

# Implementing an Affordable Housing Program

September 7, 1990

Honorable Marvin Tate  
Mayor, City of Bryan  
P.O. Box 1000  
Bryan, TX 77805

Dear Mayor Tate:

On behalf of Secretary Kemp, thank you for your July 26, 1990, letter supporting the Department's affordable housing initiatives and discussing problems the City of Bryan is having with HUD regulations in implementing its Affordable Housing Program.

The July 26 letter listed four issues. The first was that Community Development Block Grant (CDBG) funds used for a "secondary downpayment assistance loan allocation on new residential construction" are subject to the 15 percent limitation on public services. You asked that a "waiver or reinterpretation of this regulation be granted to allow . . . this option."

As background, downpayment assistance is an activity that is generally ineligible for CDBG assistance under the income payments provision of the regulations (570.207(b)(4)). There are two ways that downpayment assistance could be provided using CDBG funds:

1. a waiver of 570.207(b)(4) could be granted to allow the City to carry out the activity. Even with a waiver, a downpayment activity would still be subject to the public services limitation; or
2. under the provisions of 24 CFR 570.204, such an activity could qualify as part of a neighborhood revitalization project carried out by certain types of subrecipients. More information on neighborhood revitalization projects and on special subrecipients is in the enclosed February 5, 1990, memorandum.

The public service limitation applies to 570.201(e) public services. Certain 570.207(b) ineligible activities also are subject to the limitation when they are made eligible through one of the two methods above. The 570.207(b) activities in question are non-physical and provide a service to neighborhood residents or selected members of the community. This includes various income payments, such as downpayment assistance.

The CDBG limitation on public services carries out a clear Congressional intent that the CDBG program be principally a physical development program. In pursuing affordable housing programs using CDBG, communities must remember that CDBG is primarily intended to provide physical development or redevelopment. Even when CDBG downpayment assistance is provided through a 570.204 special subrecipient, it must be in conjunction with a neighborhood revitalization project that will have an impact on physical neighborhood decline. This confirms that the link to physical development is crucial and a defining characteristic of the CDBG program.

While we are not inclined to support a waiver that exempted a downpayment activity from the public services limitation, some waivers to the method of calculating the public services limitation for activities associated with affordable housing have been granted. For example, a waiver of the method of calculating the public services limitation was granted the City of Fort Worth this spring to enable it to fund an effort that provided rental subsidies and job training to single parents. The waiver permitted the City to apply program income earned the previous program year toward the calculation of the limitation.

The reply to your second issue regarding the Affordable Housing Information Clearinghouse is essentially the same as above. This activity does not fit the Rehabilitation category, and if it were accepted as a 570.204 activity, it would still be subject to the public service limitation.

The third issue was with Federal Housing Administration (FHA) policies on secondary loans associated with Section 203 mortgages. The waiver you requested is not available because the requirements involved are statutory. The Director of the Regional Housing Development Division in the HUD Fort Worth Office, Mr. Larry Mumford, can work with the City to help structure a program that will work. Mr. Mumford's telephone number is (817) 885-5543.

Your fourth issue concerned the need for a central source of information on successful affordable housing programs. You suggested a regional Affordable Housing Task Force to "help develop new generic housing programs" that would meet HUD requirements and community needs. That is a suggestion that should be considered by the Regional Administrator of the HUD Fort Worth Office. I am providing him a copy of this letter. You may wish to follow up with him on that subject. Another possible source of affordable housing assistance is a CDBG Technical Assistance project, Public-Private Partnerships for Low- and Moderate-Income Housing in CDBG Communities. A press release about it is enclosed. Mr. William Rotert of the Fort Worth Office can give you more information about this project. His telephone number is (817) 885-5781.

Again, thank you for your letter and your support for affordable housing.

Very sincerely yours,

Russell K. Paul  
Deputy Assistant Secretary for  
Grant Programs

Enclosure

cc:

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CGBE: Chron/Files 7282 CGB: Patch 7280  
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