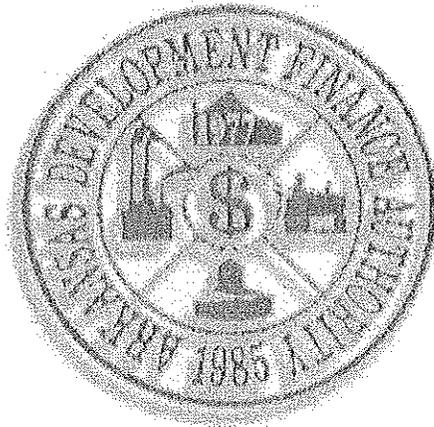


ARKANSAS DEVELOPMENT FINANCE AUTHORITY



Neighborhood Stabilization Program

Policies and Procedures Manual

June 2009



Arkansas Neighborhood Stabilization Program (NSP)

Policies and Procedures Manual

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I. Introduction

The Neighborhood Stabilization Program (NSP) for Arkansas is authorized by the Housing and Economic Recovery Act (“HERA”) (Public Law 110-289), which was signed into law on July 30, 2008. Originally introduced as HR 3221, HERA Division B, Title III establishes the NSP grant under the Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes heading. NSP was revised in February 2009 with the passage of the American Recovery and Reinvestment Act of 2009 (ARRA). The NSP is administered by the U.S. Department of Housing and Urban Development (“HUD”) and is considered a special Community Development Block Grant (“CDBG”) allocation. CDBG allocations for Arkansas are administered by statute by the Arkansas Economic Development Commission (“AEDC”). Arkansas was allocated \$19,600,000 in NSP funds by HUD.

Arkansas Development Finance Authority (“ADFA”) has been designated by AEDC as administrator of NSP funds for the State of Arkansas. This designation is by virtue of a Memorandum of Understanding (MOU) executed by AEDC and ADFA dated October 7, 2008.

ADFA will administer NSP effectively and efficiently under the housing conditions that exist in the State of Arkansas (the “state”) and with all practical safeguards against waste or fraud. ADFA will practice and advocate innovation, flexibility, and expansion in program design to address unmet housing needs and to address foreclosed and abandoned properties throughout the state. To that end, this policy and procedures manual is presented to provide an overview of ADFA policies and procedures as they pertain to NSP and step-by-step guidance on the implementation of NSP projects in the State of Arkansas. This manual is organized into the following sections:

- II. Purpose of the Neighborhood Stabilization Program
- III. General Requirements of NSP
- IV. The NSP Rental Housing Program
- V. The NSP Homeownership Housing Program
- VI. Glossary
- VII. Appendix I (Needs Score)

This manual is not meant to be a substitute for NSP regulations, but as a supplement to them. It is not exhaustive regarding all considerations affecting the use of NSP funds. While careful consideration and due care has been used in developing the manual, NSP participants are encouraged to consult with NSP staff to ensure correct interpretation of policies and regulations. ADFA reserves the right to implement additional policies as needed.

II. Purpose of the Neighborhood Stabilization Program

The Neighborhood Stabilization Program (NSP) is authorized by the Housing and Economic Recovery Act (“HERA”) (Public Law 110-289) and requirements contained in the HUD Federal Register Notice published October 6, 2008 (Docket No. FR-5255-N-01) and as revised in a “Bridge Notice” published June 15, 2009 (Docket No. FR-5255-N-02). (The Bridge Notice includes changes from the American Recovery and Reinvestment Act of 2009 (ARRA).)

The primary purpose of NSP is to provide emergency assistance for the state to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities. Arkansas’ NSP program provides loans to purchase foreclosed or abandoned homes and to rehabilitate, resell, or redevelop homes in order to stabilize neighborhoods and stem the decline of house values in neighboring homes.

As the administrator of the state of Arkansas’ NSP funds, ADFA has designed its programs into two main categories—the NSP Rental Housing Program and the NSP Homeownership Housing Program.

III. General Requirements of NSP

A. Allocation of Funds

NSP funds committed to the state of Arkansas will be allocated as promulgated in the State of Arkansas' 2009 Amendment to the Consolidated Plan. In addition, the state may spend up to ten percent (10%) of its NSP allocation and 10% of any program income for administrative and planning expenses.

ADFA anticipates that the amount of funds that will be applied for and approved will vary with the needs and capacity of local organizations in different areas of the state. ADFA is required to ensure that funds are used to address the areas of greatest need in terms of foreclosure. Therefore, ADFA will review and rank applications based on the Proposal Scoring Criteria, outlined in the Consolidated Plan Amendment for NSP and attached as Appendix I to this document. See also Section C "Application Selection Criteria" below.

In addition, ADFA is required to ensure that all NSP funding is obligated within 18 months following the execution of the NSP grant agreement with HUD, which occurred in March 20, 2009. Therefore, ADFA reserves the right to award funds to projects that are "ready to go" and to further adjust contracted amounts based upon actual performance and progress to obligate the funds within the initial 18 months of the grant agreement date or by September 20, 2010.

B. Eligible Applicants

NSP funding is available statewide to entitlement cities, participating jurisdictions, ADFA-designated Community Housing Development Organizations ("CHDOs"), non-profit organizations, for-profit organizations, developers, units of local government provided the entity is in good standing with ADFA, the State of Arkansas, and the applicants' respective regulating agencies.

A letter of support from the chief elected official (CEO) of the applicable local jurisdiction must be provided with each application for NSP funds.

The eligible applicant is the entity responsible for the NSP application, project development, project implementation, and accountability for uses of all NSP funds. The eligible applicant must adhere to required compliance and monitoring of all NSP activities for the full applicable affordability period. ADFA will allocate NSP funds to the approved eligible applicant as outlined in the NSP Program Agreement.

C. Application Selection Criteria

NSP funds awarded in Arkansas will be allocated on the basis of established need, capacity of the applicant, and quality and content of complete applications received by ADFA by application deadline. As mandated by HERA NSP regulations, priority in Arkansas is given to the areas having the greatest instance of foreclosures. Since NSP funds are intended to stabilize neighborhoods, only applications for eligible activities in existing neighborhoods will be considered. The NSP is not intended and shall not be used for properties that are a part of new developments which were overbuilt as determined by ADFA. ADFA reserves the right in its sole and absolute discretion to determine the level of existing neighborhood destabilization when considering proposals.

The Proposal Scoring Criteria includes the following:

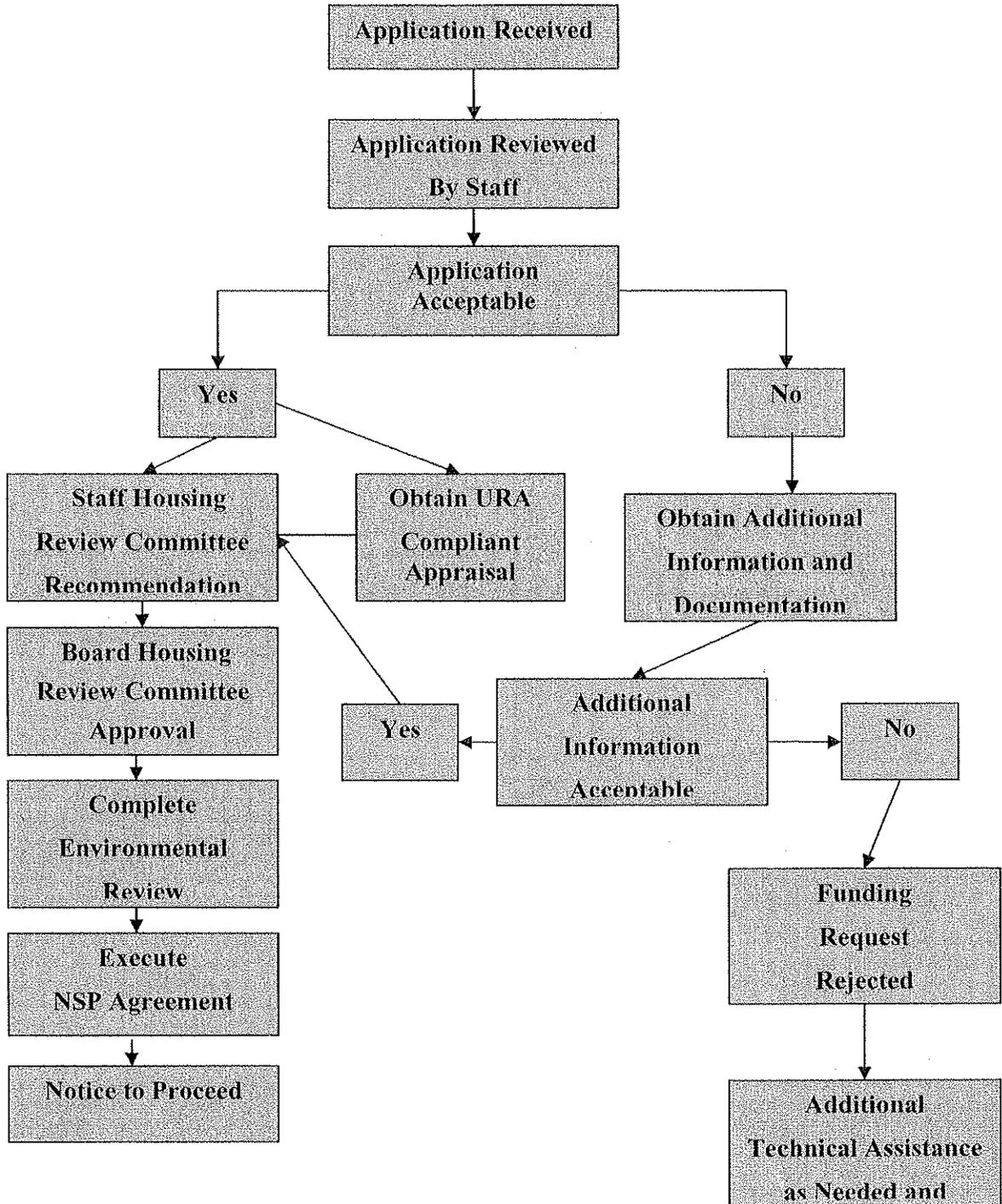
1. **Need** – The proposal must clearly demonstrate the specific areas to be assisted and the rationale for why this area and the specific properties have been or will be negatively impacted by foreclosure activity.
2. **Capacity** – The proposal must provide substantial information on the identity, location, and capacity of ALL partners who will be participating in NSP activities. The proposal must also fully demonstrate the ability of the applicant(s) to satisfactorily complete the proposed eligible CDBG activities within specified time lines. The applicant must provide specific examples of successful completion of the same or similar activities using CDBG, HOME, or other federal housing resources.
3. **Financing** – The proposal must clearly delineate the TOTAL resources expected to be used to complete the NSP activities proposed, including the exact amount of NSP funds requested in the proposal. All funding sources must be documented by firm financial commitments of the proposed amounts and uses of the funds. Leveraging of additional funds to NSP funds will be considered when reviewing and scoring the proposal.
4. **Quality of plan** – The proposal should clearly demonstrate the reasonableness of the proposed activities and funding in accomplishing the desired neighborhood stabilization results. Each proposal must require each NSP-assisted homebuyer to receive and complete at least eight (8) hours of homebuyer counseling provided by a HUD-approved housing counseling agency prior to obtaining a home mortgage loan.
5. **Ultimate neighborhood stabilization goals** – The proposal should specifically list units to be assisted and beneficiaries anticipated for assistance by the full scope of the submitted proposal. Include expected neighborhood stabilization benefits, number, type, and location of housing to be assisted, and number of expected eligible persons to benefit from NSP-funded activities.
6. **Time of Performance** – The proposal must include a reasonable and realistic time line for implementation of eligible activities, progress on those activities, and completion of ALL activities included in the proposal, including sale or rental of housing assisted using NSP funds.

