

Using CDBG Funds to Empower the Poor in Public Housing through Resident Management and Homeownership

February 27, 1992

Special Attention of:

Regional Administrators

Category "All Field Office Managers
Regional and Field Directors for CPD
Regional Housing and Public Housing Directors
CDBG State and Entitlement Grantees

U.S. Department of Housing and Urban Development

Community Planning and Development

Notice CPD-92-06

Issued: February 27, 1992

Expires: February 27, 1993

Cross References:

SUBJECT: Use of Community Development Block Grant Funds to Empower the Poor in Public Housing Through Resident Management and Homeownership

One of Secretary Kemp's Departmental priorities is to empower the poor by providing public housing residents the opportunity to own the housing units in which they live, handle resident management responsibilities, both as owners and tenants, and to provide expanded economic development opportunities in and around public housing. Prior CPD Notices have addressed other Secretarial priorities. CPD Notice 89-14 identified ways in which the Community Development Block Grant (CDBG) program could contribute to affordable housing initiatives and expand housing opportunities in communities. CPD Notice 89-28 identified ways in which CDBG funds could be used in support of drug abuse programs in public housing.

This Notice identifies ways in which grantees may use their CDBG funds to assist residents of public housing with housing resident management, ownership conversion, and economic development. It also identifies the types of entities which are eligible to receive CDBG funding. One copy of this Notice has been sent to each State and Entitlement CDBG Grantee. Field Offices may wish to provide additional copies.

A CDBG grantee may elect to undertake an activity itself, or may choose to make CDBG funds available to a subrecipient, such as a Public Housing Authority (PHA), resident management corporation (RMC), resident council (RC), or other qualified nonprofit or for-profit entity. When funds are made available to a subrecipient, a written agreement between the grantee and subrecipient that meets the provisions of 24 CFR 570.503 is required.

CGBE : Distribution: W-3-1, W-2, R-3-1, (PIH) , R6, 063, Special (CPD

Regional and Field Office Directors), CDBG Entitlement Grantees

Previous Editions Are O@ete HUD 21 B(3-80)

GPO 87 1 902

Examples of ways in which grantees may use CDBG funds to assist residents of public housing successfully manage or become the owners of the units in which they live include, but are not limited to, the following:

A. Assistance with Planning.-

Grantees may use CDBG funds for planning activities to facilitate homeownership and self-sufficiency. This activity is eligible under 24 CFR 570.205. (See, for example, paragraph (a)(3) of that regulation, authorizing functional planning in areas such as housing and economic development.)

B. Assistance with purchase of housing units.

Grantees may use CDBG funds to acquire properties in whole or in part, and make them available to residents of public housing through sale, donation, or otherwise. These activities are eligible under 24 CFR 570.201(a) and (b) as acquisition and disposition.

Grantees may also provide CDBG funding directly to RMCs or RCs under a subrecipient agreement pursuant to Section 570.503 for the purchase of housing which will then be conveyed to residents of public housing. The@ conveyance can be for less than fair market value, including by donation.

CDBG funds may be provided by the grantee or through the RMC or RC as a CDBG subrecipient for down payment and other homeownership assistance for persons purchasing housing. Assistance limited to the following is not considered a public service and, therefore, is not subject to the limitation under 24 CFR 570.201(e)(2):

a. Subsidizing interest rates and mortgage principal amounts for low- and moderate-income homebuyers;

- b. Financing the acquisition by low- and moderate-income homebuyers of housing that is occupied by the homebuyers;
- c. Acquiring guarantees for mortgage financing obtained by low- and moderate-income homebuyers from private lenders (except that amounts received may not be used to directly guarantee such mortgage financing and grantees may not directly provide such guarantees);
- d. Providing up to 50 percent of any downpayment required from the low- or moderate-income homebuyer; or
- e. Paying reasonable closing costs (normally associated with the purchase of a home) incurred by the low- or moderate-income homebuyers.

This activity was made eligible by Section 907(b) of the National Affordable Housing Act of 1990. The Act stipulates that grantees may make CDBG funds available for homeownership assistance as described above until October 1, 1992 (or such later date as may be determined by the Secretary, but no later than October 1, 1993, at which time homeownership assistance will be made available under Title II (Subtitle A--HOME Investment Partnerships) of the National,-Affordable Housing Act of 1990].

Where such assistance is provided under this legislative provision, the activity may only qualify as meeting a national objective of benefitting L/M limited clientele under 24 CFR 570.208(a)(2)(i)(C).

C. Assistance to acquire housing units for the purpose of rehabilitation.

CDBG funds may be provided to private individuals and entities, including profit making and nonprofit organizations, to acquire property for the purpose of rehabilitation, if the property is then rehabilitated and used or sold for residential purposes. The property should have sufficient deficiencies to meet the requirements that such acquisition is "for the purpose of" rehabilitation of the property. For example, the installation of smoke detectors or deadbolts for security devices alone would not be significant enough to justify the acquisition of a property for the purpose of rehabilitation by a private individual or a private profit making or non-profit entity.

However, these devices in combination with repairs such as caulking, insulation, replacement windows and doors, and painting, for example, would be significant enough to justify the acquisition of a property "for the purpose" of rehabilitation. Acquisition for the purpose of rehabilitation is eligible under 24 CFR 570.202(b)(1).

D. Assistance with the rehabilitation of housing units.

Grantees may make CDBG funds available, in whole or in part, to finance rehabilitation of residential property owned by the RMC or RC. Financing may be accomplished through grants, loans, loan guarantees, or interest supplements. Such financing may also be made available by the grantee or the

RMC or RC as a CDBG subrecipient to the new owners of public housing units acquired under paragraphs B.1 or B.2, above. Rehabilitation assistance is eligible under 24 CFR 570.202(b).

