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I. FUNDING

Under the American Reinvestment and Recovery Act of 2009 (ARRA), Congress established the Neighborhood Stabilization Program 2 (NSP2) to stabilize neighborhoods whose viability is negatively affected by properties that have been foreclosed upon and abandoned. NSP2 provides grants to states, local governments, nonprofits and a consortium of public and or private nonprofit entities on a competitive basis.

The Michigan NSP2 Consortium received $223,875,339. MSHDA, as lead applicant, twelve city governments, and seven land banks will work together to remove blight, address vacancy and foreclosures, and reposition neighborhoods in targeted NSP2-eligible census tracts. MSHDA allocated $201,487,805 to place properties back in productive use and $22,387,534 in administrative funds for MSHDA, Cities and Lands Banks.

MSHDA will allocate grants and administrative funds to MSHDA, Cities and Land Banks per each consortium member’s Funding Agreement. CDBG Program rules apply to administrative funds. Please see your Funding Agreement for details related to amounts for administration and production funds.

II. FEDERAL REGULATIONS

Award recipients implementing the Michigan NSP2 Consortium must follow the Community Development Block Grant (CDBG) Program rules and regulations, unless stated otherwise in the May 4, 2009 of the Federal Register Notice [Docket No. FR-5321-N-01] regarding Title XII of Division A of the American Recovery and Reinvestment Act of 2009 (ARRA) and any other correction notices and updates published by HUD.

The notices are posted at:

NSP2 Regulations and Federal Requirements

Because NSP2 follows CDBG program rules and regulations, unless stated otherwise in the NSP2 Notice, MSHDA and local grantees must comply with the Federal Requirements that govern CDBG. Federal requirements include:

- Environmental Review, where MSHDA and local grantee handle Tier 1 and Tier 2, respectively.
- Davis Bacon
- Fair Housing
- Lead-based Paint
- Section 3
- Uniform Relocation Act
- Procurement

MSHDA will provide further guidance, checklists and document templates in the corresponding modules to ensure compliance with these requirements.

General requirements apply to all NSP-eligible activities and are as follows:

Acquisition and Relocation

1. Appraisals are required on acquisitions of foreclosed properties valued over $25,000 using NSP2 funds and must be completed within 60 days from the date of the final offer. A local grantee may submit an offer to purchase contingent upon completion of an appraisal and/or environmental
review. Appraisals must meet CDBG guidelines, and acquisitions must be voluntary. Appraisal guidance is found at: 

2. For homebuyer programs, a post-rehabilitation appraisal is required to determine sales price. The appraisal could be a combination pre- and post-rehabilitation appraisal.

3. Foreclosed properties with values less than $25,000 do not require an appraisal. Instead, a written market valuation is required that is based on a review of available data and is made by a person qualified to make the valuation.

4. Non-foreclosed properties may be acquired with NSP2 funds without an appraisal. However, the local grantee must maintain documentation (such as a property valuation) that shows the price paid is reasonable under OMB Cost Principles.

5. When acquiring vacant property, local grantees or program partners shall verify property was (1) vacant through “Notice of Eviction” by lender, utility shut off or transfer, and/or physical inspection by local grantee and (2) not occupied by “bona fide” tenant through lender certification at the time of foreclosure. Adequate documentation for “bona fide” tenant is as follows:
   - A certification that only the former mortgagor and/or immediate family occupied the property at the time of the notice of foreclosure;
   - Copies of the tenant’s lease and any notice to vacate from the ISII (describe ISII) to substantiate compliance;
   - Where a tenancy existed without a written lease or at will, information on the tenancy and any notice to vacate from the ISII (describe ISII) to substantiate compliance;
   - A certification of compliance with the NSP tenant protections (or the inapplicability of the tenant protections) from the initial successor in interest.

6. Local grantees or program partners shall purchase foreclosed property at a discount of at least 1% from current market value, based on an appraisal as outlined above in #1.

7. Local grantees or program partners shall only acquire property through voluntary acquisition. URA Voluntary Acquisition Form must be signed to document that the use of eminent domain was not involved for private to public transactions. Public to public transactions are exempt.

8. Local grantees are not required to meet the requirements of One-for-One Replacement of low and moderate-income dwelling units demolished or converted in connection with activities assisted with NSP2 funds.

