

The HOME Program



Program Guide



U.S. Department of Housing and Urban Development
Andrew Cuomo, Secretary



U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, D.C. 20410-0001

THE SECRETARY

In the midst of America's unprecedented economic boom, the Nation's affordable housing crisis has intensified. This increased prosperity has not been shared equally by all families and communities. Millions of families have been left behind. There is a critical shortage of decent housing that is affordable to low- and very low-income families. Millions of households pay more than they can afford for rent; some must choose between paying their rent and putting food on the table. For many other families, the American dream of owning a home seems an impossibility because of the high cost of housing and the substantial upfront costs. In many neighborhoods, dilapidated housing adds to the blight caused by lack of economic opportunities, low-incomes, inadequate schools and the feelings of hopelessness experienced by its residents.

President Clinton has long recognized the need to provide decent and affordable housing opportunities, both rental and homeownership, to low- and very low-income families. Decent housing, attractive neighborhoods, increased homeownership rates, and affordable rents strengthen families and communities. The Department of Housing and Urban Development has as one of its primary goals increasing affordable housing opportunities for low- and very low-income families.

The HOME Program is one of the most flexible tools communities have to address these overwhelming needs. HUD provides HOME funds to States and local governments, which use the funds to address their locally identified affordable housing needs. Since the inception of the program, HOME funds have been used to assist tens of thousands of low-income families purchase their first homes or repair homes that they own. Similarly, HOME has assisted in the development of thousands of affordable rental units and assisted low-income families to pay rent in private market-rate units.

In the few short years since its inception, the HOME Program has become an important tool in the provision of affordable housing, as well as a catalyst for revitalizing neighborhoods, improving lives and fulfilling dreams.

A handwritten signature in black ink, appearing to read "Andrew Cuomo".

Andrew Cuomo
Secretary of Housing and Urban Development

An Introductory Guide to

HOME

A New Kind of Affordable Housing Program



U.S. Department of Housing and Urban Development
Office of Community Planning and Development

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An Introductory Guide to HOME



Introduction

Decent, affordable homes are more than just bricks and mortar—they are a cornerstone of strong communities. They give families a secure foundation on which to build healthy and productive lives. They foster stable, thriving neighborhoods. They are a major focus of local economic activity.

However, many Americans are not able to share in these benefits. Although we are the best-housed Nation in the world, every community has families with low incomes who pay much of their incomes for housing, sometimes for physically inadequate or overcrowded units—that is, if they can obtain shelter at all.

Because every community has a need for adequate, affordable housing, the Federal Government created the HOME Investment Partnership Program to help States and local governments respond to that need. But because the nature of each community's needs and resources is different, HOME was designed to ensure that each community is able to use the assistance in ways that respond best to its unique circumstances. Unlike categorical grant programs that will fund only a specific type of housing activity (construction of public or elderly housing, for example), HOME funds a broad range of activities, including new construction, rehabilitation, acquisition of standard housing, assistance to new homebuyers, and tenant-based rental assistance.

This guide provides a general introduction to the HOME program. It briefly describes the program's purposes and features, explains how eligible jurisdictions apply to participate in HOME, and outlines some of the basic rules that govern the use of program funds.

A Different Kind of Housing Program

The HOME program, created under Title II (the Home Investment Partnerships Act) of the National Affordable Housing Act of 1990, represented a historic affirmation of the Federal Government's commitment to providing decent, safe, and affordable housing for all Americans and to alleviating the problems of excessive rent burdens, homelessness, and deteriorating housing stock nationwide.

The legislation was historic as well in its vision of how a housing assistance program could strengthen a community's capacity to sustain and build upon the program's short-term benefits. In addition to expanding the supply of decent and affordable housing—particularly rental housing—for low- and very low-income Americans, Congress intended the HOME program to operate in ways that will help *participating jurisdictions (PJs)* develop the skills, institutions, relationships, and vision they need to undertake their own affordable housing strategies.

In these ways, HOME offers communities much more than financial assistance:

- *HOME empowers PJs* to design and implement affordable housing strategies that are tailored to their needs and priorities.
- *HOME extends and strengthens partnerships* among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing.
- *HOME builds the capacity of these partners* by funding technical assistance activities, as well as

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by setting aside funding to ensure that community-based nonprofit organizations will play a significant role in implementing local strategies.

