide differing financing scenarios for the project. Through the various scenarios, the Grantee should make the case for the terms of the NSP investment they are seeking for the project and why it provides the greatest benefit to the low-income beneficiaries. DHCD reserves the right to negotiate the specific terms of the NSP investment following the announcement of an NSP funding award.

Grantees should keep in mind that DHCD expects to generate Program Income during the implementation of the NSP so the proposed scenarios should reflect reasonable, prudent investment of these public funds.

## Housing Eligibility

To be eligible for funding, NSP projects must provide and/or improve *permanent year-round housing* for LMMI households. The following benefit

requirements apply to all housing projects and must be reflected in the project's Program Design:

- 100% of single-family structures and multi-family units that are rehabilitated with NSP funds must be inhabited by LMMI households verified to have incomes that are at or below 120% of area median income for the project area at the conclusion of the project;
- When NSP funds are used to bring multi-family housing units up to DHCD HQS, said units must be occupied by 100% LMMI households;
- In instances when NSP funds are used to improve building-wide components e.g.; roof and HVAC improvements 51% or more of the units in said building must be occupied by LMMI households as identified in the NSP Agreement;
- The program may not set aside funds or specific goals that adversely affect the benefit of low-income, minority, elderly or female-headed households;
- Rent charged to LMMI tenants will not exceed high HOME rent restrictions (Appendix 47) for the term of the loan; and
- NSP will require safe and reliable mortgage products that follow sound underwriting standards.

**\* General Guidelines- the following guidance correlates with FHA guidelines: PITI (principal, interest, taxes & insurance) should not exceed 32% of the applicant's gross monthly income. The total debt-to-income will include the PITI plus any additional debt owed (car payments, child support, credit cards, student loans, etc) should not exceed 40% of the applicants gross monthly income.**

### ***Recordkeeping***

Cumulative documentation must be kept regarding the outcomes and benefits to applicants, proposed beneficiaries and actual beneficiaries by state fiscal year (July 1 – June 30).

In addition to the general LMMI status, Grantees must track LMMI households by low- (0-50%), moderate- (51 - 80%) and middle (81-120%) income categories when beneficiaries receive a direct benefit such as housing. For all other activities, households are tracked by the LMMI (120% or below) income category.

For all projects, persons must also be tracked by race and ethnicity as categorized by HUD, as well as by owner-occupied or tenant status, female-head of household (occupied by one or more children under the age of 18), elderly household (62 years of age or older), and disabled household.

If beneficiaries do not want to identify their ethnicity, inform them that it is a requirement and that you will identify them based upon your observation.

All of the above demographic data must be further broken down by project activity e. g., acquisition, rehabilitation, homebuyer assistance and transfer/resale.

This information must be reported to DHCD through the *Quarterly Reports* and the *Final Evaluation Reports*. See Appendices 22 and 74 respectively for samples of these reporting forms.

At the outset of the project, Grantees should work with their Community Representatives to assure that the recordkeeping system set up will provide PMO with the information that will be required.

# CHAPTER 4: GRANT MANAGEMENT

---

This chapter outlines the Grant Administrator's key responsibilities during the life of the project. The main responsibility is the successful achievement of the project outcomes as outlined in the NSP Agreement. Proper grant administration also entails the project completion on time and within budget.

For purposes of clarity, this chapter is divided into the following sections:

- Project Management;
- Reporting Requirements;
- Fair Housing Requirements;
- Complaint and Appeals;
- Real and Personal Property Management;
- Contract Amendments;
- Compliance Reviews; and
- Recordkeeping.

## ***Project Management***

The Grant Administrator's key role is to make sure the activities outlined in the NSP Agreement are achieved, completed on time, within budget and in compliance with the program requirements. It is the job of the Grant Administrator to oversee the project in such a way to help ensure this happens and there are as many ways to achieve this outcome as there are Grant Administrators and projects. However, the key is developing and using an on-going system to verify that Management Team members are achieving their assigned tasks according to the project timeline and the capacity to intervene so problems, like non-performance, are addressed in a timely manner.

The Grant Administrator has several tools to assist in overseeing a project:

## **Grant Management Manual**

This manual outlines the steps and procedures that need to be followed for successful project completion. The manual also includes directions for actions to be taken. It includes specific language and instructions that must be inserted verbatim in various documents as well as models and samples of documents to be prepared. *The Management Manual is considered a contract document which is part of the NSP Agreement.*

Additional copies of the manual, as well as many of the required forms, can be downloaded at [www.dhcd.virginia.gov](http://www.dhcd.virginia.gov). Click on "Reports/Statistics/Forms/Publications" and look under "Neighborhood Stabilization Program" or by contacting your Community Representative for additional compact disk copies.

## **DHCD Personnel**



Contact your Community Representative at any time if you perceive a need for technical assistance (TA) to help ensure compliance with program requirements. Depending upon the circumstances, TA can take place by phone or letter, on site, at workshops, or at the PMO offices in Richmond and/or Abingdon.

Technical assistance is provided through four principal individuals:

- The Associate Director who is responsible for contract negotiations, program management design, policy and overall administration;
- The Program Manager who is responsible for uniform policy implementation and program management by the staff of Community Representatives;
- The Community Representative who is responsible for direct technical assistance and for assuring that each assigned Grantee achieves stated performance and compliance requirements; and
- The Financial Analyst who is responsible for assuring accountability of funds, technical assistance in financial management, audit control and management.

If your Community Representative is unavailable and an answer is needed expeditiously, you should speak to the Program Manager or, if necessary, the Associate Director, but not to another Community Representative. *Questions that require a written response must be put in writing!*

## DHCD Workshops

DHCD offers specialized training workshops for Grantees. The intent of workshops is to increase the knowledge and skills of project staff thereby improving the Grantee's abilities to complete successfully its project. While all are welcome to attend any DHCD-sponsored workshop, Grantees are required to send all responsible staff, including consultants and non-profits, to

all mandatory workshops. These workshops are announced in advance, including being posted at [www.dhcd.virginia.gov](http://www.dhcd.virginia.gov). Click on "About DHCD" and then "Agency Calendar."

## Project Management Teams and Project Management Plans

One of the Pre-contract requirements is the development of the Project Management Plan (PMP). It is a DHCD required management tool that enables the Grantee and its partners to know where the project is going and how it will get there. As part of the regularly scheduled Project Management Team meetings, the PMP should be reviewed and compared with actual progress. If the review determines something is "amiss" in the project (i. e., timeline and budget) then the Project Management Team can use the meeting to identify the necessary corrective action.

**\* Unforeseen problems will almost certainly arise, requiring the PMP to be modified. As an official contract document, substantive changes to the PMP must be approved by DHCD in writing, but the Grantee will always keep DHCD updated on any changes to the PMP.**

At the first Management Team meeting, some Grantees find it useful to give every member a three-ring binder with tabs for minutes, plans, program designs, etc. to help them stay organized and focused.

## Conflict of Interest

DHCD observes a very strict conflict of interest position. No NSP activities may be undertaken on the property of any person, or his/her immediate family, who has or had decision-making power in the NSP program from the time the application was planned, developed and submitted to DHCD to the grant's execution and implementation without DHCD's prior written approval regardless of any prior approval of a Program Design. This includes any elected and appointed officials, employees of the Grantee, and Program Management Team members, in accordance with Virginia and federal conflict of interest requirements.

In order to obtain DHCD's consent, a Grantee must contact DHCD before providing any benefit to an individual in any of the above-listed categories, outlining the nature of the potential conflict. Relevant information would include whether or not the individual is a low-, moderate-, or middle-income person and whether or not he or she has waived his or her responsibilities with respect to the specific assisted activity in question throughout the grant process.

The Grantee must submit documentation of the nature of the conflict, including an assurance that there has been public disclosure of the conflict and a description of how the public disclosure was made. An opinion of the Grantee's attorney must be included; stating the exception from 570.611 (d) (2) (i)-(vii), "Factors to be considered for exceptions," is sought and that it would not be a violation of State or local law." DHCD must then decide if it concurs with the Grantee's request. If so, DHCD will submit the request to HUD and obtain HUD's con-

currence before the Grantee may proceed.

Please note that the NSP Agreement addresses conflict of interest in the following sections of the "General Conditions": "19: Subsequent Contracts", "21: Interest of Member of Agency and Others", and "23: Certifications", as well as the following section of the "Assurances / Certifications": "13: Conflict of Interest."

Specifically, Title 24 CFR Part 570.611 states in pertinent part:

(b). . . no persons described in paragraph (c) of this section who exercise or have exercised any functions or responsibilities with respect to CDBG activities assisted under this part, or who are in position to participate in a decision making process or to gain inside information with regard to such activities, may obtain a financial interest or benefit from a CDBG-assisted activity, or have a financial interest in any contract, subcontract, or agreement with respect to a CDBG-assisted activity . . . either for themselves or those with whom they have family or business ties, during their tenure or for one year thereafter. . . .

(c) Persons covered. The conflict of interest provisions of paragraph (b) of this section apply to any person who is an employee, agent, consultant, officer, or elected official or appointed official of the Grantee, or of any designated public agencies, or subrecipients which are receiving funds under this part.

No person may bid on or be awarded a contract to perform work on property which they own or in which they have financial interest.

### ***Progress Reports***

Progress reports are required at a specific time and are intended to provide necessary information regarding the progress, obligations and expenditures that have occurred to date. Their main purpose is to ensure that the Grantee and DHCD are aware of the programmatic and financial status of the project and that sufficient financial resources are on hand to complete the project's activities. A progress report does not entail any action or response on the part of DHCD unless it indicates actual or potential problems in the implementation of the project in accordance with the contract documents. In many cases the minutes of the monthly Management Team meeting may serve as a Progress Report. These minutes shall be distributed to all members of the Management Team, inclusive of DHCD's Community Rep, within ten days of each meeting.

### ***Quarterly Updates***

The Grantee must report the benefits, match and accomplishments achieved each quarter. DHCD will transmit the pre-printed report to the Grantee at the end of the quarter so the Grantee can complete and return the report within two weeks. This data will be used to comply with HUD's reporting system. See Appendix 15 for a sample.

### ***Annual Expenditure Report***

The *Annual Expenditure Report* is another preprinted form, which requires financial data specific to the project. This report is usually sent out prior to a

Compliance Review or in lieu of a financial review. Failure to properly complete this report can lead to a Financial Finding.

### ***Final Closeout Reports***

Once all NSP funds but the last 5% of the administrative costs are drawn down and the Final Compliance Review has taken place, the project is ready to be administratively closed out. DHCD will send to the Grantee a Letter of Conditions, which identifies what has to be done to achieve final closeout. Along with the letter, DHCD will send the Final Closeout Reports or "the blue forms." They usually consist of the following five reports: a *Final Financial Report*, a *Final Construction Report*, a *Final Evaluation Report*, a *Program Income Report*, and a *Leverage Report*. The Final Closeout Reports are further discussed in Chapter 7: Grant Closeout Procedures.

Ask your Community Representative for samples of the blue forms now so you will know from the beginning what data you will need to report to DHCD at the end of the project.

### ***Fair Housing Requirements***

Title VI of the *Civil Rights Act of 1968* makes it illegal to discriminate in housing based on the following factors:

- Race;
- Color;
- National origin;
- Religion;
- Sex;
- Age;
- Familial status (families with children under the age of 18 or who are expecting a child);
- Disability; and,

- Marital Status.

The Grantee's Fair Housing Certification commits the Grantee to take affirmative steps to further fair housing during each program year in which the NSP Agreement is active.

The Grant Administrator must ensure that at least one of the following actions (additional actions may be approved by DHCD) is completed during each program year. Examples of acceptable activities include:

- Adopt a resolution endorsing the concept of fair housing, including the specific rights included in the law, and advertise its wording in a display advertisement in a local newspaper;
- Attendance by a member of the Grantee's governing body or Chief Administrative Official and a second appropriate representative (realtor, banker, etc) at a fair housing workshop approved by DHCD;
- Provide all program beneficiaries with a copy of DHCD's fair housing brochures;
- Distribute copies of the fair housing brochures at local public events;
- Enlist the participation of local realtors, lenders and homebuilders in an agreement, and promotion of affirmative marketing, open housing and review of underwriting /credit criteria, etc. Publish such agreements in a local paper;
- Conduct public educational programs for local housing consumers, providers, and/or financial institutions, regarding fair housing issues;
- Develop a public information program using local newspapers, radio stations, bulletin board, churches, utility bill mailings, or local government TV channels to ensure that all segments of the community are aware of fair housing requirements, especially realtors, landlords, financial institutions, and the minority community;
- Sponsor a fair housing poster contest at local schools in conjunction with an informational session;
- Develop a fair housing assistance program to make housing opportunities available in non-minority areas, monitor compliance and submit discrimination complaints to the State or Federal government;
- Conduct a formal Assessment of Impediments (AI) study of local zoning, real estate and/or financing practices which affect housing choices of minorities and other protected classes; and
- Survey the special housing problems of minorities and women, determining any effects of discrimination and developing a plan to assist them in overcoming these effects.

✱ **The fair housing activity selected by the Grantee must be a different one each program year. Furthermore, all fair housing activities must be properly documented so their completion can be verified during the compliance review. If the Grantee has more than one active DHCD project, only one fair housing activity is required but all project files must be documented.**

## **Complaint and Appeals**

During the course of the project, it is possible that applicants, beneficiaries and contractors will make complaints. All complaints must be handled in an even-minded, diplomatic manner designed to identify and resolve the real problem. All complaints are to be brought to the attention of Project Management Team.

Many complaints are the result of not clearly communicating what the project entails and what is required and expected of applicants, beneficiaries and contractors. There are numerous opportunities when the program can be explained, including community meetings, Management Team meetings, initial housing inspections, pre-construction conferences, and home inspections.

The Grant Administrator must investigate any written complaint and respond to it. Appeals of the Grant Administrator's decision should be addressed, in writing, to the Management Team. (However, contractor complaints, disputes or appeals may involve use of local building code review committees, as outlined in the Invitation to Bid.)

Appeals of the Management Team decision should be addressed to the local Chief Administrative Official of the Grantee. Appeals of that decision should be addressed to the Grantee's governing body.

All written complaints and appeals *must* be addressed within fifteen (15) days of receipt and resolved within thirty (30) days. A response to all written complaints and appeals must be in writing and must include an explanation of the reason(s) for the decision reached, information on the next step in the appeals process and how many days from receipt of notice the complainant has to appeal any decision.

Final appeals should be addressed, in writing, to DHCD. The appeal should include a copy of all correspondence that has taken place to date. The appeal should identify the problem and the desired solution. DHCD will investigate the complaint and respond, in writing, in a timely manner. All involved parties will be copied.

If the complainant requires assistance in putting his or her complaint in writing, staff will make assistance available. The same is true for appeals.

Throughout the construction process (prior to final job close-out) Grant Administrators are encouraged to discuss with the Rehabilitation Specialist any concerns or problems regarding workmanship or construction activities. The Rehabilitation Specialist will facilitate problem resolution between the parties (usually the contractor and Grantee) to the contract. If a solution cannot be achieved informally, the parties will be

advised to submit their complaint, in writing, within fifteen (15) days.

Once a rehabilitation job is officially closed out and the one-year warranty period is in effect, the homeowner will be advised to address complaints, in writing, directly to the responsible general contractor with a copy to the Grantee.

A record of all written complaints, appeals and decisions must be kept in the contract files at the office of the Grant Administrator.

Distribute the complaint and appeals policy to applicants and contractors, along with the name, address, and phone number to whom complaints should be addressed.

## **Real and Personal Property Management**

There are specific requirements pertaining to the use and disposition of real property and nonexpendable personal property acquired with federal funds. The Grant Administrator must ensure these requirements are observed.

### ***Real Property***

Real property means land, including land improvements, structures and appurtenances; it does not include moveable machinery and equipment.

For the purposes of this program, once property is acquired, rehabilitated and sold, the proceeds must be treated as program income and used in accordance with a *Program Income Plan* approved by DHCD. See Appendix 22 for a sample copy of the plan.

### ***Personal Property***

Personal property includes all property that is not real property. It may be tangible, such as desks, chairs, typewriters, lumber, tools, and drainage pipes, or intangible. Property having no physical existence is considered intangible. Patents, inventions, and copyrights are examples of intangible property. Personal property is further classified as expendable or nonexpendable.

### ***Nonexpendable Personal Property***

Nonexpendable personal property is defined as all property other than land and improvements having a useful life of more than one year and an acquisition cost of \$1,000 or more per unit, such as computers. The acquisition cost of purchased, nonexpendable personal property is the net invoice unit price of the property plus the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property useful to the community development effort. Other costs such as installation, transportation, taxes, duty, or in-transit insurance shall be treated in accordance with the Grantee's regular accounting practices.

If the Grantee acquires tangible nonexpendable personal property with Grant funds and title is not taken by DHCD, the title shall be vested with the Grantee subject to two primary sets of conditions that restrict your right to transfer title and the uses to which the property is put.

These two sets of conditions are addressed in the following two sections.

### ***Right of DHCD to Transfer Title***

DHCD may reserve the right to transfer title from the Grantee to eligible federal

agencies or third parties at the conclusion of the project. If such a reservation is made, it shall be subject to the following standards:

- Property subject to the reservation shall have been identified in the grant or designated in a written communication from DHCD; and
- Grantee may pay DHCD such an amount determined by DHCD to be the depreciated value of the property times the percent of NSP funds used in the original acquisition.
- DHCD must issue disposition instructions within 120 calendar days after the end of the federal support of the project for which the property was acquired. If the DHCD fails to do so, the Grantee may continue to use the property in the program for which it was acquired as long as is needed. When no longer needed for the original community development program, the Grantee may use the property with DHCD concurrence in connection with other federally sponsored activities in the following order of priority:
  - Activities sponsored by DHCD; and
  - Activities sponsored by other federal agencies.

### ***Disposition of Nonexpendable Personal Property***

When the Grantee no longer needs the property, it may be used for other activi-

ties in accordance with the following standards:

- Property with an acquisition cost of \$1,000 or more may be used or sold provided that the Grantee receives approval from DHCD and compensation is made to DHCD. The amount of compensation shall be computed by applying the percentage of federal participation in the cost and use of the original purchase to the under depreciated value of the property as set forth above; or
- If a Grantee has no need for the property and yet it continues to be useful, then a request for disposition instructions must be sent to DHCD. In response to this request, DHCD may instruct a Grantee to transfer or sell the property.

### ***Expendable Personal Property***

Expendable personal property refers to all tangible personal property other than nonexpendable. Examples of expendable personal property are office supplies and lumber.

- Property with an acquisition cost less than \$1,000 may be used for other activities without reimbursement to the Federal Government or may be sold on the open market;

### **Contract Amendments**

The Grant Administrator is expected to manage the project according to the activities set forth in the NSP Agreement. However, in rare cases, changes must be made. This requires an official contract amendment to the NSP Agreement that

has been signed and executed by the Grantee and DHCD.