Demolition

1. Demolition of non-blighted structures is prohibited.

2. The demolition of blighted structures is also eligible with no required reuse in areas with at least a 51% concentration of LMMI households.

3. Demolition of blighted structures without property ownership is eligible, but local grantee will follow procedures outlined in Policy and Procedures Manual.

4. Garages or other subsidiary structures cannot be demolished if the parcel contains housing structures that are privately-owned and not part of an NSP2-funded redevelopment project.

5. Demolition of public housing is prohibited.

Rehabilitation / New Construction Standards

All homes that are sold or rented must meet local building codes, incorporate energy efficiency standards, and be marketable for households earning up to 120% AMI. Addition of bedrooms, bathrooms and
garages are allowed when needed for marketability. Note: construction of garages or other subsidiary structures cannot be a stand alone activity on a parcel.

Rehabilitation and New Construction Specs must meet OMB cost principles (reasonable and necessary costs). New Construction must meet 5-Star Energy Star standards; Inclusive Home Design standards are encouraged and may be required under applicable state law. Grantees are encouraged to set a high standard for renovation to assure long-term affordability, especially in the area of energy efficiency and repairs. Additionally, MSHDA encourages local grantees to incorporate feasible green technologies and environmental sensitive procedures and standards. In short, the NSP-assisted unit should be a model for renovation of other existing housing in the neighborhood. These standards and recommendations will be outlined in the Construction Module.

MSHDA will require the local grantee to place a Construction Mortgage and Note on NSP2-assisted housing for the amount of total NSP2 dollars intended for acquisition, demolition, rehabilitation or new construction, and associated delivery costs. Grantees are not required to include NSP2 funds needed for housing counseling or homebuyer assistance in the Construction Mortgage and Note.

Civil Rights and Fair Housing
An overview of the fair housing policies that apply to NSP2 are located at:

http://nls.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/docs/summitfheofacts.doc
and


Every local grantee has certified that they will affirmatively further fair housing in their funding agreement. Land Banks have the option to adopt and abide by their partner city’s fair housing plan.

1. Local grantees should take the opportunity to review the local analysis of impediments to fair housing choice to determine whether an update is necessary at this time because of current market conditions or other factors.

2. Local grantees should evaluate their program design to ensure opportunities are available to all income-qualified persons and its policies are not discriminatory.

3. Local grantees must design programs and outcomes to be in compliance with accessibility requirements. (See the Fair Housing Act, the Rehabilitation Act of 1973, and the Americans with Disabilities Act).

Environmental Review
Background
The environmental review process for NSP2 projects follows the existing guidance outlined at 24 CFR Part 58, Environmental Review Procedures for Entities assuming HUD Environmental Responsibilities.

Structure of the Environmental Review for NSP2
Since local grantees will not be able to identify immediately specific project sites at the beginning of the program period, a tiered environmental review (24 CFR 58.15) will be the most effective way to organize environmental compliance.

A tiered environmental review consists of two distinct steps:

1. General Tier 1 Review
   MSHDA conducts the Tier 1 environmental review, which involves a broad analysis of relevant, general environmental conditions in the NSP2 eligible census tracts. The Tier 1 also provides
structure for the Tier 2 review by establishing procedures for site-specific environmental compliance. MSHDA has completed Tier 1 for only residential property and received Release of Funds effective April 9, 2010 from HUD. Please contact MSHDA on conducting a Tier 1 for project involving non-residential structures.

2. Site Specific Tier 2 Review
The Tier 2 review focuses on site-specific environmental conditions that cannot be adequately evaluated at the Tier 1 level. Local grantees will complete the Tier 2 site-specific reviews.

Federal Labor Standards and Related Acts
Federal Davis-Bacon Wage Rates apply to laborers and mechanics employed by contractors or subcontractors in the performance of construction work financed in whole or in part with NSP2 funds in contracts for construction or rehabilitation of residential property for eight or more units.

Demolition work funded by NSP2, which is not related to future construction, e.g. demolition and land banking of blighted and foreclosed houses or demolition of privately-owned blighted building, is not subject to the labor standards requirement. However, where an existing building is being demolished as a phase of a construction project, both the demolition and the construction are covered.

