



Office of Single Family Program Development

Single Family Housing Policy Handbook 4000.1

Module 9: Nonprofit Approval and Governmental Entities

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The information in this document is current as of the Last Update date noted above. This document does not establish or modify the policy contained in FHA's Handbooks and Mortgagee Letters in any way.





Introduction

- Nonprofits Agencies (NPs) and Government Entities (GEs) have been essential in developing affordable housing, providing assistance to many first-time homeowners and in revitalizing our neighborhoods and rural communities.
- NPs and GEs participating in the Federal Housing Administration's (FHA) NP programs must serve low- to moderate-income individuals or families.
- Low- to moderate-Income individuals or families refers to households whose income does not exceed 115 percent of AMI.
- Access the GE and NP handbook sections at:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsg





Overview

During today's webinar we will focus on how to participate in FHA's NP and GE programs.

- Specifically, we will discuss:
 - An overview of FHA's three types of Single Family Nonprofit programs;
 - FHA's Nonprofit Participant approval process;
 - Post Approval Requirements for HUD-approved NPs and compliance requirements for GEs;
 - Nonprofit Recertification;
 - Quality Control;
 - Monitoring; and
 - Enforcement.





Handbook Topics

FHA Single Family Housing Policy Handbook

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Single Family Nonprofit Programs



FHA's Three Programs for Approved NPs and GEs

- HUD Homes
- FHA Mortgagor (Borrower)
- Secondary Financing





HUD Homes – REO Properties

GEs and HUD-approved NPs are permitted to purchase REO properties from HUD at a discount and during the exclusive listing period without a discount.





FHA Mortgagor

- GEs and HUD-approved NPs are eligible for the same FHA-insured financing as owner occupants.
- NPs are required to obtain credit qualification from a Mortgagee for each mortgage originated.
- 203(b) and 203(k)



Secondary Financing

- GEs and HUD-approved NPs may provide secondary financing assistance to homebuyers utilizing FHA insurance on a first mortgage.
- Financial assistance may be provided to cover closing costs, prepaids, and down payment assistance beyond the 3.5 percent minimum required investment (MRI).
- GEs and approved Nonprofit Instrumentalities of Government (NPIOGs) may provide the borrowers' 3.5 percent MRI.

Note: Additional information on Secondary Financing can be found in the Origination through Post-Closing/Endorsement section of the SF Handbook.





Approval Status of Entities

Need Approval	Don't Need Approval
Nonprofits	Government Entities
NPIOGs	Instrumentalities of Government
Section 115s w/ 501(c)(3) for HUD Homes and FHA Mortgagor	Section 115s for Secondary Financing





Entities Requiring Approval to Participate in FHA Nonprofit Programs





Nonprofit

- A NP organization must have a 501(c)(3) Internal Revenue Service (IRS) tax-exempt status for at least two years.

Section 115 Entities with 501 (c)(3) Status

- Section 115 Entities with 501(c)(3) must meet the eligibility and application requirements for the HUD Home and FHA Mortgagor programs.





Nonprofit Instrumentalities of Government

- Nonprofit Instrumentality of Government (NPIOG):
 - Refers to a 501(c)(3) organization that was established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated as an instrumentality by law (statute or court opinion).
 - NPIOG's must also be under the control of the government that created them, or at a minimum, the specific homebuyer assistance program that is using FHA's credit enhancement.
 - Secondary Financing: FHA may approve an NPIOG to provide secondary financing for as much as 100 percent of the Borrower's Minimum Required Investment (MRI).





Entities Not Requiring FHA Approval to Participate in FHA Nonprofit Programs





Government Entities and their Instrumentalities of Government

- Government Entity: any federal, state, or local government agency or instrumentality.
- Instrumentality of Government: must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion) and does not have tax exempt status as a 501(c)(3).





GE's Utilizing Nonprofits for Secondary Financing

- FHA approval and placement on the HUD Nonprofit Roster are not required so long as there is a documented agreement indicating:
 - NP functions include the GE's secondary financing program; and
 - Secondary financing legal documents (e.g., Note and Deed of Trust) name the GE as the Mortgagee.
- GEs that have NPs close the secondary financing in the name of the NP must verify that the NP is both FHA approved as a secondary financing provider and listed on the HUD Nonprofit Organization Roster.





