

South Carolina Neighborhood Stabilization Program Compliance Monitoring Manual

2011



Administered by:

**The South Carolina State Housing Finance and Development Authority
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South Carolina State Housing Finance and Development Authority

Mission Statement

The mission of the South Carolina State Housing Finance and Development Authority (“the Authority) is to promote and provide safe, decent, and affordable housing for the citizens of South Carolina

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SECTION 1: OVERVIEW OF THE SC NEIGHBORHOOD STABILIZATION PROGRAM

The Neighborhood Stabilization Program (NSP) is a Federally funded program administered by South Carolina State Housing Finance and Development Authority. NSP was created under Title II of the Housing and Economic Recovery Act (HERA) of 2008, to help respond to rising foreclosures and declining property value. NSP funds are a special allocation of Community Development Block Grant (CDBG) funds that is designed to provide emergency assistance to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight. The U.S. Department of Housing and Urban Development (HUD) has designated South Carolina State Housing Finance and Development Authority as the administering agency for this initiative in South Carolina. Compliance Monitoring is utilized to ensure participants operate in compliance with the guidelines of the program.

Compliance Monitoring

The Compliance Monitoring Section has the responsibility of periodically monitoring all Neighborhood Stabilization Program properties during the established compliance period to ensure all Owners and Sub-recipients are maintaining all properties in accordance with Uniform Physical Condition Standards (UPCS) and adhering to rent and income restrictions for the entire affordability period.

For Compliance Monitoring purposes, the terms Owner and Sub-recipient are used in the Manual as a method of identifying all persons, partnership, entities, firms, or corporations that have an ownership interest in the real property acquired or improved with Neighborhood Stabilization Program award(s).

Compliance Monitoring by the Authority does not, in any way, relieve the Owner/Sub-recipient of its obligation to adhere to Program guidelines during the affordability period.

If during the Compliance Monitoring review the Authority determines that an Owner/Sub-recipient exhibits inadequate program controls, expends funds improperly, or exhibits non-compliance, the following actions may be taken:

- Impose limitations on Owner's/Sub-recipient's participation in NSP, and other Authority administered programs
- Require the Owner/Sub-recipient to submit additional information to determine the reason for the non-compliance and develop a corrective action plan
- Require the Owner/Sub-recipient to reimburse the Authority for all proceeds improperly expended; or
- Terminate the Funding Agreement; demand full and complete repayment of all proceeds owed to the NSP and disqualify the Owner/Sub-recipient and all other persons or organizations involved in the development from all Authority programs.

Contained in **Exhibit 1** is a listing of all property records required and must be made available during the on-site Compliance Monitoring Review.

SECTION 2: GENERAL NEIGHBORHOOD STABILIZATION PROGRAM DEFINITIONS

Annual Income: The total anticipated income from all sources received by the household, including all net income to be received from assets. Annual income as defined in 24 CFR 5.609 “The Part 5 definition” must be used to calculate household income.

Audit: Complete and current financial statements that have been audited by a Certified Public Accountant (CPA) licensed by the South Carolina Board of Accountancy. Current means not more than twelve (12) months from date the audit was performed.

Authority: The South Carolina State Housing Finance and Development Authority.

Compliance Period: The period of time that Neighborhood Stabilization program restrictions are in effect regarding income and housing occupancy. The compliance period begins on the date the property passes its final inspection and is identified in the Agreement as to Restrictive Covenants. If the property is sold prior to the end of the compliance period, the amount of the NSP Award becomes due and payable.

Continued Affordability for NSP-Assisted Housing: The compliance periods for NSP1 are based upon the amount of NSP1 subsidy provided per unit. For investments less than or equal to \$150,000.00, the affordability period is 5 years; investments greater than or equal to \$150,001.00 the affordability period is 10 years. The period of affordability for NSP3 will be based upon the construction type and the amount of NSP3 subsidy provided per unit, as outlined in the chart below.

Construction Type	Amount of Funds	Years
Rehab and or Acquisition	Under \$15,000	5
Rehab and or Acquisition	\$15,000 - \$40,000	10
Rehab and or Acquisition	Over \$40,000	15
New Construction or Acquisition of NC	Any dollar amount	20

Conversion: The changing of a non-residential building into a qualified residential building.