D. Application Deadlines

ADFA will receive proposals through Tuesday, September 1, 2009. ADFA staff will review, evaluate, score, and make recommendations for approval to ADFA's Board of Directors for consideration at its regularly scheduled meeting on Thursday, November 19, 2009. If additional information is required by staff, the applicant must submit the documentation within thirty (30) calendar days of application deadline.

ADFA will develop and execute NSP agreements, committing NSP funds to the selected applicants by Thursday, December 31, 2009. Dependent upon the level of demand and award of NSP funds, ADFA reserves the right to extend the referenced time lines or establish additional funding rounds as necessary.

NSP Application Process Path



Note: Board Housing Review Committee approval, contingent upon acceptable URA appraisal.

E. Application Technical Assistance

Applicants may receive technical assistance by attending an informational training session prior to submitting an application. Sessions will address NSP and ADFA guidelines as well as application procedures. ADFA staff is also available to meet with applicants to provide technical assistance. Applicants must contact ADFA staff to establish a mutually convenient date, time, and venue.

F. Amendments to Applications

Any changes to any material aspect of the application, proposed development, or proposed activities must be presented as an amendment to the initial application for NSP funds. The request for amendment will go through the normal review and approval process as outlined in the “NSP Application Process Path” of this manual.

G. Eligible Activities

ADFA will distribute NSP funds for the following eligible activities:

1. Acquisition of abandoned and foreclosed properties
2. Rehabilitation of acquired abandoned and foreclosed properties
3. Demolition of blighted abandoned and foreclosed structures acquired using NSP funds for the purpose of rehabilitation or construction of housing
4. Reasonable developer’s fees related to NSP-assisted housing rehabilitation or construction activities
5. New construction of affordable housing for sale or rental to eligible homebuyers/tenants
6. Sale of residential properties acquired or acquired/rehabilitated using NSP funds
7. Rental of residential properties acquired or acquired/rehabilitated using NSP funds
8. Payment of reasonable down payment and closing cost assistance
9. Interest rate buy-down for fixed-rate first mortgages for eligible purchasers
10. General administration and planning activities
11. Provision of homebuyer counseling to all purchasers of properties constructed, acquired, or acquired/rehabilitated with NSP funds

For purposes of implementing the NSP, an **abandoned property** is defined as such when all the following apply: 1) Mortgage or tax foreclosure proceedings have been initiated for that property, and 2) No mortgage or tax payment have been made for the property owner for at least ninety (90) days, and 3) The property has been vacant for at least ninety (90) days.

For purposes of implementing the NSP, a **foreclosed property** is defined as a property that, under state or local law, has a completed mortgage or tax foreclosure process and is currently owned by the lender or mortgagee. A foreclosure is not considered to be complete until after the property title has been transferred from the former owner under a foreclosure proceeding or transfer in lieu of foreclosure.

These and other definitions may be found in the Glossary at the end of this manual.

NSP Eligible Use*	CDBG Eligible Activities	Type(s) of Properties
<p>A) Financing mechanisms for purchase & redevelopment of <u>foreclosed homes & residential properties</u></p>	<ul style="list-style-type: none"> ■ Activity delivery cost for an eligible activity (designing & setting it up) ■ The financing of an NSP eligible activity – such as soft second loans, loan loss reserve, equity sharing ■ Other activities eligible in uses below ■ Housing counseling for those seeking to take part in the activity 	Foreclosed residential properties only
<p>B) Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties</p>	<ul style="list-style-type: none"> ■ Acquisition ■ Disposition ■ Relocation ■ Direct homeownership assistance ■ Eligible rehabilitation and preservation activities for homes and other residential properties ■ Housing counseling for those seeking to take part in the activity 	Foreclosed or abandoned residential properties only
<p>D) Demolish <u>blighted</u> structures ONLY in connection with one of the other eligible uses</p>	<ul style="list-style-type: none"> ■ Clearance of blighted structures only in conjunction with one of the above activities 	Any, but must be blighted
<p>E) Redevelop <u>demolished</u> or <u>vacant</u> properties</p>	<ul style="list-style-type: none"> ■ Acquisition ■ Disposition ■ Public facilities and improvements ■ Housing counseling public services (limited to purchasers or tenants of redeveloped properties) ■ Relocation ■ New housing construction ■ Direct homeownership assistance ■ Housing counseling for those seeking to take part in the activity 	Any, but property must be vacant

* NSP Eligible Use C - Land Banking is not allowed under the Arkansas NSP.

H. Meeting the Low-Moderate-Middle Income (LMMI) National Objective

All NSP-funded activities must meet HERA's Low-Moderate-Middle Income (LMMI) National Objective, which means to primarily benefit LMMI households. LMMI households are defined as households whose incomes do not exceed 120% of area median income, adjusted for family size (measured as 2.4 times the current Section 8 income limit for households below 50% of area median income, adjusted for family size). All households assisted using NSP funds shall have incomes which do not exceed 120% of area median income, adjusted for family size.

NOTE that if funding is used in areas that are CDBG entitlement communities (e.g., Bentonville, Conway, Fayetteville, Fort Smith, Hot Springs, Jacksonville, Jonesboro, Little Rock, North Little Rock, Pine Bluff, Rogers, Springdale, Texarkana, and West Memphis), area median income limits issued for that area apply (as opposed to the statewide limit).

Documentation that the national objective has been met must be completed when the project is funded. The income of each household will be determined and documented using the Part 5 (Section 8) definition of income identified in HUD's "Technical Guide for Determining Income and Allowances for the HOME Program" published in January 2005. This guide can be found at the following link:

<http://www.hud.gov/offices/epd/affordablehousing/library/modelguides/1780.cfm>.

For 2-unit structures, at least one of the units must be occupied by a LMMI household. For multi-family rental structures of three or more units, a proportional share of the units must be occupied by LMMI households. (NOTE that this is different than the regular CDBG program requirements.) For example, if the total development cost is \$1 m and NSP is providing \$750,000, seventy-five percent (75%) of the units must be occupied by LMMI households.

NSP further requires that not less than twenty-five percent (25%) of the total NSP funds allocated to the State shall be utilized to provide permanent housing for households with incomes at or below fifty percent (50%) of the AMI.

I. Administrative and Project Delivery Costs

Units of local government and nonprofit entities acting as subrecipients are allowed to incorporate eligible NSP administrative costs. Eligible administrative costs are costs associated with administering the grant that are NOT directly related to the project itself. For example, a portion of the salary of a staff person that will oversee the NSP-funded program (carry out budgeting, reporting, general oversight) is an administrative cost. Project specific costs such as appraisals, title searches, etc. are considered project costs.

The maximum amount that can be requested for administrative costs is ten percent (10%) of the final allocation amount. Applicants who choose to use a consultant must include the consultant fee, if any, in an amount not to exceed ten percent (10%) of the requested NSP allocation in the proposed development budget. Any amounts requested for project delivery costs may be in addition to the requested NSP allocation amount. The NSP allocation may not include both a consultant fee and a project delivery cost reimbursement.

All for-profit entities are considered developers and nonprofit entities acting as developers (carrying out acquisition and rehabilitation activities only as defined by HUD) are NOT allowed to receive funding for administrative costs but may include eligible project delivery costs and a reasonable developers' fee in the requested NSP allocation amount (as supported by a budget).

J. Funding Disbursement

Following ADFA Board approval of the NSP application, the following processes will apply:

1. Disbursement of NSP funds will occur only when all of the following conditions have been met:
 - a. Required environmental review process must be satisfactorily completed.
 - b. Project closing documents shall reflect a project completion date acceptable to ADFA and the recipient of the NSP funds. The NSP Agreement will outline the payment of the NSP funds, (e.g., how the funds will be disbursed, i.e., prorate share, etc.) The NSP Agreement must contain provisions for the timing of NSP fund disbursements.
 - c. ADFA staff must complete all Disaster Recovery Grant Reporting (DRGR) system set up procedures.
 - d. A pre-construction conference is held. For rental activities the pre-construction conference must be conducted with the development team and an ADFA representative. For homebuyer activities the pre-construction conference must be conducted with the development team and an ADFA Inspector.
 - e. ADFA must issue a Notice to Proceed. To ensure that all NSP requirements have been met, no work shall begin until all documentation has been executed and ADFA issues a Notice to Proceed. **NO APPLICATIONS WILL BE ACCEPTED ON A PROJECT WHERE CONSTRUCTION IS UNDERWAY.**
2. Retainage will be released thirty (30) days after the final inspection is approved and upon ADFA's receipt of all completion documentation.

