

How to Use CDBG for Housing Activities

Introduction:

Welcome to "How to Use CDBG for Housing Activities." In this presentation, we will describe the various CDBG housing activities, focusing on how to design and implement programs that meet your community's housing needs.

Having a safe, affordable home is a basic goal for every family, and a central goal of the CDBG program.

CDBG may be used for housing rehabilitation, homeownership, rental housing, and activities in connection with housing. Housing activities usually address the CDBG national objective of benefitting low and moderate income households.

When CDBG funds are leveraged with private and other public dollars, grantees can extend their investments in housing. You can revitalize neighborhoods, ensure that residents are more vested through homeownership, and produce good quality rental housing.

To effectively plan your CDBG housing program, you will need to understand your residents' needs, your housing market and submarkets, and how to design strategies to address your community's priority issues.

Click on each video thumbnail to learn more about designing and implementing CDBG housing activities.

Thanks for watching! To continue viewing, click the Targeting and Leveraging video below.

Targeting and Leveraging Resources:

Carefully targeting your CDBG investment increases its impact.

CDBG can act as a catalyst that brings private and public sector investment to distressed neighborhoods and provides affordable housing in areas of high opportunity. While specific partners may differ from rural areas to urban areas, and from one part of the country to the next, CDBG should not work in isolation. Remember, transformative investment requires collaboration among multiple entities with funds from public and private sources.

In one example of leveraging housing funds for a carefully chosen target area, the City of Hinesville, Georgia, brought in several partners to redevelop one of its most troubled residential areas – Azalea Street. The result was the transformation of a key downtown neighborhood.

One way the CDBG program supports neighborhood targeting is through the use of Neighborhood Revitalization Strategy Areas for Entitlement communities, and Community Revitalization Areas in the State program. In an approved area, you may allocate CDBG funds to a Community Based Development Organization for new construction of housing. You can also build homes for a mix of incomes by aggregating all of the houses as a single structure, so that 51% of the properties must be occupied by low and moderate income households.

The beginning steps in targeting your housing investments are to understand your needs and your market as they relate to your community priorities.

Obtain current real estate market, sub-markets, and economic forecast information. This should include talking to real estate professionals about their observations.

Key market data indicators help you identify and document pressing housing issues. You can find valuable information in American Community Survey data and local sources. Two examples:

- A lack of affordable rental housing could be indicated by a drop in vacancy rates, particularly in lower cost rental complexes; an increase in demand on emergency shelters; reductions in building permit activity; and rising rents in traditionally low and moderate income neighborhoods, OR
- A first time home buyer program may be necessary when median sales prices have increased while the amount of housing inventory has decreased. Lenders may report more homeowners unable to make the required down payments

After consultation with other community members, combine this data with the community priorities and housing and homeless needs assessment outlined in your Consolidated Plan to update your strategies. Analysis of indicators, local knowledge and community input should inform the identification of issues and guide your housing investments.

Determining *where* to target your housing program is critical.

One resource is the eCon [E-con] Planning Suite, an online set of tools developed by HUD which provides planning data and custom reports for each jurisdiction. It includes 5 year American Community Survey data from the U.S. Census, public housing data, and business and employment characteristics.

The CPD Maps tool allows grantees to analyze census and HUD program data geographically. Some geographic areas that grantees typically target include:

- Neighborhoods with substantial housing need. You can, for example, identify low income census tracts with older housing, or a neighborhood with many vacant, abandoned homes.
- Areas with other resources available, such as public land that could be used; a community or employment center nearby; or redevelopment funding availability.
- Low income neighborhoods targeted for revitalization. Many grantees designate CDBG target areas in which they operate over multiple years in order to make a visible improvement to the neighborhood as well as helping the individual households.
- Gentrifying areas, or neighborhoods at risk. CDBG housing investments can secure affordable housing in areas where property values are increasing.

Program design should take into account the level of need in a neighborhood. Resources should match the needs of areas with extensive deterioration, or efforts will not achieve critical mass. You should also consider how you can use CDBG funds to support efforts to affirmatively further fair housing. This may mean investing CDBG funds to provide affordable, accessible housing in high-opportunity areas.