- *HOME mobilizes community resources* through a requirement that PJs match a portion of their HOME allocations from non-Federal sources.

States and localities across the country have already begun to see the rewards of participating in this new approach to expanding affordable housing opportunities. And HOME funds are allocated through a system that makes it possible for almost any community to reap these benefits.

Three Paths to HOME

All States and units of general local government may become eligible to receive HOME funds by pursuing one of three paths:¹



1. States, as well as metropolitan cities and urban counties, may be eligible to become official participating jurisdictions in the HOME program and receive a direct allocation of program funds.
2. Other units of local government may also become eligible for direct allocations by joining with one or more contiguous jurisdictions to form a *consortium*.
3. Local governments that do not qualify for a direct allocation individually or as part of a consortium may still participate in the HOME program by applying for program funds made available by their State.

The paths a jurisdiction may follow are determined through a formula established by Congress that reflects the need for an increased supply of affordable housing for low- and very low-income families.

¹ Only the Caribbean and Pacific *insular areas* of the United States are exempt from the need to start down one of these paths. Congress sets aside a pool of HOME funds (the greater of \$750,000 or 0.2 percent of appropriated funds) each year that are distributed among the insular areas under criteria established by HUD.

Formula Allocations

HOME funds are allocated to PJs by formula: 40 percent of formula-based funds are divided among the States and the remaining 60 percent are distributed among cities, urban counties, and consortia. The formula incorporates six indicators of a jurisdiction's affordable housing needs:

- Relative inadequacy of housing supply.
- Supply of substandard rental housing.
- Number of low-income families in rental housing units likely to be in need of rehabilitation.
- Cost of producing housing.
- Incidence of poverty.
- Fiscal incapacity to carry out housing activities without Federal assistance.

States are automatically eligible for HOME allocations and receive either their formula allocation or \$3 million, whichever is greater. States with no local governments receiving direct HOME allocations receive an additional \$500,000 (\$335,000 in years when the annual appropriation falls below \$1.5 billion).

Local governments seeking to become first-time PJs must initially qualify for a formula allocation of \$500,000 (\$335,000 in years when the appropriation for the program dips below \$1.5 billion). This amount represents the *minimum direct allocation threshold*. To actually receive this allocation for its first year, however, a new jurisdiction must actually amass \$750,000 (\$500,000 when the appropriation is less than \$1.5 billion). New jurisdictions may provide local funds to fill the gap between accumulated funds and the required threshold—or the State may contribute a portion of its HOME allocation to help make up the difference. But this gap must only be filled for the jurisdiction's first year in the program.

Forming a Consortium

Another path to direct participation for local governments that would not otherwise qualify for funding is to form a *consortium* whose members' aggregate

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allocations exceed the threshold. Dozens of consortia have already been formed and include among their partners local governments whose individual formula allocation does not meet the minimum threshold for funding, as well as existing PJs interested in taking a more regional, collaborative approach to meeting their affordable housing needs.

Each partner in the consortium generally must make a 3-year commitment to participate. Other local governments may join the consortium during this period, but none may drop out.

Applying for HOME Funds: All You Need Is a Plan



Eligible jurisdictions with both the desire and the capacity to participate in the HOME program must meet only one other prerequisite: They must prepare (and HUD must approve) a *Consolidated Plan* containing specific information on how they will use their HOME allocation. But the Consolidated Plan is much more than an administrative requirement: It is the foundation on which all of a community's affordable housing efforts are built.

The consolidated planning process provides a forum for the many voices in a community—including business and civic leaders, housing and social service providers, elected officials, and individual citizens—to come together to learn about and discuss the community's housing and development needs, to inventory its resources, to establish priorities for addressing those needs, and to develop concrete strategies for fulfilling those priorities. Consolidated planning challenges allies of affordable housing to help forge a comprehensive, sustainable vision for their community's future by considering how affordable housing strategies can reinforce a range of economic development, community development, and social service priorities—and to determine how their use of HOME funds can fit into this broad coordinated strategy.