For rental activities, the following completion documentation will be required prior to ADFA's release of retainage:

- All DRGR set up procedures complete by ADFA staff
- Certification of release of liens
- Hazard insurance
- Certificate of Occupancy issued by local jurisdiction, if applicable
- Certification of final inspection, Plumbing Certification, and Electrical Certification

For homebuyer activities, the following completion documentation will be required prior to ADFA's release of retainage:

- ADFA staff must complete all DRGR set up procedures
- Certification in release of liens
- Hazard Insurance
- Certification of Occupancy issued by local jurisdiction, if applicable, and
- Certification of final inspection, Plumbing Certification and Electrical Certification

If any NSP-funded project has an available balance after development completion and release of retainage, ADFA will deobligate those funds and reallocate such balance of NSP funds to other eligible activities according to ADFA's adopted NSP allocation process. ADFA must ensure that all NSP funds are obligated within 18 months after the execution of the grant agreement (March 20, 2009) with HUD or by September 20, 2010.

K. Reimbursement for Pre-Award Costs

Per OMB Circular A-87, Attachment B, paragraph 31 and HUD NSP regulations, ADFA may incur pre-award costs as if Arkansas was a new grantee preparing to receive its first allocation of CDBG funds. The date of pre-award costs is the date of submission of the Consolidated Plan Amendment, which is December 1, 2008.

Therefore, predicated on that authority, ADFA will allow NSP funds to be used to reimburse eligible pre-award costs to entities approved for an award of NSP funds, contingent upon the pre-award costs being included and documented in the applicant's proposal and adherence to all applicable requirements such as environmental review and the Uniform Relocation Act (URA). If the entity is NOT approved for an award of NSP funds, no reimbursement for pre-award costs will be allowed. Examples of allowable pre-award costs include, but are not limited to, appraisal fees, costs of a market study, costs of feasibility studies, and preparation of rehabilitation cost estimates.

Note: The most stringent requirements of any source of funds will apply to the project.

L. Combining NSP with Other Forms of Funding Assistance

NSP funds should be used efficiently and encourage partnerships between public and private entities. In keeping with this mission, ADFA requires that recipients leverage their NSP allocation to the greatest extent possible with funds from other sources. For example, three such sources include: USDA Rural Development, Low Income Housing Tax Credits, and the HOME Program.

- To obtain information about the programs offered by Rural Development, please contact USDA Rural Development, Attention: Multi-Family Department, 700 West Capitol, Little Rock, AR 72201.
- To obtain information about ADFA's Low Income Housing Tax Credit Program, please contact ADFA, Attention: Multi-Family Department, 423 Main Street, Suite 500, Little Rock, AR 72201.
- To obtain information about ADFA's HOME Program, please contact ADFA, Attention: HOME Program Manager, 423 Main Street, Suite 500, Little Rock, AR, 72201.

M. Performance Standards and Recapture of Funds

It is imperative that funds allocated to participants be used as quickly as possible and in the most efficient manner. Therefore, seventy-five percent (75%) of total NSP funds allocated must be disbursed on the development within one year from the date of the notice to proceed to a development. If these performance standards are not met, any unspent NSP funds may be recaptured and reallocated to fund other affordable housing developments.

For developments applying for both NSP funds and LIHTC, any allocation of NSP funds is contingent upon the successful reservation of LIHTC.

Applicants approved for funding that do not complete the required number of units will be considered in default of their NSP Agreement. **ADFA will recapture allocated funds that have not been used in accordance with these performance standards and NSP regulatory commitment and disbursement requirements.** These funds will be placed back into the pool of funds that are available to fund other eligible NSP activities.

N. Requirements for Subrecipients

If a non-profit organization is awarded funds for the acquisition and rehabilitation of residential property, the non-profit is considered a developer. However, in all other cases, a non-profit is considered a subrecipient. Subrecipients may be government entities or non-profits. Subrecipients are subject to comprehensive administrative and financial management requirements similar to ADFA, and ADFA is required to monitor the organizations for compliance.

Subrecipients that are government agencies are subject to the requirements set forth in OMB Circular A-87 "Cost Principles for State and Local Governments," certain provisions of 24 CFR Part 85 "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," and A-133 "Audits of State and Local Governments and Nonprofit Organizations." Subrecipients that are nonprofit organizations are subject to OMB Circular A-122 "Cost Principles for Nonprofit Organizations," certain provisions of 24 CFR Part 84 "Grants and Agreements with Institutions of Higher Learning, Hospitals and Other Nonprofit Organizations," and A-133 "Audits of State and Local Governments and Nonprofit Organizations."

Subrecipients are required to comply with the requirements set forth in the subrecipient agreement signed by the ADFA and the subrecipient. As required by 24 CFR 570.501(b), ADFA will monitor subrecipients to ensure that NSP funds are being used in accordance with all program requirements and that subrecipients are adequately performing as required under subrecipient agreements and procurement contracts. If performance problems arise, ADFA will take appropriate actions as described in 24 CFR 570.910.

See also Section I. Administrative and Project Delivery Costs.

O. Acquisition of Properties Using NSP Funds

Acquisition, Sales Contracts, and Obligations

ADFA must have executed sales contracts for specific properties for funds to be considered obligated. Options or other non-binding instruments are not acceptable.

Appraisals and Discount Requirements

Properties with an anticipated value exceeding \$25,000 and acquired using NSP funds shall be appraised in conformity with the appraisal requirements of the Uniform Relocation Act (URA) at 49 CFR 24.103 by a licensed appraiser within sixty (60) days prior to an offer to purchase the property. Further guidance may be found at http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/docs/appraisal_guidance.doc. The market appraised value of properties with an anticipated value of \$25,000 or less may be established based on a review of available data and shall be made by a person knowledgeable of and with experience in property valuation that ADFA determines is qualified to make the valuation.

NSP requires that properties acquired using program funding be purchased **at a discount of at least 1% from the current market appraised value of the home or property**. ADFA will require documentation to ensure the discount requirement is met including the address, appraised value, purchase offer amount and discount amount for each property. The discount value calculation may take into account the likely carrying costs of the mortgagee if it were to NOT sell the property to the applicant. Carrying costs may include: taxes, insurance, maintenance, marketing, overhead and interest.

No acquisition of single-family dwellings will be allowed for property in excess of Federal Housing Administration (FHA) limits, currently set at \$271,050.

Voluntary Transactions and Tenants

ALL NSP-assisted property acquisitions must be voluntary acquisitions. Taking of property through eminent domain proceedings is NOT allowed. The Uniform Relocation Act requires that notices are provided to property owners even those considered to be voluntary transactions. The notices can be found at: <http://www.hud.gov/offices/cpd/library/relocation/nsp/index.cfm>.

URA and Section 104(d) and 5305(a)(11) of Title I of the Housing and Community Development Act of 1974, as amended, and the implementing regulations at 24 CFR Part 570.496(a) (the Barney Frank Amendment) govern the permanent displacement as well as temporary relocation of tenants in properties funded by NSP. For more information, refer to <http://www.hud.gov/offices/cpd/library/relocation/nsp/index.cfm>. In addition, ARRA includes additional provisions protecting the rights of property owners and “bona fide” tenants. Refer to Section P below for more information.

Acquisition of a Property for Another Party

ADFA may not provide NSP funds to another party to finance an acquisition of tax foreclosed (or any other) properties from itself, other than to pay necessary and reasonable costs related to the appraisal and transfer of title. If NSP funds are used to pay such costs when the property owned by ADFA is conveyed to a subrecipient, homebuyer, developer, or other jurisdiction, the property is NSP-assisted and subject to all program requirements, such as requirements for NSP-eligible use and benefit to income-qualified persons.

Resale of Property to Homebuyers

Each awardee of NSP funds must maintain sufficient documentation on the acquisition and sale of each property to enable ADFA and HUD to determine compliance with the requirement to sell each property to homebuyers at an amount equal to or less than the cost to acquire and redevelop the property (not including holding costs).

Purchase of FHA-Foreclosed Properties

Per NSP regulations, HUD strongly urges every community to consider and include FHA-foreclosed properties in their NSP programs. The nature and location of many FHA-foreclosed properties make them compatible with the eligible uses of NSP funds, the geographic areas of greatest need, and the income eligibility thresholds and limits.

P. Tenant Rights and Protections

The following requirements apply to any foreclosed upon dwelling or residential real property that was acquired by the initial successor in interest pursuant to the foreclosure after February 17, 2009 and was occupied by a *bona fide* tenant at the time of foreclosure.

- The initial successor in interest in a foreclosed upon dwelling or residential real property shall provide a notice to vacate to any *bona fide* tenant at least 90 days before the effective date of such notice. The initial successor in interest shall assume such interest subject to the rights of any *bona fide* tenant, as of the date of such notice of foreclosure: (i) under any *bona fide* lease entered into before the notice of foreclosure to occupy the premises until the end of the remaining term of the lease, except that a successor in interest may terminate a lease effective on the date of sale of the unit to a purchaser who will occupy the unit as a primary residence, subject to the receipt by the tenant of the 90-day notice under this paragraph; or (ii) without a lease or with a lease terminable at will under State law, subject to the receipt by the tenant of the 90-day notice under this paragraph, except that nothing in this section shall affect the requirements for termination of any Federal- or State-subsidized tenancy or of any State or local law that provides longer time periods or other additional protections for tenants.
- In the case of any qualified foreclosed housing in which a recipient of assistance under Section 8 of the United States Housing Act of 1937 (42 U.S.C 1437f) (the “Section 8 Program”) resides at the time of foreclosure, the initial successor in interest shall be subject to the lease and to the housing assistance payments contract for the occupied unit.
- Vacating the property prior to sale shall not constitute good cause for termination of the tenancy unless the property is unmarketable while occupied or unless the owner or subsequent purchaser desires the unit for personal or family use.
- If a public housing agency is unable to make payments under the contract to the immediate successor in interest after foreclosure, due to (A) an action or inaction by the successor in interest, including the rejection of payments or the failure of the successor to maintain the unit in compliance with the Section 8 Program or (B) an inability to identify the successor, the agency may use funds that would have been used to pay the rental amount on behalf of the family—(1) to pay for utilities that are the responsibility of the owner under the lease or applicable law, after taking reasonable steps to notify the owner that it intends to make payments to a utility provider in lieu of payments to the owner, except prior notification shall not be required in any case in which the unit will be or has been rendered uninhabitable due to the termination or threat of termination of service, in which case the public housing agency shall notify the owner within a reasonable time after making such payment; or (2) for the family’s reasonable moving costs, including security deposit costs.