Section 115 Entities

- Do not require approval to participate in FHA's NP Secondary Financing program even when they are also a 501(c)(3).





Ineligible NP Program Participants

Ineligible Participants

- The NP or any officer, partner, director, principal or employee shall not be:
 - Suspended, debarred, excluded from participation in FHA programs as listed in a Limited Denial of Participation (LDP), System for Award Management (SAM);
 - Excluded Parties List, or Credit Alert Verification Reporting System (CAIVRS), or otherwise excluded by similar procedures of any other federal or state agency;
 - Indicted for, or convicted of, an offense which reflects upon the responsibility, integrity, or ability of the NP to participate in FHA activities;
 - Subject to Unresolved Findings as a result of HUD or other governmental investigation, audit, or review; or
 - Engaged in business practices that do not conform to generally accepted practices of prudent NPs or that demonstrate irresponsibility.
- These requirements apply at the time that the NP applies for approval and at all times while it is a HUD-approved NP.





Application and Approval Process





Preliminary Application Requirements

- Submit the following information to answers@HUD.gov :
 - Include the NP program(s) and state(s) where the activities will take place in the subject line;
 - NP's legal name and main office address;
 - Names, titles, phone numbers, and email for all staff in need of system access for application and reporting;
 - Effective date of the NP's 501(c)(3) tax-exempt status (IRS Letter of Determination);
 - NP's EIN;
 - FHA programs for which they are seeking to obtain approval; and
 - Confirmation that the NP has 2 years of relevant housing experience within the last 5 years.





General Application Eligibility Requirements

- A Complete NP Application refers to an application that satisfies all **general application requirements** and all **program specific application requirements** for the programs in which the NP seeks approval.
- Where a NP is applying to more than one program and the program specific application requirements request duplicate information, the NP is only required to submit this information once.
- A Complete NP Application must be submitted and approved in order for a NP to participate in any one of FHA's NP programs.





General Application Requirements: Certification Language

- NP applicants must satisfy all of FHA's general application requirements whether they are applying to one or all of FHA's NP programs.
- All certifications within the application must include the following language:
 - **WARNING: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties.**
(18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)





General Application Requirements

- IRS Tax-Exempt Status
 - IRS Letter of Determination
 - Employer Identification Number (EIN)
 - NP Certification
- Board of Directors and Employees
 - Voluntary Board Certification
 - Board of Directors Information





General Application Requirements (cont.)

- Principal Management and Staff Members
 - Conflict of Interest:
 - NPs must ensure that no conflicts of interest exist between their Boards of Directors, principal staff, or any other Entities that may participate in operating their Affordable Housing Programs (AHP).
 - It is a conflict of interest for a NP to employ staff who also work for and receive financial benefits from an Entity that is providing the NP with services related to the NP's Affordable Housing Program Plan (AHPP).
 - Staff Experience:
 - Principal staff and program managers must have experience in developing and administering housing programs. Hiring of experienced staff does not relieve the NP of the relevant experience requirements.





General Application Requirements (cont.)

- Relevant Experience
 - The NP must have a minimum of 2 consecutive years of relevant experience within the last 5 years.
 - Relevant experience is measured based on the program applied for.
- Delegation of Signature Authority
 - The NP must provide organizational resolutions delegating signature authority to sign loan applications and/or sales contracts on behalf of the organization.
 - These resolutions must be signed and dated by the appropriate persons under applicable state law, the Articles of Organization, and other governing documents.





General Application Requirements: Quality Control Plan

- The NP must have a Quality Control (QC) Plan that explains the organization's internal and external audit and monitoring procedures.
- The QC Plan at a minimum needs to include:
 - System for maintaining records of QC Findings and actions;
 - Process for reporting to senior management;
 - Process by which prompt corrective measures are taken , including time frames and any training provided when deficiencies are identified; and
 - Procedures to report any violation of law or regulation, any known false statement, fraud or program abuse to HUD, the HUD Office of Inspector General (OIG) and the appropriate federal, state or local law enforcement agency.