Section 3
Section 3 of the Housing and Urban Development Act of 1968, as amended, ("Section 3") requires that economic opportunities generated by certain U.S. Department of Housing and Urban Development financial assistance for housing and community development programs be directed to low- and very low-income persons, particularly those who are recipients of government assistance for housing, and business concerns which provide economic opportunities to low- and very low income persons.

MSHDA and its grantees shall provide opportunities to low- and very low-income persons residing in the State of Michigan (as defined in § 135.5 of 24 CFR Part 135) and to businesses meeting the definition of "Section 3 Business Concern" (as defined by 24 CFR Part 135). Accordingly, MSHDA shall implement policies and procedures to ensure that Section 3, when required, is followed and develop programs and procedures necessary to implement this policy covering all procurement contracts where labor and/or professional services are provided, in order to achieve the goals outlined within the State of Michigan Consolidated Plan for Housing and Community Development. This policy shall not apply to contractors who only furnish materials or supplies through Section 3 covered assistance. The policy does not require the employment or contracting of a Section 3 resident or contractor who does not meet the qualifications of the position to be filled or who cannot fulfill the contract requirements.

MSHDA incorporates into this policy the definitions contained in § 135.5 of 24 CFR Part 135.

Catalog of Federal Domestic Assistance
Catalog of Federal Domestic Assistance (CFDA) provides a full listing of all Federal programs available to State and local governments (including the District of Columbia); federally-recognized Indian tribal governments; Territories (and possessions) of the United States; domestic public, quasi- public, and private profit and nonprofit organizations and institutions; specialized groups; and individuals.

The CFDA number for NSP2 is 14.256. CFDA 14.256 provides guidance to NSP2 grantees on the compliance requirements for NSP2 under OMB Circular A-133. OMB Circular A-133 sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards. The OMB A-133 Supplemental Audit Guide for programs under ARRA at:
National Objective

NSP2 does not permit using the national objectives of “prevention or elimination of Slum and Blight or “addressing urgent need” using NSP funds. All funds and projects, excluding administration, must meet the Low Moderate and Middle Income (LMMI) threshold. An NSP activity meets the LMMI definition if it:

1. Low-, Moderate- and Middle-income Housing Benefit (LMMH): Improves and provides housing that will be occupied by a household (owner or renter) at or below 120% of AMI (LMMH).
2. Low, Moderate, and Middle-income Area Benefit (LMMA): Serves an area in which 51% of residents have income at or below 120% of AMI.
   - Demolition of buildings that (1) pose an immediate threat to health and safety and (2) are part of a long-term neighborhood redevelopment plan because it removes blight and prepares the site for future redevelopment in an LMMA area.
   - Properties acquired, demolished and land banked
   - Disposition of Land Banked property with or without acquisition

Documentation must be collected at the local level and provided to MSHDA. It will consist of:

1. Low-, Moderate- and Middle-income Housing (LMMH): Income verification that beneficiary households are at or below 120% AMI, documented by a method acceptable to HUD.
2. Low, Moderate, and Middle-income Area Benefit (LMMA): Data verifying that property on which NSP-eligible activity is in NSP2 Census Tract and areas with at least a 51% concentration of LMMI households.

The table, “NSP2 Census Tracts by Income Categories” lists the Income Level of each of the NSP2 Census Tracts of the Michigan NSP2 Consortium. The income levels, national objectives and eligible activities of each of the various income categories are as follows:
<table>
<thead>
<tr>
<th>Census Tract by Income Level</th>
<th>Definition</th>
<th>National Objective by Eligible Activities</th>
</tr>
</thead>
</table>
| Low, Moderate or Middle Income Level | Census Tract where at least 51% of the households earn at or below 120% AMI | LMMH (Household Benefit): Acquisition, Rehabilitation, Redevelopment of housing in Census Tract that serves households earning at or below 120% AMI  
LMMA (Area Benefit): Acquisition for Land Banking, Demolition only of Blighted Structures, and Maintenance of Land Banked Property in Census Tract where at least 51% of the households earn at or below 120% AMI |
| Upper Income | Census Tract where less than 51% of the households earn at or below 120% AMI | LMMH (Household Benefit): Acquisition, Rehabilitation, Redevelopment of housing in Census Tract that serves households earning at or below 120% AMI  
LMMA (Area Benefit): Ineligible and therefore Demolition and Land Banking Activities cannot be conducted in Targeted Census Tract |
| No Income | Census Tract where it is inconclusive what the Income Level is. These tracts are usually a Central Business District, Commercial, or Industrial Area | LMMH (Household Benefit): Acquisition, Rehabilitation, Redevelopment of housing in Census Tract that serves households earning at or below 120% AMI  
LMMA (Area Benefit): Ineligible unless Grantee conducts survey demonstrating that Census Tract is primarily residential where at least 51% of the households earn at or below 120% AMI |
# Michigan NSP2 Consortium Targeted Census Tracts - APPROVED BY HUD