The Consolidated Plan consists of a narrative and data required by the National Affordable Housing Act of 1990, as amended (described in detail in the *Code of Federal Regulations* at 24 CFR Part 91). A new or updated Consolidated Plan also serves as each participating jurisdiction's application for funding through HOME—and other HUD block grant programs for which they qualify, including the Community Development Block Grant (CDBG) program, Emergency Shelter Grants, and Housing Opportunities for Persons with AIDS. There are no longer separate applications and reporting forms; the Consolidated Plan contains the basic information that HUD needs to know about the HOME strategies of participating States and localities, including:

- A description of how Federal resources will be used to address priority needs.
- A statement of the resale/recapture provisions the PJ may use to recover subsidies or ensure affordability in its homebuyer assistance efforts.
- Certifications regarding compliance with other statutory requirements and Federal laws.

That's all there is to it. HUD establishes an account called a Home Investment Trust Fund (HITF) for the PJ with an approved Consolidated Plan. Each account provides a line of credit on which the PJ can draw to fund eligible affordable housing activities consistent with its Consolidated Plan.

HOME Ground Rules

With its HOME funding now in place—as well as a strategic plan to guide the use of those funds—the participating jurisdiction can begin to commit monies to activities that will improve housing opportunities for its low-income residents.



Indeed, many possibilities are open to grantees—HOME's flexibility makes it possible for PJs to use program funds to support activities required to develop affordable housing. However, some limitations have been placed on HOME funds to ensure that they are used appropriately and effectively.

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States and localities may use their HOME funds to:

1. Meet development costs, including:
 - Acquisition of property.
 - Construction of new housing for rent or ownership.
 - Moderate or substantial rehabilitation of rental or owner-occupied units.
 - Site improvements for HOME-assisted projects.
 - Demolition of dilapidated housing to make way for a HOME-assisted development.
 - Payment of relocation expenses.
 - Other reasonable and necessary expenses related to the development of nonluxury housing.
2. Administer the HOME program through activities that include:
 - Program planning and administration (up to 10 percent of the PJ's annual allocation).
 - Staff and overhead costs directly related to a HOME-assisted project.
 - Operating costs for community housing development organizations (up to 5 percent of the PJ's annual allocation).
3. Provide home purchase or rehabilitation financing assistance to low-income homeowners and new homebuyers through, for example:
 - Direct loans.
 - Help with downpayments or closing costs.
 - Loan guarantees or other forms of credit enhancement.
4. Assist low-income renters through tenant-based rental assistance or payment of security deposits (under the conditions described below).

Those activities on which PJs may *not* spend their HOME funds fall into three general categories:

1. Public and assisted housing modernization, operation, and preservation activities for which HUD already provides other dedicated funding:
 - Annual Contributions Contracts (ACCs) that fund the development of public and HUD-assisted housing.
 - Public housing modernization.
 - Preservation of HUD-assisted rental housing under the Low-Income Housing Preservation Acts of 1987 and 1990 (unless the project is being purchased by a nonprofit organization or another entity recognized as a *priority purchaser* under these statutes).
2. Activities that support the ongoing operation of rental housing:
 - Operating subsidies for rental housing.
 - Reserve accounts that accumulate capital, either to fund major improvement or replacement of building systems and structures or to fund unanticipated increases in operating costs.
 - Tenant subsidies for certain special mandated purposes under Section 8.
3. Matching funds for other Federal programs.

A Few Words About Tenant-Based Rental Assistance

Although HOME is primarily a bricks-and-mortar program that funds the development of affordable housing as a lasting community resource, Congress recognizes that in many communities the stock of decent rental housing supply may be adequate, but has rents beyond the financial reach of low-income families. For this reason the HOME statute authorizes PJs to use program funds for tenant-based rental assistance, but places some conditions on this short-term strategy to ensure that it is thoughtfully and appropriately employed.

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Before undertaking tenant-based rental assistance, a PJ must show that such assistance is included in its Consolidated Plan and specify the market conditions that justify its use. In addition, the PJ must develop written tenant selection policies and criteria that reflect HOME’s income-targeting requirements.