In addition to where to target, who to target for assistance is also key. Often, it makes sense to focus on vulnerable groups like people who are elderly, homeless, poor, veterans, or disabled. You will need to piece together a full picture of a group's specific needs from multiple sources of information. These include:

- Demographic data, which can be found in such resources as the local Continuum of Care Plan, behavioral and public health statistics, and Veterans Administration data.
- Your own planning documents, like the Consolidated Plan and Assessment of Fair Housing. In addition, your community may have a Plan to End Homelessness, or a local or regional economic

or comprehensive Plan with valuable information. Going beyond written data will provide new insights.

- Community advocacy organizations, such as the local Council on Aging, association for persons with mental illness, or Legal Aid can give you their perspectives on their priorities.
- Service Providers have professional knowledge of service demand and gaps and their input can be invaluable.

For example, one community drilled down in the data and identified that a substantial portion of individuals experiencing homelessness were veterans. The City consulted with service providers and discovered that the area did not have any facilities for veterans. City staff were aware of a vacant, condemned building that was a blight to the neighborhood and well-situated close to public transportation. The city renovated the building into 8 units of supportive housing for veterans.

In another example, Durham, North Carolina targeted investment in an area of 125 acres located between downtown Durham and North Carolina Central University. The area was characterized by dilapidated housing stock, high vacancy rates, and poverty. They decided to create a NRSA – a Neighborhood Revitalization Strategy Area – to revitalize this area through a combination of infrastructure improvements, housing rehabilitation, and new housing construction. By focusing on a targeted geographic area, pursuing multiple strategies, and leveraging investments, Durham worked to address the needs of this community and revitalize the neighborhood.

Your community will have more needs than you can address in any one year. When you prioritize expenditures, take into account need; community goals, including goals set in your Assessment of Fair Housing; project readiness; and financial feasibility.

In the Hinesville Georgia example, the City decided to prioritize the street with the poorest housing conditions and residential environment to redevelop first, and to target assistance to existing homeowners. They knew it would take more resources than were available, so they phased the plan over several years, beginning with the area most severely in need. This illustrates the commitment necessary to redevelop areas with very poor housing. Meeting only 20 to 30% of the need will likely fail.

Your funding plan should complement your housing program goals. Look to leverage your limited CDBG funds. In deciding how to allocate your CDBG funds, research what other funding sources are available to address your priorities. For example, health departments and Area Aging Agencies may have funding for ADA accessibility. Healthy Homes and other state operated agencies may have lead based paint funding. Many states offer programs for historic preservation and other types of housing rehabilitation. Your goals should include leveraging your funds, covering a need not already addressed by other programs, and avoiding duplication of effort.

“And so we go around and we get lots and lots of people to donate. And then once the homeowner has helped build that house with their sweat equity hours, they then can get up to a 25 year mortgage and we carry that mortgage and we only charge what we have in it, what it costs to build, and then we have a zero percent interest.”

CDBG housing funding usually takes one of three forms: grants, CDBG loans, or loans made by a private lender, with CDBG subsidy.

Each of these financing methods can be leveraged. For example:

- Leverage grants by requiring matching contributions from homeowners or an outside source. They could also be leveraged with sweat equity or donated labor.
- Create a revolving loan fund by providing CDBG Loans. When the principal and interest on loans is repaid the funds can be used to assist other properties.
- Use CDBG-funds to provide loan guarantees or interest rate reductions to make private or other public sector loans more affordable.

By combining HOME and CDBG funds, you can stretch your resources further. HOME participating jurisdictions fund the production and rehabilitation of housing for sale or rent to lower income households.

CDBG can be used to:

- Acquire, clear and/or dispose of property that will be built or rehabbed with HOME assistance.
- Fund rehabilitation also supported by the HOME program.
- Fund HOME program delivery costs, including inspections, loan processing, and management of tenant based rental assistance programs.
- Pay administrative costs for the HOME program, as the HOME program only allows 10% for its administration. These funds are subject to the CDBG administrative cap.

