

FY 2012 SHOP NOFA: Questions and Answers #1

Questions from Housing Assistance Council – 3/21/12

1. Leverage. Please provide clarity on what can be used as leveraging resources: (1) resources devoted to acquisition, infrastructure improvement, and unit construction; or (2) any sources to implement proposed SHOP activities, including administrative grants.

Leveraging resources must total at least 50 percent of the total budget amount shown on form HUD-424-CB. HAC had been previously told that leveraging associated with acquisition, infrastructure, and unit construction, not administrative funds whether from HAC or its affiliates, counts towards leveraging. So we have been calculating the leveraging based on the Total Construction Costs on form HUD-424-CBW, not the Total Budget.

- Leveraged Resources (page 8). The statute requires SHOP grantees to use their grants to “leverage other sources of funding, including private or other public funds,” to complete construction or rehabilitation of their SHOP units. You and your affiliates must obtain commitments of resources (or have the capacity to obtain commitments) necessary to develop the number of SHOP units that you propose.
- Amount of Leveraged Resources (page 34). You must demonstrate that your leveraged resources, together with your SHOP grant, volunteer labor contributions and homebuyer sweat equity contributions, are sufficient to develop the number of units proposed in your SHOP application. Your leveraged resources must total at least 50 percent of the total budget amount shown on your form HUD-424-CB “Grant Application Detailed Budget.”

Answer: The FY 2012 SHOP NOFA requirement that an applicant’s leveraged resources must total at least 50 percent of the total budget amount shown on form HUD-424-CB “Grant Application Detailed Budget” applies to an applicant’s Total SHOP budget, and not to the budget for Construction Costs only.

The FY 2012 SHOP NOFA does not prohibit including contributions towards administrative costs (or to SHOP ineligible costs such as construction, or housing counseling) as leveraged resources. However, the amount of such leveraged resources should not exceed the total SHOP budget line items for the related costs.

In accordance with FY 2012 SHOP NOFA Section V.A. Rating Factor 4 “Leveraging Resources,” only homebuyer sweat equity, volunteer labor contributions, and mortgage financing provided to homebuyers can not be counted as leveraged resources.

- **Rating Factor 4: Leveraging Resources (up to 10 points)**
This factor evaluates your ability to secure firm commitments of leveraged resources to implement your proposed SHOP activities..... **Leveraged resources do not include the dollar value of homebuyer sweat equity and volunteer labor contributions. Leveraged resources do not include mortgage financing provided to homebuyers.** However, financing provided through the U.S. Department of Agriculture’s Section 502 program for direct loans to homebuyers for the construction of their dwellings as part of a mutual self-help homeownership housing program counts as leveraged resources.

Section V.A. Rating Factor 4 “Leveraging Resources”, states that an applicant must demonstrate that its leveraged resources, together with its SHOP grant, volunteer labor contributions and homebuyer

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sweat equity contributions, are sufficient to develop the number of units proposed in the applicant's SHOP application. This section also makes clear that an applicant's leveraged resources must total at least 50 percent of the total budget amount shown on the applicant's form HUD-424-CB "Grant Application Detailed Budget."

- **a. Amount of Leveraged Resources (up to 10 points).** You must demonstrate that your leveraged resources, together with your SHOP grant, volunteer labor contributions and homebuyer sweat equity contributions, are sufficient to develop the number of units proposed in your SHOP application. **Your leveraged resources must total at least 50 percent of the total budget amount shown on your form HUD-424-CB "Grant Application Detailed Budget."**

Section V.A. Rating Factor 3 further states that an applicant must include a separate budget line item under the appropriate budget category for each proposed activity funded by both the applicant's SHOP funds and the applicant's leveraged funds (i.e. acquisition, infrastructure improvements, construction, rehabilitation, and planning, administration and management) as follows:

- **c. SHOP Budget (up to 5 points).** You must submit a detailed SHOP budget on the forms HUD-424-CB "Grant Application Detailed Budget." ...If you propose to leverage funds from other sources, you must identify the amounts in the appropriate budget columns. If your leveraged funds include other HUD or federal funds, you must identify the federal program source (e.g. HUD HOME, HUD CDBG, USDA Sec. 502). **On the HUD-424-CBW, you must include a separate budget line item under the appropriate budget category for each proposed activity funded by both your SHOP funds and your leveraged funds (i.e. acquisition, infrastructure improvements, construction, rehabilitation, and planning, administration and management).**

2. Ownership Requirements.

a. The FY 2012 SHOP NOFA (and the FY 2010 and 2011 SHOP NOFAs) under Section IV.E.2.f. on ineligible activities, prohibits the use of SHOP funds for the acquisition costs of land that is owned by the applicant/grantee or its affiliates, or in which the applicant/grantee or its affiliates have an interest (page 25)". Please clarify

Answer: FY 2012 SHOP NOFA Section IV.E.2.f. prohibits the use of SHOP funds for the acquisition costs of land that is owned by the applicant/grantee or its affiliates. This means that the SHOP grantee or its affiliates cannot use SHOP funds to reimburse the costs of acquiring land that the grantee or its affiliates already own through fee-simple title or through another form of ownership interest, such as cooperative shares. This prohibition includes using SHOP funds to repay the principal and interest on a loan, or to refinance a loan, for land acquired *before* the publication date of the 2012 SHOP NOFA.

- **2. Ineligible Costs.** Only costs associated with the eligible activities identified in SHOP NOFA Section III.C.3.g. may be funded with your SHOP grant. Examples of ineligible costs include:

f. Acquisition costs of land that is owned by you or your affiliates, or in which you or your affiliates have an interest.

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This prohibition does not apply to eligible pre-agreement costs for land acquisition incurred *on or after* the date of the publication date of the 2012 SHOP NOFA, including the principal and interest of a loan for land acquired *after* the publication date of the 2012 SHOP NOFA.

b. The SHOP 2009 NOFA stated "SHOP funds may not be expended on a property that is not owned by the applicant or its affiliates, or in which the applicant or its affiliates do not have an interest." This prohibition is not included in the FY 2012 SHOP NOFA. Please clarify.

Answer: This specific language has not been included in recent NOFAs; however, the list of ineligible activities in each NOFA is not inclusive of all ineligible activities. Based on the requirements of the SHOP statute and OMB circulars that apply to grant funds, SHOP funds can not be expended on a property that is not owned by the applicant or its affiliates, or in which the applicant or its affiliates do not have an ownership interest. As a matter of established SHOP policy, the grantee or its affiliate must own the land or have an ownership interest in order to enable the grantee to enforce compliance with the SHOP requirements. This requirement also protects the grantee, as the grantee is responsible for taking corrective action when a SHOP project fails to be completed in a reasonable timeframe. Corrective action can include repayment of the SHOP funds that have been expended on a "failed" project, and therefore the grantee may want to sell the land to recoup its SHOP costs.