General Application Requirements: Administrative Capacity

- The NP must demonstrate the capability to develop and carry out its homeownership program in a reasonable time frame and a successful manner.
- Based on the NP's administrative capacity FHA may limit the number of properties purchased at a discount and Mortgages insured by FHA.





General Application Requirements: Financial Capacity

- FHA will assess the NPs financial stability in terms of cash balances, assets and liabilities, annual expenses, and cash flow from operations.
- FHA may limit the number of properties a NP may purchase at a discount and purchase with FHA-insured financing.





General Application Requirements: Financial Capacity (cont.)

Documentation requirements are based on the amount of NP's expended federal award as defined by Office of Management and Budget Circular A-133.

Expended Federal Awards	
\$500,000 or Less	\$500,000 or More
<ul style="list-style-type: none">• 2 years audited or unaudited financial statements:<ul style="list-style-type: none">– Treasurer's report– Supplement schedule– Auditor's review (if available)	<ul style="list-style-type: none">• 3 years audited financial statements:<ul style="list-style-type: none">– Profit and Loss Statement– Balance Sheets– Independent Public Accountant Certification that the NP:<ul style="list-style-type: none">▪ Maintains internal controls over federal awards;▪ Complies with laws, regulations, and contract or grant provisions, and▪ Prepares appropriate financial statements.
<ul style="list-style-type: none">• Most recent quarterly financial statement:<ul style="list-style-type: none">– Certification on NP's financial condition	<ul style="list-style-type: none">• Most recent quarterly financial statement:<ul style="list-style-type: none">– Certification on NP's financial condition





General Application Requirements:

Other Business Partners

- A NP must demonstrate that it maintains control over its homeownership program and cannot rely upon a business partner(s) to operate the program for which it seeks FHA approval.
- The NP must identify other business partners, such as real estate agents, Mortgagees, rehabilitation contractors and consultants providing administrative, financial, and management services.
- The NP must:
 - Identify the company by name and list staff with whom the NP will work with;
 - Explain the nature and cost of the services; and
 - Explain how the NP exercises control over its business partners.





General Application Requirements: Consultant Services

- The NP's operations must be independent of the influence, control, or direction of a consultant or any other outside party, particularly those seeking to derive profit or gain from a proposed project (including landowners, real estate brokers, bankers, contractors, builders, or consultants).
- Consultant services must be provided on an arm's length basis and shall not constitute more than half of the NP's activities throughout the duration of the approval period.



General Application Requirements: Consultant Services (cont.)

- The NP must:
 - Explain the nature and cost of its consultant services;
 - Explain how the NP exercises control over consultants;
 - Describe the work performed by each consultant for each program; and
 - Provide the percentage of work performed by consultants for each program.
- The NP must provide a disclosure and documentation related to any agreements with other parties that may derive financial gain through the homeownership program.





General Application Requirements: Acting on Own Behalf Certification

- The NP must provide a certification signed by an authorized representative of the organization stating the following:

“I certify that (Name of Nonprofit agency) is acting on its own behalf and is not under the influence, control, or direction of any party seeking to derive a profit or a gain from the proposed project, such as, but not limited to, a landowner, real estate broker, banker, contractor, builder, lender, or consultant”.

WARNING: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

- The certification must include the date, and the authorized representative's printed name, signature, and title.





General Application Requirements

- FHA Approval Letter
 - If previously approved by FHA to participate in FHA's NP programs, the NP must submit a copy of its most recent approval letter.
- Adequate Facilities
 - A NP must have an office(s) located within a 200-mile radius of the geographical areas in which it plans to do business. For each office, NPs are required to have adequate office space, equipment and clerical assistance, so that employees may perform their duties in a responsible manner.
 - The NP must submit the contact information and physical address of the agency's main office.
 - The NP must also submit interior and exterior photographs of its office facilities and a copy of the floor plan identifying the NP's work space.





General Application Requirements (cont.)

- Lending Partner(s) Information
 - A NP must ensure that no conflicts of interest exist. Employees of the Lender cannot receive personal or financial benefit because of the Business Relationship with the NP.
 - The NP must provide the name, address, and contact of any lending institution, bank, or private party that has provided financing to the NP.
- Application Certification
 - The NP must submit a document signed and dated by an authorized representative of the organization certifying the information submitted is accurate.