E. Housing Resident Management.

Grantees may provide CDBG funds to RMCS, RCs, and other eligible subrecipients for educational and training programs designed to:

Assist residents in understanding the ownership mechanism under which they will live and their responsibilities as unit owners or tenants. This may include training in home care and maintenance, personal financial planning and debt management.

Assist the officers or members (who are residents of the public housing units) of RMCs and RCs in assuming their roles and responsibilities for day-to-day housing management activities. This may include training or educational programs in such areas as tenant income and eligibility determinations, tenant eviction, rent collection, and maintenance; holding meetings and electing officers, establishing various resident committees (such as budget and finance, architectural control); and security for the on-going support of the project.

Educational and training activities are eligible as public services subject to the provisions and requirements of 24 CFR 570.201(e).

F. Economic Development.

The grantee may make CDBG funds available to the RMC, RC, or other public or private nonprofit entities, for economic development activities which will benefit residents of public housing. CDBG funds can also be used to assist private businesses for economic development projects which will produce or retain jobs primarily for low- and moderate-income people. Below are examples of ways CDBG funds can be used for economic development:

Assistance by grantees or public or private non-Profit entities.

CDBG funds may be used by the grantee, RMC, RC, or any other public or private non-profit entity to acquire or rehabilitate a unit or section of a building for a commercial business, such as a laundromat, day care, grocery store, luncheonette, or shoe repair [24 CFR 570.203(a)] to be owned and operated by such entity. Activities carried out under this provision will assist the RMC, RC, and tenants and owners to more easily strive for and obtain self-sufficiency. The requirements of 24 CFR 570.503(b)(8), Reversion of Assets, 24 CFR 570.504, Program Income, and 24 CFR 570.505, Use of Real Property, will apply, as appropriate.

Financial assistance to for-profit businesses.

Grantees may make assistance available in the form of loans, grants, loan guarantees, interest supplements, technical assistance, and other forms of support to for-profit businesses to establish and operate commercial businesses that will provide services or goods to public housing residents [24 CFR 570.203(b)]. The grantee must make a "necessary and appropriate" determination whenever CDBG assistance is provided to a private, for-profit business to carry out economic development activities. This determination, which is required under 24 CFR 570.200(e) and 570.203(b), is to ensure that the amount of any financial assistance is not excessive in light of the actual needs of the business and the expected public benefit. The activity must meet a national objective under 24 CFR 570.208. Most economic development projects will meet the national objective for jobs creation or retention. The above described assistance to a for-profit business may be for start-up costs, including equipment and inventory.

Service needs assessment.

CDBG funds may be made available to RMCs and RCs for market surveys to determine the types of businesses needed and desired by the residents. This is eligible under 24 CFR 570.205(a)(3)(iii).

Employment assistance.

CDBG funds may be used by an RMC or RC to provide employment assistance to public housing residents through training, screening, placement, assessment, follow-up support, transportation, and day care. These are eligible as public services under 24 CFR 570.201(e).

G. Other eligible activities.

Grantees may make funds available to RMCs and RCs for other self-sufficiency programs which are designed to enhance the quality of life of persons living in the housing project, including but not limited to security, child care, recreational and youth sports programs, health and nutrition, and welfare reform initiatives and demonstration projects. All public service activities are subject to the criteria in 24 CFR 570.201(e) regarding a new service or a quantifiable increase in the level of service, and the 15 percent limitation on the amount that may be used for public services during any grant year⁴ (Note that the National Affordable Housing Act contains a modification which allows a grantee's previous year's program income to be included in the base for calculating the public services limitation.)

In addition, the grantee may provide CDBG funds for other public facilities and improvements needed to support the public housing project's viability, such as community centers, playgrounds, and recreational facilities [24 CFR 570.201(c)]. If one of these facilities is located in a building which is also used for the general conduct of government (i.e., city hall) the special requirements at 24 CFR 570.200(b)(1) governing such facilities would also apply-

H. National objective.

As a general rule, it is anticipated that all eligible CDBG activities conducted in support of providing public housing residents an opportunity to own and/or manage the units in which they live will meet the national objective of benefit to low- and moderate-income persons. However, the grantee must still make a determination that each CDBG funded activity meets one of the national objectives under the criteria in 24 CFR 570.208 and maintains documentation as required under 24 CFR 570.506(b).

I. Duplicative Payments.

CDBG funds cannot be used to pay expenses that are already being paid by another source. That is, if HUD is paying the Public Housing Authority or RMC to manage or rehabilitate a building, CDBG funds may not be obligated to pay the same expenses.

7 'U.S. Government Prkfflng Otk: 1992 - 312-218160077

H. National Objective.

As a general rule, it is anticipated that all eligible CDBG activities conducted in support of providing public housing residents an opportunity to own and/or manage the units in which they live will meet the national objective of benefit to low- and moderate-income persons. However, the grantee must still make a determination that each CDBG funded activity meets one of the national objectives under the criteria in 24 CFR 570.208 and maintains documentation as required under 24 CFR 570.506(b).

I. Duplicative Payments.

CDBG funds cannot be used to pay expenses that are already being paid by another source. That is, if HUD is paying the Public Housing Authority or RMC to manage or rehabilitate a building, CDBG funds may not be obligated to pay the same expenses.

7 'U.S. Government Prhdng Otk: 1 9W - 312-218/60077

U.S. Department of Housing and Urban Development
Washington, D.C. 20410-0000 First-Class Mail
Postage & Fees Paid

,I Business HUD
I ..Any for Private Use \$300 Permit No. G-51