No amendment that significantly alters the scope or objectives of the project as set forth in the approved Grant Proposal and NSP Agreement will be allowed, except as indicated below. No modification of project activities is allowed which will decrease the scope of the project.

If a project changes in such a manner as to significantly affect the project activities but not decrease the intended benefit of the LMMI persons for whom the project was funded, an amendment to the NSP Agreement may be in order.

A contract amendment will be prepared by DHCD at the Grantee's request when all funding has been successfully and expeditiously exhausted that was committed in the NSP Agreement yet the Grantee is prepared to continue eligible activities using Performance Pool funds.

The following steps are required in amending the NSP Agreement:

1. The Chief Administrative Officer must submit a letter to the Associate Director of DHCD, outlining the requested changes and an explanation as to why they are necessary. This letter may need to be accompanied by appropriate support documentation, including a revised Management Plan, Performance-based Project Budget or project area map;
2. Upon receipt of the request, DHCD will review the substance and contributing conditions in-

involved in the change to determine whether the change is justified. No contract amendment will be approved which results in a project which would not have been approved for funding when the initial proposal was accepted; and

3. A formal acknowledgment of the amendment will be transmitted by DHCD and must be executed by both the Grantee's authorized official and the Deputy Director of DHCD.

If an amendment request is approved by DHCD, the Grantee must not obligate any funds for affected activities until the following steps have been taken:

- An Environmental Review completed or updated if the amendment would affect the type or scope of the project activities; and
- A properly advertised public hearing must be held if the proposed change in scope results in a change in the proposed beneficiaries.



Consult with your Community Representative as soon as you perceive a need for a contract amendment to ensure you know what support documentation will be required.

## Compliance Reviews

To ensure the project complies with DHCD's program requirements, the Community Representative will conduct onsite compliance reviews. The Grant Administrator is expected to assist the Community Representative with the

scheduling of the review by making sure that all key staff and consultants are available to answer the Community Representative's questions.

When the review is conducted will be determined by the degree or amount of progress on the project. An interim compliance review is generally done approximately four months after the NSP Agreement is signed but not later than six months after the NSP Agreement's execution. A final compliance review will be scheduled when approximately 85% of the NSP funds have been drawn down.

Prior to the compliance review, the Grantee will receive a letter that will identify the program areas to be reviewed. Each applicable area is reviewed through source documentation so it is imperative that the Grant Administrator makes sure the program files are complete and up to date.

The letter may include an *Expenditure Report*, which the Grantee must complete prior to the Community Representative's arrival. The necessary support documentation for all NSP and leverage expenditures to date must be available.

The Grant Administrator must arrange for an office space where the Community Representative can review the files.

In addition to reviewing the project files, the Community Representative will inspect at least 50% of all houses rehabilitated and/or acquired.

At the completion of the review, the Community Representative will conduct a brief exit conference with the Chief

Elected and/or Chief Administrative Official and the Grant Administrator. At the exit conference, the Community Representative will outline the preliminary results of the compliance review. Substantial non-conformance with grant requirements will result in a "Finding of Noncompliance" being documented.

Because compliance reviews are formal and have official status, these determinations will be documented in a letter to the Grantee, outlining any required corrective actions that must be taken. In addition, DHCD may include "Concerns," "Recommendations," "Questionable Costs," or "Unresolved Issues." Concerns cover items that could become "Findings of Noncompliance" at a subsequent compliance review if not corrected by the Grantee. If the Community Representative determines that there is not a finding or a concern, but there is a need for improvement in the Grantee's performance, a recommendation will be made.

If the compliance review letter includes a Finding of Noncompliance or a Concern, the Grant Administrator must see to it that any necessary corrective action is taken and a response is made within the time frame outlined in the compliance review letter, usually thirty (30) days.

The Community Representative will use standardized checklists during the compliance review. A great way to ensure that you are ready for the compliance review is to request copies of the checklists and go through them beforehand.

## Recordkeeping

Key to the successful completion of a compliance review is the availability and organization of all required documents. Therefore, the Grant Administrator must set up an effective filing system at the Grantee's office. All documents pertaining to use of NSP funds and program compliance must be physically located at the Grantee's office. *These records must be maintained by the Grantee for a minimum of five (5) years after Final Closeout or for any longer period as required by any other applicable laws and/or regulations.* See Chapter 7: Grant Closeout Procedures for more information about Final Closeout.

The criteria for an effective filing system include:

- Coded: The files must be coded for easy identification as to grant, program year, and category of file. Each invoice should show the ledger code and proof of review and approval by the appropriate staff.
  - Complete and Accurate: Files must be well maintained. The information contained in each file should be current and in the proper file folder.
  - Accessible and Easy To Use: The filing system must be simple enough that any individual can easily locate and file information.
  - Timely: All project files must be up to date. This means that consultants must provide the Grantee with copies of their working papers on a monthly basis and just prior to a compliance review.
- Secured: All project files must be properly protected through the use of locks, safes and other measures to ensure security.

Based on the criteria above, the preferred model for organizing and labeling files for the Grant can be found in Appendix 17. The model filing system separates the files into two categories: grant files and project files. Grant files contain all the information relating to administration, financial management, compliance and all related general matters. Project files contain information related to the specific project activities.

**\* The expenditure of leverage funds must be documented in the same manner as those activities funded with NSP funds and, likewise, must be kept current.**

If the Grant Administrator delegates file maintenance to another person, the administrator must provide that person with a copy of the model filing system so they know what goes into each file.

Individual household rehabilitation files must be organized as outlined in Appendix 18.

### ***Reporting Requirements***

Throughout the life of the project, the Grant Administrator is required to submit various reports to DHCD. These reports help DHCD to monitor the project's progress and to identify when technical assistance might be needed.



# CHAPTER 5: FINANCIAL MANAGEMENT

---

DHCD requires that all projects be implemented in a cost effective manner and in compliance with all federal and state statutes. As such, it is extremely important that appropriate financial controls are established by the Grantee to minimize waste and prevent audit findings, which may result in the Grantee repaying project costs that are deemed unallowable.

For clarity purposes, this chapter is divided into the following sections:

- Obligation of NSP Funds
- Definitions;
- Financial Management Requirements;
- Elements of Financial Management Systems;
- Funding Reservation Package;
- Requesting Funds from DHCD;
- Project Budget and Revisions;
- Program Income; and
- Audit Requirements.

It is the responsibility of the Grant Administrator to ensure that the Finance Manager has a copy of all necessary financial requirements, including: a copy of this chapter, the Project Management Plan, the Program Income Plan and the Performance-based Project Budget.

## **Obligation of NSP Funds**

DHCD is required to have its entire NSP award obligated before **September 17, 2010**. Consequently, Grantees will have to expediently obligate NSP grant awards or these funds may be subject to recapture. DHCD is required to show, through accounting records and the grant

tracking system, that an amount equal to its NSP allocation has been expended (for completed activities) or obligated through Reservation of Funds.

To ensure that funds are being spent efficiently, **DHCD reserves the right to recapture funds after six months from the effective contract date if sufficient progress has not been made.** As part of its monitoring practice, a review after four months will be conducted to be followed with a sixty-day period for corrective action, if necessary.

## ***Definitions***

The following definitions are applicable to Financial Management:

## ***Accounting***

Accounting shall include the recording, summarizing, and reporting of all fiscal transactions in such formats as: type of appropriation, program, organization, activity, and object class of expenditure.

## ***Budgeting***

Budgeting shall include the annual presentation, classification, monitoring, and control of funds.

## ***Procurement***

Procurement shall include the method of contracting for, receiving, and paying for supplies, services, and property required by the agency to perform its mission.

## ***Property Management***

Property Management shall include control over receipts, records, inventory, and disposal of property in possession of the

agency, other partner agencies, contractors, and Grantees.

### ***Delivery Costs***

Program Delivery costs include all costs associated with the implementation of the NSP. Funds are not tied to actual costs but their use must be eligible according to OMB Circular A-87 – Cost Principles for State, Local and Indian Tribal Governments, OMB Circular A-122 – Cost Principles for Non-profit Organizations or OMB Circular A-87 where a unit of government or public entity has a direct relationship as a Grantee.

Program Delivery costs do NOT include:

- Cost of administering the project\*;
- Cost of actual NSP activities\*;
- Any cost that is ineligible for NSP funding.

\* These costs are eligible under other budget line items (i.e. administrative, rehab, acquisition, etc.).

The cost of an “as is” appraisal is an eligible expense not included in delivery or administration, it is a stand alone cost.

All Program Delivery fees are performance based and will be limited to a maximum based on the scale in Appendix 3. Performance based fees are intended as a lump-sum payment to cover costs that are not directly related to an NSP activity. Costs directly related to an activity (i.e., closing costs) are intended to be included as Activity costs. Grantees are responsible for maintaining documentation that the Program Delivery fees received are for eligible NSP Program Delivery items.

Delivery costs relative to acquisition include: a Broker’s Price Opinion (BPO) as needed, the Rehab Specialist initial cost estimate, clearing title as necessary, paying off liens (except tax liens) and any associated cost of closing the sale between the Grantee and the REO (or other original owner of foreclosed property).

Delivery costs associated with rehabilitation include the Rehab Specialist fee for: work write up, pre-bid conference, pre-construction conference, documented weekly inspections during construction, change order inspections, progress payment inspections, collection of all contractor paperwork at conclusion of the rehab, and assuring lead clearance testing complete when applicable, contractor outreach and qualification.

Delivery costs anticipated to secure an eligible homebuyer may include marketing, outreach, income verification, pre- and post-purchase housing counseling.

Loan closing costs when the transfer is scheduled to take place may include delivery fees such as title insurance, a termite inspection, a home inspection and a required three year home warranty.

### ***Activity Costs***

All remaining NSP funds, after the deduction of administration and program delivery costs, are activity costs. Activity costs are subject to the following:

- Acquisition costs are not subject to a specific, per unit maximum; however, acquisition amounts must be at an appropriate level to benefit LMMI households. DHCD reserves the right to limit the per unit acquisition allowance when the intended prop-

erty does not appear appropriate for LMMI benefit.

- Rehabilitation costs are limited to \$25,000 per unit.

Costs associated with the transfer/resale of a property will be limited to down-payment and closing costs assistance. All other expenses will be considered Program Delivery costs.

### ***Closing Costs***

Closing costs include all direct legal, tax, permitting, financing charges, surveys, escrows and appraisal costs necessary for the acquired property to be purchased by the homebuyer. If a property was acquired using any NSP funding, closing costs must be included in the purchase price and returned to DHCD upon sale. If a property was acquired without any NSP assistance, closing costs may be paid directly with NSP funds. These funds are not required to be returned.

Down payment assistance is allowable if it is expressly needed for approval of the mortgage. Financing which does not require buyer mortgage cash equity participation will not be eligible for NSP down payment assistance.

NSP down payment assistance is limited to 3 % of total sales price and must be matched in cash by the homebuyer. Assistance will be attached to the property as a second lien, payable upon transfer/resale.

### ***Performance Pool***

DCHD will utilize a Performance Pool to distribute unobligated funds, recaptured funds, and Program Income (with the first priority on the use of unobligated funds).

The Performance Pool is designated for use by *high performers* —entities that previously received NSP funds and have demonstrated the ability to spend these funds in a quick, responsible, and efficient manner. This method provides an incentive for NSP recipients to act swiftly in order to access additional funds. The Performance Pool will be available to NSP Entitlement communities should those localities demonstrate a need for additional resources, demonstrate they can meet the standards developed for the state NSP, and have performed to a satisfactory level with their direct allocation.

This funding may be used to expand project area or address new areas, provided impact has been successfully demonstrated in the initial target area.

The Performance Pool will accelerate the expenditure of NSP funds by providing an incentive for high producers—Grantees that can spend funds quicker and in a more efficient manner are able to access more funds for continued activities.

This concept also provides a check and balance for the NSP program — Grantees are limited in the amount that can be requested through the Open Submission and Competitive programs, thereby providing a safeguard of not allocating too much up front to an entity that may have difficulty in meeting performance targets, while also providing the opportunity to request and spend above the maximum by rewarding achievement.

Only Grantees that have demonstrated the capacity and ability to implement the

NSP through prior awards can access the Performance Pool.

Should there be an instance where an applicant's proposal in the Competitive or Open Submission Round was not funded but still demonstrated a strong need for assistance, DHCD reserves the right to work with the applicant to address deficiencies and subsequently offer funding through the Performance Pool.

This will only happen on exceptional, cases-by-case situations where it is apparent that a community would significantly benefit from NSP funding and where the applicant can address weaknesses that were noted during proposal review.

DHCD reserves the right to open competition to new applicants or neighborhoods should the amount of funds in the Performance Pool exceed the projected rate of expenditure by active projects. DHCD may obligate funds or access to the Performance Pool to localities which have experienced a significant increase in eligible properties subsequent to the Competitive Round.

### ***Internal Controls and Audits***

Internal controls and audits include the policies and procedures for monitoring, preserving, reviewing, and otherwise safeguarding the agency's funds, property, and other assets.

## **Financial Management Requirements**

Financial management systems must provide for:

- Advanced NSP funds be placed in a non-interest bearing check-

ing account and expended within 5 days of receipt;

- NSP funds must not be co-mingled with other funds utilized in the project;
- All grant expenditures must be in adherence with a DHCD approved budget;
- All source documents must be coded, signed, or initialed and dated;
- Copies of all source documents related to the grant must be maintained separately and be available for review by DHCD. These include all vendor invoices, statements from contractors, documentation for any accounts payable.
- Use of Fidelity Bonds (a form of insurance in which a bonding company agrees to reimburse an employer, within policy limits, for losses attributable to theft or embezzlement by bonded employees);
- Accurate, current, and complete reporting of the use of all grant funds in accordance with federal and state accounting and reporting requirements;
- Records that identify the source and application of funds for all grant supported activities. These records contain information pertaining to awards and authorizations, obligations, and obligated balances, assets, liabilities, outlays, and income;

- Effective control over and accountability for all funds, property, and other assets;
- Comparison of actual outlays with the approved grant budget;
- Procedures to minimize the time elapsing between the transfer of funds from the Commonwealth of Virginia and the disbursement by the Grantee;
- Procedures for determining the reasonableness, allow ability and allocability of costs in accordance with stated federal guidelines;
- Accounting records supported by source documentation;
- Examinations in the form of audits;
- A systematic method to assure timely and appropriate resolution of audit findings and recommendations;
- Accounting records and source documentation *must* keep NSP funds separate from other accounts; and
- All leverage funds utilized as leveraging *must* be clearly and separately accounted for with source documents and accounting records.

**\* All employees with direct access to grant funds must be bonded for an amount equal to the largest anticipated drawdown request. Any**

**resultant increase in the Grantee's bonding cost is grant eligible as an administrative activity but would not increase the total amount of administrative funds available under pay for performance.**

## **Elements of Financial Management Systems**

This sections details the financial management systems required of all Grantees.

### ***Internal Control***

Internal Control comprises the plan of a Grantee to:

- Safeguard assets;
- Prevent waste, fraud, and mismanagement; and
- Promote efficiency of operations.

Effective Internal Controls must include the following procedures:

- Segregation of duties among employees to prevent one person from having complete control over all phases of any transaction. **In all cases, at least three (3) persons must be involved in a cash transaction.** One person *must* approve payment of invoices by signature. Two other persons *must* sign the check for payment;
- Workflow procedures for processing all transactions from one employee to another. This *must* provide for a cross-check of work, but not a duplication of effort;

- Rotation of duties among employees to allow for control over any one given phase and ensure that other employees can fill in when a position becomes vacant;
- The procedures used should be clearly detailed and documented for all individuals to follow and as an aid in training new employees; and
- All assets, records, and checks *must* be properly protected through the use of locks, safes, and other measures to ensure security.

### ***Accounting***

All Virginia localities are required to comply with Generally Accepted Accounting Principles (GAAP), which mandate that government resources shall be organized and accounted for on a fund basis. Established principles for fund accounting shall be followed when accounting for the Grant.

Grantees are encouraged to use a Special Revenue fund to account for the grant. All revenues and expenditures and general ledger transactions should be recorded in this fund. This would include grant revenue, local contribution, project revenue, administrative expenditure, as well as project expenditure and would require a complete set of accounts to record these transactions. The Special Revenue fund account must be set up to track NSP grant revenue and expenditures separate from other sources of funds.

### ***Books***

Localities with populations less than 3,500 may use a declining balance spreadsheet system or the system described below for larger communities. Any format used by the local government will be acceptable as long as the overall system produces the information necessary to account for Grant funds and all other funds budgeted for the project.

In localities with a population of 3,500 or more, the accounting system itself must be double entry with a general ledger supported by a cash receipts journal, a cash disbursements journal, a general journal, and a fixed assets ledger. Other ledgers that the Grantee must keep include accounts receivable and accounts payable ledgers as well as budget/expenditures control and cash control subsidiary ledgers. Each one of these is discussed briefly below:

- ***General Ledger:*** A record of final entry used to summarize all transactions for each account in the Grant;
- ***Cash Receipts Journal:*** A record of original entry which records all cash receipts by source and amount;
- ***Cash Disbursements Journal:*** A record of original entry to record the actual payment of obligations incurred by the Grantee;
- ***General Journal:*** A record of original entry used to record all other transactions other than receipts and disbursements;

- ***Accounts Receivable and Accounts Payable Subsidiary Ledgers:*** These record the amount the Grantee owes to or is owed from various vendors;
- ***Cash Control Subsidiary Ledger:*** Posted on a daily basis for all receipts and disbursements as a control for all the cash in the fund;
- ***Budget/Expenditure Control Subsidiary Ledger:*** A ledger for recording all expenditures and encumbrances for each budget item against the amount appropriated for that item; and
- ***Fixed Assets Ledger:*** A record of assets acquired using grant funds. Assets would include such items as equipment and machinery. This is the accounting record used to support the items booked in the general ledger for fixed assets, and is part of the property management standards discussed in Chapter 4: Grant Management.

**\* With the exception of the Accounts Receivable and Accounts Payable Subsidiary Ledgers and the Cash Control Subsidiary Ledger, all of these books are required for localities with populations in excess of 3,500 for transactions involving NSP funds.**

#### ***Basis of Accounting***

DHCD recommends that localities use a modified accrual basis of accounting. The Grantee is required by the Uniform Reporting Requirements to adjust the books at year-end to reflect accruals.

The modified accrual basis of accounting requires that transactions be recorded when they occur, regardless of when the cash is received or disbursed.

#### ***Project Budgets***

All Grantees are required to adhere to a DHCD approved Performance-based Project Budget.