Disabled Person: A household composed of one or more persons, at least one of who is an adult, who has a disability. A person is considered to have a disability if the person has a physical, mental, or emotional impairment that; 1) Is expected to be of long-continued and indefinite duration; 2) Substantially impedes his or her ability to live independently; and 3) Is of such a nature that such ability could be improved by more suitable housing conditions.

Elderly: Defined as those beneficiaries which are sixty-two (62) years of age or older.

Eligible Person/Household: One or more persons or a family determined by the Authority to be of low, moderate or middle income, irrespective of race, creed, national origin or sex.

Family or Family Household: A household composed of one or more persons.

Floor Rent: Rent limits that were in effect at the time of project commitment.

Written Agreement: The written contract between the South Carolina State Housing Finance and Development Authority and the Sub-recipient, or the written contract between the sub-recipient and the owner. The Written Agreement states the terms and conditions of the Neighborhood Stabilization award, the award amount, the development's purpose, and the targeted income population the development will serve.

HUD: The United States Department of Housing and Urban Development.

Income Verification: All households that receive NSP assistance must be income eligible. NSP income verifications may be dated no earlier than six months prior to eligibility. Verification involves types of income that must be counted, evaluating the income and verifying the income through third parties.

LH25: An aggregated household whose income does not exceed 50% of the AMI as established by HUD.

LMMIH – Low, Moderate and Middle-Income Household: An aggregated household whose income does not exceed 120% of the median income as established by HUD.

Low-Income: Income which is at or below eighty percent (80%) of the median income for the area, as determined by HUD, with adjustments for family size.

Marketing Plan: A document that consists of actions to provide information to attract eligible persons from all racial, ethnic and gender groups in the housing area to the available housing.

Middle Income: A household/family having an income equal to or less than middle income limit (120% of the area median) as established by HUD.

Operating Reserves: Operating reserves are funded initially from development costs and replenished, when used, from operating cash flow. Operating reserves must be maintained at the required level throughout the affordability period, as follows:

Less than ten (10) units: Three (3) months of projected operating expenses

Ten (10) or more units: Six (6) months of projected operating expenses

Ownership Entity (Owners): All persons, partnerships, entities, firms, or corporations that have an ownership interest in the real property acquired or improved with a Neighborhood Stabilization award.

Project: The one or more residential buildings, the site on which the building(s) are located, and any functionally related facilities.

Rehabilitation: The improvement made to an existing structure.

Replacement Reserves: Developments are required to establish and make annual contributions to replacement reserves, as follows:

Redevelopment (New Construction): Two hundred fifty dollars (\$250.00) per unit, per year
Rehabilitation or Conversion: Four hundred dollars (\$400.00) per unit, per year

Rent Roll: Each NSP activity consisting of more than one unit must, at a minimum, have a rent roll to identify the Unit Number, Move-In Date, Resident Name (or vacant), Number of Bedrooms, Utility Allowance, Rent (include all subsidies), Income (restricted units only), percentage of Area Median Income and Number in Household.

Special Needs Population: A group of individuals that have a similar type disability or classification. For Neighborhood Stabilization purposes, these populations include but are not limited to the elderly, the mentally disabled and the physically disabled.

Target Population: The group of individuals the project will serve, i.e. abuse victims, veterans, homeless, etc.

Verification source document(s) – document obtained that is used to substantiate income and asset amounts indicated on the 3-1 Calculating Annual Income form and the 3-6 Certification of Assets Disposed form.

Very Low-Income Household: Income, which is at or below fifty percent (50%) of the median income for the area, as determined by HUD, with adjustments for family size.

SECTION 3: BENEFICIARY INCOME REQUIREMENTS

Income Targeting, Rents and Eligible Beneficiaries: All households must have incomes at or below 120% of AMI adjusted for family size. Projects funded under the 25% set-aside (LH25) must be occupied by households at or below 50% of AMI adjusted for family size.

Applicants are required to maintain a tenant listing (rent roll) identifying the unit, tenant's name, move in date, bedroom size and rent charged (paid by tenant). Documentation should also be available identifying vacant units, if any and a "Waiting List" of prospective tenants, if applicable.

