

**Vermont Housing & Conservation Board**  
**HOME Program Policy and Procedures Regarding CHDOs**  
**(Community Housing Development Organizations)**

**Background and Purpose**

Revised HOME Program regulations issued by HUD on July 23, 2013 included changes around working with Community Housing Development Organizations (CHDOs). This policy reflects the new requirements and lays out VHCB's policy and procedures going forward for both VHCB staff and our CHDO partners.

VHCB is required to use a minimum of 15% of Vermont's annual HOME allocation for projects undertaken by CHDOs. This is referred to as the CHDO set-aside or CHDO Reserve (CR). In addition, up to 5% of the State's total annual HOME allocation may be used to provide operating assistance to CHDOs. This 5% is referred to as CHDO Operating (CO).

All organizations that receive CHDO funds must meet the definition of a "Community Housing Development Organization", as defined in the HOME Program regulations at 24 CFR 92.2. Adequate documentation must be on file to support VHCB staff determination that an organization qualifies as a CHDO and an award of CHDO funds is in compliance with the HOME rules.

**Policy**

VHCB uses at least 15% of the State's HOME allocation for eligible CHDO Reserve projects. VHCB may use up to 5% of the State's allocation for CHDO Operating assistance.

VHCB staff may determine for a given year that CHDO Operating assistance will not be used. If CHDO Operating is used for a given year, it is awarded through VHCB's organizational grants process according to VHCB's Policy on Organizational Grants. For CHDOs that receive CHDO Operating assistance, there must be a reasonable expectation that the CHDO will receive CHDO Reserve project funds for an eligible CHDO project within 24 months of the commitment of CHDO Operating.

If CHDO Reserve project funds are recommended by staff and awarded by the board to a CHDO for a project, a special HOME condition will be included in the HOME grant/loan agreement that states the project will use CHDO Reserve funds, and spells out the specific role the CHDO will play (either owner, developer, or sponsor as defined in the HOME regulations at 24 CFR 92.300). The condition also states that the developer's CHDO status must be maintained during the project's HOME period of affordability.

Before any Community Housing Development Organization receives a commitment of CHDO funds (either CHDO Reserve project funds or CHDO Operating assistance), VHCB staff must recertify that the organization meets the definition of a CHDO as set forth in 24 CFR 92.2. This

recertification process must occur no more than 90 days before the commitment of funds, as defined by the execution of the HOME grant/loan agreement.

CHDO Reserve project funds for each grant year must be committed to specific projects within 24 months of the date the HOME Program agreement is executed between HUD and the VT Agency of Commerce and Community Development. CHDO Reserve project funds for each grant year must be fully drawn within 5 years of the date of this agreement.

## **PROCEDURES**

VHCB has established the following procedures in order to carry out the above policy and to ensure that CHDO funds are used in compliance with the 2013 HOME Program final rule.

### **CHDO Reserve Project Funds**

When an application for project funds is submitted by an organization who has previously qualified as a CHDO (or a new one who has indicated they would like to be certified), the applicant and the project are reviewed to determine whether they are eligible. HOME staff evaluates whether the CHDO will meet the definitions of owner, sponsor, or developer (as defined at 24 CFR 92.300(a)2-4) for the project, and the *2013 HOME Final Rule Compliance Checklist* is used to document that the CHDO has capacity relevant to the role they will play for the particular project.

*Note: The applicant must specify the planned ownership structure for the proposed project. For projects funded with equity generated from the Low Income Housing Tax Credit, the CHDO must be the sole general partner in the tax credit partnership in order to be eligible for CHDO project funds.*

If the project and/or the developer do not meet the CHDO eligibility requirements, VHCB staff may choose to recommend funding the project with regular (i.e. non-CHDO) HOME project dollars. If staff determine that the developer and the project *are* eligible for CHDO funds, this is communicated with the developer and the lead VHCB project reviewer, and the following Special HOME condition is included in the recommendation to the board:

1. This project will use CHDO Reserve set-aside funds. Prior to closing, Developer shall submit documentation as necessary to demonstrate the organization qualifies as a “Community Housing Development Organization” as defined in the HOME regulations at 24 CFR 92.2. Developer shall be acting as the [specify owner, developer, or sponsor] for this project as defined at 92.300(a). The Developer’s CHDO status must be maintained during the project’s HOME period of affordability.

The actual recertification process occurs shortly before the formal commitment of CHDO funds, which happens at the legal closing when the HOME grant/loan agreement is executed.