A lease or tenancy shall be considered *bona fide* only if: (i) the mortgagor under the contract is not the tenant; (ii) the lease or tenancy was the result of an arms length transaction; and (iii) the lease or tenancy requires the receipt of rent that is not substantially less than fair market rent for the property.

ADFA will maintain documentation of its efforts to ensure that the initial successor in interest in a foreclosed upon dwelling or residential real property has complied with the requirements under section K.2.a. and K.2.b. If ADFA determines that the initial successor in interest in such property failed to comply with such requirements, it may not use NSP funds to finance the acquisition of such property unless it assumes the obligations of the initial successor in interest

specified in section K.2.a. and K.2.b. If ADFA elects to assume such obligations, it must provide the relocation assistance required pursuant to 24 CFR 570.606 to tenants displaced as a result of an activity assisted with NSP funds and maintain records in sufficient detail to demonstrate compliance with the provisions of that section.

The recipient of any grant or loan made from NSP funds may not refuse to lease a dwelling unit in housing with such loan or grant to a participant under the Section 8 Program because of the status of the prospective tenant as such a participant.

This section shall not preempt any Federal, State or local law that provides more protections for tenants.

Q. Energy Efficiency

To the extent feasible, ADFA will strongly encourage grantees to incorporate modern, green building, and energy-efficiency improvements in all NSP activities to provide for long-term affordability and increased sustainability and attractiveness of housing and neighborhoods.

R. Other Federal Requirements

NSP awardees and funded projects must adhere to all applicable other Federal requirements as outlined in 24 CFR part 570, HERA, ARRA, and NSP guidance from HUD. Key requirements are summarized below.

Equal Opportunity and Fair Housing

The state shall not exclude any organization or individual from participation under any program funded in whole or in part by NSP funds on the grounds of age, disability, race, creed, color, national origin, familial status, religion, or sex.

The following federal requirements as set forth in 24 CFR 5.105(a), Nondiscrimination and Equal Opportunity, are applicable to NSP projects:

Fair Housing Act	24 CFR 100
Executive Order 11063, as amended (Equal Opportunity in Housing)	24 CFR 107
Title VI of the Civil Rights Act of 1964 (Nondiscrimination in Federal Programs)	24 CFR 1
Age Discrimination Act of 1975	24 CFR 146
Section 504 of the Rehabilitation Act of 1973	24 CFR 8
Executive Order 11246, as amended (Equal Employment Opportunity Programs)	41 CFR 60
Section 3 of the Housing and Urban Development Act of 1968 ¹	24 CFR 135
Executive Order 11625, as amended (Minority Business Enterprises)	
Executive Order 12432, as amended (Minority Business Enterprises)	
Executive Order 12138, as amended (Women's Business Enterprise) ²	

In addition to the above requirements, all NSP participants must ensure that their Equal Opportunity and Fair Housing policies related to activities funded by NSP are consistent with the current Consolidated Plan adopted by their jurisdiction or the State Consolidated Plan.

Affirmative Marketing

Any entity applying for NSP funds must adopt affirmative marketing procedures and requirements for all NSP-assisted housing and submit the affirmative marketing plan with the NSP application. The affirmative marketing plan and requirements for NSP-assisted housing must be approved by ADFA prior to any NSP funds being committed to a development. Affirmative marketing requirements and procedures must include ALL of the following:

- Methods for informing the public, owners, and potential tenants about fair housing laws and the policies of the local program
- A description of what owners and/or the program administrator will do to affirmatively market housing assisted with NSP funds
- A description of what owners and/or the program administrator (e.g., community development director) will do to inform persons not likely to apply for housing without special outreach

¹ Section 3 requires that the employment and other economic opportunities generated by federal financial assistance for housing and community development programs shall, to the greatest extent feasible, be directed toward low and very low income persons, particularly those who are recipients of government assistance for housing.

² Executive Orders 11625, 12432, and 12138 require that participating jurisdictions and local programs must prescribe procedures acceptable to HUD for a minority outreach program to ensure the inclusion, to the greatest extent possible, of minorities and women entities owned by minorities and women in all contracts. Local programs must also develop acceptable policies and procedures if their application is approved by ADFA.

- Maintenance of records to document actions taken to affirmatively market NSP-assisted units and to assess marketing effectiveness
- A description of how efforts will be assessed and what corrective actions will be taken when requirements are not met.

Environmental Review

In implementing NSP, the environmental effects of each activity must be assessed in accordance with the provisions of the National Environment Policy Act of 1969 and HUD's regulations at 24 CFR Part 58.

ADFA, as the NSP grantee, and the units of local government funded by ADFA will be responsible for carrying out environmental reviews for approved projects/programs. ADFA will approve the release of funds (ROF) for local governments and must request the release of funds (RROF) from HUD for any developments carried out by other types of entities. NSP funds are approved as a conditional commitment until the environmental review process has been completed, with the option to proceed, modify or cancel the project based upon the results of the review. ADFA reserves the right to require a Phase I Environmental Study as part of the environmental review process.

Applicants/awardees of NSP funds may NOT execute contracts for purchase of properties that may be funded with NSP until receiving written authorization from ADFA to do so.

Flood Plains/Wetlands

NSP funds may generally not be invested in housing located in an area identified by the Federal Emergency Management Agency (FEMA) as having special flood hazards. ADFA discourages developments located in special flood hazard areas but, in some instances and with written permission from ADFA, houses located in a flood plain may be assisted. It is the responsibility of the applicant to evaluate any remedies to remove any properties from the flood plain and ensure the feasibility of the proposed plan. ADFA is willing to consider the proposed remedy and must approve the proposal in writing prior to approval of any NSP allocation. The community must be currently participating in the National Flood Insurance Program, and flood insurance must be obtained and maintained on the NSP-assisted property for the full period of affordability.

Lead-Based Paint Requirements

The Lead-Based Paint Regulations described in 24 CFR Part 35 require that lead hazard evaluation and reduction activities be carried out for all developments constructed before 1978 and receiving NSP assistance. Applications for rehabilitation funds for existing buildings constructed prior to 1978 must include a lead hazard evaluation, by appropriate lead-certified personnel. The application must also include detailed lead hazard reduction plan, in accordance with the regulations, and separately identify within the rehabilitation budget, the costs associated with reduction of lead hazards in accordance with the regulation and guidelines. All NSP fund allocations will be contingent upon the applicant agreeing to complete lead hazard reduction, evidenced by a clearance report performed by appropriate lead-certified personnel. In a development where NSP funds will be used on only a portion of the units, the lead-based paint requirements apply to ALL units and common areas in the development.

Labor Standards

Davis-Bacon wage compliance and other federal laws and regulations pertaining to labor standards apply to all construction and rehabilitation contracts that are financed in whole or in part with NSP funds for residential property consisting of eight (8) or more NSP-assisted units.

Davis-Bacon and related laws include the following:

- Davis-Bacon and Related Acts (40 USC 276a-276a-7)
- Contract Work Hours and Safety Standards Act (40 USC 327-333)
- Copeland (Anti-Kickback) Act (18 USC 874; 40 USC 276c)
- Fair Labor Standards Act of 1938, as amended (29 USC 201, et seq.)

The construction bids and contract for any NSP-assisted activity must contain the applicable wage provisions and labor standards. Davis-Bacon does not apply to projects using solely volunteer labor or to sweat equity projects. ADFA will monitor all developments subject to Davis-Bacon requirements to ensure compliance with all applicable regulations.

Debarment and Suspension

ADFA will require participants in lower-tier transactions covered by 24 CFR 24 to certify that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any entity from a federally funded transaction. Any participant that remains on a debarred or suspended condition shall be prohibited from participation in the ADFA NSP as long as they are classified in this manner.

Note: ADFA reserves the right to require criminal background checks for all program participants as part of the application process. Please refer to ADFA's agency policy and requirements for information regarding this item (See ADFA's QAP and/or HOME Policy Manual).

Relocation

NSP funds are intended ONLY for use in purchasing/improving properties that have been abandoned and foreclosed. As such, most properties are expected to be vacant at the time of appraisal and offer to acquire. Should there be residents in any foreclosed property considered for NSP assistance, potential awardees must follow the residential anti-displacement and relocation plans in effect and outlined in the State's approved Consolidated Plan and all applicable Uniform Relocation Assistance and Real Property Acquisition Act (URA) of 1970 provisions. Applicable regulations can be found at 49 CFR Part 24.

Audit

ADFA requires that local government and non-profit recipients expending more than \$500,000 in Federal awards in a given fiscal year have an audit conducted in accordance with Generally Accepted Accounting Principals (GAAP) and the Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507) and revised OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." An audit of NSP funds must be submitted to ADFA annually on or before June 30 each year.

S. Procurement

Local governments and subrecipient entities are required to adhere to all applicable procurement requirements in the selection and award of contracts for goods and services. Therefore, all solicitation of bids for goods and services to be paid with NSP funds must be conducted openly and competitively in accordance with Arkansas State Procurement guidelines, as applicable.

Developers are not subject to procurement requirements, but costs must be considered reasonable to be eligible under the program.

T. Contractor Requirements

All general contractors working on all NSP-funded developments must have an active license issued by the Arkansas Contractor's Licensing Board (the "State Licensing Board") as applicable and meet all requirements of contractors in the state of Arkansas, including securing Builder's Risk insurance. Contractors may not "share" a license. That is, ADFA will not allow one contractor to work from another contractor's license.

All ADFA NSP-funded projects must have a general contractor that is properly licensed by the Arkansas State Contractor's Licensing Board. Any questions regarding licensing issues and a list of licensed contractors may be directed to the State Licensing Board at the following address:

Arkansas Contractor's Licensing Board 4100 Richards Road North Little Rock, AR 72117 (501)372-4661

Any contractor or subcontractor who has been debarred by any entity or had a contractor license suspended by any entity within the previous twelve (12) months will be prohibited from participating in the NSP. All general contractors working on all NSP-funded developments must obtain one of the following: (1) a payment and performance bond; or (2) an Irrevocable Letter of Credit in the amount of the construction contract.