Income and rent data is updated by county annually and may be obtained from the SCSHFDA website at www.schousing.com

SECTION 4: COMPUTING ANNUAL INCOME

Annual Income for rental housing is all income amounts which go to the family head or spouse (even if temporarily absent) or to any other family member; or are anticipated to be received from a source outside the family during the 12-month period following certification or annual re-certification. (See 24 CFR 5.609, Income Inclusions and Exclusions.)

A. Types of Annual Income (includes, but is not limited to):

- gross income, the full amount before any payroll deductions, of wages and salaries;
- overtime pay;
- commissions;
- fees;
- tips;
- bonuses, and other compensation for personal services;
- Income earned from Assets
- the net income from the operation of a business or profession;
- interest, dividends, and other net income of any kind from real or personal property;
- the full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts, including a lump-sum payment for the delayed start of a periodic payment other than Supplemental Security Income;
- payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay; welfare assistance;
- periodic and determinable allowances, such as alimony and child support payments;
- regular contributions or gifts received from persons not residing in the dwelling;
- all regular pay, special pay and allowances of a member of the Armed Forces (other than pay for hazardous duty).

B. Zero Income Reporting

Beneficiaries, who report zero income must certify to such on the “Certification of Zero Income” form (See **Exhibit 2**). Every household member that is eighteen (18) years of age or older and is not a full-time student, must report their income.

Tenant’s income must be recertified annually prior to lease renewal. Annual income as defined in 24 CFR 5.609 “The Part 5 definition” of income will apply. Rents and income limits are adjusted periodically. Updated rents and income limit may be obtained from the Authority’s website at www.schousing.com. The current actual web page address is as follows: www.schousing.com/Neighborhood_Stabilization_Program/NSP_Income_&_Rent_Limits

SECTION 5: METHODS OF INCOME VERIFICATION

Three methods of income verification, in descending order of acceptability are third-party verification, review of documents (second party), and family certification (first party).

A. Third-Party Verification: Third-party verifications are sent directly to and from the verifying source. The applicant or resident does not handle the verification other than to sign the verification authorizing the release of information. The following describes methods for obtaining third-party verification:

1. **Written:** The owner must obtain written third-party verification whenever possible. The owner may use the Verification of Employment form (**Exhibit 3**), or an alternative form approved by the Authority.
2. **Electronic:** The owner may obtain third-party verification by facsimile, e-mail, or Internet, if adequate efforts are made to ensure that the sender is a valid third-party source.
 - **Facsimile:** In order to be considered acceptable verifications, faxes must be completely legible; date stamped and must include the signature, signature date, name, job title, and fax and phone numbers of the person providing the verification. Faxes received on thermal paper should be immediately copied to plain white bond paper to accommodate record retention requirements.
 - **E-mail:** Electronic mail must contain the name of an appropriate individual and firm to be considered reliable.
 - **Internet:** Computer generated internet site printouts are considered third-party verifications **if** the owner is able to view web-based information on the computer screen. A printout should contain pertinent information including information that identifies the transmission source.
3. **Verbal:** A verbal verification is acceptable to the Authority only as a last resort when written verification is not possible prior to move-in. To document the file, a record of the conversation must be completed and placed in the applicant’s file by management. The record must contain all information that would ordinarily be found on a written verification, including: the third-party’s name, position and contact information; information reported by the third party; name of the person who conducted the telephone interview; and the date and time of the phone call.
4. **Self Employed:** When verifying self-employment income with IRS Tax Returns and Schedules, an IRS form 4506 “Request for Copy of Tax Return” must be completed and signed.