PJs may administer their own rental assistance program, or they may decide to delegate this responsibility to another qualified organization, such as a public housing authority (which, in most cases, already operates the local Section 8 rental assistance program). In addition, the PJ must ensure that:

- Rental assistance contracts do not exceed 24 months (although they may be renewed).
- Rents are comparable to similar unassisted units.
- Lease requirements are fair to the tenant.
- The rental subsidy does not exceed the difference between an established standard rent (adjusted for unit size) and 30 percent of the family’s monthly adjusted income. The PJ can base this standard rent on local market conditions—or on the Fair Market Rent (FMR) set by HUD for tenant-based Section 8 assistance in its area, in which case the standard rent must fall between 80 percent of the applicable FMR and a HUD-approved exception rent (which may be up to 120 percent of the FMR).
- Each tenant contributes a minimum amount toward rent.
- Units meet Section 8 Housing Quality Standards.

Reaching Families With the Greatest Need

HOME was designed explicitly to expand the supply of decent and affordable housing for low- and very low-income Americans. Congress established some baseline targeting requirements for HOME-assisted rental and owner-occupied housing to guarantee that Federal assistance reaches the families that most urgently need it.

Rental Housing



Participating jurisdictions investing in rental housing or rental assistance must ensure that at least 90 percent of families benefiting from HOME assistance have incomes that are no more than 60 percent of the median family income for the area and that the remaining families have incomes less than 80 percent of the area median. In addition, each rental project must meet these affordability tests:

- Rents fall at or below the local FMR or 30 percent of the income of a family earning 65 percent of the area median, whichever is less.
- Projects remain affordable for a period of time based on the average HOME subsidy per unit:

Activity	HOME Subsidy	Unit Must Remain Affordable for at Least:
Rehabilitation	Less than \$15,000	5 years
	\$15,000–\$40,000	10 years
	Greater than \$40,000	15 years
Rehabilitation with refinancing	Any amount	15 years
New construction	Any amount	20 years

- In assisted projects with five or more units, at least 20 percent of the units *either* must be rented to very low-income families at affordable rents (equal to no more than 30 percent of their monthly gross adjusted income) *or* must be rented at rates that would not exceed 30 percent of the annual income of a family earning 50 percent of the area median.
- When HOME funds are combined with Federal or State project-based assistance, PJs may charge up to the maximum rent allowable under that assistance program, provided that the rents are affordable and the assisted families have incomes below 50 percent of the area median.

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Homeownership

All HOME funds used for homeownership assistance must benefit new homebuyers or existing homeowners whose family income does not exceed 80 percent of the area median income. In addition:

- The assisted housing must be the owner's principal residence.
- The estimated value of the property—which may be either acquired or newly constructed standard housing or acquired then rehabilitated housing—must not exceed 95 percent of the median area purchase price.
- The PJ must establish resale provisions that safeguard the property's continued affordability or recapture all or part of the HOME subsidy. Guidelines for either option must be included in the Consolidated Plan and are subject to HUD approval.

Property Standards and Standard Properties

All HOME-assisted units must meet local codes and standards. In the absence of local codes, housing should conform to the model codes identified in the program rule at 24 CFR Part 92.251. At a minimum, however, all jurisdictions must have written standards to guide HOME-assisted rehabilitation activities.

Although these requirements help guarantee that the units assisted through HOME are decent, safe, and affordable, they are not intended to support luxurious housing. Therefore HUD has established a maximum per-unit subsidy for HOME-funded housing, as well as a limit on the value of HOME-assisted homeownership units. These subsidy and value cap figures, which vary according to market and unit size, are available from HUD.

Leveraging HOME Resources

Two other features of the HOME program are intended to unleash the power and resources of participating communities. First, HOME encourages States and localities to mobilize their own resources

through a requirement that participating jurisdictions match a share of their HOME funds from non-Federal sources. This provision obliges PJs to develop the capacity and the relationships they need to build a sustainable local system for creating affordable housing. In addition, HOME encourages communities to mobilize and strengthen the capacity of their non-profit sector by setting aside part of each PJ's allocation for the use of community housing development organizations (CHDOs).

Matching Funds Requirement

All jurisdictions must contribute or match 25 cents for each dollar of HOME funds spent on affordable housing. As PJs draw funds from HOME Investment Trust Funds, they incur a *match liability*, which must be paid off by the end of each fiscal year. The matching contribution adds to the resources available for HOME-assisted or HOME-eligible projects.



This requirement covers most, but not all, expenditures under HOME. If jurisdictions use HOME funds to make loans for CHDO projects, and then waive repayment of those loans, they do *not* owe matching funds on the foregone money. They also do not need to match administrative expenses or funds used by a new PJ to fill the threshold gap, unless State HOME funds are used to reach the threshold.