**\* All obligation or use of funds not in accordance with the approved budget may be disallowed for grant assistance, thus requiring payment from the Grantee's general funds.**

Comparison of actual expenditures to the budget must be done on a regular basis as part of sound financial management and grant administration systems. The use of a subsidiary budget/expenditure ledger is recommended as the way to control the budget. Posting of expenditures and encumbrances must reflect the unencumbered balance available for expenditure. Budget revisions must be recorded on the subsidiary ledger to provide continuing budget control.

**\* DHCD approval of a Performance-based Project Budget does not eliminate the requirement for separate DHCD approvals for specific items such as additional acquisition costs, change orders and other items as required in this manual.**

#### ***Transactions***

This section details the typical accounting transactions that will occur in a NSP Special Revenue fund. The transactions described here include:

- Recording of budget appropriations;

- Cash receipts, encumbrances and expenditures;
- Payroll; and
- Fixed assets.

All the entries explained here are on the modified accrual basis. Modified accrual basis accounting is discussed later in this chapter.

### ***Appropriations***

The first transaction usually posted in a Special Revenue fund records the action taken by the local governing body in appropriating the anticipated revenue for the project and the approved budget. This entry begins with a resolution passed by the governing body or the official acceptance of the grant offer. The anticipated amount of revenue is recorded as appropriated in the general ledger and the approved budget is entered on the Budget/Expenditure Control Subsidiary Ledger. A copy of the resolution should be attached to the journal voucher as supporting documentation.

**✱ Virginia localities must annually appropriate NSP funds through formal action by the governing body in accordance with the Code of Virginia.**

### ***Cash Receipts***

Cash receipts are received in the form of revenue, program income, refunds, and collections or miscellaneous. Cash receipts are usually in the form of a check, though some program income can be received as cash. All cash should be recorded on a pre-numbered cash receipt form. This form should include the amount of money received, who it was received from, the purpose of the funds,

the proper account code, the date of receipt, and the name of the individual preparing the receipt. Any supporting documentation should be attached and the receipt should be filed numerically after it is posted.

### ***Encumbrances and Expenditures***

Encumbrances are a record of an obligation to incur some future expenditure for goods or services. Expenditures are entered, under the modified accrual system, when a good or service is received. This does not always correspond with a cash disbursement. Encumbrances should be recorded when incurred and offset with a contra account for payables until such time as the cash is actually disbursed. Both expenditures and encumbrances should be posted to control the budget and ensure that grant amounts are not overspent.

### ***Payroll***

If force account work is approved, payroll is entered in the General Ledger as Expense – Salaries. All employees should be paid through the normal payroll procedure. Payroll is usually recorded in the general fund. The general fund should therefore, be reimbursed from the Project Budget. Each employee *must* keep a time sheet reflecting total hours worked, including time spent on Grant related activities. This will be the basis for preparing the charges to be made to the grant fund for payroll reimbursement. At least two (2) signatures must appear on the time sheet: the employee's and the supervisor's.

The Payroll Transfer Voucher is prepared showing each individual, the amount of salary and fringe benefits to be recorded to the grant fund, and the

General Ledger entry recording the cash transfer.

### ***Fixed Assets***

Fixed Assets are entered in General Ledger as Asset. Any items of nonexpendable personal property purchased with Grant funds should be "booked" at purchase value to the General Ledger. A supporting record should be maintained showing the Date of Acquisition, Description, the Cost, the Location, Condition and Disposition for each item.

### ***Monthly Reports***

Each month, after the books are posted to the Book of Final Entry, a report of the condition of the fund should be prepared to advise all interested parties of the status of the account. Three statements should be prepared for this report:

### ***Cash Report***

The cash report can be prepared from the Cash Control Subsidiary Ledger. All receipts are reported in Summary and added to the beginning balance to determine the amount of cash available for disbursement. The disbursements are subtracted from this figure to show ending cash balances. This amount should agree with the General Ledger cash balance.

### ***Trial Balance***

The balances from the General Ledger are reflected as an asset, liability, fund balance, or budget account. The total of the debit balances and credit balances should be equal.

### ***Budget/Expenditure Report***

This report compares the year to date expenditure to the budget by object and activity. The information for this report comes from the Budget/Expenditure

Control Subsidiary Ledger. The total expenditures reflected on this report should agree with the total expenditure in the General Ledger. Additional reports that may be prepared would include an open contract report and accounts receivable report.

### ***Chart of Accounts***

If the unit of local government is creating a special revenue fund to account for grant funds and does not have a Chart of Accounts, DHCD will be glad to assist in the development of an appropriate system as requested.

All Special Revenue Fund transactions should be coded to identify:

- Funds;
- General Ledger account;
- Activity; and
- Expenditure Object or Revenue Source.

This coding will allow all posting to be quickly traced to the source documentation and will assist DHCD's Community Representative or Financial Analyst and the Grantee's auditor in reviewing the fund's activities.

The coding used to identify the fund should be two digits and should not be any number currently used for a fund within the existing structure. The coding must keep NSP revenue and expenditures separate from other funds.

The General Ledger accounts include the accounts used for the balance sheet as well as the Budget, Expenditure, and Revenue accounts. The Grantee should review the discussion below on Admin-

istrative Costs, before establishing General Ledger accounts for NSP funds to determine the types of costs eligible for reimbursement.

### ***Cash Management***

Procedures *must* be implemented that will ensure timely receipt and disbursement of advanced funds. It is important when requesting funds to remember:

- Funds must be requested to meet only immediate (short term) cash needs;
- Requests for payment must be for at least \$5,000 (except for the final request), or the request will be returned to the Grantee;
- Any amounts in excess of \$5,000 held for more than five (5) work days will be subject to an interest charge to be paid to DHCD; and
- Interest may not be earned on any grant funds held by the Grantee, regardless of amount. If interest is earned, it must be returned to DHCD.

The above procedures apply to advanced funds (funds required by the Grantee in order to pay grant-related vendors and/or contractors). If cash flow is not a critical consideration, some localities may wish to operate on a reimbursement basis.

### **Funding Reservation Package**

Before any funds may be drawn, a Certification of Eligibility and Funding Reservation Package must be prepared and submitted which estimates all costs involved with the completion of each ac-

tivity to accomplish acquisition, rehabilitation and transfer/resale of a house to an LMMI homebuyer. See blank and sample forms at Appendix 11 for the Funding Reservation, NSP Cost Worksheet and NSP Certification of Eligibility and Funding Reservation Checklist. The Funding Reservation will be faxed back to the Grantee once it is approved and included will be a project number that should be referenced on any subsequent correspondence.

This Reservation Package (three forms listed above with any required attachments) can not be completed until the acquisition price is negotiated and earnest money has been deposited with the owner to hold the property and a rehabilitation cost estimate with 10% contingency has been certified by the Rehab Specialist. If the homeowner has been identified, actual figures for down payment and estimated closing costs must also be included. If the homeowner has not been identified the figures should be estimated to project a total cost to move the house from foreclosed to occupied.

### **Requesting Funds from DHCD**

Grant funds will be available to Grantees after the effective date of NSP Agreement. Payments to Grantees will be made by the Treasurer of Virginia on receipt of a NSP Drawdown Request approved and processed by PMO. This form, including samples, and instructions, are available at [www.dhcd.virginia.gov](http://www.dhcd.virginia.gov) or in Appendix 19.

In order to process the request, DHCD *must* receive from the Grantee an acceptable *Certification of Signatures and*

*Address* as found in Appendix 20. Only individuals duly certified by the Grantee as authorized to draw funds will be allowed to sign NSP Drawdown Requests. Likewise, payments will be sent only to the address certified by the Grantee. All NSP Drawdown Requests will be checked against the certified signatures, payee and address, and the listed Federal Identification Number (FIN).

**\* Drawdown requests cannot be processed if they are missing the FIN or deviate from the DHCD-approved Project Budget.**

**\* The Drawdown Request form must be printed on blue paper with the information typed or printed in black ink. The signature must be in blue ink. The form must be complete and correct before it will be accepted.**

### ***Completion Report***

When all activities have been implemented on one house/unit - acquisition, rehabilitation, homebuyer assistance and transfer/resale - the Grantee will submit the Completion Report to DHCD. This report contains the ACTUAL amounts expended to finish all transactions as well as demographic information on the occupant household.

With the Completion Report (see Appendix 45) the Grantee will submit a check made payable to the Treasurer of Virginia. This check will be the total of the proceeds of the homebuyer's loan and any homebuyer down payment. In addition, a Program Income Transmittal (Appendix 22) will clearly list the property address and the amount of the remittance.

Lastly, the Register of Contractors, Sub-contractors and Suppliers (Appendix 32) will be a part of the Completion Report to verify Section 3, Minority and Female Owned Business characteristics of the rehabilitation work.

### ***Administrative Costs***

Grantees are only paid for administrative costs on a pay-for-performance basis. Allowable costs will be negotiated and become part of the NSP Agreement. See Chapter 7: Housing Rehabilitation for a discussion on construction and other cost limits that must be observed.

### ***Minimum Balance***

Grantees may maintain a cash balance at all times that does not exceed \$5,000. Any grant funds on hand in excess of \$5,000 *must* be spent within five (5) working days of receipt of said funds from DHCD. The exception is within ten (10) days for funds escrowed for housing rehabilitation construction.

### ***Payment of Invoices***

In order to have adequate cash management the Grantee must first establish a regular schedule for the payment of vouchers. Once this is done, a deadline for receiving invoices should be established which allows for enough time to process the request for payment and to receive the cash in time to meet the disbursement date.

**\* The processing time for a NSP Drawdown Request is approximately three weeks from the date it is received at DHCD. The three weeks includes approval and processing by the PMO, processing by the DHCD Accounting Office, up to ten (10) days processing by the Virginia Depart-**

**ment of Accounts and the Treasury of Virginia, and postal time. This time may be less for electronic transfers.**

**time** unless a bulk purchase has been discussed in detail with DHCD.

Several points become extremely important when preparing the draw request:

- Each house must be listed on a separate page of the blue draw down request form (DD). There should be two blue forms for a DD for two houses, labeled page 1 of 2 and 2 of 2.
- The Grantee may retain a balance of \$5,000 maximum on hand to meet any payroll, small invoices or emergency payments that may arise during the month;
- Contractors need to be aware of the length of time that may be required to receive payment; and
- Planning and forecasting cash needs becomes extremely important.

A typical sequence of DHCD disbursing payments maybe as shown in Table 5-1 based on the sample budget in Appendix 3. A duplicate of this Table is found in Appendix 16 followed by the sample Draw Downs numbered one through eight.

Note that each house shall have a separate page in the draw down process. In addition, **only two houses will have Funding Reservations active at one**

<b>STATUS OF TASK</b>	<b>PAY REQUEST CATEGORIES</b>	<b>AMOUNT</b>
NSP Agreement between DHCD and Grantee executed and returned to DHCD	SUBMIT DD#1 Admin: Getting under contract	\$8,000
	<b>TOTAL DD#1</b>	<b>\$8,000</b>
Houses 1 & 2 appraised, negotiated and ready for purchase, cost estimates from Rehab Specialist documented for rehab (Ideally, homebuyers pre-approved and have established down payment match)	SUBMIT DD#2 with 2 Funding Reservation Packages for houses 1 & 2 Acquisition: Acquisition houses 1 & 2, and 2 "As-Is" Appraisals	\$200,000 \$600
	<b>TOTAL DD#2</b>	<b>\$200,600</b>
Acquisition complete houses 1 & 2, also bid and under contract for rehab <ul style="list-style-type: none"> <li>▪ Have utilities billed to Grantee</li> <li>▪ Secure temporary liability insurance</li> </ul>	SUBMIT DD#3 Admin: 2 acquisitions complete, Acquisition: Delivery houses 1 & 2 acquired, Housing Rehab: 50% Construction for each Rehab: Delivery (RS) for houses 1 & 2 - 50%	\$3,000 \$10,000 \$25,000 \$2,500
	<b>TOTAL DD#3</b>	
Rehab complete on houses 1 & 2 and homebuyers have commitments in hand. <ul style="list-style-type: none"> <li>▪ Order Home Inspection</li> <li>▪ Order Home Warranty</li> </ul>	SUBMIT DD#4 Admin: 2 rehabs complete Housing Rehab: Construction 100% each house Rehab Delivery (RS) 2 houses 100% Transfer: Delivery 2 Homebuyer Commitments	\$2,000 \$25,000 \$2,500 \$3,000
	<b>TOTAL DD#4</b>	
Closing on houses 1 & 2	SUBMIT DD#5 Transfer: Activity Down payment & Closing	\$20,000
	<b>TOTAL DD#5</b>	
Homebuyers (1 & 2) have moved in. Houses 3 & 4 appraised, negotiated and ready for purchase, cost estimate from RS documented. (Ideally, homebuyers pre-approved and have established their down payment match.)	SUBMIT DD#6 AND 2 Funding Reservation Packages for houses 3 & 4 Admin: 2 transfers complete- houses 1 & 2 Acquisition: Acquisition houses 3 & 4 2 As Is Appraisals	\$3,000 \$300,000 \$600
	<b>TOTAL DD#6</b>	
Acquisition complete houses 3 & 4, bid and under contract for rehab <ul style="list-style-type: none"> <li>▪ Have utilities billed to Grantee</li> <li>▪ Secure temporary liability insurance</li> </ul>	SUBMIT DD#7 Admin: 2 acquisitions complete, Acquisition: Program Delivery for houses 3 & 4 Housing Rehab: 50% Construction for each Rehab: Delivery (RS) for houses 3 & 4 -50%	\$3,000 \$10,000 \$25,000 \$2,500
	<b>TOTAL DD#7</b>	
Submission of Quarterly Report #1	SUBMIT DD #8 Admin: Quarterly Report	\$2,000
	<b>TOTAL DD#8</b>	

**TABLE 5-1: Sample Sequence of Pay Requests submitted to DHCD  
Also found in Appendix 16 with sample Draw Downs (DD)**

Some Grantees will require that all payments be approved by the Grantee's local governing body prior to being disbursed, which will add to the payment schedule, while others may be operating on an annual appropriation and will be able to avoid this delay. If cash flow is not a critical consideration, Grantees may wish to operate on a reimbursement basis.

Escrow payment of up to \$1,000 may be required by the lien holder to purchase property known as "earnest money" or a "good faith deposit." These funds should be considered when preparing draw downs.

Requests for Payment (Draw Downs) may be submitted as often as necessary to meet needs of the Grantee however the request must not be for less than \$5,000. Please note that as Grantees are added to the state's electronic transfer system, all funds requested will be received via electronic transfer from the Department of the Treasury. You will need to advise your Treasurer of all incoming grant requests.

### ***Electronic Transfers of NSP Funds***

To expedite receipt of payment, it is recommended that Grantees contact the Virginia Department of Accounts (DOA) to arrange for electronic transfer of NSP funds. The forms to establish electronic payment with DOA are available at [www.doa.virginia.gov](http://www.doa.virginia.gov). At the home page, click on the Electronic Data Interchange (EDI) link button on the right. Scroll down to the *Trading Partner EDI Agreement And Enrollment* form for Localities and Grantees. Print the form, fill it out and submit it. Instructions on fill-

ing out the form are on the third page of the document.

For questions regarding the form and process, contact the Department of Accounts, at 804-692-0473 by phone or (804) 225-4250 by fax.. Allow approximately five (5) working days for DOA to set up your locality/agency for electronic transfer of funds.

**\* Be sure to check the DOA website regularly for updated EDI-related forms and information. Remember to refresh your screen to get the most recent version. Resubmit the *Trading Partner EDI Notification of Change* form if your banking information changes. This form must be submitted fifteen (15) days in advance of any changes.**

Once your locality/agency is set up for an electronic transfer of funds, use the suffix assigned by DOA on the NSP Drawdown Request. This two-digit number should be entered in the "Suffix" block on the NSP Drawdown Request form.

**\* Failure to list the suffix could cause your NSP payment to be deposited to the wrong bank account.**

### **Mailed Checks**

If Grantees do not arrange for electronic transfer of NSP funds, then they will automatically receive a check in the mail from the Virginia Department of Treasury. This process is much lengthier and more inconvenient than electronic funds transfer.

## ***Project Budget***

In order for a Grantee's NSP Agreement to be executed, the Grantee had to submit a Performance-based Project Budget as described in Chapter 2: Pre-contract Activities. All activities must be carried out in accordance with this budget.

## **Performance-based Project Budget**

Grantees are only allowed to deviate from the approved Performance-based Project Budget with prior written approval from DHCD. Due to this restriction, it is essential that the Grantee develop accounting and grant management procedures which maintain tight control over obligations and expenditures to assure conformance with the Project Budget. The Project Budget should be consulted and tracked on a continual basis. The amount of administrative funds approved by DHCD in the Project Budget is performance based and cannot be increased.

DHCD will utilize the Grantee's Project Budget as a basis for monitoring project implementation particularly in assessing the Grantee's progress. See "Quarterly Updates," as found in Appendix 15 for more details. Adherence to the Project Budget will also be assessed during compliance reviews.

Failure to adhere to the Project Budget is a violation of the NSP Agreement and could result in a requirement for repayment of ineligible expenses from the Grantee's own financial resources.

## ***Budget Revisions***

During the course of the project, revisions to the Project Budget may be necessitated by unforeseen or unpredict-

able factors. All such revisions require DHCD prior written approval.

A budget revision must include the following:

- A letter signed by the Chief Administrative Official who executed the NSP Agreement, requesting the Budget Revision and explaining why it is necessary and how it impacts the contract's benefits and products;
- The proposed revised Project Budget that reflects the desired changes and is signed by the Official. See Appendix 3 for a copy of the budget form; and
- A completed *Budget Revision Worksheet*. See Appendix 21 for a copy of the worksheet.

**\* Budget Revisions must not significantly affect the benefits, scope or objectives of the project. The "scope" of the project is the nature, location or magnitude of the work described in the NSP Agreement. The "objectives" of the project are the measurable performances involved in the NSP Agreement including the impact and degree of benefit to the identified population and environment that the project is proposed to provide.**

## **Program Income**

All Grantees *must* adopt a Program Income Plan (PIP), showing how program income will be expended. The PIP must be approved by DHCD prior to its adoption by the Grantee and the receipt of program income. See Appendix 22 for a sample copy of the plan.

### ***What is Program Income?***

Program income is defined as funds received as a result of the use of NSP investment. Program income includes, but is not limited to, the following:

- Payments of principal and interest received by the Grantee on loans made using NSP funds;
- Proceeds from the disposition by sale or long term lease of real property purchased or improved with NSP funds. See also below “Use and Disposition of Real Property Acquired with NSP Funds;”
- Proceeds from the disposition of equipment purchased with NSP funds;
- Gross income from the use of rental of real property acquired with NSP funds, less the costs incidental to the generation of the income;
- Gross income from the use or rental of real property owned by the Grantee, that was improved with NSP funds, less the costs incidental to the generation of the income;
- Interest earned on funds held in a revolving fund account; and
- Interest earned on program income pending disposition of the income.