Note: Construction contracts for rehabilitation projects \$25,000 or under will not be required to obtain a payment and performance bond or an irrevocable letter of credit.

U. Inspections

Inspections are required with all activities that are funded through the NSP. ADFA currently has inspectors that will be available as needed. **Applicants must notify ADFA a minimum of 48 hours in advance to schedule inspections.**

There are currently four (4) required inspections that are identified below:

Stage 1	Stage 2	Stage 3	Stage 4
Excavation	Plumbing top-out	Flooring systems	Final Inspection
Metals	Electrical rough-in	Painting	
Termite treatment	Framing	Doors	
Rough-in plumbing	Roof	Cabinets	
Earth work	Interior wall systems	HVAC	
Water proofing (vapor barrier)	Exterior wall systems	Electrical top-out	
Footing	Ventilation	Special construction (elevators, etc.)	
Slab	Insulation	Appliances	

Rental housing development inspections may be scheduled more frequently, as warranted. The ADFA inspector must attend any pre-construction meetings for NSP-funded developments. For rehabilitation projects, when a project is ready for a draw on funds, the property must be inspected and/or approved to verify that the work has been satisfactorily completed. **ADFA will only make payments on work that has been satisfactorily completed, inspected and approved by an ADFA inspector.**

Applicants may fax or mail their payment request, with all of the required documentation, to ADFA using the following contact information:

Arkansas Development Finance Authority
Attn: NSP Program Department
P.O. Box 8023
Little Rock, AR 72203-8023
FAX (501) 682-5859

ADFA staff will coordinate with recipients of NSP funds and inspectors to schedule all inspections.

V. Change Orders

ADFA recognizes that changes in a development occur from time to time. It is important that NSP participants submit change orders on the proper ADFA form. All change orders **must be** approved by the ADFA staff prior to initiating work. No payment of NSP funds will be made on change orders that have not been approved by ADFA. Any changes to the original amounts of NSP assistance must be reflected by an Amended and Restated Mortgage and Promissory Note. Each Single-Family NSP Agreement will include provisions for possible funding of change orders on a limited basis.

W. Construction Contingency

ADFA allows up to ten percent (10%) of the NSP allocation for construction contingencies. A rehabilitation, reconstruction, or new construction activity, including contingencies, may not exceed the ADFA established per unit limits for the NSP.

X. Closing of Transactions

ADFA will select and/or approve a closing entity to provide closing services for all NSP transactions using ADFA-approved documents. The services will be available and required in the county where the development is located. NSP staff will provide closing instructions for all NSP-funded transactions to the closing entity. ADFA will be responsible for payment of costs associated with closing the NSP portion of the transaction on both homebuyer and rental activities.

Y. Reporting Requirements

ADFA is required to submit quarterly performance reports to HUD no later than thirty (30) days following the end of each quarter, beginning 30 days after the completion of the first full calendar quarter after grant award (i.e., August 1, 2009) and continuing until all funds are expended and the program is closed out. Accordingly, all NSP awardees will be required to submit performance information to ADFA by established deadlines conducive for ADFA to meet its reporting requirements.

Performance information will include, but not be limited to, the following:

- Project name
- Project activity
- Project location
- NSP Eligible use
- CDBG national objective
- Budgeted funds
- Expended funds
- Funding source
- Total amount of any non-NSP funds
- Numbers of properties and housing units assisted
- Beginning and ending dates of activities
- Numbers of low, moderate, and middle-income persons or households benefiting
- Demographic data for households benefiting

In addition to this quarterly performance reporting, ADFA will report monthly on its NSP obligations and expenditures beginning 30 days after the end of the 15th month following receipt of funds, and continuing until reported total obligations are equal to or greater than the total NSP grant. After HUD has accepted a report from ADFA showing such obligation of funds, the monthly reporting requirement will end and quarterly reports will continue until all NSP funds (including program income) have been expended and those expenditures are included in a report to HUD.

To collect these data elements and to meet its reporting requirements, ADFA will use HUD's online DRGR system to report on its NSP funds to HUD. When it submits the report to HUD, ADFA will post a copy of the NSP DRGR report on a website for the public to review.

Reporting requirements are subject to change and additional specificity based on further guidance from HUD.

Z. Program Income

All entities, government or private (as defined at 24 CFR 570.500(c)), that receive program income (as defined at 24 CFR 570.500(a)) directly generated by activities carried out with NSP funds must **immediately remit any and all program income from NSP-assisted activities directly to ADFA**. ADFA will disburse and use program income prior to requesting additional cash withdrawals from the U.S. Treasury.

AA. Monitoring

During the period of affordability, ADFA will perform on-site compliance and monitoring inspections of all single-family and multi-family developments utilizing NSP funds to determine compliance with the applicable regulations and requirements outlined in this manual and NSP regulations.

IV. The NSP Rental Housing Program

Recipients utilizing funds in the NSP Rental Housing Program must closely adhere to all NSP regulations, as well as to ADFA's program-specific guidelines and adopted policies. Notwithstanding these requirements, program participants may structure their development and application for NSP Program funds to meet the specific rental needs of their community.

A. Eligible Applicants

ADFA will accept applications for projects up to the September 1, 2009 application deadline. Multiple NSP applications may be submitted for funding. ADFA will determine in its sole and absolute discretion if the applicant has the necessary capacity to complete any additional NSP applications submitted. Additional NSP applications submitted by eligible applicants will be approved only if the applicant exhibits the capacity to successfully complete all approved projects. ADFA will accept applications for rentals at a minimum of five (5) units, from entitlement communities, other units of local government, nonprofit organizations, or for-profit entities.

Eligible applicants may receive technical assistance by attending an information/training session prior to submitting an application. Sessions will address NSP Program and ADFA guidelines as well as application procedures. Applicant eligibility will be based on the designated responsible entity submitting the application. An eligible designated responsible entity is the entity responsible for project development, but may include all of its related affiliated entities.

B. Amount of NSP Funding Per Applicant

Each eligible applicant must request at least one hundred thousand dollars (\$100,000). The maximum amount that can be requested for a developer's fee is ten percent (10%) of the final allocation amount. The allocation is generally meant to be used as gap financing and is not intended to fund an entire development.

C. Eligible Activities and Projects

ADFA will accept applications in the NSP Rental Housing Program in the following eligible activity categories:

1. **Acquisition** – Acquisition of abandoned and foreclosed rental properties for the purposes of providing housing to NSP income eligible tenants.
2. **Rehabilitation** – Rehabilitation of abandoned and foreclosed rental properties for the purposes of providing housing to NSP income eligible tenants. This activity would be combined with acquisition of abandoned and foreclosed properties.
3. **Demolition of Blighted Structures** – Demolition of blighted structures to be replaced by units for rent by NSP income eligible tenants. **This activity must be combined with acquisition of abandoned or foreclosed properties.**
4. **Reconstruction** – Reconstruction of abandoned and foreclosed structures for the purposes of providing housing to NSP income eligible tenants. This activity would be combined with acquisition of abandoned and foreclosed properties.

5. **New Construction** – New construction of rental properties for the purposes of providing housing to NSP income-eligible homebuyers. The property upon which the structures are constructed must be either foreclosed or vacant, as defined by NSP.

Each application must include a minimum of five (5) units.

All projects must aim to re-inhabit abandoned or foreclosed properties through their acquisition, rehabilitation, reconstruction, new construction, or some combination thereof. Eligible projects include multiple buildings on a single site as well as single or multiple units on scattered sites. Units may be on scattered sites but must be within the same jurisdiction.

ADFA will require all proposals to include no less than 25 percent of NSP funding requested to be designated for households at or below 50 percent of area median income. NSP funds may be used for a mixed-income development provided that a pro rata of NSP-eligible units are occupied by households meeting the income limits of the NSP. Common area costs must be prorated based upon the number of NSP-assisted units and non-NSP-assisted units.

A building that is designed, in part, for other than residential housing may qualify as affordable housing under the NSP as long as NSP funds are used for the residential portion and those units meet the rent and income limitations of the NSP (see F. Rent Limits and Project Affordability for more information.)

D. Eligible Costs

NSP Program funds may be used for certain development costs as dictated by 24 CFR Part 570 and outlined below:

1. **Hard Costs** – Eligible hard costs are the actual cost of constructing or rehabilitating housing. These costs include the following:
 - a. Construction, rehabilitation, or reconstruction of affordable housing units
 - b. Site improvements (including utility connection costs, but not the costs to provide utilities to the site)
 - c. Demolition (must be done in conjunction with a specific affordable housing project)
 - d. Acquisition
2. **Soft Costs** – Eligible soft costs must be “usual, customary, reasonable, and necessary” and may include the following:
 - a. Finance related costs, i.e., credit reports, title reports and updates, appraisal fees, surveys, origination fees and discount points, and construction interest
 - b. Current market study (not more than six (6) months old)
 - c. Project audit costs
 - d. Professional services (architectural, engineering, and other services provided for a specific project; otherwise, the professional service costs may be considered to be administrative costs)
 - e. Consultation fees (not associated with organizational startup)
DEVELOPERS CANNOT HIRE THEMSELVES AS CONSULTANTS ON ANY NSP-FUNDED PROJECT OTHER THAN ON A THIRD-PARTY BASIS.

3. **Relocation Costs** – The cost of permanent or temporary relocation of tenants, as required by the URA.
4. **Bridge Loans** – Interim construction loans used to finance the NSP-assisted development with prior notification to ADFA.

Note: While ADFA does not have a predetermined, specific limit on cost per square foot, the developer should be aware that the per unit cost per square foot will be closely scrutinized for reasonableness, and an application for funding will be denied if costs are deemed unreasonable.

5. **Project Delivery Costs** – Any nonprofit entity or local government receiving a NSP allocation may include project delivery costs (in an amount not to exceed 10% of the final NSP allocation) in the development budget. Project delivery costs are eligible only for costs directly associated with the NSP-funded development. A certification of costs must be submitted with all requests for project delivery costs. **Participants must submit an itemized budget for project delivery costs as part of the initial application.**

Proper documentation is essential for the payment of project delivery cost fund requests. Project delivery costs must be supported by source documentation **maintained on file by the recipient** of NSP funds. Requests for payment of project delivery costs must be verified by the Certification of Costs (signed by the recipient) and not by the supporting documentation maintained by the recipient. Supporting documentation will be reviewed and verified by ADFA staff performing compliance and monitoring reviews.