Program Specific Requirements





Affordable Housing Program Plan – Required for All Three Programs

- Affordable Housing Program Plan (AHPP) is a written program plan, submitted to FHA, operated by a NP in specific geographical areas in which the NP provides homeownership opportunities for low to moderate-income program participants by purchasing, rehabilitating, and reselling HUD Homes.
- The NP must adhere to its AHPP during it's entire approval period.





	AHPP Requirements	HH	NPM	SF
1	The areas, including state, city, county and zip code, in which the NP plans to administer the program(s). Program must be operated within a 200 mile radius of the NP's office;	X	X	X
2	How low to moderate-income persons will benefit from participation in the program;	X	X	X
3	How the NP will transition families and individuals into homeownership;	X	X	
4	How the NP's savings will be passed along to program recipients;	X	X	
5	How the NP will locate the low to moderate-income persons who will participate;	X	X	X
6	The type of homeownership counseling the NP will provide to prospective homebuyers (if any), providing a description of the administration of the counseling program;	X	X	X
7	A list of all properties the NP currently owns and has owned within the last three years;	X	X	
8	A list of all properties the NP has rehabilitated (include approximate cost of rehabilitation);	X	X	





	AHPP Requirements (cont.)	HH	NPM	SF
9	<p>A list of all properties that the NP manages and indicate which properties were financed directly or indirectly with FHA funds, and provide:</p> <ul style="list-style-type: none"> • The date purchased and the purchase price; • The date on which rehabilitation was completed; • The date the property(ies) sold and its resale price; and • Demographic information on low to moderate- income purchasers. 	X	X	
10	The estimated developer fees as a dollar amount or percentage of the selling price for future transactions;	X	X	
11	The anticipated number and location of units the NP expects to purchase;	X	X	
12	A time line for purchasing, rehabilitating, and selling (or placing in operation) properties the NP intends to purchase from HUD; and	X	X	
13	The number of days for each phase of the development; (actual dates are not necessary)	X	X	
14	If the NP intends to provide a lease-purchase program, the information relative to the manner in which rent is collected and applied and whether repair reserves will be utilized to minimize repair costs after purchase;		X	
15	The source of current operating funds, and the long-term stability of these funding sources (include funding commitments from other organizations, if applicable). Provide documentation of the source(s) of funds for the secondary Loans to be provided;			X





	AHPP Requirements (cont.)	HH	NPM	SF
16	All fees and amounts charged to the Borrower, and whether they will be part of the secondary lien;			X
17	The number of secondary financing loans the NP agency expects to provide per year;			X
18	How the NP will maintain control and oversight of the servicing of the NP's loans. If the NP plans to use another entity to service the subordinate lien, submit a copy of the agreement between the NP and the servicing entity			X
19	A description of the secondary financing program including eligibility requirements, restrictions on transferability and owner occupancy, and equity sharing if these features apply; and			X
20	How the agency will ensure that the amount of assistance to be provided to homebuyers will conform with the restrictions in the approval letter and FHA underwriting guidelines			X
21	Board Resolution that adopts the AHPP	X	X	X





Program Specific Requirements: HUD Homes

- After approval, a NP must obtain the name, address and identification number (NAID) in order to bid on real estate owned (REO) properties.
- NP must submit *IRS Form W-9, Request for Taxpayer Identification Number (TIN) and Certification and HUD form SAMS-1111, Payee Name and Address.*





HUD Homes: Restrictions on Sale or Lease of Properties

- Either during their tenure or for one year thereafter, FHA strictly prohibits the sale or lease of properties acquired through the HUD Homes program to any of the NPs:
 - Officers;
 - Directors;
 - Elected or appointed officials;
 - Employees; or
 - Business associates.

- Or to any individual who is related to any of the above by:
 - Blood;
 - Marriage; or
 - Law.





HUD Homes: Articles of Organization and Bylaws

- The NP's mission statement, purpose, or goals stated in the NP's Articles of Organization and bylaws must be consistent with those submitted in the application.
- NP must submit a conformed copy of its Articles of Organization and bylaws if applicable.
- A conformed copy is a copy that agrees with the original and all amendments to it.
- A conformed copy must be accompanied by a written declaration, signed by an authorized representative of the organization.