**\* Interest earned on NSP funds before disbursement of the funds for**

**activities is NOT program income and MUST be returned to DHCD for return to the U.S. Treasury.**

### ***How Can Program Income Be Used?***

Program Income Plans will only be approved that propose to continue an NSP eligible activity.

All Program Income must first be returned to DHCD. If a Grantee can continue the same activity in the same location (city/town/county) that originally produced the Program Income, the returned Program Income will be earmarked for that Grantee.

If a Program Income Plan (PIP) is approved to continue the same activity in the same location (city/town/county) and Program Income is made available to the Grantee, they will be entitled to keep up to 8 percent of the Program Income for administrative purposes (an increase from the 4.68 percent allowed for initial use of funds). This alternative provides an incentive for Grantees to continue pursuing neighborhood stabilization activities in the approved project areas.

Program Income will be escrowed for the Grantee for further use in the designated project area(s) until December 31, 2011, at which time all escrowed funds shall be transferred into the Performance Pool. At that time, DHCD will evaluate how to allocate administrative funds.

Program Income that is generated and which will not be re-invested in the approved project area will be retained by DHCD. These funds will be reallocated to the Performance Pool. Any Program Income that is received prior to July 30, 2013 will be retained by DHCD and

used to further NSP activities per the above noted conditions. Program Income received after July 30, 2013 will be returned to the United States Treasury.

### ***Performance Pool***

DCHD will utilize a Performance Pool to distribute unobligated funds, recaptured funds, and Program Income (with the first priority on the use of unobligated funds).

The Performance Pool is designated for use by *high performers* —entities that previously received NSP funds and have demonstrated the ability to spend these funds in a quick, responsible, and efficient manner. This method provides an incentive for NSP recipients to act swiftly in order to access additional funds. The Performance Pool will be available to NSP Entitlement communities should those localities demonstrate a need for additional resources, demonstrate they can meet the standards developed for the state NSP, and have performed to a satisfactory level with their direct allocation.

### ***Tracking Program Income***

Program income funds must be accounted for separately on the balance sheet. The earned program income must be returned to DHCD using the Program Income Transmittal at Appendix 22b. A property inventory must be maintained by property address that shows the appraised value, original purchase price (with evidence of the 15% discount), rehabilitation costs, other costs, sales price and the purchaser information. Copies of supporting documents must be placed in the grant project files.

## **Audit Requirements**

The NSP audit requirements are set forth in OMB Circular A-133, “*Audits of Organizations of States, Local Governments and Nonprofits.*” This Circular establishes audit requirements for state and local governments, colleges and universities, hospitals, and non-profit entities that receive Federal assistance. It requires that audits be performed on an organization-wide basis and not on a grant-by-grant basis. These audits are conducted in order to determine, for the entire organization, whether:

- Financial operations are conducted properly and presented fairly;
- The organization has complied with laws and regulations affecting the expenditure of federal funds;
- Internal procedures have been established to meet the objectives of federally assisted programs; and
- Financial reports contain accurate and reliable information.

Auditors procured to conduct the local audit must be familiar with the requirements of OMB Circular A-133. A copy of the regulations can be requested from the Auditor of Public Accounts.

In general, audits of federal funds received by a locality/agency will be conducted as part of the regular audit cycle. Localities are not subject to the annual audit requirements established by OMB Circular A-133 if they receive

\$500,000 or less in total federal funds from all sources in a fiscal year.

If a Grantee is not subject to the federal annual audit requirement, the Grantee should be aware that all funds must still be audited annually, as part of the Code of Virginia audit requirements, for localities with populations of 3,500 or more and towns operating a separate school division.

**\* Localities not subject to the federal annual audit requirement must submit a letter to PMO's Financial Analyst, stating so.**

Grantees may be required to have more than one audit conducted depending on the fiscal year date that the grant funds are received and expended. Grantees should be aware of this requirement when budgeting administrative costs.

The OMB Circular A-133 audit is an extension of the traditional financial audit that most governments are receiving now.

Though the "single audit" concept increases the scope of the traditional audit, it should not cause a large increase in the time required to complete the audit or the cost incurred to produce the audit.

Audits of Federal funds should be conducted in accordance with:

- Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. GAGAS incorporates the typical Generally Accepted Au-

ditng Standards (GAAS) but involve additional auditor responsibilities including special reporting on internal controls and on compliance with applicable laws and regulations;

- The GAO "Guidelines for Financial and Compliance Audits of Federally Assisted Programs"; and
- State required compliance features. DHCD is responsible for audit compliance for recipients of NSP funds and clearing any questions related to the overall financial management.

All localities receiving grant funds *must* send a copy of their audit to PMO's Financial Analyst within thirty (30) days after acceptance by the local governing body or nine (9) months after the end of the audit period, unless DHCD agrees to a longer period. These audits will be reviewed for content and compliance with OMB Circular A-133. Written notification of approval or the need for additional information will be provided to the Grantee.

## **Recordkeeping**

In addition to establishing a system of accounting sufficient to accurately record and report transactions, adequate source documentation *must* be maintained as support for these transactions. Source documents include:

- Purchase Requisitions;
- Purchase Orders;

- Contracts;
- Contract Invoices;
- Bank Statements;
- Cancelled Checks;
- Draw downs;
- Payment Vouchers;
- Employee Time Sheets;
- Travel Advance Requests;
- Travel Reimbursement Vouchers;
- Vendor Invoices;
- Journal Voucher Entries; and
- Cash Receipts.

All source documents must be coded by a reference number so that a clear trail exists between the books and these documents. Coding could include the check number used to make the payment, the journal entry in which transaction was recorded or the page number from the cash receipt journal. Purchase order numbers and payment voucher numbers may also be used to provide the necessary audit trail.

**\* Supporting documents can be copies, carbons, or original, but must be sufficient in detail to support the transaction and to justify it as a grant expense and its allowability. The file must speak for itself!**

The Finance Manager *must* give copies of the source documents to the Grant Administrator for filing in the project files:

- Copies of invoice, voucher, and pre-numbered check;
- Each piece of paper *must* show client's name

and/or address, ledger code and proof of review and approval by the appropriate staff (at least initialed and dated); e.g. Rehabilitation Specialist and Grant Administrator for contractor's rehab work and date of approval; and

- Proof of cancellation; e.g. copy of check's backside, bank statement, or CD photocopy of check's cancellation (other proofs must receive PMO's Financial Analyst's prior review and concurrence).

The Grant Administrator should file the documents behind the drawdown request they support or store them in a binder set up by project activity. This will help to ensure a speedy financial compliance review by the Community Representative or Financial Analyst.

The expenditure of leverage funds must be documented in the same manner as those activities funded with NSP funds and, likewise, must be kept current.

All private monies expended as leverage *must* be documented with an Independent Public Accountant's Certification or with copies of invoices and cancelled checks.

The Grantee *must* maintain all financial records and any other records pertinent to the grant for a minimum of five (5) years from the date of the grant's Final Closeout letter from DHCD, unless:

- Any litigation or unresolved audit is started

prior to the end of the five-year period; in which case, all records shall then be retained until completion of all audits or resolution of any litigation; or

- Any disposition of non-expendable property occurs; in which case, records for any nonexpendable property must be retained for three (3) years after its final disposition.

# CHAPTER 6: ACQUISITION

---

## ***Overview: The Role of Realtors and Bankers***

*The purpose of this section is to summarize the required process for selecting and acquiring an eligible NSP property. This chapter will describe the roles played by Realtors, Bankers, and REO Asset Managers.*

### ***Bankers and Realtors***

Bankers and Realtors will be key elements to the success of the Neighborhood Stabilization Program. Bankers and Realtors are required to be part of the Grantee's management team. Based on their experience, these professionals should be able to offer invaluable assistance to the management team with regard to:

- Locating clusters of foreclosures;
- Assessing the current value (BPO);
- Determining the “days on market” (DOM);
- Gaining entry to the home with the person or group responsible for choosing prospective homes;
- Providing a rough idea of defective or missing items in the home;
- Effectively writing an offer to purchase with needed contingencies and required discounts;

- Teaching the team about interest rates and trends;
- Providing insight into new loan products;
- Highlighting changes in underwriting guidelines;
- Sharing new REO properties listed with their company; and
- Providing financing to the prospective homebuyer once rehab is complete.

### ***Eligible Property***

The Grantee will be responsible for selecting properties that meet the NSP guidelines. This will be a property that:

- Has already been taken back by the lender- foreclosed;
- Is in a cluster of foreclosures within acceptable neighborhood boundaries;
- Due to time constraints within this program – should not have a cloudy title;
- Can be purchased at a minimum 15% discount from the lender/ REO Asset Manager;
- Can be resold to a borrower whose income does not exceed 120% AMI (low-, moderate- and middle-income families);

- Will not require extensive rehab as the Virginia NSP rehab limit is \$25,000;
- If purchased under the NSP will not change the dynamic of the neighborhood;
- Will be sold to a qualified home-buyer not to an investor for quick profit; and,
- Once rehabilitated will not exceed the market value of homes in the surrounding neighborhood.

### ***Selecting a Neighborhood***

There are a few options for selecting properties under the NSP. The Grantee may assign a single person or group of persons to be responsible for identifying areas that contain a high concentration of foreclosed homes. Once these areas have been identified, the management team will view these homes as a group to determine if they can identify acceptable neighborhood boundaries.

DHCD would prefer to see a foreclosure rate of 10% within this neighborhood; however a range of 8-12% is acceptable. The best option would be to build your neighborhood from the inside out, determine the cluster of foreclosures and then work outward street by street until you have attained the 10% target. The Grantee must be able to justify the boundaries surrounding the identified neighborhood.

*The “neighborhood” can be a subset of a traditional neighborhood, or sections of two adjacent neighborhoods not that have similar characteristics of*

*foreclosure problems and are within the same market.*

Once the properties have been identified on a map it’s time for the assigned group to complete an initial walk through. The group will assess first hand the deficiencies and missing items in the home. This group at minimum will consist of the Realtor and Rehab Specialist.

The Realtor will provide access to the property. The Rehab Specialist will prepare a report as to the extent of items missing, deficiencies noted, and rehab cost estimate. This cost estimate although just a rough first estimate will provide the technical information necessary for determining if the property is NSP eligible.

### ***Do the Numbers Work?***

The Grantee may opt to have an individual or group complete this equation and only report to the team which properties met the criteria OR the Management Team may choose to work through the equation in a team meeting and determine the eligible homes as a group. DHCD prefers this portion of the identification of eligible homes to be a group effort as team members may provide insight into a particular neighborhood, rehab issue, vandalism or crime issue even though this team member may not have been in the initial group assigned to visit the home.

*Should the Rehab Specialist determine in the initial walk through that the rehab exceeds the DHCD construction limit of \$25,000 then the Grantee or the buyer will need to locate additional funds. Be mindful of your calculations with leveraged funds so as not to exceed*

*the market value of homes in the surrounding area.*

The team will need to review approximate numbers at this point to determine if the home should proceed to the next level of review prior to acquisition. Following are several items the team will assess in making this determination.

- Broker’s Price Opinion (BPO) based on the Realtor’s expertise of the value of the “As-Is” condition with all deficiencies and missing items taken into account;
- Initial written rehab cost estimate;
- The 15% discount based on the “As-Is” appraisal.
- Current market conditions of homes in the surrounding neighborhood.
  - Days on Market (DOM)
  - Price
  - Market increases
  - Market decreases
  - Inventory

Based on the information compiled the team will perform a set of calculations to decide if the numbers work for this particular home.

The team will begin by computing the discounted price they would offer the REO asset manager to purchase the home. Add to this the written rehab cost estimate and decide whether the sum of these two numbers exceed the market value of surrounding homes in similar condition (after rehab).

See example below:

As Is Value	\$145,000.00
15% Discount	<u>(21,750.00)</u>
Offer to REO/ Acquisition price	\$123,250.00
Rehab Estimate	<u>11,000.00</u>
Sum	\$134,250.00

Since the home can not be sold for a profit under NSP guidelines, the final sales price is calculated at the acquisition price plus rehab. The final sales price on this home would not exceed \$134,250.00 (sum) to the new homebuyer. Therefore based on this calculation the home would be an eligible NSP property.

*When using estimates in the above calculation it may be wise to buffer the rehab portion of your estimate by 10% - 15% to assure the team and DHCD that this home is NSP eligible.*

### ***Appraisal***

Once the property has passed the initial review of the Management Team, it is time to request a full exterior/interior “As-Is” appraisal from a licensed appraiser. This report must reflect nationally recognized appraisal standards, including the Uniform Appraisal Standards for Federal Land Acquisition. The appraisal must contain sufficient documentation, including valuation data and the appraiser’s analysis of that data, to support the opinion of value. This data must include a description of any damages and rehabilitation needs of the property.

☑ *Should the “As-Is” appraisal come in with a different valuation from the BPO the calculations must be reworked within the team to determine if this property is still NSP eligible. Remember, the Offer to purchase must be made based on the “as is” appraisal minus the required discount.*

### ***Offer to Purchase REO***

The Sales Contract should be drafted by a Realtor. The experience of the realtor will be required to negotiate an effective contract during this phase of the program.

The Realtor can supply the management team with a standard Virginia State Sales Contract to purchase real property. Each bank or servicing company may require addendums that meet their needs; the bank will provide the special addenda.

The Sales Contract should contain certain protections afforded to the lender and to the purchaser. The lender (REO department) will be looking for:

- An “As-Is” sale; a sale which will not require the lender to perform any repair or rehab;
- A sale which nets the bank a desired amount of money;
- A contract that is not contingent on the sale of another home;
- A solid borrower; one who has already obtained financing or is pre-approved; and
- A reasonable closing date.

The Management Team will want to put in place a few contingencies for this offer.

- Low Earnest Money Deposit;
- Financing Contingency for receipt of NSP funds from DHCD;
- Five days to inspect so utilities can be turned on in property;
- Extended closing date- more than 30 days as standard practice; and
- Bank to pay purchaser’s closing costs.

The Realtor will draw up the sales contract with these contingencies safely in place. The sales contract will be signed by the Chief Administrative Officer for the Grantee. Once the contract is signed it will be delivered via mail/fax/overnight courier to the bank’s REO Asset Management Division OR to the listing agent working for the REO Asset Management Division. The following items should accompany the sales contract:

- Earnest Money Deposit of \$100-\$1,000 based on the price of home and comfort level of REO department;
- Cover letter from Grantee detailing:
  - Neighborhood Stabilization Program details;
  - Grant amount awarded to their locality; and
  - Home located in targeted neighborhood.
- It may be necessary to provide a copy of the award letter from

DHCD to show proof of the grant being received.

Once the REO Asset Management Division receives the sales contract the asset manager will review the contract and determine the bank's net take on the proposed offer. A net offer results in the bank reviewing the sales contract offer price and backing out any contingencies that will cost the bank funds. In addition the asset manager will need to subtract the commission for the realtors involved. Based on the earlier example of an eligible NSP property, the bank's net on this property would look like this:

Sales Contract	\$ 123,250.00
Realtors Commission	(3,697.50)
3% divided by 2 agents	
Seller paid closing cost	<u>(3,500.00)</u>
Net to Bank	\$ 116,052.50

If the bank has other offers on this home this calculation will be compared to all offers to determine the best net to the bank that is within their guidelines to accept.

*You should ask the bank to pay closing costs. Your closing costs will be much lower than standard costs involving lender fees.*

### ***Ratified Contract***

The REO asset manager will notify the agents involved once the sales contract has been accepted. This is known as a ratified contract, the seller has agreed to sell and the purchaser has agreed to purchase at the agreed upon terms. The Grantee will then submit to DHCD copies of the following documents in order to reserve and receive the funds necessary for acquiring this property:

- Ratified Sales Contract;
- First 3 pages of appraisal w/ picture;
- Initial written rehab cost estimate; and
- Properly completed NSP Funding Reservation Package (Appendix 11)

DHCD will review the request to ensure that the request is an NSP eligible property. If approved, the Funding Reservation will be processed and monies will arrive through electronic transfer into the Grantee's NSP account within three weeks.

*This timeframe is an estimate, some requests may receive their funding faster than 3 weeks, others may take longer. This will ultimately depend on the number of requests received that day, the request and all required documentation being correct and complete, and the number of times DHCD staff must request additional documentation from incomplete Pay Requests.*

### ***Sale to New Homebuyer***

By this point in time, the homebuyer will be identified and will have met the counseling and credit requirements of the Program. Interest only loans, negative amortization loans, ARM loans with less than 10 years fixed, and sub prime loans are not permissible in the NSP. Once the homebuyer has received a pre-approval from their lender a sales contract can be signed for one of the NSP properties. The homebuyer may be able to choose carpet, paint, counters,

etc. based on the rehab work required in the NSP property.

The homebuyer and the Grantee's representative will attend the transfer/resale closing and sign the necessary documents.

### ***Acquisition Closing***

The closing date has arrived and for most REO properties this will be a mail out closing on the part of the bank/seller. The Grantee's official representative must attend the closing and sign the necessary documents to purchase the home. The Realtor can help navigate the closing should the Grantee representative have questions concerning the documents and/or funding. DHCD will wire the purchase funds into the Grantee's NSP account; the Grantee will be required to wire the funds into the settlement office's escrow account. Keys will be provided at closing and the home is now the property of the Grantee (or designee).

### ***Rehabilitation***

The Grantee will solicit bids from contractors using guidance from this manual. The Rehab Specialist will be required to submit a detailed work write-up (set of specifications) to the Management Team for review and approval. An Invitation to Bid will be mailed to at least four pre-qualified contractors. Once the contractor bids are received, the Rehab Specialist makes a recommendation to the Management Team of contract award. It is at this time that a draw down request for partial funding (50% of the rehab cost) may be requested through DHCD to begin the rehab work. A final draw will be provided once all of the work and follow up

inspections have been performed. See Chapter 8, Housing Rehabilitation, for more details.

### ***Congratulations Are In Order***

The Neighborhood Stabilization Program has achieved the goal of acquisition, rehab, and transfer/resale for this home. The expertise of bankers and realtors on the local team has helped make that possible.

***This concludes the Overview, proceed through the following pages for detailed information on the Acquisition process.***

✱ *The remainder of the Acquisition Chapter outlines the federal requirements for real property acquisition in detail with specific appendix references. The Grantee must develop procedures that comply with these requirements and ensure they are observed.*

## **Property Acquisition and the Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA)**

Various sections of the URA should be followed as best practice measures to document the transaction. These steps are outlined below. In cases of involuntary acquisition contact DHCD for detailed instructions. All acquisition in Virginia's NSP should be voluntary in nature.