Acceptable supportive documentation includes:

- A copy of a detailed bill highlighting the costs to be reimbursed to the NSP participant. The detailed bill should, at a minimum, include vendor identification, a description of the services received, the quantity (hours, units, etc.), and the price for services received. The detailed bill must be substantiated by a cancelled check, a copy of the bank statement or other proof of payment
- No handwritten invoices will be accepted.
- All invoices must have an authorized signature of the NSP participant's Executive Director, or his or her designee, approving the payment and verifying that the services were received and satisfactorily performed, the month the cost is being paid, dated, and cancelled to prevent the invoice from being paid twice.
- ADFA will reimburse salaries which are "reasonable and customary" for support personnel (e.g., clerical, temporary employee, etc.) of the NSP participant directly providing project delivery costs to the affordable housing being assisted at a rate commensurate with their regular hourly wages.
- A copy of any contracts for professional services, (e.g., consultants, architects, contractors, etc.), if applicable, must be provided in the initial application outlining the services to be rendered, the cost of the proposed services, and the proposed payment schedule or terms..
- Satisfactory documentation of fringe benefits being paid. Examples of fringe benefits include the following:
 - Vacation/Sick/Holiday/Compensatory Time
 - Pensions
 - Veteran's Benefits

- Group Insurance
- Life Insurance/Long-term Disability
- Accidental Death and Dismemberment Insurance
- Profit Sharing Plan
- Association/Union Dues

The use of prorated payment percentages is acceptable and must be outlined in the initial application as well as each billing statement submitted for reimbursement. The applicant must provide the sources of other funds used to pay project delivery costs, if any.

E. Forms of Financial Assistance

ADFA caps the maximum subsidy for rental projects at \$132,000 per unit or \$158,400 per unit for properties listed on the National Register of Historic Places.

NSP allocations for rental housing activities will be in the form of a loan at 0% interest amortized over the period of affordability. The minimum affordability period may be extended at the owner’s election.

F. Rent Limits and Project Affordability

All NSP Program funds must benefit households with incomes no greater than 120% of the area median income, adjusted for family size. Rents in all NSP-assisted units must be set at “affordable rents,” which are defined as follows:

- Low HOME Rent Limits: Tenant households with incomes < 50% of the AMI
- Tenant households with incomes between 50 and 60% of AMI: High HOME Rent Limits
- Tenant households with incomes between 60 – 120% of AMI: HUD Fair Market Rent Limits

These rent limits and area median incomes are recalculated on an annual basis by HUD.

All NSP-assisted projects must remain affordable to and occupied by LMMI households within the above listed rent limits for a period of time that varies in accordance with the level of NSP assistance. The table below provides the minimum period over which NSP-assisted units must remain affordable.

NSP Assistance Per Unit	Minimum Affordability Period
Under \$15,000	5 Years
\$15,000 - \$40,000	10 Years
Over \$40,000	15 Years
New Construction or Acquisition of Newly Constructed Rental Housing	20 Years

Rent, occupancy, and affordability requirements will be enforced with AFDA-approved covenants, mortgages, or deed restrictions running with the property. Specifically, rental property

owners/managers will be required to document that the required percentage of units are occupied by LMMI households over the period of affordability. Income must be determined at a minimum, when a NSP-funded unit is occupied by a new tenant household (i.e., at unit turnover).

Where NSP Program funds are used in conjunction with HOME Investment Partnerships (“HOME”), Low Income Housing Tax Credits (“LIHTC”), United States Department of Agriculture (“USDA”) Rural Development funds or other financing programs, the more stringent project and occupancy regulations will apply.

G. Universal Design Standards

The following building design criteria must be included in all construction for all NSP-funded rental projects, in accordance with the Arkansas Department of Human Services’ *Arkansas Usability Standards in Housing: Guidance Manual for Constructing Inclusive Functional Dwellings* (AUSH):

1. Seven percent (7%) of all residential rental units within the development must comply with the Level 5, “All-Inclusive” usability criteria as set forth in the AUSH. The AUSH is available on the internet at the following website address: www.studioaid.org. Under the “Design” link, click on “standards.”
2. Each unit that is required to meet the Level 5, “All-Inclusive” usability criteria set forth in the AUSH must have at least one bathroom with an “accessible roll-in” shower facility with minimum dimensions of 60”x34,” or 42” x 42” if a corner shower facility.
3. All ground level residential rental units in any building and all residential units with elevator access in any building in the development must comply with the Level I, “Visitable” usability criteria as set forth in the AUSH.
4. All exterior and interior doors intended for passage must provide for a minimum clear opening of 34”.
5. All residential units in the development will have “closed-fist” operability throughout the unit (e.g., single handle door levers vs door knobs, push stick lighting and environmental controls, cabinet doors can be opened with a closed fist, single handle faucets in bathrooms and kitchen).
6. All environmental controls must provide visual and tactile cues. For lighting, a “rocker” type switch is sufficient. For thermostats, a programmable and digital with raised buttons is required.
7. All primary entries, not in a breezeway, must have a minimum roof covering of 5’x 5’.
8. All primary entries must have entry pad measuring at least 5’x 5’.
9. All sidewalks must be at least 5’ wide.

H. Methods of Repayment

The standard loan terms and conditions for repayment of Rental Housing Program loans are to be evidenced by fully executed promissory notes. Promissory notes will be payable at a zero percent (0%) interest rate for a term coinciding with the NSP affordability period. Monthly or annual payments will become due and payable not later than one (1) year from the anticipated placed in service date shown on Schedule of Activities, included as Attachment B of the NSP Agreement.

I. Leveraging Requirements for Rental Development

Applications will receive additional points for leveraging NSP funds with other sources (i.e., private financing, HOME, USDA, etc.).

V. The NSP Homebuyer Housing Program

The Homeownership Housing Program is designed to provide NSP funds for the acquisition and rehabilitation or acquisition and new construction of single-family properties for sale to eligible LMMI households to stabilize neighborhoods and promote homeownership.

A. Eligible Applicants

ADFA will accept applications for projects up to the September 1, 2009 application deadline. ADFA will loan NSP funds to the approved eligible applicant as outlined in the NSP Program Agreement. The homebuyer will be required to execute a Promissory Note, Mortgage, and Deed Restriction through an ADFA-approved closing entity.

B. Amount of NSP Funding Per Applicant

Each eligible applicant must request at least one hundred thousand dollars (\$100,000). Additional applications may be submitted if currently funded project expenditures of NSP funds are being expended in a timely manner and the applicant demonstrates the capacity to successfully complete multiple projects. The approval of multiple and/or additional NSP applications will be contingent upon availability of funds, quality of submitted application, and in ADFA's sole and absolute discretion.

C. Eligible Activities

NSP Program funds can be used to fund the following homeownership activities:

1. **Acquisition** – Acquisition of abandoned and foreclosed residential properties for the purposes of providing housing to NSP income eligible homebuyers.
2. **Rehabilitation** – Rehabilitation of abandoned and foreclosed single-family structures for the purposes of providing housing to NSP income eligible homebuyers. This activity would be combined with acquisition of abandoned and foreclosed properties.
3. **Demolition of Blighted Structures** – Demolition of blighted structures to be replaced by units for purchase by NSP income eligible homebuyers. **This activity must be combined with acquisition of abandoned or foreclosed properties.**
4. **Reconstruction** – Reconstruction of abandoned and foreclosed structures for the purposes of providing housing to NSP income eligible homebuyers. Any single-family structure demolished per #3 above, not economically feasible to rehabilitate or has projected per unit rehabilitation costs equal to or greater than twenty-five thousand dollars (\$25,000), will be considered for reconstruction. This activity would be combined with acquisition of abandoned and foreclosed properties.
5. **New Construction** – New construction of single family structures for the purposes of providing housing to NSP income eligible homebuyers. The property upon which the structures are constructed must be either foreclosed or vacant, as defined by NSP.

Each application must include a minimum of five (5) units.

The properties rehabilitated or constructed must be made available for sale to NSP income-eligible LMMI buyer households. Through ADFA's network of approved lending institutions, the funds can also be combined with permanent financing to assist eligible homebuyers.

Applications for single-family, reconstruction, new construction or acquisition/rehabilitation for sale must provide documentation demonstrating a demand (i.e., marketability of the proposed NSP-assisted housing) for the requested activity. Acceptable documentation must include at least one of the following: (1) a market study completed by an ADFA-approved market analyst; (2) copies of sales contracts for pre-sold units; or (3) copies of mortgage pre-approval letters from a list of potential qualified homebuyers.

Each homebuyer household is required to receive at least eight (8) hours of counseling from a HUD-approved counseling agency. ADFA anticipates a small share of funds to be directed towards providing housing counseling in an amount not to exceed two hundred dollars (\$200) per household. ADFA maintains a list of approved counseling agencies that is available at: www.arkansas.gov/adfa.

If for any reason, an applicant/awardee is unable to meet the requirement to provide at least eight (8) hours of counseling from a HUD-approved counseling agency for a good cause (e.g., there are no HUD-approved housing counseling agencies within the jurisdiction, or there are no HUD-approved housing counseling agencies within the jurisdiction that engage in homebuyer counseling), a request for an exception to this requirement may be submitted to ADFA, which will submit the request to the HUD Field Office for its review.

NSP funding cannot be used to fund projects that include the following:

- Properties that are not foreclosed or abandoned;
- Properties that will not be owner-occupied;
- Properties that will not be sold to eligible LMMI households;
- Rental or commercial properties; and
- Projects where contractors do not have a state contractor's license or cannot obtain a builder's risk insurance policy and where contractors do not have a payment and performance bond for the full amount of the construction contract.

D. Eligible Properties

The geographic location of properties included in the application will be reviewed to ensure the applying entity has the necessary capacity to perform the proposed activities within the designated geographic location. Eligible properties must be foreclosed or abandoned as defined by ADFA in the Glossary of this manual and must result in single family residential units for sale to LMMI buyer households.

