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Webinar Notes

NEBRASKA CDBG-DR OFFICE HOURS WEBINAR

HOMEOWNERSHIP PRODUCTION PROGRAM

August 25, 2:00 p.m. – 3:00 p.m. CST

Purpose of Meeting	Discuss the purpose and structure of DED's Homeownership Production Program (HPP) to potential applicants and interested stakeholders.
Facilitators	**DED:** Christina Zink, Jenny B. Mason, Susan Nickerson **Hagerty:** Stephen Lathom, Ashley Napier, James Ariail, Hilary Wentworth, Laura Munafo

SUMMARY OF PRESENTATION

The following section provides a summary of the presentation delivered to meeting participants prior to the question and answer (Q&A) period.

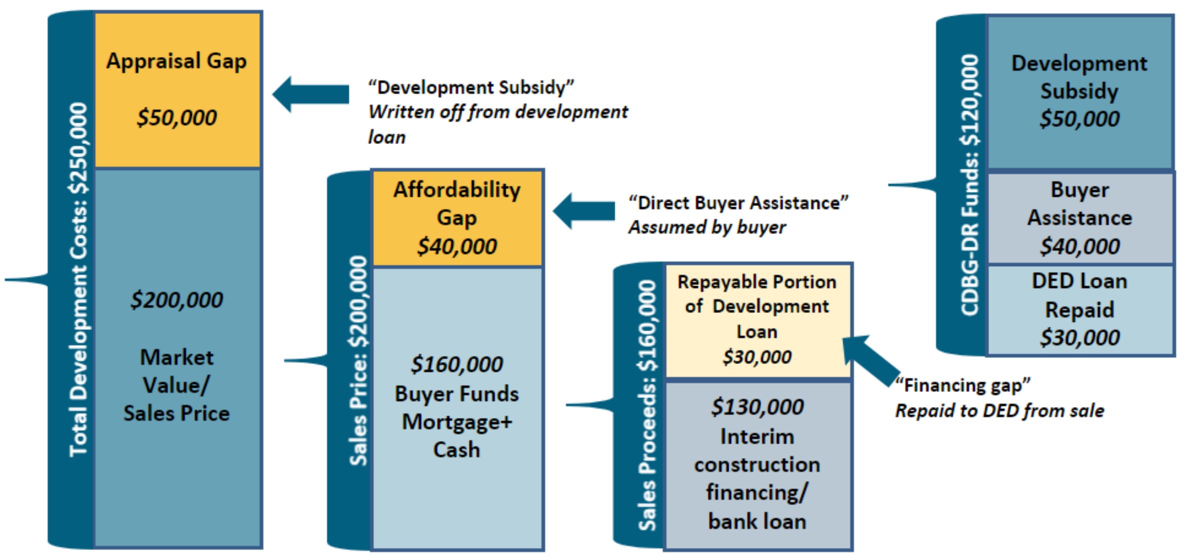
- During the meeting today the main intent is to describe the purpose and structure of the HPP.
- Federal rules require that DED spends 80% of the total fund in the HUD-defined Most Impacted and Distressed (MID) counties (e.g., Dodge, Douglas, and Sarpy).
- Federal rule also requires that 70% of total funds are to support Low-and moderate-income (LMI) residents.
- The Affordable Housing Construction Program (AHCP) is targeted entirely to HUD-identified MID counties and LMI populations.
- HPP is a sub-program within the broader AHCP.
- The Affordable Housing Construction Program (AHCP) is made up of three (3) sub-programs:
  - HPP, which is the main focus of today's webinar.
  - Small Non- Low-Income Housing Tax Credit (LIHTC) Production Program.
  - LIHTC Gap Financing Program.
- Eligible applicants for the HPP are:
  - Non-profit organizations, which will be designated as developers.

- Units of local government (e.g., counties, cities, or villages), Public Housing Assessment Systems (PHAs), and Tribal Nations that will be designated as subrecipients.