### ***Regulations***

Federal requirements for acquisition/relocation and disposition or transfer/resale can be found primarily in three places:

- The *Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended 02-03-05* (42 USC 4601-4655);
- Section 104(d) of the *Housing and Community Development Act of 1974*;
- CDBG Regulations at 24 CFR 570.201 and 202, 24 CFR 570.488 and 24 CFR 570.606 (Subpart K); and

- HUD Handbook 1378, *Tenant Assistance, Relocation and Real Property Acquisition*.

They require a Grantee to take all reasonable steps to minimize displacement caused by the NSP Agreement's activities, to provide uniform and equitable treatment to those who are displaced, to replace housing available to LMMI families, and to establish uniform and equitable acquisition policies.

Within the regulations or Handbook, where the term "HUD," "HUD Area Office," "Department of Housing and Urban Development," or other reference to the Federal Agency occurs, under the Virginia adopted program the term shall mean "DHCD," "Department of Housing and Community Development," the "Director of Housing and Community Development" or authorized employees of the State agency; EXCEPT, when reference is made to other HUD or DOT programs or requirements that are subject to the URA or apply under a State administered program.

### **Acquisition**

The Grantee must observe the acquisition requirements whenever it purchases real property with NSP funds. The Grantee's compliance with the requirements will be monitored by DHCD. NSP funds will only pay up to the "as-is" appraised value established by a formal appraisal less a 15% discount.

### ***Steps in the Acquisition Process***

For each step in the acquisition process, the URA and the implementing regulations requires the Grantee to follow specific procedures. Briefly, the steps to property acquisition include:

1. Identify property to be acquired;
2. Order a Title Report which performs a land records search and provides written documentation verifying the owner of record and the status of any liens.
3. Issue a Preliminary Acquisition Notice and HUD brochure “When a Public Agency Acquires Your Property” to the property owner;
4. Issue a letter to the property owner, inviting him or her to accompany the appraiser;
5. Conduct “As-Is” Appraisal;
6. Establish just compensation less the 15% discount as required by NSP;
7. Issue a written offer to purchase and Good Faith Estimate (see sample in Appendix 44); and
8. Initiate preparation of the contract of sale and *Statement of Settlement Costs in conjunction with real estate agent and Legal counsel.*

**\* The Grantee must carefully follow the acquisition process and thoroughly document its actions.**

### ***Identify Properties to Be Acquired***

The first step of any project involving acquisition is to determine the property to be acquired. This should have been determined while developing the project by the Grantee.

### ***Issue Preliminary Acquisition Notice***

As soon as feasible after the decision to acquire is made, a written *Preliminary Acquisition Notice* must be issued to each property owner.

**\* This notice, and all other such notices, must be sent by certified or registered mail, return receipt requested, or personally served and receipt documented.**

The HUD/DHCD brochure *When a Public Agency Acquires Your Property*, or a statement containing substantially the same information about the Grantee’s acquisition policies, must accompany the notice. See Appendix 23 for a sample Notice and Brochure. Copies of the English language version of the brochure can be obtained from your Community Representative or go to [www.hud.gov/offices/cpd/library/relocation/publications](http://www.hud.gov/offices/cpd/library/relocation/publications) and download a copy of either the English or Spanish language version.

### ***Appraisers***

Procurement of appraisers shall be done in accordance with the *Virginia Public Procurement Act* or the Grantee’s written small purchase procedures. It may be prudent to have several appraisers submit a Statement of Qualification so that the responsibility can be rotated among several appraisers for timely completion of this task.

A contract must be executed and must specify appraisal report content and other requirements necessary to determine “as-is” value. The report will be consistent with the Uniform Standards of Professional Appraisal Practice (USPAP), the Supplemental Standards

Rule and the Jurisdictional Exception Rule of USPAP where applicable.

**✱ To find out if an appraiser has a DPOR license, call 804-367-8511 or go to [www.dpor.virginia.gov](http://www.dpor.virginia.gov) and click on “License Lookup.”**

### ***Conduct “As Is” Appraisal***

The as-is appraised value means the value of a foreclosed upon home or residential property that is established through an appraisal made in conformity with the appraisal requirements of the URA at 49 CFR 24.103 and completed within 60 days prior to an offer made for the property by a Grantee, subrecipient, developer, or individual homebuyer.

### ***Invite Property Owner to Accompany Appraiser***

Prior to any appraisals being conducted, the Grantee *must* advise the property owner, in writing, as to the time the appraiser will visit the property and invite the property owner (the bank) to accompany the appraiser during a site visit. The file must be documented to show that the *Preliminary Acquisition Notice* and the *Invitation to Accompany* were issued. See Appendix 24 for a sample Invitation.

DHCD encourages Grantees to issue the invitation separate to the *Preliminary Acquisition Notice*.

The end product produced by the appraiser is an Appraisal Report. This report must reflect nationally recognized appraisal standards, including the Uniform Appraisal Standards for Federal Land Acquisition. The appraisal *must* contain sufficient documentation, including valuation data and the appraiser's

analysis of that data, to support the opinion of value.

At a minimum, a detailed appraisal shall contain the following items:

- The purpose of the appraisal, a statement of the property being appraised, and a statement of the assumptions and limiting conditions affecting the appraisal;
- Advise appraiser that the following items must be addressed in the report: list of missing items (i.e. light fixtures, kitchen amenities, windows, plumbing fixtures), damages, and visible necessary repairs.
- A description of the physical characteristics of the property (and, in the case of a partial acquisition, a description of the remaining property), a statement of known encumbrances, if any, title information, zoning, an analysis of highest and best use, and at least a five (5) year sales history of the property;
- All relevant and reliable approaches to determine value consistent with commonly accepted professional appraisal practices;
- Multiple approaches shall be analyzed and reconciled so as to support the opinion of value;
- A description of comparable sales, including all relevant physical, legal and economic factors, and verification by a party involved in a transaction;

- A final statement of the real value of the property to be acquired and, for a partial acquisition, a statement of the damages and benefits, if any, to the remaining property; and
- The effective date of valuation, date of appraisal, signature and certification of the appraiser.

### ***Establish “As Is” Value***

Once the appraiser has prepared and submitted the Appraisal Report to the Grantee, the Grantee must review promptly so the “As Is” value can be established.

For purposes of the NSP, the guidelines require any purchase of a foreclosed-upon home or residential property is at a 15% discount from the current “As-Is” appraised value of the home or property.

For mortgagee foreclosed properties, Grantees must seek to obtain the “maximum reasonable discount” from the mortgagee, taking into consideration likely “carrying costs” of the mortgagee if it were to not sell the property to the Grantee.

Carrying costs shall include, but not be limited to: taxes, insurance, maintenance, marketing, overhead, and interest.

### ***Provide Written Offer to Purchase and Negotiate the Purchase***

As soon as feasible after establishing just compensation less the discount, the Grantee issues to the owner a *Written Offer to Purchase* along with the written *Statement of the Basis of the Determination of Just Compensation (less*

*discount)*. This offer *must* be sent by certified or registered mail, return receipt requested or hand delivered and receipt documented.

This statement *must* include:

- A statement of the amount offered as just compensation less the 15% discount;
- A legal description of and location identification of the property;
- An inventory identifying the building, structures, fixtures, etc., which are considered to be a part of the real property; and
- A sales contract must accompany the offer to purchase, a real estate agency can help draw up this document.

See Appendices 35 and 36 for a sample Statement of the Basis of Determination and Offer to Purchase.

In addition to the amount of just compensation less the discount, the offer *must* specify the date on which negotiation for the sale of the property will begin, i. e., initiation of negotiations, which may or may not be the same date as the written offer.

It is anticipated that all properties identified for acquisition will be vacant. If a property is occupied, please contact DHCD for concurrence on next steps. If the property is tenant or owner-occupied, the Grantee *must* issue either a written *Notice of Relocation Eligibility*, or in the case of a tenant (not an owner-occupant) a *Notice of Right to Continue in Occu-*

pancy, within thirty (30) days of the date specified for the initiation of negotiation.

✱ **DHCD should be made immediately aware of any unit proposed for acquisition that is occupied.**

✱ **For more detail on relocation procedures, see HUD Handbook 1378, which is available from DHCD or go to [www.hud.gov/offices/cpd/library/relocation/policyandguidance](http://www.hud.gov/offices/cpd/library/relocation/policyandguidance) and download a copy of it.**

Once the Grantee has submitted the *Written Offer to Purchase* to the property owner, the Grantee then negotiates the purchase of the property. The owner must be provided an opportunity to discuss the offer, propose a higher value and document the higher value. The Grantee can either accept it (if it falls within the NSP guidelines) or decline the counter offer and move on to the next property.

✱ **Payment of any amount of money to the owner over and above the “As-Is” value less the discount disqualifies the acquisition from the NSP altogether. This will be closely monitored by DHCD.**

### ***Complete the Purchase***

Depending upon whether the Grantee and the property owner can reach an agreement on an acquisition price, the Grantee completes the acquisition process, or decides that it will not acquire the property.

### **Willing Seller**

Following successful negotiations, a *Deed of Transfer* or *Contract of Sale* must be prepared and executed and

transfer documents secured, prior to or at the time of closing. The Grantee *must* reimburse the owner to the extent it deems "fair and reasonable" for delivery costs associated with transfer of title including, but not limited to recording fees, transfer taxes, penalty cost or other charges deemed reasonable by the closing attorney.

At the conclusion of settlement, the Grantee must provide the owner with a *Statement of Settlement Costs* which identifies all settlement costs regardless of whether they are paid at, before, or after closing, and must clearly separate charges paid by the owner. The *Statement of Settlement Costs* must be dated and certified as true and correct by the closing attorney or other person handling the transaction. A receipt for purchase price must be secured by the Grantee. See Appendix 28 for a copy of the statement.

### ***Notice of Intent Not to Acquire***

If the Grantee decides not to acquire the property at any time after the *Preliminary Acquisition Notice* has been sent to the property owner, the Grantee must notify the owner and all tenants in residence in writing of its intention not to acquire the property and that any person moving from the property thereafter will not be eligible for relocation payments and assistance. This notice must be sent within ten (10) days of the Grantee's determination not to acquire. See Appendix 29 for a sample notice.

**If the Grantee should acquire property for a NSP project and then decide not to use that property, any NSP funds expended on that acquisition must be returned to DHCD.**

### ***Other Liens on Title***

NSP funds can not be used to pay back taxes if the locality that is purchasing the property levied those taxes. The locality must waive the back taxes or pay them from other leveraged funds. Other liens may be paid under NSP guidelines on a case by case basis, please contact your Community Representative if you encounter this situation. Clearing titles can be a costly and time-consuming proposition whereas NSP is designed to be a fast paced program with an 18 month time-frame.

Should the Grantee encounter a title mired in legal issues or liens, please remember in Virginia when a home is foreclosed, the bank/lender hires a substitute trustee to perform due diligence concerning remaining interest in the property. As a result, the substitute trustee notifies all other lien holders that a foreclosure is eminent. The remaining lien holders have the option to come forth and pay off the first trust to protect their lien, although this rarely happens.

Once the first trust lien has foreclosed the remaining junior liens are wiped clean (except for certain tax and mechanic liens). Due to the volume of foreclosures, banks are not removing these liens until the home resells to the new homebuyer. The title company will require the substitute trustee to sign a certification stating due diligence was performed. This permits the title company to remove these junior trusts/liens at closing. The lender's deed to the new homeowner should also state that the title is free and clear of all liens.

Lastly, if HOME funding is involved in the transaction, DHCD will take third position for closing costs and down payment assistance.

## Recordkeeping

The Grantee *must* maintain a separate acquisition file for each real property acquisition for at least five (5) years after Final Closeout, final settlement of the acquisition, or the disposition of the applicable relocation records, whichever is later.

The following recordkeeping guidance pertains to acquisitions of foreclosed upon homes and residential properties which meet the applicable voluntary acquisition requirements and reflects applicable URA requirements and the NSP requirements in the State Program.

Each separate acquisition file must document that the owner received the *Preliminary Acquisition Notice*, the brochure *When a Public Agency Acquires Your Property*, an invitation to accompany the appraiser, a written offer to purchase, a *Statement of Settlement Costs*, etc. See Appendix 28 for more details.

## ***Relocation Assistance and Anti-Displacement***

The Grantee must observe the relocation requirements whenever displacement occurs as a result of a NSP-assisted activity. HUD Handbook 1378 will generally be used as guidance by DHCD. It contains sample letters and forms, which can be edited to fit local conditions. A copy of the Handbook will be made available to Grantees who will actually conduct relocation as part of their NSP project.



**Immediately contact your Community Representative in cases of possible relocation.**

The Grantee's compliance with the requirements will be closely monitored by DHCD. Failure to comply may lead to costly compliance findings. Relocation is not expected in the NSP activities due to the requirement of abandoned, foreclosed properties as the focal point of eligibility.

**THIS PAGE INTENTIONALLY LEFT BLANK**

# CHAPTER 7: QUALIFYING A PROSPECTIVE HOMEBUYER

---

In this chapter the Grantee will learn the basic guidelines necessary to qualify a prospective homebuyer through credit, income, and homebuyer education.

## Housing Counselor

A Certified Housing Counselor is essential to this portion of the Grantee's program. The Certified Housing Counselor will begin Intake with applicants who wish to become homeowners. The Housing Counselor will pull names from a waiting list of potential homeowner applicants. The Grantee should be responsible for maintaining this waiting list and working with marketing and outreach efforts to increase the numbers of potential homebuyers. Ideally, this waiting list should be updated every 60-90 days and continually add applicants that wish to purchase a home under the NSP.

## *Intake*

Applicants will meet with a Housing Counselor to complete the homeownership application. It is required that the application be filled out with the Housing Counselor during the Intake. By doing this, the Grantee will eliminate inaccurate information due to misunderstanding of the questions by the applicant which could result in time consuming revisions.

**The application should contain the following information:**

- Name, address, phone number; cell phone, email if available and previous address (if less than 2 years at current residence)
- Household composition (identified by name, age, marital status, relationship to applicant and employment status);
- Race, ethnicity, and disability status of household members;
- Source and amount of income for all household members, including the name, address, and phone number of all employers to all household members; ( 2 year history)
- Description and amount of all household assets, including name and account number of financial institutions;
- Description of applicant's debt including but not limited to: credit cards, auto loans, personal loans, student loans, child support, alimony, collections, judgments and garnishments. The Housing Counselor will need to pull a credit report during the intake process or have the client

bring in a credit report with credit score dated within 90 days.

- Above the signatures a statement stipulating the right to verify all information given with warning:

**“It is a violation of Federal Law and a Criminal Offense to make willful false statements or misrepresentations in the completion of this application for assistance;”**

The Housing Counselor will collect and review the signed application, applicant’s pay stubs, W2’s, (tax returns if self employed), bank statements, and credit report. During the Intake the Housing Counselor will assess the following:

- Applicant falls within 120% AMI
- Applicant documents a steady job history necessary for a mortgage loan approval
- Applicant documents necessary savings/assets for down payment funds through NSP or another program
- Determine the applicant’s Debt-To-Income (DTI) Ratio
- And most important does the applicant have the strong credit scores necessary for mortgage loan approval

During the Intake, the Counselor will explain the purpose of the application, how it will be processed and that all information will be verified. It will also be emphasized that all application and verification information will be kept strictly confidential.

- Be alert to discrepancies in information presented that may signify a possible omission. Probably the most

common error or misrepresentation made by an applicant is the omission of a source of income or asset. Tactfully ascertain from the applicant whether they have omitted such information.

At the end of the Intake, the Counselor will ask the applicant to carefully read the warning about misrepresentations. Both the applicant(s) and the Housing Counselor must sign the application form.

- The Intake is a good opportunity to explain again the program’s purpose and requirements, including the mandatory minimum of eight hours of Homeownership Counseling attendance requirement. At this time, the Grantee should supply the applicant with a copy of the complaint and appeals procedure.

- In addition to the NSP qualification screening during Intake the Housing Counselor will advise the client on budget/ finance/ and savings habits. The applicant will be provided with a spending plan to take home and monitor spending habits for 7-14 days.

### **DTI - Debt to Income Ratio**

The Housing Counselor should be familiar with the steps necessary to pre-qualify an applicant for homeownership. In addition to screening the applicant in accordance with the NSP requirements the Housing Counselor will need to perform DTI calculations during Intake.

To calculate the DTI the Housing Counselor will need to review income and liabilities. The income can be determined from pay stubs, W2, and child support, alimony, SSI, and / or SS

documentation. If the client is self employed, these calculations are best left to an experienced loan officer who is capable of determining self employed income for mortgage qualification.

### ***Income***

In reviewing the pay stub of an applicant the Counselor will determine the number of times this applicant is paid per year. This can be done by locating the date of the pay stub and the time period of payment.

#### **Determining Pay Periods**

- Applicant is paid on the 1<sup>st</sup> and 15<sup>th</sup> – the applicant has 24 pay periods.
- Applicant is paid on odd dates every other week -the applicant has 26 pay periods.
- Applicant is paid weekly - the applicant has 52 pay periods.

*If the applicant is an hourly worker the Housing Counselor must calculate the average income based on two or more pay periods and complete the steps above to determine the gross pay ( before taxes).*

The gross pay is calculated for the year and divided by 12 to determine the gross monthly pay. **Always use gross monthly pay.** This will be the income used in your DTI calculation.

### ***Liabilities***

Next the Housing Counselor will need to determine the applicant’s liabilities. This will be done with more than one source of information. The Housing Counselor will identify debts from the credit report taking into account the balance, monthly payment, type of account,

duration, and payment history. In addition the NSP homebuyer’s application will have additional questions concerning liabilities. These will include but are not limited to: student loans in deferment; payment of child support; alimony; personal loans not listed on the credit report; repayment plans with collection accounts; judgments; and, pay-day loans, etc.

### **Estimated Housing Payment**

The Housing Counselor will determine an acceptable estimated housing payment (**PITI** -Principal, Interest, Taxes, and Insurance) from available NSP housing stock. This figure should not exceed 32% of the applicant’s gross monthly income. The estimated PITI **plus** the applicant’s other monthly debt should not exceed 38% of the applicant’s gross monthly income. (Some loan programs will go to 40-41% total DTI)

#### ***Example:***

NSP Sales Price	\$ 170,200
Applicant Loan (plus \$5,200 downpymt.)	\$ 165,000
PI at 6%	\$ 989.26
Taxes (est.)	\$ 124.75
Insurance (est.)	\$ 41.25
PITI	\$ 1,155.26

Applicant	
Gross Monthly Income	\$3,916.67
Monthly Debt Payments	\$ 410.00

Housing DTI -	29.50%
	(1,155.26/3,916.67)
Total DTI -	40.00%
	(1,155.26 + 410 / 3,916.67)

## ***Lender Ready***

During the 7-14 day interim, if the applicant proves ***lender ready*** at the initial intake the Housing Counselor will continue on to the next steps:

- The non-profit partner agency conducting the counseling must make recommendations to the Management Team who will review and approve eligible applicants based on the priority criteria outlined in their Program Design.
- Submission to a lender for pre-approval the Housing Counselor or applicant will submit the necessary documents to a lender of the **applicant's choice** for mortgage pre- approval.
- Obtain written verification of income/assets.