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<th>Income Status</th>
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III. PROGRAM ADMINISTRATION

Program Period and Expenditure

The program period for NSP2 is three (3) years, meaning that all NSP2 funds must be expended by February 10, 2013. In addition, HUD requires NSP2 grantees to expend 50% of their NSP2 award by February 10, 2012. HUD defines expenditure as total amount withdrawn from the U.S. Department of Treasury, not Treasury withdrawals plus use of program income. HUD still requires Grantees to spend program income first.

For example, a City received $10 million dollars in NSP2 funds. By February 10, 2012, they must expend $5 million, i.e. withdraw $5 million from the U.S. Treasury. If they generate $1.5 million in program income over those two years, then they must spend $6.5 million to meet the 50% expenditure rule. If they generate $3 million in program income during the first three years, then they must spend $13 million

As a result, MSHDA will:

- Execute funding agreement with local grantees no later than April 1, 2010
- Submit funding agreements to HUD no later than April 10, 2010
- Conduct on-going monitoring of local grantee programs during the three-year program period
- Develop Michigan NSP2 Consortium Production Goals and Performance Measures to meet the 50% and 100% expenditure rule by Year 2 and 3, respectively, based on the original grant plus program income
- Recapture and re-allocate NSP2 funds based on local grantee performance during the three-year program period (see Expenditure of Funds: Production Goals and Performance)

Funds and Grant Management

Online Project Administration Link (OPAL) is MSHDA’s online project administration link that is currently used to manage HOME, CDBG, and NSP1 grants to local government and non-profits. MSHDA and local grantees will use OPAL to manage NSP2.

Payment

Payments are made on a reimbursement basis and all NSP2 eligible costs must be documented in writing. Local grantees may submit payment requests as frequently as necessary to assure prompt payment. Note: If work is invoiced from the contractor to the local grantee and the local grantee submits request with invoice, the payment is considered a reimbursement even though payment has not been made to the contractor.

MSHDA will permit advances for acquisitions as long as Grantee has required documentation. MSHDA reserves the right to request documentation from Grantee as deemed necessary.

MSHDA requires 10 days to process payment requests.

Award Amendments

Costs incurred prior to approval of an amendment may not be reimbursed.

Award amendments should not impact the ability to meet the NSP2 50% AMI set-aside requirement.

Types of Award Amendments are:

Amend Grant, i.e. modification of amounts allocated to Eligible Uses: HUD’s DRGR system requires that funding be allocated to specific Eligible Uses; any expenditure above the amount allocated requires
that MSHDA modify DRGR and that HUD approve the modification. To the extent possible, MSHDA will expedite the DRGR/HUD steps required for changes. Grantee can move dollars between NSP2 Eligible Uses without an award amendment.

**Revise Budget, i.e. modifications of unit production or budgets within an Eligible Use:** Local grantees will not be required to submit an amendment request to modify the units of production or per unit cost projections as included in the Funding Agreement, (e.g. balance between acquisition and rehab, or number of units demolished), as long as they can demonstrate that the project is feasible. Local grantee may amend activity line item budgets in OPAL within the same eligible use category without consultation of MSHDA. For example, under NSP2 Eligible Use B, local grantee may move funds from acquisition to rehabilitation without a formal OPAL amendment request.

**Professional Services, i.e., modification of responsibilities across City & Land Bank:** Grantee hires their Consortium Partner grant to manage a portion of their grant. This is managed through the City and Land Bank Operations Agreement.

**Formal Funding Agreement Amendment, i.e. amending award across City & Land Bank Grants:** Grantee decreases their award and increases Consortium Partner award. *MSHDA approval required before pursuing this option.* If approved Formal Funding Agreement Amendment, then this amendment requires approval of City, Land Bank, MSHDA and HUD and requires amending DRGR.