When using HOME and CDBG on the same property, it is important to remember that their regulations sometimes differ. In that case, you must follow the most restrictive rules. For example, CDBG-funded construction work over \$2,000 with 8 or more units, triggers Davis-Bacon wages. For the HOME program, Davis Bacon wages are triggered for any contract for the construction of 12 or more HOME assisted units.

If renovating an apartment complex with both sources of funds, the more restrictive CDBG regulations would apply. In another example, HOME requires rehabilitated houses to be brought up to local property standards. CDBG does not have that requirement. So a house funded with both sources would need to adhere to the more restrictive rules.

Thanks for watching Targeting and Leveraging Resources. You can end here, or watch another video by clicking below.

Housing Rehabilitation Activities:

Let's talk about how to carry out housing rehabilitation activities, one of the most common CDBG funded activities.

Homeowner rehabilitation programs result in safe, affordable homes that improve the homeowner's quality of life and contribute to the stability of the neighborhood. Housing rehabilitation benefits to the community include:

- Preserving and creating affordable housing
- Removing unsafe or unhealthy property conditions
- Promoting neighborhood stability by encouraging homeowners to stay and invest in their homes
- Helping seniors age in place

When designing your housing rehabilitation activities, in addition to the other topics presented below, you will want to consider:

- The characteristics of persons in your community with needs,
- The characteristics of your housing stock,

- Housing conditions, and
- Other investments, initiatives and programs to leverage

In deciding *where* to target their housing rehabilitation programs, some grantees make the funds uniformly available throughout their community. Others limit assistance to homeowners living in low income census tracts or in specific target neighborhoods. In general, the smaller the target area, the greater the revitalization impact. In addition to attracting other public investments, home repairs in target neighborhoods often encourage surrounding neighbors to invest in their own properties.

When designing your program, you will want to consider the type and extent of rehabilitation you will provide. This will depend on the characteristics and condition of your housing stock, other available programs, as well as the specific impacts you seek. For example, if you have a high demand for assistance and no other programs available in your community, you may want to limit the program to make emergency repairs in order to address the most critical needs for the largest number of people. You have flexibility in determining the extent of the rehabilitation work to undertake. Each choice has pros and cons.

- Emergency repair programs address only urgent needs, such as the lack of heating, plumbing or electricity. Emergency programs support households staying in their homes when they otherwise might be displaced. Because these conditions may require immediate response, there can be implementation challenges, including quickly completing eligibility documentation, and defining the scope of the emergency work. However, emergency repairs address a pressing community need.
- Special Purpose Rehabilitations focus on specific items that most affect quality of life such as heating and cooling, or energy efficiency. You can complete more work than just the emergency situation, and assist more households than with a full rehabilitation. On the other hand, the work may not fully address all of the home's major issues.
- Full, or substantial, rehabilitation addresses all of the home's major issues. Fewer units can be completed, but it supports long term sustainability of the house and the neighborhood. If a house is so deteriorated that it does not make financial sense to repair it, the home may be demolished and reconstructed on site. It is your choice whether to include this option in your program. It is very expensive and time consuming. However, it also addresses some of the worst properties and neighborhood eyesores.
- Some grantees choose to have multiple programs. For example, they may offer a full rehabilitation in target areas, and emergency home repair city wide.

Finding available, licensed contractors for any kind of housing rehabilitation program can be a challenge. Doing early outreach to the construction community to locate interested, reliable contractors will pay off in the end. Many communities develop and update pools of contractors, through a competitive process, and then rotate work among members of the pool. This streamlines the process and allows the grantee to become familiar with the performance of each contract.

Within the CDBG program, HUD encourages grantees to promote energy efficiency, reduce lead based paint exposure, preserve historic properties, and provide greater accessibility for people with disabilities. Grantees may incorporate these activities into a broader housing rehabilitation program, and they can also design specialty programs centered around these policy goals.