FHA Mortgagor Program Specific Requirements





FHA Mortgagor: Restrictions on Sale or Lease of Properties

- Either during their tenure or for one year thereafter, FHA strictly prohibits the sale or lease of Properties acquired with FHA financing to any of the NP's:
 - Officers;
 - Directors;
 - Elected or appointed officials;
 - Employees; or
 - Business associates.

Or to any individual who is related to any of the above by:

- Blood;
- Marriage; or
- Law.





FHA Mortgagor: Articles of Organization and Bylaws

- The NP's mission statement, purpose, or goals stated in the NP's Articles of Organization and bylaws must be consistent with those submitted in the application.
- NP must submit a conformed copy of its Articles of Organization and bylaws if applicable.
- A conformed copy is a copy that agrees with the original and all amendments to it.
- A conformed copy must be accompanied by a written declaration, signed by an authorized representative of the organization.





FHA Mortgagor: Conflict of Interest

- No person who is an employee, officer, or elected or appointed official of the NP, or who is in a position to participate in a decision making process pursuant to the AHPP, or gain inside information with regard to the lease, or purchase of the property pursuant to the AHPP, may obtain a personal or financial interest or benefit from the purchase of the property, or have an interest in any contract, subcontract, or agreement with respect thereto, or the proceeds thereunder, either for themselves, or for those with whom they have family or business ties, during their tenure or for one year thereafter.





FHA Mortgagor: Past Mortgage Performance

- The NP must submit evidence of any past or current mortgage performance. If applicable, the NP must include performance of FHA-insured mortgages, including addresses and FHA case numbers; certification of completion for each 203(k) Rehab property, including date sold, and sales price; and the full name and telephone number of the borrower.





Secondary Financing





Secondary Financing Requirements

- Restrictions on conveyance must automatically terminate if title to the mortgaged Property is transferred by foreclosure or Deed-In-Lieu (DIL) of Foreclosure, or if the Mortgage is assigned to the Secretary.
- The NP must submit copies of the legal instruments, such as the Mortgage and Note used by, or proposed to be used by, the NP providing the secondary financing.





Submitting the Application





Electronic Submissions

- The NP applicant must submit applications electronically through the HUD Nonprofit Data Management System (NPDMS).
- NPDMS is an automated web-based system designed to allow for the electronic submission of the application, recertification, and reporting documentation.
- NPDMS collects, stores, and provides web-based access to participant applications and property activity data.





Processing the Application (Review)

- Upon receipt of a completed application FHA will determine whether the NP complies with all eligibility requirements.
 - If additional documentation is required, FHA will request the information and provide a deadline for the NP to provide the information requested.
 - If the information requested is not provided, FHA will deny the application.



Incomplete Applications

- NPs that submit an incomplete application package will receive a letter indicating the information required to cure the deficiency.
- The NP will be provided 15 days to correct any deficiencies.
- If the deficiency is not corrected within the required time frame, the application will be rejected.





Application Approval

- NPs that are approved for participation will be issued an approval letter from the jurisdictional FHA Homeownership Center (HOC) describing which activities the NP is approved for and any limitations associated with that approval.
- An approval is valid for a two-year period.





Application Rejection

- A NP's application may be rejected due to deficiencies or for failure to submit a program that complies with applicable regulations and requirements of the SF Handbook, 4000.1. I.B.4
- NPs that are not approved will be issued a rejection letter from the Jurisdictional HOC describing the reasons for the denial.
- Rejected NPs must wait 90 days to submit a new application.





Recertification





Recertification

- Must recertify prior to their two year approval expiration.
- Must demonstrate they created affordable housing opportunities in a fiscally responsible way.
- NPs must demonstrate that they met the following standards:
 - Ability to expand affordable housing opportunities for low- to moderate-income individuals;
 - Acceptable default and foreclosure rate(s) on FHA insured properties;
 - Ability to complete rehabilitation within approved time frames as identified in the AHPP;
 - Adherence to HUD resale requirements; and
 - Acceptable accounting system to report property specific costs related to purchase, rehabilitation, holding, rental, and resale.