**Grant Extensions**

Due to the three-year program period imposed by ARRA, MSHDA will not approve any grant extensions and will be reviewing drawdown and expenditures closely to ensure that local grantees are expending the Michigan NSP2 funds within the grant period. In addition, MSHDA reserves the right to recapture and reallocate Michigan NSP2 funds that are not used in a timely or appropriate manner.

**Expenditure of Funds: Production Goals and Performance**

MSHDA wants and anticipates each local grantee to succeed. However, HUD mandated aggressive timelines to expend NSP2 funds and requires MSHDA to monitor rates of expenditure by each of the local grantees. The Michigan NSP2 Consortium will adopt, and MSHDA will enforce the performance requirements outlined below.

MSHDA will recapture funds from those local grantees who do not meet the performance requirements. MSHDA will re-allocate additional funds, subject to availability, to those local grantees that exceed the performance requirements. MSHDA will recapture and reallocate NSP2 funds based on the following performance requirements:

**Performance Requirements for Award Amounts**

Below are performance requirements for awards for the original amount (i.e. amount in funding agreement) or awards that have been recaptured because they did not meet performance standard. The performance requirements are as follows:

- During a specified quarter, local grantees must expend all program income received to date, plus the percentage of the total NSP2 award indicated below:
<table>
<thead>
<tr>
<th>Quarter</th>
<th>Approximate End Date</th>
<th>Performance Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q5</td>
<td>March 31, 2011</td>
<td>Local grantee must expend at least 20% of their total award</td>
</tr>
<tr>
<td>Q7</td>
<td>Sept 30, 2011</td>
<td>Local grantee must expend at least 50% of their total award</td>
</tr>
<tr>
<td>Q9</td>
<td>March 31, 2012</td>
<td>Local grantee must expend at least 75% of their total award</td>
</tr>
<tr>
<td>Q11</td>
<td>Sept 30, 2012</td>
<td>Local grantee must expend at least 90% of their total award</td>
</tr>
<tr>
<td>Q12</td>
<td>Dec 31, 2012</td>
<td>Local grantee must expend at least 100% of their total award</td>
</tr>
</tbody>
</table>

For example, by March 31, 2011 local grantee must expend 20 percent of their total award. City received $10 million, whereas Municipality received $7 million and Land Bank received $3 million. Together they have generated $250,000 in program income. Therefore, $2.0 million of original award and $250,000 in program income for a total of $2.25 million must be expended between Municipality and Land Bank by March 31, 2011.

Recapture and Re-allocation of Funds
MSHDA will analyze each consortium city’s/land bank’s expenditure of funds at each of the above mentioned quarters. The rules of recapture and re-allocation are as follows:

- MSHDA will not recapture funds from those grantees which met expenditure targets.
- MSHDA will recapture funding from low-performing awards up to the percentage indicated in the above table.
- MSHDA may, at its discretion, (a) implement projects directly or (b) offer the recaptured funds to other grantees exceeding their performance requirements and having reasonable plans to expend funds.

Reporting
Local grantees must provide quarterly reports to MSHDA regarding program accomplishments and expenditures, including information for HUD-required reports (e.g., RAMPS, DRGR, and federalreporting.gov.) MSHDA will require local grantees to track and report activities by CDBG Activity, Eligible Use, and address. MSHDA will provide the appropriate reporting forms to local grantees.

Monitoring and Auditing
MSHDA views monitoring and auditing as a way to assist local grantees with their NSP2 program, build local capacity, and prevent any problems that may arise. Therefore, during the program period, MSHDA will conduct ongoing monitoring of the Michigan NSP2 Consortium to ensure program compliance and sound financial management of NSP2 funds. MSHDA will provide the appropriate forms and checklists to assist local grantees to prepare for monitoring, and grantees will be required to respond to any additional requests from MSHDA, HUD and/or Office of Inspector General (OIG).

Program Income
NSP2 program income requirements will follow CDBG and NSP2 regulations. NSP2 Program Income received by the local grantee must be tracked in OPAL. The expending of program income will be outlined in the City and Land Bank Operations Agreement, formerly known as the City and Land Bank Operations Agreement.
Acquisition and Conveyance Memorandum of Understanding. From February 11, 2010 through February 10, 2013, cities and land banks will retain program income and reinvest, track and report based on NSP2 requirements and their NSP2 Funding Agreement. Cities and land banks must return program income to MSHDA at NSP2 program close-out. MSHDA will reinvest program income to comply with NSP2 requirements and, to the extent feasible, reinvest in the city of origin and adhere to the City and Land Bank Operations Agreement.