B. Second Party Verification: If third-party verification is not available, owners must document the applicant or resident's file to explain why third-party verification is not available. The documentation must include: either (a) a written record in the file explaining why third-party verification was not possible or a copy of the date-stamped original request that was sent to the third-party; or (b) written notes or documentation indicating follow-up efforts to reach the third-party to obtain verification **AND** a written record to the file indicating that the request has been outstanding for two weeks or more without a response from the third party. The owner may then use a review of documents submitted by the applicant or resident as a verification method. Copies of the reviewed documentation must be placed in the applicant or resident's file. In order for the documentation to be considered acceptable and valid, the documents must be unaltered originals, be current (dated within 90 days prior to the effective date of the certification) and contain sufficient information or cover a sufficient period of time to verify with accuracy. For example, owners should not accept less than four to six weeks of current, consecutive pay stubs to document employment income. Actual paychecks would not be considered acceptable and valid verifications since only net income, after deductions, is shown.

C. First Party Verification: As a last resort, when all other methods of verification prove unsuccessful a notarized resident self-affidavit may be used as verification. Notarized resident self-affidavits may also be used to supplement another method of verification. An example of this would be to confirm an amount indicated in a court-ordered child support decree that is not dated within 90 days prior to the effective date of the certification.

D. Application of Verification Methods for Specific Income Types: Questions may arise about acceptable alternatives when management encounters roadblocks in the verification process. The purpose of the verification methods outlined above is to give management the ability to move beyond obstacles, without compromising the validity of the determination of household eligibility.

SECTION 6: UNIFORM PHYSICAL CONDITION STANDARDS

Owners/management are responsible for maintaining the property in compliance with Uniform Physical Condition Standards (UPCS) and should routinely inspect the units to ensure that tenants are maintaining the unit in accordance with the lease and that all needed repairs have been reported.

As part of the compliance review the Authority will conduct an internal and external inspection of each unit selected for a compliance review and an external inspection of the entire project.

SECTION 7: REPLACEMENT RESERVES

A tool utilized by the Authority to assist property owners in maintaining the property in compliance with Uniform Physical Condition Standards is the requirement that owners are to maintain Replacement Reserves for each property in the NSP program. Owners are required to establish and make annual contributions to replacement reserves, as follows:

Redevelopment (New Construction): Two hundred fifty dollars (\$250.00) per unit, per year

Rehabilitation or Conversion: Four hundred dollars (\$400.00) per unit, per year

**Annual contributions are made from operating cash flow and are cumulative.*

SECTION 8: OPERATING RESERVES

Operating reserves are funded initially from development costs and replenished, when used, from operating cash flow. Operating reserves must be maintained at the required level throughout the affordability period, as follows:

Less than ten (10) units: Three (3) months of projected operating expenses

Ten (10) or more units: Six (6) months of projected operating expenses

Note: The most recent professional audit statement indicating the balance of the Replacement Reserves and Operating Reserves account must be made available to the Compliance Monitoring Officer during the review process.

SECTION 9: PERFORMANCE DEFICIENCIES AND MISAPPROPRIATION OF FUNDS

If during the Compliance Monitoring review the Authority determines that an Owner/Sub-recipient exhibits inadequate program controls, expends funds improperly, or exhibits non-compliance, the following actions may be taken:

- Impose limitations on Owner's/Sub-recipient's participation in NSP, or other Authority administered programs
- Require the Owner/Sub-recipient to submit additional information to determine the reason for the non-compliance and develop a corrective action plan
- Require the Owner/Sub-recipient to reimburse the Authority for all proceeds improperly expended; or
- Terminate the Funding Agreement; demand full and complete repayment of all proceeds owed to the NSP and disqualify the Owner/Sub-recipient and all other persons or organizations involved in the development from further NSP participation.

SECTION 10: COMPLIANCE MONITORING VISIT

Compliance Monitoring staff will provide written notification to the Owner/Sub-recipient not less than 10 days prior to a monitoring visit. Compliance Staff and the Owner/Sub-recipient will complete an Entrance and Exit Conference during the monitoring visit. The Compliance Monitoring staff will provide a Report of Findings at the conclusion of the monitoring review. Within 30 days after the date of receipt of the Report of Findings, the Owner/Sub-recipient must provide a written response to Compliance Monitoring staff addressing the issues described in the Report of Findings. The response is to include the reason for the noncompliance and the corrective action plan to address the noncompliance.