Recertification: Filing Deadline

- Submitted to the jurisdictional HOC at least 90 days prior to the end of the approval period.
- The HOC must be notified of any changes that impact the recertification application after it has been submitted.



Recertification and the Nonprofit Data Management System (NPDMS)

- NPs must submit the following recertification documents through NPDMS where applicable:
 - A Complete NP Application;
 - A detailed description of the FHA program activities for which the NP was approved during the approval period;
 - Property address;
 - FHA case number (on acquisition);
 - FHA case number (on resale, if applicable);
 - Date of acquisition;
 - Indication of whether the NP utilized a 203(b) or 203(k) Mortgage for acquisition;
 - Net Development Costs (NDC);
 - Mortgage amounts;
 - Name of the first Mortgagee;
 - Name of any additional Mortgagees (if applicable);
 - Name of the ultimate Borrower, household size and income, discount amount, resale price and date;
 - Date of delinquency; and
 - Date of default.





Recertification: FHA Mortgagor

- The NP must also submit evidence of any past or current mortgage performance.
- If applicable, the NP must include performance of FHA insured Mortgages, including:
 - Addresses and FHA case numbers;
 - Certification of completion for each 203(k) property, including date sold, and sales price; and
 - The full name and telephone number of Borrower.





Recertification: Incomplete Application

- FHA will issue a letter indicating the information required to cure the deficiency.
- NP 15 days to correct any deficiencies.
- Failure to do so subject to denial of the recertification.
- If NP is not approved by the time their current approval expires, they will be removed from the HUD Nonprofit Roster.





Recertification: Rejection

- Rejection can result due to deficiencies or for failure to submit a program that complies FHA requirements.
- Rejection will result in a rejection letter from the Jurisdictional HOC describing the reasons for the denial and removal from the HUD NP Roster.





Post-Approval Requirements for NPs and Program Compliance Requirements for GEs



Compliance Requirements

- GEs and NPs must comply with the following requirements and restrictions for their FHA business operations in addition to continuing to operate in full compliance with the eligibility requirements outlined in the SF Handbook.





Consultant Services

- Consultant services shall not constitute more than half of the NP's activities in the operation of its FHA approved programs.
- The NP must have the in house resources and capacity to run its own programs, and contract for services on a temporary and supplementary basis.





Consultant Services: Arm's Length Basis

- NP must disclose any written and/or side agreements with parties that may derive financial gain through the program.
- Disclosure - identify name of business entity, individuals from company who will be working with the NP, terms of the relationship and how the party will be compensated.
- Failure to disclose may result in a conflict of interest determination.
- NP must contact FHA immediately if more than half of the NP's activities are provided by consultants at any time during the approval.





203(k) FHA-Insured Mortgages Limitation

- A NP is prohibited from further borrowing under its FHA Mortgagor approval if the NP has 10 or more incomplete 203(k) developments at any given time.





203(k) Exceptional Performance Waiver

- NPs with a record of successfully completing 20 or more 203(k) developments may apply to the HOC for a waiver of the limitation on 203(k) mortgages.
- The request should include demonstrated record of performance for all 203(k) mortgages.
- The approval letter will indicate if a NP has been approved for this waiver.





HUD Homes: Individual Property Files (IPF)

- GEs and NPs must maintain an IPF for each Property purchase, sold, or lease when a discount of 10 percent or greater is obtained at the time of purchase.
- GEs and NPs must submit the IPF through NPDMS no later than 60 days after the resale of the property.
- IPF must be maintained for a minimum period of three years after the property is sold.
- Accounting records must be maintained in a property specific format so that cost calculations can be made for all expenses related to each specific Property.



HUD Homes: IPF Contents

- IPF contents should include:
 - Settlement Statements or similar legal documents;
 - Signed Land Use Restriction Addendum (LURA);
 - Income verification for the purchaser who bought from the NP.
 - A certification that the resale purchaser was low to- moderate-income.
 - Appraisal Report
 - Rehabilitation documents including for 203(k)
 - Details about Lease Purchase program
 - Details about business partners participating in the acquisition, rehabilitation and resale of the Property.