Cities and land banks reserve the option to allow the Developer to reinvest proceeds of sale into the Developer’s next NSP2-eligible project. Proceeds of sale is sales price less reasonable developer’s fee.

IV. ELIGIBLE NSP2 COSTS: ADMINISTRATION, PRODUCTION AND ACTIVITY DELIVERY

Administration

Administration funds related to carrying out the local NSP2 program will be available for general administrative costs. Local grantees are provided a specific dollar amount of administrative funds in their funding agreement and must not spend anything other than the exact allocated amount on administrative costs. Administrative costs are reasonable costs of municipalities and land banks to meet the requirements of NSP2. They are not directly related to a specific activity. Administrative include but are not limited to:

- General NSP2 program management, oversight and coordination
- Monitoring and evaluation
- Providing information to citizens and elected officials
- Preparing budgets and performance reports
- Resolving audit and monitoring findings
- Technical support services
- Assuring fair housing activities

Local grantees should contact MSHDA if they are uncertain whether the activity is an activity delivery cost or administration cost.

Production, Activity Delivery or Soft Costs

Eligible activity delivery costs must be NSP eligible and need appropriate documentation to be reimbursed by MSHDA.

Hard costs are items and services related specifically to construction such as materials and labor from the building trades.

Activity delivery costs are known commonly as soft costs and are eligible as part of each project or activity. Activity delivery costs cover staff, professional services, and related items that can be tied to a NSP-assisted property. Unlike HOME, activity delivery costs do not need to be tied to a specific address and may be paid with NSP2 even if the project fails to be completed.

However, for the purposes of the Michigan NSP2 Consortium, MSHDA defines the CDBG Activity Budget Line Items and Activity Delivery Cost Budget Line Items slightly differently to effectively and efficiently manage the costs of an NSP2-assisted project.

Feasible and Infeasible Projects

MSHDA differentiates between Feasible and Infeasible Projects:
Feasible Projects are those projects or addresses that are completed successfully. Examples are a Grantee purchases with NSP2 funds and takes title to a foreclosed property; a Grantee enters into a contract and the contractor demolishes a blighted property with NSP2 funds; or a Grantee rehabilitates a property they acquired with NSP2 funds and sells to a qualified buyer.

Infeasible Projects are those projects that are not completed, but their costs are still eligible to be reimbursed with NSP2 funds. Examples are a Grantee completes an appraisal to purchase a mortgage-foreclosed house, but the REO Agent sold the property to another private investor. The Grantee can document those costs and get them reimbursed under the Infeasible Activity Delivery Line Item.

Production Costs

MSHDA defines Production Costs as Hard Costs, Third Party Soft Costs and Professional Fees, or Permits and Fees to complete a CDBG Activity for a feasible project. The corresponding Budget Line Items in OPAL are:

- Acquisition
- Rehab and Preserve
- Disposition
- Demolition
- Housing Counseling

Examples of third party soft costs until the unit is sold/transferred to NSP2 beneficiary are:

- Developer Fee
- Development of Request for Proposals and Request for Qualifications
- Preparation of rehabilitation work specifications
- Loan processing
- Appraisals and title clearance
- Utility costs and/or shut-off
- Legal
- Insurance
- Security
- Taxes*
- Architectural or engineering services
- Property inspections
- Environmental assessments
- Environment review record
- Labor standards compliance
- Attending pre-construction conferences
- Attorney fees for preparing or review contract documents or property acquisition activity
- Property maintenance

*The following taxes (as a holding cost) may be paid by NSP2 Grantees:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>County Land Bank</td>
<td>City and County</td>
</tr>
<tr>
<td>Michigan State Land Bank</td>
<td>City and County</td>
</tr>
<tr>
<td>City</td>
<td>County</td>
</tr>
</tbody>
</table>

See Acquisition Policy for taxes paid as a transaction cost when buying a property.

Activity Delivery Staffing Costs

Grantees may charge an average Activity Delivery Staffing Costs per feasible property so long as the Grantee documents all activity delivery staffing costs and the costs do not exceed 15% of each NSP2
eligible use. Documenting activity delivery staffing costs includes timesheets of staff person(s), hours worked, and hourly rate of staff person(s) by property address.