- It is anticipated that most applicants for the HPP will be non-profit developers.
- HPP is being implemented to support the recovery efforts from the 2019 floods.
- The goals of the HPP are to:
  - Increase opportunities for owner-occupied, affordable housing in flood-impacted areas; and
  - Increase community resiliency in the face of future natural disasters.
- HPP financing may be used to address three types of funding gaps common in the production of affordable homeownership units:
  - Appraisal gap: It is common for the cost of building a home to exceed its appraised value.
  - Affordability gap: Even if subsidies are identified to cover the appraisal gap, the appraised value of the home often exceeds the purchasing power of LMI households.
  - Financing gap: Even when appraisal and affordability gap subsidies can be identified, developers of affordable homeownership projects often cannot obtain enough interim or construction financing from private sources to fund the development of the home until the sale to the buyer.
- The meeting facilitator walked through the funding sample below:

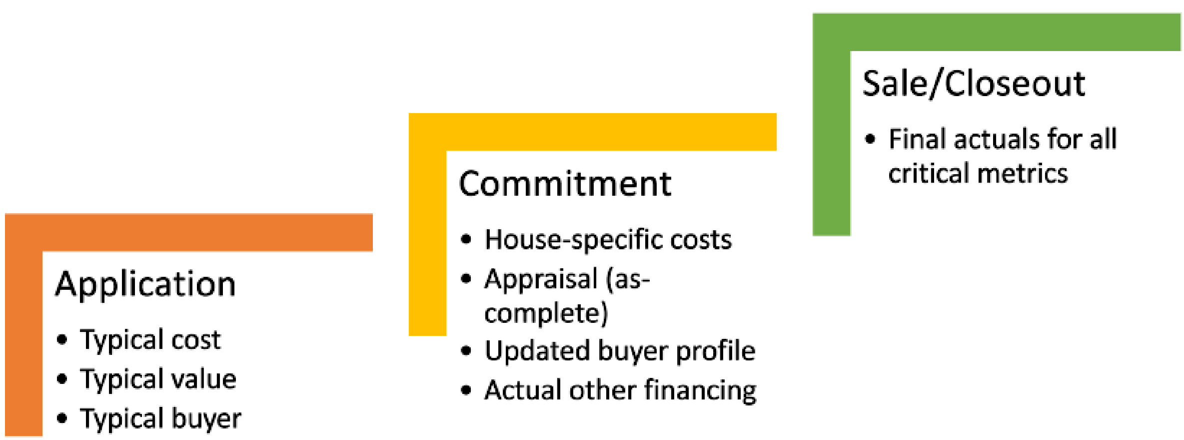
Functional Use

At sale, HPP reconciled to appraisal, affordability, & financing gaps.



- The meeting facilitator walked through the graphic below:

What if our "gaps" are off?



- The cap for homebuyer assistance is set at $50,000. Each homebuyer will be assessed on an individual bases for their affordability amount.

- Homebuyers should have a loan that is within a reasonable margin of the current national average interest rate. The loan must not have certain predatory factors, or a lot of additional fees associated with the loan.
- There is a 5-year affordability period for the homebuyer. If the homebuyer continues to occupy the home for the full 5- year period, then the loan will be forgiven.
- If the buyer does not stay in the home for the full 5-year period, then the loan amount will be reduced by 20 percent each year. The amount owned will be fulfilled by the net proceeds at the time of sale.
- Homebuyers will be required to complete HUD Homebuyer counseling by a HUD certified counselor. If the developer is not a HUD Certified Agency (HCA), the developer will need to establish a partnership to complete this need.
- CDBG-DR funds do require that you follow cross-cutting requirements associated but not limited to the following: Fair Housing, Equal Opportunity, and Labor Standards.
- Developers or Applicants can meet the Green Building Standard by adopting the Energy Star standard.
- Duplication of Benefits (DOB) is not anticipated to be an issue with any of our Applicants due to program design.
- The relationship between DED and the funded entity will drive how procurement will be reviewed. Local Governments and Trible Nations will be classified as Subrecipients, so procurement rules will apply.
- CDBG-DR funding is subject to the National Environmental Policy Act (NEPA). The environmental review process includes, but isn't limited to the following aspects:
    - Public Participation: The public must be informed about the project before it begins.
    - Limitation on Activities Before Environmental Clearance: The Responsible Entity for the project must obtain Environmental Clearance prior to proceeding with the project.
    - **Taking a Choice Limiting Action after application and prior to completion of the environmental review process will make a project ineligible for federal assistance.** This includes but is not limited to the following activities:
        - Purchasing Property.
        - Demolition.
        - Site Prep/Clearance.
        - Rehabilitation.
        - Construction.
- Due to program design, it is not anticipated that the Relocation Requirements will be utilized.
- If the Relocation Requirements do apply there are two things that need to be addressed:
    - All property purchases are voluntary;

- If you're acquiring a piece of property that is occupied by tenants, you need to contact DED prior to submitting an application.