HUD Homes: Net Development Costs (NDC)

- NDC calculation applies to all HUD Homes sold to a NPs and GEs at a 10 percent or greater discount.
 - Exception: discounted REO homes purchased through the Dollar Home Sales to Local Governments, Asset Control Areas, and Good Neighbor Next Door programs.
- NDC – total HUD allowable costs to purchase, rehabilitate, and resell the property.
- HUD limits the costs that can be included in the NDC calculation and prohibits the NP or GE from reselling the repaired or improved properties at prices in excess of 110 percent of the NDC Calculation.





HUD Homes: Land Use Restriction Addendum (LURA)

- Applies when a NP or GE purchases a property at a 10 percent discount or greater.
- LURA is an agreement between HUD and the NP or GE or executed as part of the sales contract requiring the NP or GE to:
 - Repair: complete repairs to bring Property into compliance with local housing code.
 - Serve Low- to Moderate-income: resale, lease, or lease purchase only to low to moderate- income owner occupants.
 - Subject to NDC: if sold, the purchaser must resell the Property for an amount not in excess of 110 percent of the Net Development Costs (NDCs).





HUD Homes: LURA Requirements (cont.)

- Conflict of Interest:
 - (1) The Property may not be occupied by or resold to any of the purchaser's officers, directors, elected or appointed officials, employees, or business associates, either during their tenure or for one year thereafter; or to any individual who is related by blood, marriage, or by law to any of the above.
 - (2) There may be no conflict of interest with individuals or firms that may provide acquisition or rehabilitation funding, management, sales, rehabilitation services, or other services associated with the Property.
- The LURA terminates five years from the date of execution.
- Exception:
 - Discounted homes purchased through the Dollar Homes Sales to Local Governments, GNND and ACA programs are not subject to the LURA restrictions.





Quality Control



Quality Control Plan

- As part of the Application, a NP must submit a Quality Control Plan (QC).
- Once approved, the NP must implement a QC Plan that explains its internal and external audit and monitoring procedures.
- QC Plan must include the NP's reports, fraud, corrective action plans, and review procedures.
- Reports must identify areas of deficiency, including the agency's policies and procedures, errors and omissions, and unacceptable patterns or trends.
- NP must update its QC Plan as needed to ensure compliance with all FHA requirements.



Quality Control Plan (cont.)

- NP must maintain records of QC findings and actions taken, periodic reports, and review procedures.
- NP must maintain a copy of the corrective actions taken when findings are discovered.
- Findings that result in changes to managerial staff or expose any deviance to previously approved processes must be brought to the attention of FHA upon discovery.
- All violations of law or regulations, any known false statements, fraud or program abuses must be reported to the Office of Inspector General, HUD
OIG Hotline Phone:
 - (800) 347-3735 and the appropriate federal, state or local law enforcement agency.





Fraud, Misrepresentation, and Other Findings

- The NP must take prompt, effective, and corrective measures to investigate and document suspected instances of fraud, misrepresentation, and other related findings.
- The QC Plan must contain a process for staff to report and deliver the findings to senior management within 15 days from the date of discovery.
- NPs senior management must contact the jurisdictional FHA Homeownership Center to submit the QC findings. HUD will review and determine the appropriate action(s).





Agency Monitoring



Monitoring of GEs and NPs

- FHA monitors GEs and NPs that participate in FHA's NP programs as part of its ongoing QC activities to ensure compliance with FHA requirements.
- The HOCs conduct remote and on-site reviews for monitoring purposes.
- FHA will provide a 30-day notice of its intent to conduct a review.
- FHA will determine the scope of the review.
- The HOC will make file requests in writing, providing the NP 30 days to respond and accommodate the request.



Monitoring of HUD Homes Participants

- FHA's review and monitoring activity will include a review of:
 - The AHPP and verification that HUD Homes purchased at a discount are sold to persons at or below the applicable median income;
 - Individual Property File (IPF) and Net Development Costs (NDC); and
 - Savings provided to low to moderate-income Borrowers.





Monitoring: FHA Mortgagor Participants

- Loan performance, foreclosure rates, default and any evidence of fraud.

Monitoring: Secondary Financing Program Participants

- FHA will review second lien performance and may ask to review loan documentation.