- Energy efficiency measures reduce the homeowner's energy costs and benefit the environment. Installing items such as energy efficient windows, insulation, weather stripping, and low flow shower

heads are all CDBG eligible activities. As the list of energy efficiency upgrades can be lengthy, deciding in advance which items to include is essential. An energy audit can assist in targeting the most cost effective upgrades. Department of Energy weatherization funds may also be available in the community. An innovative program in San Diego, California installs solar panels on homes owned by low income households. As part of the program, they train low income persons in solar installation. This kind of approach broadens the impact of the home repair program to include both energy efficiency and economic development.

- Lead paint is a serious hazard to children under the age of six. If disturbing lead paint as part of the rehabilitation, it must be addressed in projects where the total costs are over \$5,000 as well as in any home currently occupied by small children. Grantees can choose to address lead paint even when not required in order to increase the long term safety of the community.
- Some homes have historical significance and their rehabilitation must follow specific preservation design guidelines. Historic preservation activities associated with housing rehabilitation are eligible CDBG activities. Preservation of structures not only provides suitable and safe housing for occupants but can also contribute to the revitalization of deteriorated neighborhoods. Consider how you will address historic structures in your program design. Include guidance on whether and how you will address property exteriors and how you will address other items that contribute to historic preservation. Note that historic preservation activities can add significant cost to housing rehabilitation. You may want to consider a maximum threshold for this type of work and include a provision in your program design that lets you address immediate health and safety concerns without historic review.
- Providing accessibility features such as grab bars, ramps and accessible appliances are CDBG eligible. The installed features need to remove architectural barriers. There are many considerations when designing a program to promote accessibility and it may be difficult to design a program that will work for every applicant.

Check to see that this type of program is not a duplication of services already available through state disability agencies, Area Agencies on Aging, or social services departments. Many of these public agencies already offer modification programs, and combining those programs with your rehabilitation program helps to leverage CDBG.

Many communities have created specialty home repair programs targeted to persons with disabilities, limited to installation of features which improve accessibility. Others have chosen to give preference to persons with disabilities in their general home repair program, addressing accessibility features along with other housing deficiencies.

In incorporating some of these goals in your housing program, pay special attention to select contractors who have experience and certification, if needed, in the particular type of work.

When designing your program, in addition to designing who you will serve and the extent of the rehabilitation, you will need to decide which kinds of properties you will assist. Again, there are several factors to consider, such as the nature and diversity of your community's housing stock and the administration and construction costs to assist different types of properties.

For example, do you want to assist only single family homes or will you also assist multi-family units? If so, at least fifty-one percent of the units will need to be occupied by eligible households. For example, you may want to rehab a duplex owned by a family with low income who lives in one of the units and rents out the other. This may result in additional construction costs, temporary relocation of tenants

and execution of rental agreements to secure affordability.

Another question may be whether you want to assist manufactured housing. Manufactured homes are found in many communities and are the housing of necessity for many low income households, yet their useful life is shorter than site built homes so there may be less return on your investment. In places where manufactured housing is a common type of housing, grantees often provide rehabilitation assistance to owner-occupied units. Some grantees limit participation to newer manufactured homes that have a longer useful life; some require that the manufactured home owner also own the land on which the home is sited, or limit repairs to emergencies.

Having clear program goals makes answering these and other property questions easier. You also have options in the form of financial assistance. Key considerations include:

- Will all or some of the assistance be in the form of a grant?
- What are the minimum and maximum amounts?
- If you provide loan assistance, is it a CDBG loan, or a different lender whose loan is subsidized with CDBG funds?
- Will the loan require regular payments, or will it be collected only if the house is sold or refinanced? Do you want to allow homeowners to refinance existing debt in order to make the rehabilitation loan feasible?

In a typical example, one grantee provides loans from \$1,000 to \$25,000, at 0% interest, to be repaid when the home is sold, refinanced, no longer the primary residence of the applicant, or after 30 years, whichever comes first. There are many variations on such loan policies.

Assuring program integrity is a part of housing rehabilitation program design. You will want to preserve your CDBG investment by ensuring that a newly rehabilitated home is not immediately sold, particularly when the rehab is extensive. A typical method to prevent this is to lien the property so that the grant or loan is due upon sale of the home. Often, a portion of the grant or loan is forgiven for each year of continued occupancy. Repayment may be waived when a property is inherited by family members, or sold to another low income household. A common approach is to forgive 10% of the lien amount each year so long as the home is occupied by the recipient.