Examples of staffing costs are:

- Hire and pay of local implementation manager based on the hours they worked to coordinate NSP2 projects. Hours must be documented. Costs are still eligible if targeted project is not completed.
- Hire and pay of acquisition manager based on the hours they worked and expenses for them to identify, inspect, conduct project feasibility analysis and negotiate purchase of foreclosed and/or vacant property. Costs are still eligible even if targeted property is not acquired.
- Hire and pay construction manager and the hours worked and expenses for them to inspect property prior, during and after construction and prepare rehabilitation work specifications. Costs are still eligible even if targeted property is not rehabbed or built.
- Hiring of intake specialist and the related costs for them to collect information and housing preferences as well as verify income of eligible homebuyers or renters
- Hiring of marketing firm and the related costs to reach targeted markets

For example, a grantee wants to rehabilitate a property they acquired. They will convey that property to a developer. Therefore, the development budget for OPAL Project Set-up is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction, Pre-development and Acquisition Hard Costs</td>
<td>$125,000.00</td>
</tr>
<tr>
<td>Third Party Soft Costs</td>
<td>$25,000.00</td>
</tr>
<tr>
<td>Developer Fee (15% of Total Development Costs)</td>
<td>$22,500.00</td>
</tr>
<tr>
<td>Grantee Activity Delivery Staffing Costs (15% of Total Project Costs)</td>
<td>$3,881.25</td>
</tr>
<tr>
<td><strong>TOTAL COSTS</strong></td>
<td><strong>$176,381.25</strong></td>
</tr>
</tbody>
</table>

For Grantees to be paid for activity delivery staffing costs, they will be reimbursed based on hours worked and rate of pay for each staff person by property. Grantees will keep timesheets on-site as back-up documentation.

Local grantees should contact MSHDA if they would like to pay for certain staffing functions out of activity delivery costs to see if it is eligible.

**What Is My Staff Time – Admin or Activity Delivery? Chart on Administrative/Activity Delivery Cost (ADC) Staffing Costs**

Generally speaking, allowable administrative expenses include those tasks related to administering the program. Activity Delivery Costs are related to a specific address.

Realistically, some activities go be counted as both. For example: Marketing

- A grantee might market the program to contractors or realtors. This would be an allowable administrative expense.

- However, if a grantee creates and distributes flyers for a specific unit and spends time showing that unit to realtors in the area, related expenses would be charged as an Activity Delivery Cost for that activity.
<table>
<thead>
<tr>
<th>Task</th>
<th>Admin</th>
<th>Activity Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Housing Needs Assessment</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>2. Time/$ on Environmental Review (for Program)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>3. Time Spent on Public Hearings</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>4. Time Spent Writing Fair Housing Policy</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>5. Time Spent Writing Complaint Procedure</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>6. Time Spent Writing Contractor Selection Process</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>7. Time Spent Writing Recipient Selection Process</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>8. Time Spent Writing Application Forms</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>9. Time Spent Writing Program Guidelines (if any)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>10. Outreach and Public Information/Marketing</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>11. Educating Contractors (Sec. 3, Davis Bacon, etc.)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>12. Inspections (General/Lead Based Paint)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>13. Cost Estimates (for specific address)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>14. Spec Writing (for specific address)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>15. Site Specific Environmental Review</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>16. Bid Solicitation Process (for specific address)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>17. Contractor Selection/Awards (for program or unit?)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>18. Construction Supervision</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>19. Arranging Homeownership Counseling (program)</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>20. Marketing (Program or Units)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>21. Time Spent Collecting Data for Reporting</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>22. Time Spent Creating FSR’s on OPAL</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>23. Time Spent preparing for or at closings</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>24. Time/Travel to attend Trainings</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
V. PARTNERSHIP BETWEEN MSHDA, CITY AND LAND BANK

To foster the partnership between MSHDA, Cities and Land Banks and their respective program partners, for not only NSP2, but future stabilization and redevelopment projects, MSHDA agrees to utilize a part of their administration funds to facilitate meetings, trainings and technical assistance.