Enforcement



HUD Homes: Excess Profits

- If the GE's or NP's resale price of the HUD Home exceeds 110 percent of the NDCs, or if non-allowable items that are included in the NDCs result in an excessive sales price, the GE or NP must use the excess profit to pay down the existing Mortgage associated with that particular resale.





Removal from the HUD Nonprofit Roster

- FHA may remove a NP from the list of HUD-approved NP for any cause that HUD determines to be detrimental to FHA or any of its programs.
- Causes for removal include:
 - Failure to comply with applicable Single Family regulations in the *SF Handbook 4000.1* or other written instructions or standards issued by HUD;
 - Failure to comply with applicable civil rights requirements;
 - Holding a significant number of FHA insured mortgages that are in default, foreclosure, or claim status;
 - Debarment, suspension, being subject to a Limited Denial of Participation (LDP) or otherwise sanctioned by HUD;
 - Failure to further all objectives described in the Affordable Housing Program Plan (AHPP); misrepresentation or fraudulent statements; and
 - Failure to respond to FHA inquiries, including recertification requests or other requests for further documentation, within 30 days.





Notice and Appeal

- A NP that is debarred or suspended, or subject to an LDP, will be automatically removed from the HUD NP Roster.
- In all other cases, the following procedures for removal apply:
 - HUD will give the NP organization written notice of the proposed removal including reasons for the proposed removal and the duration of the proposed removal.
 - The NP will have 20 days from the date of the notice (or longer, if provided in the notice) to submit a written response appealing the proposed removal and request a conference.



Notice and Appeal (cont.)

- A HUD Official will review the appeal and provide an informal conference, if requested.
- If the NP does not submit a timely written response, the removal will be effective 20 days after the date of HUD's initial removal notice (or after a longer period provided in the notice).
- If a written response is submitted, and the initial removal decision is affirmed or modified, the removal will be effective on the date of HUD's notice affirming or modifying the initial removal decision.



Summary

Today we discussed:

- FHA's three Single Family Nonprofit programs
 1. HUD Homes;
 2. FHA Mortgagor; and
 3. Secondary Financing
- FHA's NP Approval Process;
- Post Approval Requirements for GEs and NPs;
- Nonprofit Recertification Process;
- Quality Control Process and Requirements;
- GE and NP Monitoring; and
- Enforcement.





Handbook Topics (cont.)

FHA Single Family Housing Policy Handbook

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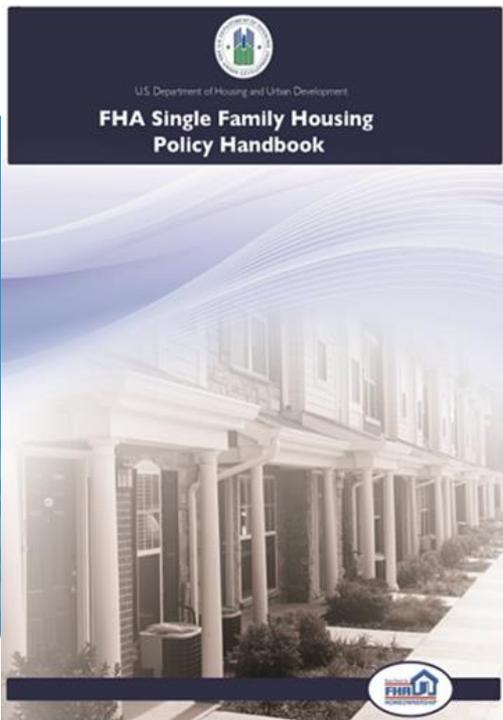




The FHA Resource Center

- **Preview *new* Origination through Endorsement FAQs on our SF Handbook Information page:**
 - Commonly asked questions/detailed answers.
 - Was uploaded to the online Knowledge Base on September 14, 2015.
- **www.hud.gov/answers: *1600+ Qs and As* addressing 90 percent of our phone calls *and* announcements of policy changes and training opportunities.**
- **Email: answers@hud.gov**
- **Phone: (800) CALL-FHA or (800) 225-5342**
Monday through Friday, 8:00 am – 8:00 pm ET
- ***Single Family Housing News (FHA INFO) emails:*** Frequent email notifications of new policies and training opportunities for anyone who signs up. To sign up go to:
http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe





Thank you for attending.