As described in Section III. General Requirements of NSP, ADFA requires that the purchase of all properties be at least one percent (1%) below the appraised value. All properties acquired using NSP funds shall be appraised in conformity with the appraisal requirements previously outlined, including the requirement that properties valued at \$25,000 or more must be appraised in accordance with the Uniform Relocation Act (URA) at 49 CFR 24.103 by a licensed appraiser within sixty (60) days prior to a final offer to purchase the property.

Eligible properties must be modest in value. Therefore, no acquisition of single-family dwellings will be allowed for property in excess of Federal Housing Administration (FHA) limits, currently set at \$271,050.

E. Eligible Homebuyers

An eligible owner must have a household income at or below the middle-income limits as defined by HUD. A middle-income owner is defined as an owner whose annual gross household income does not exceed one hundred twenty percent (120%) of the median income for the area, adjusted for family size. Without exception, NSP funds cannot be used on projects where the income of the prospective homebuyer household is greater than one hundred and twenty percent (120%) of the area median income.

HUD's "Technical Guide for Determining Income and Allowances for the HOME Program" published in January 2005 guide can be found at the following link: <http://www.hud.gov/offices/cpd/affordablehousing/library/modelguides/1780.cfm>. Income Verification forms will be provided by ADFA. Participants will use the Technical Guide and these forms for calculating and verifying incomes. Supporting documentation, such as W-2s, tax forms, and bank statements must be collected, reviewed, and kept in local records to demonstrate that the household's income was within the prescribed limit.

As stated previously, each homebuyer household is required to receive at least eight (8) hours of counseling from a HUD-approved counseling agency. Documentation that the assisted buyers received such counseling must be maintained by the grantee.

The homebuyer must provide proof of hazard insurance in an amount sufficient to cover replacement of the structure. The insurance policy must list ADFA on the policy as the additional insured/mortgagee.

F. Forms of Financial Assistance

NSP allocations to units of local government or other entities for single-family development activities will be in the form of a loan at 0% interest.

Assistance to homebuyers will be provided as a forgivable loan at 0% interest, contingent upon NSP eligible homebuyer continuing to own, occupy as principal residence, and maintain the NSP-assisted home for the full applicable affordability period. ADFA will provide the legal documents that must be recorded for each property to enforce the loan/affordability period/recapture provisions.

The following requirements apply to NSP assistance to homebuyers:

- Buyers must obtain a first mortgage and not exceed front and back end ratios of 31% and 41%, respectively.
- ADFA will cap the amount of direct NSP assistance to the purchaser to up to 20% of the purchase price not to exceed \$25,000 excluding an interest rate buy down (up to .250 basis points).

G. Eligible Costs

NSP Program funds may be used only for eligible costs as defined at 24 CFR Part 570. NSP funds may be used to cover soft and hard costs associated with a project. These costs include the following:

1. **Hard costs** – Eligible hard costs are the actual costs associated with the rehabilitation of the housing units and include the following:
 - a. Acquisition

- b. Demolition
- c. Site improvements
- d. Construction, rehabilitation, or reconstruction

The cost of repairs must be reasonable compared to the value of the house (i.e., the level of rehabilitation is intended to allow continued owner occupation for at least the affordability period as regulated by NSP). The rehabilitation must be financially and structurally feasible.

NOTE: Rehabilitation/construction costs of single family homes is limited to \$132,000.

2. **Soft costs** – Soft costs must be “usual, customary, reasonable and necessary” and may include the following:
 - a. Finance related costs, i.e., credit reports, title reports and updates, appraisal fees, surveys, origination fees and discount points, and construction interest
 - b. Housing counseling (up to \$200 per household) contingent upon buyer purchasing an NSP-assisted property.
 - c. Project audit costs
 - d. Affirmative marketing and fair housing costs
 - e. Professional services (architectural, engineering, and other services provided for a specific project; otherwise, the professional service costs may be considered to be administrative costs)
 - f. Hazard insurance
3. **Relocation Costs** – The cost of permanent or temporary relocation of tenants, as required by the URA.
4. **Project Delivery Costs** – Project delivery costs include staff time, overhead, fringe benefits, consultant fees, etc., which can be directly attributed to a specific project. Any entity receiving a NSP fund allocation may include in its application an amount for project delivery costs (in an amount not to exceed 10% of the final NSP allocation) in the development budget. For instance, if a recipient receives a three hundred thousand dollar (\$300,000) NSP allocation, it may request an additional thirty thousand dollars (\$30,000) for project delivery costs. Project delivery costs are eligible only for costs directly associated with the NSP-funded development or activity. **Applicants must submit an itemized budget for project delivery costs as part of the initial application.** The approved applicant must submit a certification of the project delivery costs incurred that is signed by the appropriate approving official of the participating entity with each request for project delivery funds. Project delivery costs must be allocated on a pro rata basis among the NSP-assisted units. On single-family projects (i.e., new construction or rehabilitation), ADFA will withhold a ten percent (10%) administrative retainage throughout the project. Single-family projects exceeding eighteen months (18) for completion will be paid no more than 90% of administrative fees.

Proper documentation is essential for the payment of project delivery cost fund requests. Project delivery costs must be supported by source documentation **maintained on file by the recipient** of NSP funds. Requests for payment of project delivery costs must be verified by the Certification of Costs (signed by the recipient) and not by the supporting documentation maintained by the

recipient. Supporting documentation will be reviewed and verified by ADFA staff performing compliance and monitoring reviews.

Acceptable supportive documentation includes:

- A copy of a detailed bill highlighting the costs to be reimbursed to the NSP participant. The detailed bill should, at a minimum, include vendor identification, a description of the services received, the quantity (hours, units, etc.), and the price for services received. The detailed bill must be substantiated by a cancelled check, a copy of the bank statement or other proof of payment
- No handwritten invoices will be accepted.
- All invoices must have an authorized signature of the NSP participant's Executive Director, or his or her designee, approving the payment and verifying that the services were received and satisfactorily performed, the month the cost is being paid, dated, and cancelled to prevent the invoice from being paid twice.
- ADFA will reimburse salaries which are "reasonable and customary" for support personnel (e.g., clerical, temporary employee, etc.) of the NSP participant directly providing project delivery costs to the affordable housing being assisted at a rate commensurate with their regular hourly wages.
- A copy of any contracts for professional services (e.g., consultants, architects, contractors, etc.), if applicable, must be provided in the initial application outlining the services to be rendered, the cost of the proposed services, and the proposed payment schedule or terms.

The use of prorated payment percentages is acceptable and must be outlined in the initial application as well as each billing statement submitted for reimbursement. The applicant must provide the sources of other funds used to pay project delivery costs, if any.

H. Sale of Units to Homebuyers

NSP requires that properties acquired or acquired and rehabilitated/constructed with NSP funding be sold to eligible LMMI homebuyers at an amount equal to or less than the cost to acquire and redevelop the property by the funding recipient. This means that properties may not be sold at a profit. The cost may not include any holding costs incurred by the awardee. ADFA will enforce and monitor these requirements through its closing documentation procedures and additional monitoring.

The homebuyer must obtain 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 issued by the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Department of the Treasury, and National Credit Union Administration, available at <http://www.fdic.gov/regulations/laws/rules/5000-5160.html>). Awardees must document compliance with this requirement for each homebuyer.

I. Affordability Period and Recapture Provisions

The minimum applicable affordability periods for single-family loans shall be as follows:

Total Loan Amount	Number of Years
\$1,000 - \$15,000	5
\$15,000 - \$40,000	10
Over \$40,000	15

Homeownership assistance is provided as a forgivable loan at 0% interest, contingent upon eligible homebuyer continuing to own, occupy as principal residence, and maintain the NSP-assisted home for the full applicable affordability period. If the buyer chooses to sell the home, move, or fails to maintain the NSP-assisted home, the buyer shall repay to ADFA the pro rata amount of the NSP direct assistance that enabled the buyer to purchase the home for the unexpired term of affordability. In the event the property is sold or otherwise transferred to any purchaser during the affordability period, ADFA will recapture that amount of NSP funds unforgiven during the affordability period from the net proceeds from the sale of the property. If net proceeds are not sufficient to recapture the full NSP investment or reduced amount per lien documents, ADFA will share the net proceeds. The three (3) eligible types of homeownership assistance are 1) downpayment and closing cost assistance, 2) mortgage reduction assistance, and 3) interest rate buy-down of the eligible homebuyer's first mortgage to a rate 250 basis points below current market (non-subprime) interest rates.

In all cases where NSP assistance is provided, a note will be executed and mortgage will be recorded in favor of ADFA. **ONLY ADFA-APPROVED LIEN DOCUMENTS WILL BE USED.** NSP assistance may be in a junior position to private lender financing as long as the combined loan-to-value does not exceed one hundred percent (100%). Recipients and subrecipients must apply all rules consistently and fairly, regardless of the form of assistance.

All mortgage payments shall be paid by the homebuyer on a monthly basis to ADFA at the following address:

Arkansas Development Finance Authority c/o Accounting Department P. O. Box 8052 Little Rock, AR 72201
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ADFA will recapture that portion of NSP investment unforgiven by the elapsed affordability period or recapture the maximum net proceeds from sale of property (whether recapture is effected through foreclosure or no foreclosure action). Net proceeds recovered will be used as follows: (1) reimburse the NSP (approved activity) for the outstanding balance of NSP funds not forgiven during the applicable affordability period at the time of recapture, and/or (2) reimburse the NSP (administration) for "holding costs" or other costs associated with the recapture action (e.g., legal fees, insurance, taxes, realtor fees, appraisal/BPO costs, etc.)

If net proceeds recaptured are less than the outstanding balance of NSP funds invested in the property (for all approved activities and holding costs incurred), the loss will be absorbed by the NSP and all NSP requirements would be considered to have been satisfied. If net proceeds recaptured are greater than the outstanding balance of NSP funds invested in the property (for all approved activities and holding costs incurred), the balance of net proceeds would be distributed to the homebuyer (or his/her estate). If the recapture of proceeds is effectuated through a completed foreclosure action, and the property is legally owned by ADFA, the balance of net proceeds recaptured will inure to ADFA.

J. Minimum Property Standards

Minimum property standards **must** be met at project completion when NSP funds are used for a project. ADFA has developed “rehabilitation standards” which will be provided to applicants.