You should have written program guidelines designed for the local market and the target population. As well as general program goals, such as identifying a target area and maximum assistance amounts, rehabilitation program policies should include the grant or loan terms, eligibility requirements, a description of the application process, selection criteria, rehabilitation standards, and a sample of the grant or loan agreement.

For loan programs, grantees need basic underwriting skills to determine how much assistance the family needs and how much they can afford in loan payments. Most grantees will gladly send you copies of their program guidelines for background information.

Thanks for watching Housing Rehabilitation Activities. You can end here, or watch another video by clicking below.

Homeownership Assistance Activities:

Homeownership can increase a family's stability and economic independence, and encourages reinvestment in neighborhoods.

As with housing rehabilitation activities, there are several things to consider when designing a homeownership assistance program. How you design your programs will depend on the availability of other resources, ability to work with effective partners, and requirements to make the project feasible.

There are three common approaches to homeownership programs funded with CDBG: Home purchase assistance, support for new housing construction, and the acquisition, rehab and resale of housing.

First, in a home purchase assistance program, you can help people buy a new home, or help them buy housing they already occupy. Depending on the particular needs in your community, the assistance can take different forms. Work with potential buyers, housing counseling agencies, lenders and real estate agents to understand the barriers to homeownership in your community. Then, with their input, design financial mechanisms to address them. You can:

- Provide up to 50 percent of the required down payment,
- Fund Individual Development Accounts to build funds for down payment,
- Pay reasonable closing costs,
- Provide principal write-down assistance,
- Subsidize interest rates, and
- Assist homebuyers with private mortgage insurance.

Generally, all households receiving home purchase assistance must have low or moderate incomes. Exceptions are a HUD approved NRSA for an Entitlement community, and a Community Revitalization Strategy for the State Program. In these areas, down payment assistance may assist households with incomes over 80% of the area median income as long as at least 51% of households assisted in the area qualify as low or moderate income.

An example program by one grantee provides home purchase assistance up to \$15,000 toward closing costs and half of the down payment. The program offers a 3% loan to low income buyers. For very low income buyers, they offer a deferred loan, payable only at sale or refinancing.

Effective home purchase programs balance the amount of assistance, the repayment terms, and the target population in order to assist the most households, and still reach families who would not otherwise be able to afford a home. Good underwriting analysis will help purchasers to afford their homes in the long term.

Second, homeownership assistance can also take the form of supporting construction of new housing. As a grantee, you generally cannot finance new housing construction. However, you can:

- Pay pre-development costs, such as land acquisition or clearance
- Install roads, sidewalks, and water and sewer mains
- Fund a Community Based Development Organization or a Neighborhood Development Organization that is conducting neighborhood revitalization or a community economic development strategy to build new housing.

Think about how you can use CDBG as a catalyst for investment as well as a gap financing resource to make a project feasible. For example, a new residential area may spur development of neighborhood businesses, or additional privately built homes. You may want to combine your housing development investment with economic development incentives.

When using CDBG to support new construction, be sure to be well informed on cross-cutting requirements, including the Uniform Administrative Requirements, Fair Housing, Environmental Review, Labor Standards, Section 3, and Uniform Relocation Act/Section 104(d).

The Texas target area program is an example of how a grant might support new construction. The City purchased vacant land, installed sidewalks and streetlights, and donated the land to two nonprofit organizations that built housing for sale to low income purchasers. Some program characteristics that helped make their program successful included significant outreach with the existing neighborhood, high quality design, and providing down payment assistance and housing counseling in addition to the capital investments.

In the third approach, a public or private entity may purchase housing, rehabilitate it, and re-sell it to persons with low or moderate incomes. This is an approach you might use to develop affordable housing in high opportunity neighborhoods. Look for properties that are undervalued, are in arrears, or require extensive rehabilitation. This approach has been used successfully by community land trusts that sell only the house, retaining ownership of the land. They frequently provide ongoing housing counseling services. This is a mechanism to provide ongoing support to the homeowner, and to control resale so that the house continues to be occupied by low income households.