## ***Income and Asset Verification***

All income and asset information must be verified by third party documentation. Gross income of the household from the previous year must be taken into consideration for qualification purposes. Ten percent of liquid assets or actual interest earned must also be counted as income and added to the gross income of a household.

For each type of verification, the program may develop a form letter which explains that the applicant wishes to participate in the program and verification of income and assets is required for participation. It should be formatted such that it has:

- Blanks for the information to be filled in;
- A place for the person providing the information to sign; and

- The signature of the applicant.

DHCD requires the employer or firms address and phone number be verified through an independent 3<sup>rd</sup> party (yellow pages/ yahoo phone book/ 411/ business white pages). The form may be faxed to the firm and a completed and signed fax may be sent back as written verification. DHCD recommends that Grantees first telephone the firms or institutions being sent the income/asset verification form in order to explain the request. The Grantee can request the verification in writing; if the Grantee chooses this method; enclose a self addressed stamped envelope with the verification form. Employers and banks are more willing to cooperate in verification requests the less cumbersome it is for them to do so.

*Pay stubs and W-2 forms or independently certified tax statements may be used to verify income only when the Grantee has failed to receive cooperation from the employer.*



Call your DHCD Community Representative for guidance if none of these verification methods are successful.

## ***Federal Equal Credit Opportunity Act***

Along with the application and income verification letters, applicants must sign an *Acknowledgement of Receipt of Equal Credit Opportunity Act (ECOA) Notices and Disclosures* form. See Appendix 41 for a copy of the form.

All eligible applicants must be notified in writing and advised of the next step in the homebuyer process.

Should the applicant receive pre - approval through a lender for an amount necessary to purchase one of the NSP homes; the applicant is now a **Waiting Homebuyer**. The **Waiting Homebuyer** should be moved to a second pre-approved priority list for the next available group of rehabbed homes.

DHCD prefers to have the Housing Counselor create and maintain two lists:

- An initial list of interested participants that wish to become homeowners. This list should be updated continually through outreach and marketing during the entire NSP grant term.
- A second pre-approved priority list of homebuyers who have already been through Intake and obtained a pre-approval letter from an acceptable lender.

## Homeownership Counseling

Homeownership Education is critical to the success of the Neighborhood Stabilization Program. The goal of homebuyer education is to prepare a potential homebuyer for the home buying process; set and complete benchmarked goals in financial literacy, maintain healthy credit, prepare a spending plan, and ultimately obtain a non-predatory loan.

DHCD suggests the Grantee implement or locate a continued post purchase education class with a HUD-Certified Housing counselor. The potential homebuyer should attend post purchase counseling and/or classes to continue their education in financial literacy, this type of continuing education shows

promise to promote homeownership for years to come.

All counseling services are designed to keep homebuyers informed of their status, options and choices. Advisory services include information provided orally and in writing. Written notices simply formalize information transmitted in earlier personal conversation.

The Grantee must require each NSP assisted homebuyer to receive and complete at least **8 hours** of homebuyer counseling from a HUD-approved housing counseling agency (including VHDA Sub-Grantees) with a Certified Housing Counselor before obtaining a mortgage loan. The requirement can be accomplished using classroom style, individual (one-on-one) or a combination of both. **Online classes will not be permitted.** The intake, one-on-one counseling and VHDA's *Introduction to Homeownership* will meet this requirement. (See listing at Appendix 46).

All applicants who wish to participate in the Neighborhood Stabilization Program must complete the homebuyer counseling requirement.

The Grantee must ensure that the homebuyer obtains a mortgage loan from a lender who agrees to comply with the bank regulators' guidance for non-traditional mortgages (see, Statement on Subprime Mortgage Lending at <http://www.fdic.gov/regulations/laws/rules/5000-5160.html>).

All applicants who purchase a home will be required to have fixed rate mortgages. The program will not permit adjustable rate mortgages with less than ten years fixed rate term, interest only mortgages

or negative amortization loans. DHCD strongly cautions against providing or permitting homebuyers to obtain sub-prime mortgages.

### ***Not Lender Ready***

The Housing Counselor will inform the applicant if additional counseling with regards to credit/finance/budget/savings is required. Ineligible applicants should be notified immediately in writing that they are ineligible and given the reasons for this determination. See also “Complaints and Appeals,” as found in Appendix 13.

The applicant will be provided with choices for his/her next step:

- Join a homebuyers club if one is available in the immediate area
- Continue one on one counseling with the Housing Counselor to elevate the applicants status to ***lender ready***.
- Seek outside non profit credit counseling to improve and strengthen credit and return to NSP Intake at a later date.
- Review with the management team the availability of a ***lease-to-own*** property if the applicant could be ***lender ready*** within 36 months.

### **Timing of Applications**

It is strongly suggested that as many prospective homebuyers as possible be screened and counseled so there is a steady flow of purchasers for properties either through the original NSP award or the expanded Performance Pool. The NSP Management Team must have an approved prioritization/selection process in place that will be employed in selec-

tion of homebuyers. This will most often be based on a chronological time when all conditions of homeownership have been met and a loan commitment has been issued by the lender.

### **Property Sale for Owner Occupancy**

If an abandoned or foreclosed residential property is to be sold to an individual as a primary residence, no profit may be earned on such sale. The sale shall be in an amount equal to or less than the cost to acquire and redevelop or rehabilitate the property to a decent, safe and habitable condition.

The maximum sales price is determined by aggregating all costs of acquisition, rehabilitation and redevelopment (inclusive of delivery costs related to the sale). In determining the sales price, the costs of boarding up, lawn mowing, maintaining the property in a static condition will NOT be considered eligible NSP costs. If the Grantee sells the property for below its development cost, a silent second or forgivable loan and lien agreement will be recorded against the home for between five and twenty years depending on the size of gap between the development costs and sales price due upon transfer/resale and ensuring affordability of the home.

If the acquired home can not be sold for a price that will recover the rehab cost, the Grantee (or designee) may retain ownership for up to three years and lease the unit to a qualified household on an annual lease-to-own basis, with income levels recertified annually. The Grantee will contract with a third party property manager for all such leased properties. Maximum rents will be calculated based

on the high HOME rents found in Appendix 47.

Units with a legally binding lease-purchase agreement will be considered owner-occupied if:

- The lease-purchase agreement enables the leasee to become an owner occupant within three years.
- The leasee undergoes homeownership counseling and is provided intermediary assistance during the lease period.
- The amount of NSP acquisition and rehabilitation costs will be returned to DHCD through straight-line monthly payments and a lump-sum at the end of the lease tenure of three years. In lieu of monthly payments to DHCD the Grantee may propose an alternate schedule to return program income earned from lease-purchase agreements.

Grantees must ensure that homebuyers obtain a mortgage loan from a lender who agrees to comply with the bank regulators' guidance for non-traditional mortgages. DHCD cautions against providing or permitting homebuyers to obtain subprime mortgages, interest only mortgages, negative amortization loans, or ARMs (adjustable rate mortgages) with less than a seven or ten year fixed term.

### ***Affordability***

All homes assisted will have long term affordability restrictions as outlined in the federal HOME regulations. To ensure affordability over the long term, HOME imposes mortgage/rent and occupancy requirements for homebuyer

and rental projects. The affordability period depends on the amount of loan monies invested in the property and the nature of the activity funded.

<i>Less than \$15,000</i>	<i>5 yrs</i>
<i>\$15,000 – 40,000</i>	<i>10 yrs</i>
<i>More than \$40,000</i>	<i>15 yrs</i>
<i>New construction</i>	<i>20 yrs</i>

The Grantee must require that upon re-sale of an assisted NSP home, the new purchaser meet the income requirements of this program, occupy the home as the family's principle residence, be re-sold at an affordable price and provide a fair return to the seller. To enforce these and other affordability requirements, aside from the lender prepared note and deed of trust, a silent second or deferred or forgivable loan will be filed on the property and second promissory note. See Appendices 42 and 43.

Grantees must design their Programs to comply with this requirement and must document compliance in the records, for each homebuyer. Grantees are cautioned against providing or permitting homebuyers to obtain subprime mortgages for which such mortgages are inappropriate.

### **Property Sale for Investor Owners (Rental)**

It is DHCD's intent that NSP funds will be used only for investments which stabilize neighborhoods in such a way as to substantially maintain the pre-foreclosure crisis mix of rental and owner-occupied dwellings and retain the relative market value of homes in the area.

Redevelopment of existing properties or conversion of owner to renter tenancy

will generally only be allowed to facilitate compliance with the requirement that 25% of the NSP grant award be used to assist households making not more than 50% of area median income (*25/50 Rule*).

After acquiring properties that it has determined will be rehabilitated and used as affordable rental properties, the Grantee or designee may assign the properties to pre-approved developers, either for-profit or non-profit, who will be responsible for rehabilitation of them. The Grantee will provide NSP funds to developers to assist in the rehabilitation of the properties, which will be used as affordable rental properties.

Rehabilitation must bring the properties up to DHCD Housing Quality Standards.

NSP assistance to rental properties will be underwritten by DHCD or its agent to determine the appropriate amount of public investment and the rent structure of resulting units. Rents must be affordable to the intended beneficiaries.

For purposes of this program, the Grantee will define affordable rents to be consistent with those mandated by the HOME program. As a current example, the 2008 maximum monthly affordable gross rents are published at the following website [www.HOMERENTS.gov](http://www.HOMERENTS.gov), and for illustrative purposes at Appendix 47.

### Closing Costs

Closing costs include all direct legal, tax, permitting, financing charges, surveys, and escrow and appraisal costs necessary for the acquired property to be purchased by the homebuyer.

If the closing costs are \$5,000 or less then the amount ***is not*** required to be returned to DHCD and is immediately forgiven. Should the closing costs exceed \$5,000, the difference between the forgivable first \$5,000 and the total closing costs will be recorded as a soft second with zero interest and no payments expected. DHCD has spent a maximum of \$10,000 for closing cost assistance per unit with a 10 year term of affordability. (See example below.)

Acquisition from REO	\$ 155,000.00
Rehab	\$ <u>20,000.00</u>
NSP Sales Price	\$ 175,000.00

Closing Costs	\$ 11,700.00
NSP Pd Closing Costs	\$ <u>(10,000.00)</u>
Borrower Pd/ Seller Pd	\$ 1,700.00

NSP Paid Closing Costs	\$ 10,000.00
1 <sup>st</sup> 5k forgivable	- \$ 5,000.00
2 <sup>nd</sup> Deed of Trust	= \$ 5,000.00

If a property was acquired without any NSP assistance closing costs may be paid directly with NSP funds. These funds are not required to be returned or secured with a lien.

Down payment assistance is allowable if it is expressly needed for approval of the mortgage. Financing which does not require buyer mortgage cash equity participation will not be eligible for NSP down payment assistance.

NSP down payment assistance is limited to 3 % of total sales price and must be matched in cash by the homebuyer. Assistance will be attached to the property as a lien, payable upon resale. This lien may be forgiven at the end of ten years.

THIS PAGE INTENTIONALLY LEFT BLANK

# CHAPTER 8: HOUSING REHAB

---

Any rehabilitation of a foreclosed upon home or residential property shall be to the extent necessary to comply with applicable laws, codes and other requirements relating to housing safety, quality, and habitability, in order to sell, rent, or redevelop such homes and properties.

For purposes of clarity, this chapter is divided into the following sections:

- Housing Rehabilitation;
- Construction Contract;
- Soliciting and Qualifying Contractors;
- Initial Inspection;
- Preparation of Specifications and Bids;
- Bidding and Construction Process; and,
- Recordkeeping.

## Housing Rehabilitation

The phrase “housing rehabilitation” applies to all residential improvements made on private property with NSP funds. All rehabilitation work must be done in conformance with the DHCD Housing Quality Standards as found in Appendix 57. Housing rehabilitation projects involving eight or more units per construction contract must also follow the Davis-Bacon and related requirements, specifically federal labor standard compliance.

The primary function of the Grant Administrator is to oversee all day-to-day program activities to assure that they are carried out fairly and in conformance with the adopted Housing Rehabilitation

Program Design (Program Design). The housing rehabilitation construction process is primarily the responsibility of the Rehabilitation Specialist, but the Grant Administrator is expected to oversee the work of the Rehabilitation Specialist.

### *Construction Cost Limits*

Grantees may use up to \$25,000 to rehabilitate/repair houses, not including mobile homes, to DHCD HQS.

### *Construction-Related Soft Costs*

Construction-Related Soft Costs (CRSC) are considered delivery costs and can not exceed \$2,500. They include fees for Rehabilitation Specialist, including cost estimates, work write-ups, attendance at Management Team meetings to report on matters involving the rehabilitation of the house, documented weekly inspections, blower door tests, lead-based paint lab tests, soil evaluation tests and clearance tests.

### *Construction Contract*

After a contractor has been selected, both parties must enter into a contract prior to the issuance of a Notice to Proceed.

Each contract should include an agreement with general conditions and federal construction contract language. The Grantee should have an attorney review and approve the contract used in the program. The attorney should be advised of DHCD recommendations and requirements.

The following provisions must be included in the construction contract:

- Date of contract;
  - Date (or number of days) until construction is to begin;
  - Completion date;
  - Amount of contract;
  - Method of payment, including timing of progress payments;
  - Contractor's name, address, DPOR license and/or registration number, expiration date, license classification (A, B, or C), and license designation (building [BLD] or home improvement contracting [HIC]);
  - Reference to master and job specifications;
  - Contractor's removal of debris and equipment during and after construction;
  - Contractor's use of utilities;
  - Contractor's insurance requirements;
  - Access to property by contractor and program officials;
  - Warranty requirements;
  - Non-assignment of contract clause;
  - Hold harmless clause;
  - Right of inspection - power of inspector;
  - Statement of compliance with all local requirements for building permits, inspections, and zoning;
  - Termination clause;
  - Change order procedure;
  - A "plain-language" exculpatory clause concerning events beyond the control of the Contractor and a statement explaining that delays caused by such events do not constitute abandonment and are not included in calculating time frames for payment or performance;
  - Signature of parties to the contract; and
  - *Federal Construction Contract Language* attachment.
- It is a local Program Design decision if the construction contract will contain a provision for liquidated damages.
- All of the items should be incorporated into a two-party contract between the Contractor and the Grantee or Grantee's designee.
- Federal Construction Contract Language***
- All housing construction contracts must incorporate or attach the *Federal Construction Contract Language*. See Appendix 39 for a copy of the language.
- .
- Soliciting and Qualifying Contractors**
- The first step in the rehabilitation contracting process is identifying and

recruiting good contractors. Begin by determining what qualifications are expected. Remember, your program will only be as good as the contractors who actually do the work.

**\* Good contractors will make a good program, and a good program will attract good contractors. Conversely, by utilizing poor contractors you will deter good contractors and families from participating, as well as creating headaches for yourself.**

Any contractor doing work on a housing rehabilitation project funded with NSP monies must be licensed pursuant to the regulations of the Board of Contractors. All licenses must have a classification and a category. The appropriate classifications and categories acceptable for rehabilitation work are outlined below.

### ***Classifications***

All contractors must be licensed by the Virginia Department of Professional and Occupational Regulation (DPOR) as a Class A, Class B, or Class C contractor. Most contractors working on housing rehabilitation projects will be Class B contractors. This means they can work on any single job whose total contract value is between \$7,500 and \$120,000 or contracts totaling between \$150,000 and \$750,000 during any twelve-month period.

A Class C contractor may be able to do minor rehabilitation work. The current threshold for these contractors are single contracts between \$1,000 and \$7,500 or contracts totaling less than \$150,000 over a one-year period. It is unlikely that a Class A contractor would bid on housing rehabilitation work as they can

do work on single contracts of \$120,000 or more.

**\* To find out if a contractor has a DPOR license, call 804-367-8511 or go to [www.dpor.virginia.gov](http://www.dpor.virginia.gov) and click on "License Lookup." Grantees should also be aware that the thresholds are subject to change by DPOR. Therefore it is prudent to periodically check the current thresholds with DPOR.**

### ***Designations***

In addition to having a license classification of A, B, or C, each contractor must also have a license designation. General contractors doing rehabilitation work must be designated as either a "Building Contractor [BLD]" or a "Specialty Contractor [SVC]". If a contractor has SVC designation, then he/she must have the specialty service of HIC (Home Improvement Contracting) following the SVC designation i. e., SVC-HIC.

For any electrical work, plumbing work or heating, ventilation and air conditioning (HVAC) work to be done on a house being rehabilitated with NSP monies, the following applies:

- If the respective work e.g., electrical, is \$1,000 or more, the work must be done by a contractor licensed to do that specific kind of work (have the ELE designation on his or her license);
- If the respective work is less than \$1,000, and the Grantee participates in the Tradesman Certifica-

tion Program, the work must be performed by a person who has a Masters Certification in that respective trade; and

- Any digging of wells for portable water service can only be done by a contractor licensed as a "Water Well Contractor (WWC)", regardless of the cost to dig the well.

Some contractors may have multiple designations on their license such as Building (BLD), Electrical (ELE), Plumbing (PLB), and/or HVAC. If a General Contractor has such multiple classifications, retention of a licensed subcontractor in a related field is not necessary.

### ***Lead Safe Work Practices Training***

Each contractor/firm must have successfully completed a HUD/EPA approved training course relative to the rehabilitation of housing constructed prior to 1978. The Grantee must obtain verification of attendance and place it in the Pre-qualified Contractor's file.

### ***Pre-Qualifying Contractors***

Pre-qualification of construction contractors must be done through the use of a standardized Contractor Qualification Statement. Information requested must include:

- Type of work performance;
- Recent projects completed of the type and size to be bid;

- Suppliers and credit established;
- Bank references;
- Insurance coverage;
- Subcontractors utilized and their contractor's license;
- Number of employees;
- Proof of general contractor's necessary license (Class A or B); and
- Proof of training in Lead-Safe Work Practices.

See Appendix 33 for a sample statement.

### ***Standards for General Contractors***

The Grantee must develop criteria to evaluate contractors for inclusion or exclusion on the Bidders List. The criteria should allow you to include only legitimate, experienced general contractors with good references and credit histories. The criteria should allow rejection of contractors due to predetermined standards of experience, capability and credit. Job and credit references should be verified. If feasible, the Rehabilitation Specialist should inspect the contractor's most recent work.

It may be necessary to reject contractors due to poor workmanship or bad credit. Additionally, you may want to limit inexperienced contractors to smaller jobs initially or to advise specialty contractors to act as subcontractors to general contractors. Without pre-qualification it is very difficult to limit the involvement of inexperienced or specialty contractors

and a multitude of problems may lie in store for both the program and the contractor.