At a minimum, the requirements that must be met for all rehabilitation and new construction projects are those set forth in the Section 8 Housing Quality Standards and the ADFA Construction Performance Manual Sections I and II, those set by the International Code Council (ICC) (when applicable), and all applicable local, state, and federal requirements. **Single-family units constructed (i.e., new construction and reconstruction) with NSP funds must adhere to Energy Star standards.**

Rehabilitation projects funded with NSP funds must also meet all local codes, rehabilitation standards, zoning ordinances, the cost effective energy conservation and effectiveness standards (24 CFR Part 251), and the Arkansas Energy Code.

Single-family units constructed with NSP funds as part of the homebuyer program must be a minimum of 1,200 square feet heated and cooled with a minimum of three (3) bedrooms and two (2) bathrooms.

K. Universal Design Criteria

The following building design criteria must be included for all NSP-funded homebuyer projects, in accordance with the Arkansas Department of Human Services’ *Arkansas Usability Standards in Housing: Guidance Manual for Constructing Inclusive Functional Dwelling* (AUSH):

1. All new construction and reconstruction homebuyer units constructed for persons with disabilities must comply with the Level 5, “All-Inclusive” usability criteria as set forth in the AUSH. The AUSH is available on the internet at the following website address: www.studioaid.org. Under the “Design” link, click on “standards.”
2. All exterior and interior doors intended for passage must provide for a minimum clear opening of 34”.
3. All rehabilitation, reconstruction, and new construction single-family units in the development will have “closed-fist” operability throughout the unit, (e.g., single handle door levers vs door knobs, push stick lighting and environmental controls, cabinet doors can be opened with a closed fist, single handle faucets in bathrooms and kitchen).
4. All primary entries must have entry pad measuring at least 5’x 5’.
5. All walkways/sidewalks must be at least 5’ wide.
6. Homebuyer units with NSP funds used as part of the construction must meet at a minimum the Level 1: “Visitable” usability criteria as set forth in the AUSH.

L. Construction Bids

Construction bids (rehabilitation and new construction projects) must be good for a minimum of 60 days from date received by ADFA.

VI. Glossary

Abandoned Property: For purposes of implementing the NSP, an abandoned property is defined as a property abandoned when 1) mortgage or tax foreclosure proceedings have been initiated for that property, 2) no mortgage or tax payment have been made for the property owner for at least ninety (90) days, AND, 3) the property has been vacant for at least ninety (90) days.

Affordability: As used in this guide, affordability refers to the requirements of the NSP that relate to the cost of housing both at initial occupancy and over established timeframes, as prescribed in the HERA and HUD requirements. Affordability requirements vary depending on the nature of the NSP-assisted activity (i.e., homeownership or rental housing).

Affordable Rents: Rents that are at or below the Fair Market Rent (FMR) levels as determined by the U.S. Department of Housing and Urban Development (HUD) per county. (Note: Fair Market Rents include utilities, therefore if a tenant is paying their own utilities, the Utility Allowance published by the local Public Housing Authority (PHA), must be deducted from the maximum FMR). For purposes of the NSP, "affordable rents" shall be in accordance with the HOME Program Rents and FMRs as delineated in the HOME Investment Partnerships Program. The "affordable rents" are as follows:

- Beneficiaries whose total household income is $\leq 50\%$ of AMI – Low HOME Rent
- Beneficiaries whose total household income is 51% - 60% of AMI – High HOME Rent
- Beneficiaries whose total household income is 61% - 120% of AMI – FMR

Annual (Gross) Income: NSP allows the use of one of the three definitions of income: Section 8 annual income (as defined under 24 CFR Part 5); annual income as reported on the U.S. Census Long Form; and adjusted gross income as defined for the purposes of reporting on IRS Form 1040. For the purposes of NSP, ADFA is using the Section 8 annual income definition (as defined under 24 CFR Part 5) to document income eligibility.

Blighted Structure: For the purposes of NSP, a structure is defined as blighted when it exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare.

Commitment: The written, legally binding agreement between the ADFA and the project owner providing NSP funds to a project.

Consolidated Plan: A plan prepared in accordance with the requirements set forth in 24 CFR Part 91, which describes community needs, resources, priorities and proposed activities to be undertaken under certain HUD programs, including the NSP.

Developer: For profit entities assembling, financing, managing and possibly owning NSP deals. For nonprofits, only those carrying out acquisition and rehabilitation are considered developers.

Development: A site or an entire building or two (2) or more buildings, together with the site or sites on which the building are located, that are under common ownership, management and financing and are to be assisted with NSP funds-under commitment by the owner-as a single undertaking.

Development Fees: Compensation to the developer for developing the property, includes overhead and profit, consult/processing agent fees, project administration, the value of personal guarantees and a portion of any reserves determined by the housing credit agency to be in excess of industry norms.

Equity: The value of a property less the amount of outstanding debt on it.

Financing Plan: The proposed financing for a project.

Foreclosed Property: For purposes of implementing the NSP, a foreclosed property is defined as a property that, under state or local law, has a completed mortgage or tax foreclosure process. A foreclosure is not considered to be complete until after the property title has been transferred from the former owner under a foreclosure proceeding or transfer in lieu of foreclosure.

General Partner: A partner who is liable and responsible for completing a project as proposed, managing the partnership and guaranteeing funding required to complete the project. A general partner oversees construction, leasing and property management; maintains the books and records of the partnership; and submits periodic reports to the limited partners on the project's financial status.

General Partnership: A form of ownership in which all partners participate materially in the partnership's operations and share liability.

Interest Subsidy: The amount of subsidy required to reduce the interest rate on a loan to a below-market rate over the term of the loan.

Limited Partner: A passive investor in a limited partnership who, in exchange for contributing equity to the project, receives a pro rata share of cash flow and tax benefits and the right to approve the sale or refinancing of the property

Limited Partnership: An ownership vehicle comprising limited and general partners that allows for central management but has no tax liability, instead passing tax benefits through to its limited and general partners.

Low-Income Family/Person: Family or person whose annual (gross) income does not exceed eighty percent (80%) of the median income for the area (adjusted for family size). HUD may establish, on an exception basis, income ceilings higher or lower than eighty percent (80%) of the median income for an area.

Low-Moderate-Middle Income (LMMI) National Objective: For the purposes of ADFAs implementation of NSP, an activity meets HERAs Low-Moderate-Middle Income (LMMI) National Objective if the assisted activity provides or improves permanent residential structures that will be occupied by a household whose income is at or below 120 percent of area median income (abbreviated)

Managing General Partner: The general partner responsible for the day-to-day management of a limited or general partnership.

Middle-Income Family/Person: Family or person whose annual (gross) income does not exceed one hundred and twenty percent (120%) of the median income for the area (adjusted for family size). HUD may establish, on an exception basis, income ceilings higher or lower than one hundred and twenty percent (120%) of the median income for an area.

Moderate Rehabilitation: The cost of a rehabilitation project that costs \$25,000 or less.

New Construction: Construction of a new housing unit where one did not exist. In addition, any project that includes the creation of additional dwelling units outside the existing walls of a structure is also considered new construction.

NSP-Assisted Unit: Units within a NSP project where NSP funds are used and rent, occupancy and/or resale restrictions apply.

Partnership Agreement: A legal document that specifies the rights and responsibilities of the general and limited partners and governs the ongoing relationship between these parties.

Project: A site or an entire building or two (2) or more buildings, together with the site or sites on which the building are located, that are under common ownership management and financing and are to be assisted with NSP funds – under a commitment by the owner – as a single undertaking.

Reasonable Developer’s Fee: For purposes of implementing NSP, a reasonable developer’s fee is defined as a fee earned for development of single or multi-family affordable housing which does not exceed ten percent (10%) of total development costs. An NSP proposal may include a developer’s fee OR an amount for administration, but not both. The amount of such developer’s fee or administration should be clearly indicated in the proposal and included in the total amount of NSP funds requested.

Recapture: Repayment of losses of NSP funds due to lack of performance with applicable performance standards as defined under General Requirements in Section O of this manual.

Reconstruction: The rebuilding, on the same lot, of housing standing on a site at the time of project commitment. The number of housing units on the lot may not be decreased or increased as part of the reconstruction project, but the number of rooms per unit may be increased or decreased.

Restrictive Covenant: A limitation placed on a property, which is recorded and attached to the deed, thereby passing to subsequent owners.

Soft Costs: Development costs exclusive of the cost of acquisition, site improvements, construction and contingencies.

Soft Second Mortgage: A loan provided by public and nonprofit lenders at below-market interest rates and with flexible repayment terms, using as collateral a second mortgage on the project property, to fill a financial gap for a project serving a public purpose (for instance, affordable housing).

SRO Housing: A type of congregate housing in which each resident has a private room but shares common areas (such as dining and living rooms) with other residents.

State Recipient: Any unit of local government designated by a state to receive NSP funds. The state is responsible for ensuring that NSP funds allocated to state recipients are used in accordance with the NSP regulations and other applicable laws.

Subrecipient: Public agencies and nonprofit organizations that assist the recipient to undertake one or more activities on behalf of the grantee. Does not include for-profit entities or nonprofits carrying out acquisition and rehabilitation projects only.

Substantial Rehabilitation: The cost of a rehabilitation project that costs more than \$25,000.

Surplus Cash (Net Operating Income-NOI). The operating income derived by the project owner from development cash flow that exceeds 1st mortgage loan payments and the following operating expenses: property management fee, grounds maintenance, accounting services, amounts deposited into a replacement reserve account, legal services, taxes and insurance, and utility expenses, each specifically related to the development. Developer fees and depreciation of assets may not be included in calculating expenses.

Syndicates: Individuals or firms who arrange for the sale of ownership shares in a project to raise equity from investors.

Targeting: Requirements of the NSP relating to the income or other characteristics of households that may occupy NSP-assisted units.

Total Development Cost (“TDC”): The sum of all costs for site acquisition, relocation, demolition, construction and equipment, interest and carrying charges.

Vacant Properties: Unoccupied structures or vacant land that was once developed.

Very Low-Income Family: Family whose annual (gross) income does not exceed fifty percent (50%) of the median income for the area (adjusted for family size). HUD may establish income ceilings higher or lower than fifty percent (50%) of median income for an area on an exception basis.