When provided in conjunction with resale of rehabilitated housing, housing counseling is eligible as a housing activity or as a public service. Counselors typically provide guidance to first time homebuyers prior to them receiving homeownership assistance. Counseling can also be targeted to prevent foreclosure. It is a valuable tool to help make owning a home a successful experience.

Regardless of the type of homeownership assistance you provide, you will need to decide who you want to serve by reviewing your local market needs and goals. Some examples of groups you may target are:

- First time homeowners. Most programs are targeted to low income buyers. Very low and extremely low income households may have difficulty sustaining homeownership.
- Former homeowners who lost homes due to foreclosure.
- Persons who buy in targeted neighborhoods.
- Special populations. For example, some grantees give preference to returning veterans or persons with disabilities.

Some grantees target their assistance further, by the type or location of property.

For example, if you have a neighborhood with many vacant lots, you might target housing development and down payment assistance for infill housing in that area.

If you have neighborhoods with a high percentage of rental properties, you might provide additional assistance to families buying homes in those neighborhoods.

If you have a lot of older housing on the market, you might provide funding to families who will purchase a home and rehabilitate it.

As an example, one grantee which has a large number of vacant houses, purchases and renovates them. It also has a city wide CDBG down payment assistance program. If a buyer chooses one of these properties, he or she receives a bonus amount of down payment assistance. This approach encourages buyer choice while addressing a pressing community need.

All targeting should take into account your responsibility to affirmatively further fair housing, and to have programs that are accessible to diverse populations.

And you will need to decide the type of financial assistance to provide. CDBG assistance might take the form of grants, loans or other financing mechanisms.

Home purchase assistance to the homebuyer is often provided in the form of a "soft second" loan. This is a mortgage loan that is secondary to the primary mortgage and doesn't require repayment except under certain conditions. It can also be a low interest loan that requires repayment. Some grantees distinguish between the amount of assistance provided to low income and very low income buyers. Expenditures on acquisition, clearance and site improvements in support of new housing development are often not recovered. However, it is possible to recover some of the costs from the developer. It is also possible to lend funds to a Community Based Development Organization that is constructing housing, and expect repayment at time of sale to the homeowner.

In any case, CDBG assistance is intended to benefit the low or moderate income homebuyer. While homeowners may sell their property for any number of reasons, it is important to protect against an immediate sale to an ineligible buyer to preserve the program's intent to assist low and moderate income households.

Given this, many grantees choose to put a lien on the property, requiring a return of all or a portion of the assistance if the home is sold within a certain period of time that reflects the value of the CDBG investment, for example 15 years.

A shared equity model in which the CDBG program shares in a portion of the sales proceeds when the low income homeowner sells is also possible.

Thanks for watching Homeownership Assistance Activities! You can end here, or watch another video by clicking below.

Rental Housing Activities:

Safe, affordable rental housing with access to good schools, jobs and transportation contributes to a family's stability and economic sustainability.

Grantees and other public and private entities may use CDBG to acquire and/or rehabilitate housing to rent to households with low and moderate incomes.

Grantees may provide support for the development of new housing by paying for related costs. These include:

- Acquisition of property by public or nonprofit entities
- Site clearance and assemblage, and
- Site improvements, if in public ownership.

A grantee cannot undertake new construction directly. However, new construction of rental housing may be carried out by a Community Based or nonprofit Development Organization provided the development is part of a neighborhood revitalization, community economic development, or energy conservation project.

Like other housing activities, how you design your project or program depends on the specific circumstances in your community. You will need to think about who you will serve and where, types of assistance you will provide and partners to work with. You will need to ensure that your investment is secure and what affordability restrictions you will place on the property and how you will monitor them.

Who you will serve and *where* will be informed by needs identified in your planning process, the availability of other community resources, and alignment with community goals.

For example, your Consolidated Plan may have given a high priority to rental units for people with extremely low incomes. In order to address this priority, you may have to identify a source of rent subsidy for the future tenants, who may have little or no income. Possible sources may be the project based housing choice voucher program, or permanent supportive housing programs.