More stringent standards may be required, but must, at a minimum, utilize the following standards:

- Licensed by DPOR as a Class A, Class B, or Class C and licensed in the appropriate trades to be included;
- Documented current personal property liability insurance coverage of \$100,000 property and \$300,000 bodily injury (minimum);
- Good references from at least two jobs similar in work and dollar value to the work on which they are bidding. Grantee must document having checked references;
- Have been in business as a General Contractor for at least one year;
- Have an established credit record with no outstanding or pending judgments or claims. Bonding cannot be required if adequate credit is established; and
- Proof of training in Lead-Safe Work Practices or equivalent training and required by HUD/EPA.

**\* All contractors to be included on the Pre-Qualified Bidders' list must be approved by the Project Management Team.**

### *Advertising for Contractors*

Solicitation must be made in a newspaper(s) that is generally circulated in the project area. The advertisement must state the following:

- The Grantee is operating a housing rehabilitation program;
- The total dollar amount of all rehabilitation contracts to be let;
- The estimated number of rehabilitation contracts to be let;
- The general qualifications necessary for contractors to be eligible to bid on rehabilitation work; and
- Where and how contractors may pre-qualify for the bidder's list.

### *Direct Solicitation of Contractors*

Direct solicitation of good, local contractors should be done also. This can be done by posting notices at the County Building Official's office and at local building supply stores or contacting contractors known to the Rehabilitation Specialist.

## ***Contractors' Information Meeting***

It is advisable that Grantees schedule a contractors' information meeting. Such a meeting can be very helpful in creating understanding of the program and securing cooperation between the program and potential contractors.

At the contractors' meeting, the Grant Administrator and/or the Rehabilitation Specialist must explain the program and bidding procedures. The standards and master specifications to be utilized in the program are distributed and explained. Procedures for bidding, contract form, and payment, should be fully explained and distributed in writing.

## ***Using the Pre-Qualified Contractors List***

Once a list of qualified contractors is established, the Grantee may assure a reasonable level of quality control by bidding exclusively from the list, provided:

- All contractors on the list are given a nearly equal number of bidding opportunities,
- There is continued opportunity for additional contractors to apply for pre-qualification and inclusion on the bidder's list, and
- Bids are solicited from at least four contractors for each contract.

## **Initial HQS Inspections**

The purpose of the initial inspection is to determine deficiencies in the property, which do not meet the DHCD HQS. Both the Grant Administrator and the

Rehabilitation Specialist are required to do independent initial inspections, using the *DHCD HQS Inspection Checklist and Certification*, which is found in Appendix 34.

The Rehabilitation Specialist not only determines what needs to be repaired, but should, by taking notes and measurements, gather enough information to enable him or her to write specifications for the repairs and perform a cost estimate. In addition, a floor plan of rooms where any work is to be done should be produced.

(Some programs make a preliminary inspection before approval for the purpose of property eligibility and cost feasibility determination. Such an inspection does not serve the purpose of what is referred to here as the "initial inspection.")

## ***Conducting the DHCD HQS Inspection***

Using the DHCD HQS checklist, the Rehabilitation Specialist should systematically go through the house room by room. Floors, ceiling, walls, windows, and outlets should be checked in all living areas.

All housing components must be compared against the DHCD HQS. See Appendix 34 for a copy.

### ***Lead-based Paint (LBP)***

Part of the inspection includes noting any interior or exterior failing paint condition. For the purposes of this program, failing paint includes:

- Paint that is peeling, chipping, pitting or otherwise unstable;

- Finishes on friction and impact surfaces that rub, bind, or crush;
- Finished horizontal surfaces known to have been chewed by a child under the age of 6; and
- Bare soil onto which deteriorated paint might have fallen.

If no failing paint condition is noted, and no work will be conducted that will disturb more than two (2) square feet of a painted surface, this is documented and no further lead requirements apply.

If a failing paint condition is noted, and the house was built prior to 1978, the Rehabilitation Specialist (and the licensed Risk Assessor if not the same person as the Rehab Specialist) and the Grant Administrator must assume that the failing paint is lead paint. This triggers certain requirements:

- The work write up must incorporate “interim controls” and must meet certain lead-related reporting requirements as per the terms of the Risk Assessor licenses;
- The contractor and crew awarded this job must be trained in Lead Safe Work Practices or similar course as identified by federal regulation;
- The area(s) in which potentially lead-disturbing work occurred must be thoroughly cleaned; and
- At the completion of the work, the Risk Assessor must complete appropriate dust sampling, and the sampling reveal that lead, if present, is within acceptable lim-

its. If not, the area(s) must be cleaned again and additional samples taken.

See Appendix 36 for more details.

**\* To find out if a Risk Assessor has a DPOR license, call 804-367-8511 or go to [www.dpor.virginia.gov](http://www.dpor.virginia.gov) and click on “License Lookup.”**



DHCD strongly recommends that the Grant Administrator, the Rehabilitation Specialist, the Risk Assessor, and the Contractor not receive final payment for a unit until the report from the lead clearance test is back and it is determined the home is free of lead paint hazards.

#### ***Asbestos and Asbestos Abatement***

Sometimes the Rehabilitation Specialist will determine during the initial inspection that the house scheduled for rehabilitation contains asbestos material. See Appendix 37 for more details about how Grantees are to handle such situations.

#### ***Supplemental Inspections***

The following supplemental inspections are also required before work on the unit is bid out:

- A termite and infestation inspections by a licensed inspector;
- A chimney inspection; and
- A blower door test both at the beginning and the completion of the project. When the initial blower test is completed, the entity responsible for the test must

draft recommended weatherization specifications to be included in the bid specs, in addition to providing a target air exchange rate. The second test must be completed before completion of punch list items.

## Preparation of Specifications and Bids

After the Rehabilitation Specialist and the Grant Administrator have developed their respective lists of all of the needed repairs and have met to compare their findings, the Rehabilitation Specialist should begin the task of writing specifications for bidding and carrying out the work.

Good job specifications are an essential element in a successful rehabilitation program. The job specifications are the basis for competitive bidding. They are a part of the contract documents. The job specifications are the basis for resolving disputes and for requiring contractors to fully complete necessary repairs.

## Specification Language

Good job specifications have three common attributes: clarity, measurability and specificity.

### *Master Specifications*

The Rehabilitation Specialist must employ master specifications, which are based on the DHCD HQS. See Appendix 34 for a copy of the DHCD HQS. They are a set of standard specifications covering materials, equipment and installation procedures to be used in your Rehab Program. The master specifica-

tions should cover every component of housing construction and for each component should describe in detail the grades and standards of materials and equipment, which the program considers adequate. This description may include brand names or equivalents, and performance standards. For each component e. g., doors, windows, roofing, the master specifications should describe what parts make up the component so when the component is referenced in the job specifications, the contractor will be expected to replace all parts.

The master specifications should also detail construction methods to be used in the installation and repair of all common components so that when the word "install" is used the contractor knows what is expected.

By referencing the master specifications, the job specifications can be shortened considerably while still being descriptive. Of course, if a type of repair is not covered in the master specifications or the Rehabilitation Specialist wishes to provide special emphasis on a certain installation, a detailed description should be included in the job specifications.

**\* All job specifications should state that all work is to conform to the master specifications. Many programs provide references to the applicable section of the master specifications in the appropriate corresponding section of the job specifications.**

Adherence to green building practices, where appropriate, is encouraged. DHCD encourages the use of Energy Star rated appliances whenever

economically feasible as they will provide cost savings. For more information, go to [www.energystar.gov](http://www.energystar.gov), [www.aarp.org/universalhomes](http://www.aarp.org/universalhomes) or [www.buildinggreen.com](http://www.buildinggreen.com).

DHCD also encourages the use of Green Building Techniques (see Appendix 38) and Universal Design elements whenever possible.

### ***Specification Format***

The Rehabilitation Specialist should use the same format with each bid. Typically, the format would include:

- A cover sheet with all pertinent contact information;
- Paragraphs containing specifications for individual or related repairs. Each paragraph should be numbered and contain an underlined heading that describes either the component or room location of repairs. Interim control measures should be under one heading. Each paragraph should have a space for the subtotal bid for those repairs;
- The last page should summarize the total bid, making sure to separate base costs from exceptions; and
- Floor plans should be provided, showing the location of all major work in each room.

As with other formal procurements, the bid should include Instructions to Bidders, General Conditions and a Bid Form.

The bids should indicate that the Grantee reserves the right to reject bids which are not within 10% of the cost estimate.

### ***Organization of Work Items***

The organization of individual work items within the job spec should be decided by the Rehabilitation Specialist. There are two general methods of organizing specification: room by room, and by component. Many programs use a combination of these two methods. Room by room headings are used for all carpentry and room specific repairs. Component headings are used for major systems which affect the entire house or a significant portion of it e.g., electrical, heating, insulation, roofing, etc.

All lead hazard reduction activities or interim controls should be itemized in the write-up so that timeframes coordinating cleaning, clearance testing, and temporary relocation are identified as needed.

### ***Cost Estimating***

Every program must complete a thorough cost estimate for every job it bids before the bid is advertised. The cost estimate should be done by unit cost of each repair and broken out by the same subtotals listed in the bid.

In order to arrive at a unit cost, the Rehabilitation Specialist should utilize experience, reference books and local prices. By experience it is assumed that the person doing the estimating has some contracting experience upon which to assess costs. If the estimator has little or no contracting experience or has experience in only a portion of home repair, he or she will have to rely more heavily on the other sources.

All cost estimators should utilize at least one reference book which gives an updated listing of unit costs of typical home repairs. Some sources for these publications are Home Tech Publications, McGraw-Hill (Dodge Reports), Craftsman books, Fred R. Walker. Addresses for the sources are available from DHCD. Reference books should be used as a general guide to specific unit prices. The Rehabilitation Specialist should fine tune these prices through actual bid results and research on local prices.

A good estimator should routinely check with local suppliers to keep track of the cost of commonly used materials and equipment. This exercise not only assists in honing cost estimating skill, but also develops good relations with suppliers. It also provides the Rehabilitation Specialist with knowledge of what materials are locally available and what materials may be acquired at a good price. (Example: The estimator in visiting local suppliers may find that fiberglass tub kits are available at considerable savings over tile installation).

The Rehabilitation Specialist should use the cost estimates in several ways. Cost estimates may show that the bids will likely exceed the program's maximum allowable cost per house, thus creating a need to delete or scale down certain work items to include alternatives. When bids are reviewed, they can indicate that a bidder either misunderstood the job specifications or was taking the job at a loss. Some bidders will bid low in order to win a contract, planning to recoup by requesting numerous change orders.

## **Bidding and Construction Process**

All housing rehabilitation construction contracts that will use NSP funds must abide by the *Virginia Public Procurement Act*. The Act allows use of one of the following processes depending on the estimated value of the contract to be awarded.

### ***Small Purchase Procedure***

All contracts less than \$30,000 in estimated costs must be done in accordance with the Grantee's adopted small purchase procedures. These procedures do not have to require competitive sealed bids for construction contracts if the aggregate or sum of all phases of a contract is not expected to exceed \$50,000 as long as the procedures provide for competition wherever practical. However, procurements that are expected to exceed \$30,000 must require the written informal solicitation of a minimum of four (4) bidders.

**\* If bids were only solicited from pre-qualified contractors and fewer than two (2) bids were received, the Grantee must advertise for bidders.**

The small purchases procedures should have been reviewed by DHCD during the Pre-contract Activities Phase. If there is no approved procedure, the process described for contracts greater than \$30,000 must be used.

### ***Competitive Bid***

Contracts with an estimated cost of \$30,000 or more must use a competitive bid process. A public notice should be posted in a designated public area and/or advertised in a newspaper of regional circulation at least ten (10) days prior to

the date set for receipt of bids. Bids must be opened in public with an announcement of the bids received.

### ***Pre-Bid Conference***

DHCD *highly* recommends that a pre-bid conference be conducted. The purpose of the pre-bid conference is to allow bidders to ask questions and comment upon the Bid Documents and for the Grantee to issue instructions or clarifications to them.

The pre-bid conference should be held at a time approximately midway between the Invitation to Bid and the Bid Opening. The time, date, and place of this conference should be included in either the Invitation to Bid or the Instructions to Bidders.

The Rehabilitation Specialist should walk through the property with the contractors in attendance. Any questions concerning work specified should be answered, but the Rehabilitation Specialist should be very careful to provide comments only in explanation of what the specifications cover. Substantive verbal instructions or changes may not take place at the Pre-Bid Conference.

**\* Absolutely no changes, alternatives, or additions to the specifications may be officially agreed to at this Pre-Bid Conference. Any changes to the Bid Documents must be done as a written addendum to them.**

### ***Addenda***

Changes to the Bid Documents that take place after the publication of the Invitation to Bid are called addenda and become a binding provision. All addenda must be issued in writing. Verbal

addenda are strictly prohibited. Addenda can derive from:

- Comments or questions received at the pre-bid conference;
- Phone inquiries from prospective bidders; or
- Clarifications of technical issues discovered after formal advertising.

When an addendum is necessary, it must be provided to every prospective bidder who received a copy of the Bid Documents. Addenda should be transmitted to all bidders at the same time and at such a date as to allow sufficient time for bidders to accommodate the changes in their bids.

### ***Bid Opening***

Everyone with a vested interest in the rehabilitation project should attend the bid opening. At a minimum, the Grant Administrator and the Rehabilitation Specialist must attend. All bids must be opened publicly and read aloud at the time stated in the advertisement.

After the bids have been opened and read, interested parties should be informed that the bids shall be taken under advisement and the parties will be notified of the award. A bid tabulation form shall be prepared comparing the base cost and the Rehabilitation Specialist's estimate, signed by the Grant Administrator and Rehabilitation Specialist, and placed in the property file.

**\* Bids may not be accepted past the stated time for close of receipt of bids. No verbal modifications or clarifications of bids will be allowed after**

**the bids are opened. Withdrawal of a bid by a contractor after it has been submitted is allowed only as described in the *Virginia Public Procurement Act*.**

## **Contract Award**

The Rehabilitation Specialist and Grant Administrator should evaluate the bids received, determining if they are complete, based on the requirements set forth in the invitation and the program design, and within DHCD's cost limitations. A contract award recommendation shall be made to the Management Team. All bids must be reviewed and approved by the Management Team with the contract signed by the Chief Administrative Officer or Chief Elected Official.

If the cost of the best bid is not within 10% of the Rehabilitation Specialist's cost estimate, a memo must be placed in the file justifying the contract award. If the contract is not awarded to the lowest bidder, the reason must also be documented. This could include the bidder not being in good standing with the program or the bidder not having the capacity to complete the project within sixty (60) days.

**\* No person may bid on or be awarded a contract to perform work on property which they own or in which they have financial interest.**

If the contract award results in the contractor receiving contracts that in total or in accumulation exceed \$50,000, the Grant Administrator must obtain a completed *Neighborhood Stabilization Program Disclosure Report*, which is found in Appendix 40.

## ***Pre-Construction Conference***

Upon award of the bid, a pre-construction conference must be held. This is a critical event in implementing an effective, timely construction process and clarifying any remaining questions about the project. The conference should be a formally scheduled meeting attended by the Grant Administrator, the Rehabilitation Specialist, the Homeowner (if possible), and the Contractor.

The first part of the conference will be an overview of the construction process. All participants should reach a mutual understanding of how the construction work should be carried out, what the end product will be, and the roles of all parties in the process. The following items should be discussed:

- Start and completion dates;
- Work hours;
- Inspection procedures;
- Payment schedule;
- Responsibilities of all parties;
- Complaint and appeals procedure;
- Change order procedure; and
- Debris removal and clean-up requirements.

The contractor should be taken room by room and shown the location of all work. All parties should thoroughly understand what will be done. Homeowner preference in colors and styles of fixtures should be discussed when applicable.

If there is a disagreement about the scope of work, the Rehabilitation Specialist should provide a ruling based on the work write-up. If work is not covered by the write-up, a change order should be requested by the contractor.

At the conclusion of this portion of the conference, the contracts should be executed, along with the federally-required notices. A copy of the complaint and appeals policy should be given to the contractor.

### ***Change Orders***

Change orders are any alteration made through an addendum to the rehabilitation contract. This includes changes to the specifications, changes to the contract amount and/or an extension to the contract's completion date.

Change orders must be initiated by the Rehabilitation Specialist as soon as the need is determined. Those pertaining to the specifications should be only for work that could not have been foreseen prior to construction and must relate to eligible DHCD HQS deficiencies. The amount of the change order should be supported by predetermined unit prices or be negotiated with the contractor.

It should be noted that a program which approves a lot of change orders will generally receive continual requests for additional ones since contractors build in a higher profit margin for change orders than for bid work items.

**\* All change orders must be signed by the contractor, Rehabilitation Specialist, Grant Administrator, Grantee and DHCD prior to work authorization. Change orders that**

**increase the costs of construction above \$25,000 are not likely to be approved by DHCD.**

Payment for change orders must be made with the final construction draw.

### ***Inspections***

During the course of the project, the Rehabilitation Specialist is expected to undertake inspections at least weekly. These may include:

- Progress inspections;
- Payment inspections;
- Complaint inspections;
- LBP inspections;
- Final HQS inspection; and
- Punch list.

All inspections must be documented by reports signed by the Rehabilitation Specialist and submitted to the Grant Administrator.

### ***Progress Inspections***

Weekly visits to the construction site occur on a set schedule and when critical construction elements must be approved before the project can proceed.

At these inspections, the Rehabilitation Specialist should document whether or not Lead Safe Work Practices were observed.

### ***Payment Inspections***

The Rehabilitation Specialist must base his or her approval of contractor invoices on a documented payment inspection.

These inspections should be made promptly so as not to delay the processing of the contractor's payment. The report should reflect the type of payment procedures adopted by the program, usually 50%, 95% and 100%. A predetermined percentage of completion procedure would require a Summary of Work Completed and the inspector's certification that the completed work has met or exceeded that percentage. A payment for actual work accomplished not tied to a percentage would necessitate a detailed listing with cost figures of all work to be included in the payment and possibly invoices.

### ***Complaint Inspections***

In the event that a complaint is received from the homeowner regarding the work of the contractor, the Rehabilitation Specialist must inspect the validity of the complaint and document his or her determination. See Chapter 4: Grant Management for more details about the required written complaint and appeals process.

### ***LBP Inspections***

At the completion of "interim controls" or before the homeowners take occupancy, the Risk Assessor must complete a clearance examination. A written Clearance Report and the Lead Hazard Reduction Activity Notice must be submitted to the Grant Administrator (who will pass it on to the prospective purchaser) within fifteen (15) days of the Clearance Examination.