The *CHDO Recertification Checklist* (revised May 2014) is used to recertify the applicant/developer as a CHDO. HOME staff reviews this checklist and the back-up documentation to verify completeness and sufficient supporting documentation. By using this checklist, the applicant/developer is certifying that the organization meets the definition of a “Community Housing Development Organization” at 24 CFR 92.2. The applicant/developer must complete and sign this checklist and have it signed by their board chair, and proper back-up documentation must be submitted.

A critical part of recertifying CHDOs is documenting that the organization’s board meets the requirement of having at least 1/3 representation from the low income community. The *CHDO Recertification Checklist* specifies that a current list of board members must be submitted. The board list must clearly indicate which board members are low income representatives and how they qualify – either as a member of a low income household, as a resident of a low income area, or as an elected representative of a low income neighborhood association.

Back-up documentation for each low income representative is required. For board members who live in low income households, a recent LIHTC (or other housing program) income certification or VHCB’s self certification form is acceptable. VHCB updates the *CHDO Low Income Board Member Certification* form each year with HUD’s low income (80% AMI) limits for each county by household size. For board members who qualify as a low income representative by living in a low income community, VHCB staff must verify this using the board member’s address and HUD’s “lowmod” census tract information available at <http://www.hud.gov/offices/cpd/systems/census/vt/index.cfm>. Census tracts, block groups, villages, or towns qualify as low income if more than 50% of their households are at or below 80% of area median income. If members qualify because they are an elected representative of a low income neighborhood organization, supporting documentation must include information about the organization and the role they play, as well as verification that the neighborhood it serves qualifies as a low income community (see above).

In preparation for a project’s legal closing, HOME staff uses the *HOME Project Closing Checklist* to ensure and document compliance with HOME rules. This checklist includes requirements that must be met before commitment of CHDO Reserve funds, including recertifying the CHDO, and review and approval of the Limited Partnership Agreement (for tax credit projects).

After the legal closing when the HOME grant/loan agreement and other written agreements are executed, the VHCB HOME project is set up in HUD’s Integrated Disbursement & Information System (IDIS) as a CHDO Reserve project and funded in IDIS with CHDO Reserve (CR) subfunds. A CR subgrant is created for the CHDO from that year’s CR subfund. (For more information on IDIS procedures, see VHCB’s HOME IDIS policy.)

Before a disbursement of CHDO project funds is approved by VHCB staff, the project file is checked by HOME staff to ensure all proper documentation has been received and reviewed, the *Process Checklist for HOME Program Projects* is up to date, and the internal VHCB staff

HOME closing memo and checklist does not have any outstanding issues that need to be addressed prior to disbursement of HOME CHDO funds.

*Note: VHCB has “banked” CHDO projects, meaning historically we have used more than 15% of the State’s annual HOME allocation for CHDO projects (approximately 28.5% as of October 2014). As permitted by HUD, if a sufficient number of CHDO projects are not identified for a particular year in order to meet the 15% set-aside requirement within the two year deadline, VHCB may request that HUD decrease the 15% CHDO Reserve subfund in IDIS for that particular year.*

### **CHDO Operating Funds**

If CHDO Operating assistance is being provided for a given year, it is done through the VHCB organizational grant application process. The applicant must indicate that they wish to apply for CHDO Operating assistance in their VHCB Organizational Capacity application. The *CHDO Recertification Checklist* with supporting documentation must be submitted with their application. (See above for details about back-up documentation requirements for fulfilling the 1/3 low income board representation requirement.) In addition, the *Certification Regarding Limitation on CHDO Operating Funds* form is required as a part of the application.

If HOME staff determines that the applicant meets the definition of a CHDO and is eligible to receive CHDO Operating assistance, a recommendation is made to the board including any special CHDO conditions.

The commitment of CHDO Operating funds occurs after the board approves the staff funding recommendation, when the HOME CHDO Operating agreement is executed. This agreement describes the uses of the CHDO Operating funds (examples include salaries, wages, employee training, rent, and utilities and other operating costs). The agreement also states that the CHDO is expected to receive HOME funds for a project that it will either own, develop, or sponsor (as defined by the HOME regulations at 24 CFR 92.300) within 24 months, as required in §92.300(e). The written agreement also describes the terms and conditions upon which this expectation is based, and the consequences of failure to receive funding for a project. If the CHDO is also receiving CHDO Reserve project funds, a separate agreement is executed.