Understanding the location of existing rental housing is key to project selection. For example, your community may lack affordable rental housing in higher income areas of town, in the downtown, or may lack high quality rental property in lower income neighborhoods, or new employers in a grantee's jurisdiction may trigger the need for more housing.

In Burlington, Vermont, the grantee went through this planning process, and decided to focus on a waterfront area that had only been affordable for higher income households. They identified a City owned brownfield that could be redeveloped to provide mixed income rental housing. They also decided that it was important to build a variety of bedroom sizes, so that families could enjoy the waterfront living.

Community development entities receive a variety of proposals. Match those proposals to housing goals as well as feasibility and project readiness as part of the funding criteria.

While there may be a specific project that you support, you could also develop a rental program that solicits applications for redevelopment of a certain type of property. Eligible properties may be publicly- or privately-owned, and residential or mixed use, single or multifamily. They may also be mixed income. Working with local housing industry professionals will help you determine how to best target your funds. Connecting with your housing authority, regional housing providers and governments will also help you design your activities to be responsive to housing needs in a way that also furthers fair housing. For example, one grantee developed a program to renovate second and third floor vacant spaces in the downtown into residential rental units. Such focused approaches allow CDBG funds to address specific community issues in addition to the provision of housing.

In any CDBG-funded rental development, there will be tenant income requirements.

The general rule is that 51 percent of the units in each assisted structure are to be occupied by households with low or moderate incomes. For up to date information on income limits in your area, you can use the HUD Program Income Limits, published annually, available online at the HUD Exchange. An income calculator is also available to determine the eligibility of specific applicants.

In limited circumstances, CDBG funds may be used in rental developments where less than 51% of the units will be occupied by low and moderate-income households. Grantees should consult their field office to learn more.

The CDBG regulations state that rents must be "affordable" to low income persons. They do not define affordable, although it is generally accepted that persons should pay no more than 30 percent of their income toward rent and utilities.

Keep in mind that when using HOME and CDBG on the same property, their regulations sometimes differ. In that case, you must follow the most restrictive rules.

The CDBG program has no requirement for ongoing compliance with rent restrictions on a CDBG-assisted rental development. However, the grantee may choose to require compliance over a certain number of years and grantees typically do.

Affordability restrictions ensure that the benefits of the CDBG investment will be passed on to new tenants over time increasing the community's supply of affordable housing. Should you use an affordability restriction, you will need to monitor for compliance. This means ensuring that if there is turnover in tenants that the new tenant's income meets the low or moderate income threshold. If you discover that this is not the case, you may exercise your right to recapture the funds within the terms of your rental agreement with the property owner.

Some things to note:

- Facilities for persons with special needs, homeless shelters and other facilities are categorized under CDBG as public facilities and not housing. In these cases, rents will be restricted as part of its public use.
- If a CDBG-funded housing project triggers the Uniform Relocation Act, rents will be restricted under URA regulations, and
- If CDBG is combined with HOME in a rental project, then HOME affordability periods apply.

Grantees may provide assistance to property owners in the form of loans, grants, rehabilitation loan guarantees, and interest subsidies. Refinancing existing debt is also possible if necessary for rehabilitation to be feasible.

CDBG funds may not be used to pay tenant's rent, except in emergencies or as part of a temporary relocation during rehabilitation.

In the Burlington Vermont Waterfront development, they used all of these tools, assembling a financing package that included CDBG, a Section 108 Loan, and private loans and equity. They donated City land, and they leased the land to a land trust to ensure long term affordability.

Because rental development often includes sophisticated financing such as the Waterfront project, developing staff or consultant capacity to do underwriting of projects is important. It is also important to have resources available to assess the capacity and past performance of developers or owners of rental property. The goal is to have good quality units affordable over many years, so project selection criteria should be rigorous.

When funding a rental property, you should enter into a written agreement with the property owner that outlines the eligible tenants, any rent restrictions, and the duration of the requirements. This agreement should be recorded to run with the property in case of change of ownership.