### ***Final DHCD HQS Inspection***

When work is nearing completion, the contractor should notify the Rehabilitation Specialist of the date when the property will be ready for final inspection. Both the Grant Administrator and

the Rehabilitation Specialist are required to do final DHCD HQS inspections. They should proceed through the house with the work write-up in the same deliberate manner in which the initial "As-Is" inspection was made, ascertaining that each work item has been totally completed to his or her satisfaction.

The Grant Administrator and the Rehabilitation Specialist can use their initial HQS inspection form, using a second ink color in the last column of each page to show that failing items are now passing inspection. The inspection form is to be signed, dated and placed in the file corresponding to that dwelling unit.

The Rehabilitation Specialist should also verify that the Grant Administrator has received all warranties and instruction booklets for installed equipment and appliances.

### ***Punch List***

Any unfinished or omitted items should be noted and written down on a punch list. A punch list is a listing of items written as specifications, which constitute the work necessary to complete the contract. No other work items other than those written on the punch list should be required of the contractor after receipt of the punch list. Upon completion of the punch list items, the Rehabilitation Specialist should check those items and if all have been completed satisfactorily, completion should be certified.

### ***Role of Local Building Code Official***

The local building official must inspect all relevant rehabilitation work e. g., electrical, plumbing, mechanical, and structural).

**\* It is required that electrical upgrades be inspected by a certified electrical inspector.**

Houses being rehabilitated with NSP funds do not have to conform to USBC code, rather only to DHCD HQS. However, all construction that is performed to alleviate HQS must conform to USBC code.

The Rehabilitation Specialist should consult with the local building inspector before doing any work to assure that the local official understands the scope and objectives of the program. The local building inspector should be viewed as a resource to the program.



Any problems encountered with local building officials should be brought to the attention of your Community Representative. DHCD's Division of Building Regulation is aware of the objectives of the NSP program and is willing to mediate any misunderstanding with local building code officials.

### ***Certification of Final Completion and Acceptance***

The Rehabilitation Specialist should submit a *Certification of Final Completion and Acceptance* to the Grant Administrator.

### ***Final Payment***

Before authorizing final payment to the Contractor, the Grant Administrator must obtain the following paperwork the contractor and Rehab Specialist:

- Signed and dated Final DHCD HQS Inspection form;

- Final Blower Door Test Report;
- Exterminator Inspection and Treatment Reports;
- Electrical Inspection Report;
- Affidavit of Release of Liens;
- Affidavit of Payment of Debts and Claims;
- Register of Contractors, Subcontractors and Suppliers as found in Appendix 32;
- Chimney Inspection Report, if applicable;
- Building and/or Health Permits, if applicable;
- Building Code Inspection Report per USBC, if applicable;
- Certificate of Occupancy, if applicable; and
- Lead Based Paint Clearance Reports as required.

**\* Grantees may provide first-time LMMI homebuyers with financial assistance as outlined in their Housing Program Design. This may include down payment assistance up to 3% of the sales price with a 50% match from the homebuyer, reasonable closing costs normally associated with the purchase of a home (including paying discount points to the lender), principal write-down assistance, and mortgage insurance.**

### ***Homebuyer Inspection***

The Grantee must ensure that the homebuyer obtains an in-depth inspection with an independent, qualified (certified) home inspector. The inspector will give the homebuyer an unbiased evaluation of the home, the mechanical systems, maintenance issues, heating and cooling operation (e.g. thermostat, filters, etc.), and long-term upkeep. The home inspection fee shall be paid from the deliverables line item.

### ***Homeowner Warranty***

The Grantee shall purchase a homeowner warranty from a commercially available source to provide additional assurance on items such as the heating and cooling system, plumbing and appliances. The warranty period can not exceed three years and be paid from the deliverables line item.

## **Recordkeeping**

Housing projects require extensive documentation. The Grantee must maintain a separate file for each unit rehabilitated. See Appendix 18: Rehab File Checklist for more details.

Grantees must maintain records available to the public that indicate rating criteria and justification for assistance for all applicants.

All application and verification information, especially social security numbers, must be kept confidential except to appropriate officials.

For all projects, applicants and beneficiaries must be tracked by income, race and ethnicity as categorized by HUD, as well as by owner-occupied or tenant status, female-head of household (occu-

pied by one or more children under the age of 18), elderly household (62 years of age or older), and disabled household.

Grantees must set up a file for each house that receives housing rehabilitation assistance. At a minimum, the file must contain all of the information outlined in Appendix 18.

- For each household, set up a three-ring binder with a tab for each of the numbered items in the File Checklist.

In addition, Grantees must track housing construction contracts awarded by contract value, number of houses, and business names for minority contractors, female-owned contractors, for local contractors and for low bidders.



Call your DHCD Community Representative for a sample tracking form.

All project files must be maintained for at least five (5) years after Final Close-out.

THIS PAGE INTENTIONALLY LEFT BLANK

# CHAPTER 9: GRANT CLOSEOUT PROCEDURES

---

This chapter outlines the grant closeout process. Upon completing NSP-funded activities and/or fully expending the NSP funds, the Grantee enters the final phase in the grant management process, grant closeout.

For purposes of clarity, this chapter is divided into the following sections:

- Letter of Conditions;
- Final Closeout Reports;
- Administrative Closeout;
- Conditional Closeout;
- Final Closeout; and
- Final Audit Requirements.

## ***Letter of Conditions***

Once DHCD, in consultation with the Grantee, has determined that the NSP funded activities are completed and/or all NSP funds have been expended in conformance with program guidelines, a Letter of Conditions (LOC) is issued. This Letter suspends the grant contract and informs the Grantee of what items are necessary for Administrative Closeout of the grant.

Upon issuance of the Letter of Conditions, DHCD has determined that no further draws on the grant account are needed and no further requests for funds will be accepted. Due to this policy, the Grantee should submit a drawdown request for all remaining funds less the five percent (5%) administrative retainage when they are advised that the LOC is being prepared or when they receive it

and submit it with the completed Final Closeout Reports.

The Letter of Conditions identifies conditions necessary to resolve grant issues and to become administratively closed. These may include the resolution of any Findings identified in the final compliance review, submission of a program income plan, or other administrative requirements. In all cases, the LOC transmits the Final Closeout Reports or “the blue forms,” which must be completed and submitted as a condition of Administrative Closeout.

## ***Final Closeout Reports***

The Final Closeout Reports usually consist of the following five forms: a *Final Financial Report*, a *Final Construction Report*, a *Final Evaluation Report*, a *Program Income Report*, and a *Leverage Report*. Samples of the “blue forms” are available, if requested, after the execution of the NSP Agreement.

All reports in the *Final Closeout Report* package must be returned to DHCD, along with the final drawdown for the five percent (5%) administrative retainage.

The *Final Financial Report* (and the *Program Income Report*, if applicable) must be complete with final data and certified by the local official who executed the NSP Agreement. Information may not be available to allow completion of the Leverage, Construction and Evaluation Reports at the time of sub-

mittal; *if* data is incomplete, information current to the report date *must* be submitted. DHCD requires re-submittal of incomplete report forms every six (6) months until final information has been reported.

## Final Financial Report

The *Final Financial Report* is an end-of-project summary of all NSP expenditures.

In Section I of the *Final Financial Report*, information is to be provided per activity as identified in the Grantee's current, approved Program Budget. If program income was expended for project activities, it must be included as part of the amount shown in the NSP expended column.

Section II requests detailed expenditures including program income by program activity categories in order to fulfill federal reporting requirements.

Section III is a computation of the grant balance and identifies the status of these funds. When applicable, program income, as reported in Section II on the *Program Income Report*, is reported on line b. The Balance on Hand (funds drawn but not expended) is to be returned to DHCD by a check made payable to the "Treasurer of Virginia." The remaining grant funds that have not been drawn are referred to as the Undrawn Grant Funds and will be cancelled by DHCD and re-appropriated.

With prior concurrence by DHCD, the Grantee may be allowed to encumber grant funds to cover appropriate final audit expenses. The authorized amount is to be shown as expended on the *Final Financial Report*.

**\* Funds encumbered for the NSP share of the final audit must be drawn, via a Request for Payment, prior to the issuance of the LOC and placed in a non-interest bearing escrow account. DHCD will require follow-up assessments of expenditures of these funds.**

The Chief Administrative Officer who holds the title of the individual who signed the NSP Agreement must sign the *Final Financial Report*. A sample may be requested from your DHCD contact.

## Final Construction Report

This report requests a description of all construction activities completed under the NSP Agreement. Specifics *must* be provided to indicate the scope of the work accomplished. This information must be consistent with the Grant Proposal and NSP Agreement.

Special attention should be given to the certification under Section II. By signing this Certification, the Grantee is indicating that a Certification of Final Completion and Acceptance has been issued for all construction activities and that they are on file with the Grantee. DHCD accepts this certification as indication that all grant funded construction activities have been satisfactorily completed.

In some cases, all project construction will not be complete at closeout. In these cases, the Grantee must continue to maintain data after project closeout and resubmit this report at six-month intervals until all construction has been completed.

## Final Evaluation Report

This report requests specific information about project impact. The Grantee must maintain adequate records throughout the project to successfully complete this report. The Grantee will complete one report for each project activity. This will allow DHCD to report to HUD on the number of benefits by activity. The documentation of benefits is discussed in detail in Chapter 3: Benefits.

DHCD recognizes that in some cases the full level of benefits sought by the project will not have been achieved at the end of construction. In these cases, the Grantee must continue to maintain data after project closeout and resubmit this report at six-month intervals until the full level of benefits has been achieved.

Section I of the *Final Evaluation Report* lists the project specific activity measures determined by DHCD as being applicable to a given project. Grantees are requested to provide up-to-date cumulative information on each measure.

The measures include requests for demographic and income data on applicants, participants, and direct benefit recipients per the revised federal regulations governing the State NSP Program.

Section II is a statement of benefits on applicants, proposed and actual number of total households, female-headed households, elderly persons and disabled persons.

Section III addresses the total number of proposed and actual number of households receiving first-time indoor plumbing, becoming first-time homeowners and receiving substantial reconstruction.

## Program Income Report

Any funds returned to the Grantee as repayment or revenue earned as a result of expenditure of grant funds is Program Income. Use of program income is determined by timing of its receipt by the Grantee.

In Sections I and II of the *Program Income Report*, DHCD requests information on expenditures from program income earned from allowable sources which was accrued and expended during the project up to submittal of the report to DHCD. The total from Section II should then be transferred to Section III, line b of the Final Financial Report.

Section III asks for data on unallowable interest income that MUST be returned to DHCD.

Section V is a summation of the DHCD approved Program Income Plan. If a plan has to be prepared as part of the closeout process, see Appendix 22 for a sample of the plan.

It is important to remember that all program income earned prior to Administrative Closeout must be spent in conformance with the Program Income Plan and Title III of the *Housing and Economic Recovery Act* and in compliance with all applicable Federal laws. Program Income earned prior to DHCD's acceptance of the Program Income Plan must be returned to DHCD.

## Final Leverage Report

This report requests information on non-NSP funds that were part of your project and which were counted as leverage in the project rating. Shaded areas are completed by DHCD. All private mon-

ies expended as leverage *must* be documented with an Independent Public Accountant's Certification or with copies of invoices and cancelled checks.

### ***Administrative Closeout***

In some cases, projects will be closed financially although leverage, construction or benefit has not been completed. This may occur, for example, in the case of a public facilities project involving large amounts of leverage funds budgeted for project construction activities, or with economic development projects in which employment benefits will occur after production begins. In order to accommodate these cases, DHCD may issue an Administrative Closeout.

The Grantee will only be issued Administrative Closeout status when all NSP funds have been expended, when all NSP-funded construction activities are complete, when all compliance review findings are cleared, and when the original submittal of the *Final Closeout Reports* have been accepted. Once Administrative Closeout is issued, the Grantee is eligible to execute a contract for a new grant.

To document completion of benefits after Administrative Closeout, DHCD will continue to ask that updated *Final Evaluation Reports* be submitted at six (6) month intervals from Administrative Closeout for the two (2) year tracking period or until benefits are achieved. The report forms will be transmitted to Grantees, by DHCD, for completion and return.

The Final Leverage and Construction Reports, if incomplete, will also require re-submittal at six (6) month intervals until determined complete by DHCD.

### ***Conditional Closeout***

Conditional Closeout will be issued when the achievement of the National Objective of benefit to low- and moderate-income persons has been assured. In order to become Conditionally Closed under this system, all proposed benefits e. g., new jobs, water and/or sewer hook-ups, and rentals of housing units that have been physically achieved must be documented. If the achievement of benefits occurs at the same time as full expenditure of NSP funds, a project can become both administratively and conditionally closed simultaneously.

Should the project be completed, or the two-year tracking period expire without meeting the National Objective, persuasive documented evidence that good faith efforts were exhausted by the Grantee and/or third parties must be submitted to DHCD before Conditional Closeout will be provided. If the project, or the two-year period, expires without meeting the National Objective, appropriate sanctions may be imposed. These could include payback of grant funds, ineligibility for consideration of future grants, or withholding of draw downs on a new grant until compliance with the National Objective is met.

### ***Final Closeout***

To achieve Final Closeout, the Grantee must satisfy the condition(s) of the Conditional Closeout. In almost all cases, the completion of the final audit, if one is required, and reconciliation of any audit findings will be the only conditions that will need to be satisfied. Any remaining conditions and/or citizen complaints must also be resolved before Final Closeout can be achieved.

### ***Final Audit Requirements***

In any year in which more than \$500,000 of federal funds are received and spent by a Grantee, an OMB Circular A-133 audit must be performed, submitted to DHCD, reviewed and approved.

In most cases the final OMB Circular A-133 audit will not be performed until conditional closeout has been achieved. It is expected that the Grantee will take responsibility for seeing that an OMB Circular A-133 audit is undertaken when the Grantee has its annual audit performed. If an audit is required, a copy of the audit must be sent to DHCD.

If the final audit report includes findings affecting NSP funds, the Grantee must respond to those findings in a letter to DHCD. Should these findings necessitate that the Grantee adjust the Final Financial Report, an amended report must be sent to DHCD with a refund made payable to the "Treasurer of Virginia" for any repayments required.

THIS PAGE INTENTIONALLY LEFT BLANK

# INDEX FOR 2009 NSP MANUAL

---

## A

Acknowledgement of Receipt of ECOA Notices and Disclosures .....	76
Administrative Costs.....	49
Affidavit of Payment of Debts and Claims .....	97
Affidavit of Release of Liens .....	97
Annual Activity and Beneficiary Report.....	26
Annual Expenditure Report.....	30, 36
Anti-displacement Plan .....	16
Appraisals .....	67
Appropriations .....	46
Asbestos .....	89
Audit Requirements .....	55

## B

Benefit Requirements.....	19
Bid Opening .....	93
Blower Door Test.....	90
Books .....	44
Budget Revision Worksheet.....	53
Budget Revisions .....	53

## C

Certificate of Occupancy .....	98
Certification of Final Completion and Acceptance .....	97
Certification of Signatures and Address.....	49
Change Orders .....	95
Closeout, Conditional.....	104
Closeout, Final .....	104
Community Improvement Grant Disclosure Report .....	94
Complaints .....	32
Compliance Reviews.....	36
Conflict of Interest .....	29
Contract Amendments.....	35
Contract Award.....	94
Contract Execution.....	18
Contract Negotiations .....	13
Cost Estimating.....	91
Cost Limits.....	83

## D

Definitions .....	20, 39
DHCD HQS .....	88, 90, 95, 96, 97
DHCD HQS Inspection Checklist and Certification .....	88
DPOR license.....	67, 85, 89
Drawdown Request .....	49
Drawdown Support Form.....	49

## E

Electronic Transfers of CDBG Funds.....	52
Environmental Review Record.....	14
Expendable Personal Property.....	34

## F

Fair Housing .....	17, 30
Federal Construction Contract Language .....	84
Federal Equal Credit Opportunity Act.....	76
Federal Identification Number.....	49
Final Audit Requirements.....	105
Final Closeout Reports .....	30, 101
Final Construction Report .....	102
Final Evaluation Report.....	26, 103
Final Financial Report .....	102
Final Leverage Report.....	103
Financial Management Requirements .....	42

## H

Home Maintenance Education Program .....	74
Housing and Community Development Act of 1974 .....	65
Housing and Urban Development Act of 1974.....	1
Housing Projects .....	25
HUD Handbook 1378.....	65, 69, 71

## I

Inspection .....	88, 89, 95
Invitation To Accompany.....	67

## J

Just Compensation.....	68
------------------------	----

## L

LBP .....	88
Lead Safe Work Practices .....	86, 89, 96
Letter of Conditions.....	101
Leverage Funds .....	10, 14, 17, 37, 43, 57
LMI Households.....	20
LMI Persons .....	20

## M

Master Specifications .....	90
Monthly Updates .....	30

## N

National Objectives .....	19
Non-discrimination Policy .....	16
Nonexpendable Personal Property .....	33
Notice of Intent Not to Acquire .....	69
Notice of Relocation Eligibility .....	69
Notice of Right to Continue in Occupancy .....	69
Notice to Proceed.....	83

## O

OMB Circular A-133 .....	55
Oversight Boards .....	32

## P

Personal Property .....	33
Pre-Bid Conference .....	93
Pre-Construction Conference .....	94
Preliminary Acquisition Notice .....	66, 67, 69, 70
Prior Authorized Costs.....	13
Procurement.....	17
Program Design .....	83
Program Design, Housing Rehab.....	See
Program Income.....	53
Program Income Plan.....	18, 103
Program Income Report.....	103
Progress Reports .....	30
Project Budget .....	15, 45, 53
Project Management Plan .....	18, 28
Project Management Team .....	28, 32

## R

Real Property .....	33
Recordkeeping .....	26, 37, 56, 70, 98
Register of Contractors, Subcontractors and Suppliers .....	97
Rehab Board .....	76, 83, 94
Rehab File Checklist.....	98
Rehabilitation Act of 1973.....	16
Relocation Assistance .....	71
Residential Anti-Displacement and Relocation Assistance Plan.....	18
Risk Assessor.....	89

## S

Section 504 .....	16
Section 8 Income Guidelines .....	20
Soft Costs, Construction-related .....	83
Statement of Settlement Costs .....	66, 69, 70

## T

Total Annual Income .....	20
---------------------------	----

## U

Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 .....	65
--	----

## V

Virginia Department of Accounts .....	50, 52
Virginia Public Procurement Act .....	66, 92

## W

Willing Seller .....	69
www.aarp.org/universalhomes .....	91
www.buildinggreen.com .....	91
www.dhcd.virginia.gov .....	2, 13, 27
www.doa.state.va.us.....	52
www.dpor.virginia.gov .....	67, 85, 89
www.energystar.gov .....	91
www.huduser.org .....	20