Generally investments from State or local governments or the private sector qualify as matching contributions, whereas Federal funds (such as CDBG) do not qualify. Eligible sources of a match for HOME funds include:

- Cash.
- Donated construction materials or voluntary labor.
- Value of donated land or real property.
- Value of foregone interest, taxes, fees, or charges levied by public or private entities.
- Investments in on- or off-site improvements.
- Proceeds from bond financing.
- The cost of supportive services provided to families living in HOME units.

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- The cost of homebuyer counseling to families purchasing HOME units.

Building Partnerships With Nonprofit Organizations

Nonprofit organizations that are rooted in and accountable to the neighborhoods they serve embody the idea of community-led revitalization that HOME and other HUD programs are meant to promote. But these organizations often struggle against great odds to survive and pursue their social mission. Through HOME, the Federal Government is making an investment in the future of local nonprofit housing groups, requiring that each PJ reserve at least 15 percent of its total allocation to fund housing that will be owned, developed, or sponsored by entities designated as community housing development organizations.

Not every private, nonprofit organization qualifies as a CHDO; this term is reserved for those that:

- Provide decent housing that is affordable to low- and moderate-income persons (though they may perform other functions as well).
- Have effectively carried out activities financed by HOME funds.
- Have a history of serving the community where the HOME-funded housing will be located.
- Are organized under State or local laws and exempt from taxes under Section 501(c) of the Internal Revenue Code.
- Meet standards of financial accountability.

To guarantee that such organizations remain accountable to those in whose interest they work, at least one-third of a CHDO's governing board must be low-income community residents or elected representatives of those residents. CHDOs must also maintain a formal process that allows low-income residents and other program beneficiaries to provide input on relevant decisions.

A CHDO cannot be a public body, such as a local government agency; nor can it be controlled or directed by an individual or group seeking to derive profit from the organization. A CHDO may be sponsored or created, however, by a for-profit entity if that entity is not primarily concerned with developing or managing housing *and* if the CHDO is free to contract for goods and services from vendors of its own choosing. If a CHDO is sponsored by a public agency or for-profit entity, the sponsoring entity may not appoint more than one-third of the organization's governing body. For publicly sponsored CHDOs, board members appointed by the unit of government may not appoint remaining board members.

PJs can use HOME funds to aid CHDOs in a number of ways. In addition to project funding that will increase their experience and capacity in developing affordable housing, PJs can commit up to 5 percent of their total allocation to help CHDOs pay their operating costs. And up to 10 percent of the CHDO set-aside can be used to provide project-specific technical assistance and loans for site-control activities including project feasibility studies.

Because so many community-based nonprofits need the kind of support that HOME funds can provide, it is crucial that CHDO funds be committed promptly. HOME rules require that PJs reserve their full CHDO set-aside within 24 months. After that time, HUD will deduct the unreserved portion from the jurisdiction's allocation and reallocate the funds to other PJs to assist CHDOs in their area.

HUD Helps Communities Do Their HOME Work



HOME does more than provide States and localities with vital funds to improve housing opportunities for low-income families. HUD ensures that participating jurisdictions have the necessary information and skills to use their funding effectively. HUD field staff work closely with PJs to help them comply with HOME requirements and other

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relevant Federal regulations and with the priorities and goals laid out in their Consolidated Plans.

HUD also helps HOME PJs learn state-of-the-art techniques for developing and managing affordable housing. To help PJs design and implement effective programs, HUD works with partners throughout the affordable housing community to develop *model programs* that meet HOME requirements in every activity area, from the rehabilitation of owner-occupied housing to tenant-based rental assistance. And to ensure that program participants have the skills they need to implement these programs effectively, HUD administers a nationwide technical assistance program. Each year HUD may set aside a portion of its HOME appropriation for technical assistance and capacity building. National and statewide intermediary organizations receive these funds to provide technical assistance to CHDOs, and the balance is used to develop and deliver technical assistance and training to PJs.

HUD makes it easy to learn more about the HOME program. Write or call your local HUD field office or contact:

Office of Community Planning and Development

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(202) 708-2470
<http://www.hud.gov>

For copies of HOME program rules and model programs, contact the information center created by HUD's Office of Community Planning and Development:

Community Connections

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