Thanks for watching Rental Housing Activities! You can end here, or watch another video by clicking below.

Activities in Connection with Housing:

In addition to rehabilitation, homeownership and rental assistance, the CDBG program allows for other activities that make a housing strategy complete, including acquisition, demolition, clearance, site improvements, and code enforcement. It also allows you to pay the staff costs associated with the housing activities.

These activities give you options for removing existing barriers to affordable housing and for dealing with foreclosed, abandoned and vacant properties.

On housing development sites, the grantee can undertake a number of activities in conjunction with the project. Some activities typically take place prior to the start of construction. These include:

- Acquisition and disposition. Land banking is not allowed, so acquisition of land should take place only when a plan for its use as affordable housing is clear. The cost of disposing of the property, including marketing and maintenance, is also eligible.
- Demolition and clearance. Houses that are severely deteriorated may be demolished under the slum and blight national objective. In such cases, the owner does not have to have a low income, and the re-use of the property does not have to be CDBG eligible. An example of clearance would be removal of a dilapidated structure or environmental contaminants for the purpose of building affordable housing.
- Other activities occur during construction:
- Landscaping and construction of garages and driveways, when in conjunction with other rehabilitation on the property.
- Water and sewer connections, and the installation or replacement of a well-water system or septic waste-disposal system on private residential property, are also eligible as part of housing rehabilitation.

Next we will hear from Vashati Curry, a demolition inspector for the City of Odessa, Texas, at work. "This house burned, suffered heavy fire damage in February. Not sure what the cause of the fire was, but we did go in, inspected the structure, and determined that it needed to come down as soon as possible. Generally our structures go through a process where they go before the board of survey, or the property owner will come in and sign a waiver, but on some structures that are deemed to be an emergency, we don't go through that process, we have the building official come in and declare it to be an emergency, and we proceed like that. Once we come in, we remove the structure, we clear the lot of all debris, we leave a nice vacant lot. The structure is gone, the property owner still retains possession of the land. A lot of times they will sell the land and other times depending on what the zoning is they'll come in and possibly put a trailer or maybe rebuild...It's a great thing because coming in and taking care of the blight that's in our neighborhoods. A lot of our neighborhoods have structures that are dilapidated, that are unsafe. When we come in and we take care of these structures and we remove these structures, not only is it a value to the community we serve it also retains the property value of the neighborhoods."

Some activities can take place off site as well. The grantee can undertake improvements such as sidewalks, streetlights and paving near an infill housing development. You can also install new water or sewer pipes in the public right of way related to housing rehabilitation.

In addition, the CDBG regulations specify that you may convert existing non-residential structures into housing. 51% of the households that then occupy the property must have low and moderate incomes. An example is in Bristol, Virginia, where they converted a former school into senior housing. Another example is the conversion of a factory in Cincinnati into apartments.

Some key program steps to conversions are:

- Outreach. Converting a building's use can be controversial. Community outreach and design sensitivity to the surrounding environment are good early steps.
- Cost estimates. As costs to change building systems like plumbing and walls can be high in conversions, obtaining early, detailed renovation cost estimates are advisable.
- Leveraged funding. Conversions can provide good opportunities to leverage other funds, like Historic Tax Credits or New Market Tax Credits. These should be thoroughly researched.

Some communities allocate CDBG funds for code enforcement services to help arrest the decline of deteriorating areas. Code enforcement services must be carried out in conjunction with other activities that are revitalizing the neighborhood. Code enforcement may be a standalone CDBG activity, or you could choose to pair it with a housing rehabilitation or demolition programs.

Activities that affirmatively further fair housing are CDBG eligible under the planning and administrative cap. Grantees can fund preparation of the Assessment of Fair Housing, support fair housing monitoring, and related activities.

Some activities are specified as ineligible. Ineligible activities related to housing include:

- New construction by the grantee
- Equipment and furnishings
- Regular, non-emergency direct payments of rent or utilities
- Direct guarantees of mortgage assistance

Thanks for watching this video on Activities in Connection with Housing. Congratulations! You have completed this tutorial on How to Use CDBG for Housing Activities.