Q&A SESSION MEETING NOTES

The following table presents questions asked by participants during the Question & Answer (Q&A) session at the end of the meeting. Questions and answers are lightly edited for clarity:

Q1: Can the funding be stacked without utilizing a construction loan? What if a grantee fronts the money to build a house for $250K, sells it for an appraised value of $130K, and puts $20K in a soft-second. Can they, upon completion, request reimbursement for the appraisal gap and the affordability gap?

A1: Yes, this scenario could work using working capital or a bank loan.

Added Clarity: This still presumes there is a project-specific commitment in advance of starting the home. DED could not award funds in this manner for a house that, for example, was already underway or started without a specific written agreement "reserving" the funds for the project.

Q2: Can we get the development subsidy with this non-construction loan model?

A2: Yes, this is entirely workable for the HPP.

Q3: Would the funding and reimbursement for the appraisal and affordability gaps be considered non-construction costs in terms of triggering DBA?

A3: The guidance in some HUD program states that if you're reserving this assistance for a Developer even though {the funding} is not an interim source for construction, it still triggers Davis Bacon. It's better to assume that the project is a Davis Bacon project than not. What we do anticipate for this program, is breaking the "Project" up to become a series of projects that wouldn't be large enough to trigger Davis Bacon. That's not to avoid Davis Bacon, but to limit market exposure – having too many homes not yet sold. But, if there are more than 9 homes that are being developed at one time then, Davis Bacon will be triggered.

Added clarity: Additionally, funding of the appraisal gap, even if disbursed at the end of the project, is still fundamentally reimbursing for hard costs, so if the project is large enough (i.e., more than 8 units) Davis Bacon would apply even if the timing of the developer's receipt of the DR funding was at the end of the project.

Q4: Would only taking the appraisal and affordability gap funding eliminate the requirement for NEPA?

A4: No, the Environmental Review requirement will apply to all HPP projects.

Q5: Will DED act as the responsible entity for the Environmental Review?

A5: Yes, it is a HUD requirement that the Responsible Entity be a government agency.

Q6: Are there any restrictions on comingling of funds with other government funding (e.g., Nebraska Affordable Housing Trust (NAHTF) and Middle-Income Workforce Housing Investment Fund (MWHF).

A6: No, there isn't a restriction on leveraging other public funding sources. However, it is very important that other funding be communicated to DED. Please keep in mind that all programs have a level of compliance involved.

Added clarity: "Comingling" is a problematic term, suggesting that different funds are mixed together in a manner that it is no longer clear which were which. While it is permissible to layer CDBG-DR with other sources, and is common in housing projects, project accounting must be clear enough to distinguish the specific sources/uses for all funds, especially when determining which source program income may "belong to."

HELPFUL RESOURCES AND TOOLS

Resource Details	Link
Nebraska DED CDBG-DR Website	https://opportunity.nebraska.gov/programs/community/cdbg-dr/
Homeownership Production Program Factsheet	Sent via email
Homeownership Production Program Guide	https://opportunity.nebraska.gov/wp-content/uploads/2022/01/NE_AHCP-Program-Guide-Homeownership-Production_01.30.2022-clean.pdf
Affordable Housing Construction Program Frequently Asked Questions (FAQS)	https://opportunity.nebraska.gov/wp-content/uploads/2021/12/Nebraska_Affordable-Housing-Construction-Program-FAQs_122021.pdf
CDBG-DR Green Building Standards	https://opportunity.nebraska.gov/wp-content/uploads/2022/01/Green-Building-Standards-Guide_01032022.pdf
HUD Community Development Block Grant Disaster Recovery Program (CDBG-DR)	https://www.hudexchange.info/programs/cdbg-dr/