Exhibit 1

Records Required for Compliance Monitoring Review

1. Current Rent Roll (to include identifying all vacant units)
2. Current Waiting List
3. Resident Selection Criteria
4. Marketing Activities and Record of the Activity
5. Replacement Reserve Account Balance (if required)
6. Operating Reserves Account Balance (if required)
7. Tenant Files (to include qualifying source documents)
 - a. Lease Agreement (any lease for less than one year must have Authority approval)
 - b. Income Certification Document
 - Form 3-1: Calculating Annual Income
 - Form 3-6: Certification of Assets Disposed
 - c. Verification Source Documentation
 - d. Unit Inspection Records
 - e. Utility Allowance documentation
 - f. Lead Safe Housing Rule Applicability Form 9-1
 - g. Receipt of “Protect Your Family from Lead in Your Home” Form 9-3 if applicable
 - h. Receipt of Lead-Based Paint Evaluation Results Form 9-6 if applicable
 - i. Receipt of Lead-Based Paint Clearance Activities Form 9-7 if applicable

Items 1-7 must be forwarded to the monitoring officer prior to on-site inspection. Items 8a-j will be reviewed at location.

EXHIBIT 2

South Carolina Neighborhood Stabilization Certification of Zero Income

Name of Beneficiary	
Property Address	
City, State, Zip	

I am currently unemployed and do not receive unemployment benefits or any other form of compensation.

I swear that the above statements are true and accurate to the best of my knowledge.

Signature of Beneficiary

Date

EXHIBIT 3

Verification of Employment

Date: _____

This form is to be signed by the potential beneficiary and mailed to their employer by the Participant. This form should not be hand delivered by the potential beneficiary.

TO: (Name and address of Employer)

FROM: (Name, address & social security # of Beneficiary)

_____	_____
_____	_____
_____	_____

I have applied for housing assistance from _____ (name of the Participant). Please provide the salary and employment verification requested below.

Signature of Beneficiary

EMPLOYER:

Is the beneficiary currently employed by you? YES / NO Position: _____

Dates of employment: _____

Probability of continued employment: YES / NO

_____ Full Time _____ Part Time

Hours per week: _____ Hours per year: _____

Basic Pay: \$ _____/hour

Salary: \$ _____/per year

Overtime Pay: \$ _____/hour

Overtime Hours per week: _____ per year: _____

Commission: \$ _____/month

\$ _____/year

Bonus/Other: \$ _____/month

\$ _____/year

Employer Signature

Date

Telephone Number

The above information is confidential. Thank you for your cooperation. Please return this form directly to:

EXHIBIT 4

Verification of Assets on Deposit

RE: _____
(applicant's name)

Name of Banking Institution

I hereby authorize release of my information.

Signature of Applicant _____ Date _____

OR copy of the attached executed release form which authorizes the information requested

Federal regulations require verification of assets for all members of the household applying for participation in the assistance program which we operate. This information will be used only to determine the eligibility status and level of benefit for the household. Your prompt response is greatly appreciated.

RETURN FORM TO: _____ Fax #: _____

THIS SECTION TO BE COMPLETED BY BANKING INSTITUTION

THIS SECTION TO BE COMPLETED BY BANKING INSTITUTION				
	<u>Checking Account #</u>	<u>Avg 6 Month Balance</u>	<u>Current % Rate</u>	
1		\$	%	
2		\$	%	
	<u>Savings Account #</u>	<u>Current Balance</u>	<u>Current % Rate</u>	
1		\$	%	
2		\$	%	
	<u>Money Market Account #</u>	<u>Avg 6 Month Balance</u>	<u>Current % Rate</u>	<u>Term (Months)</u>
1		\$	%	
2		\$	%	
	<u>Cert of Deposit Account #</u>	<u>Avg 6 Month Balance</u>	<u>Current % Rate</u>	<u>Term (Months)</u>
1		\$	%	
2		\$	%	

If a "6 month average" is requested above but unavailable, please explain why (i.e. account open for four months, system only allows for three month averages, etc...) _____

Additional remarks: _____

Authorized Signature _____ Printed Name _____ Date _____

Title _____ Address _____

Phone # _____ Fax # _____ E-mail _____

NOTE: Section 1001 of Title 18 of the US Code states that a person is guilty of a felony for knowingly and willing making false or fraudulent statements to any department of the United States Government.