Program Status Meetings

MSHDA, City and Land Bank shall hold and attend the following meetings:

1. During the first year of the NSP2 program period, City, Land Bank and MSHDA shall meet no less than twice every calendar month to review production progress, develop list of tasks, and address issues as they may arise. Meetings may occur on site or via conference call or web meeting.

2. During the first year of the NSP2 program period, City and Land Bank will meet no less than once a week to review production progress and address issues as they may arise.

3. During the remaining years 2 and year 3, MSHDA, City and Land Bank will meet no less than once a month to review production progress and address issues as they may arise.

4. During the remaining years 2 and year 3, City and Land Bank will meet no less than every two weeks to review production progress and address issues as they may arise.

Trainings, Web Meetings and Updates

MSHDA will conduct regional trainings, web meetings and updates through electronic newsletters and conference calls for local grantees and their program partners. Trainings, meetings and updates will assist them on:

- Developing their program design and strategies
- Managing and implementing NSP2 to meet production goals
- Utilize Michigan NSP2 Consortium management checklists, documents and tools.

MSHDA will invite and require that a representative from each local grantee attend the trainings. Topics may be relevant for local grantee staff from executive leadership to program managers to compliance assistants, and some will be applicable to local program partners.
VI. ACTIVITY DESCRIPTION: RESIDENTIAL REHABILITATION & DEVELOPMENT

Serves Households up to 120% Area Median Income

This activity will provide homeownership and rental / lease purchase opportunities to households with incomes at or below 120% of area median income through the improvement and reuse of vacant, demolished, abandoned and/or foreclosed residential properties. Eligible residential properties include, but are not limited, to:

- Existing City-owned or Land Bank-owned, Abandoned/Foreclosed Residential Lots or Residential Structures
- Abandoned/Foreclosed Residential Lots
- Abandoned/Foreclosed Residential Structures
- Any Vacant or Demolished Property to be redeveloped as Housing

This activity may include:

- Acquisition and rehabilitation of residential unit for resale or rental, where property is purchased by local grantee or program partner. Local grantee or program partners rehabilitate property to meet rehabilitation standards and then sell or lease to income eligible household.
- Demolition of a blighted house, with a new house built on the site and sold or leased to an income-qualified household. Local grantee must demonstrate that market can absorb new construction unit.
- Redevelopment of vacant residential lot with a new house built on the site and sold or rented to an income-qualified household. Local grantee must demonstrate that market can absorb new construction unit.
- Acquiring and deeding sub-standard, vacant residential lot to adjacent, income-eligible homeowners.
- Providing homebuyer assistance in the form of down payment assistance, closing cost assistance and mortgage buy down for income-eligible household. Note: A CDBG rule allows NSP funds to assist only 50% of the down payment.

In every case that a vacant, demolished, foreclosed or abandoned residential property is purchased, local grantee or program partners will ensure that the outcome is homeownership, lease purchase or rental to an income-eligible household. Each household benefitting from homeownership or lease purchase will be required to attend eight hours of homebuyer education from a HUD-certified housing counseling agency. In addition, MSHDA will allow post-purchase counseling under NSP2.

Meets 25% Low-income Set-aside Requirement

This activity will meet the NSP2 requirement that at least 25% of funds must serve low-income households by providing homeownership and rental / lease purchase opportunities to households with incomes at or below 50% of area median income through the improvement and reuse properties as housing.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Publ. L 111-203) include amendments to the allocation of NSP2 funds to the Michigan NSP2 Consortium and a third appropriation to the Neighborhood Stabilization Program. The law amends the low-income set-aside requirement by removing the restriction that allows only abandoned or foreclosed upon homes or residential properties to be used to meet this requirement. Grantees may now use vacant or demolished property to meet the set-aside as well. This language also allows non-residential property to be used if the
project is undertaken under Eligible Use E, though such sites might require rezoning to allow the development of housing.

Therefore, to meet the set-aside requirement, eligible properties include:

- Existing City-owned or Land Banked-owned, Abandoned/Foreclosed Residential Lots or Residential Structures
- Abandoned/Foreclosed Residential Lots
- Abandoned/Foreclosed Residential Structures
- Any Vacant or Demolished Property to be redeveloped as Housing, including those properties zoned residential or non-residential

This activity may include:

- Acquisition and rehabilitation of unit for resale or rental, where local grantee or program partner purchases residential property. Residential property is rehabilitated to meet rehabilitation standards and then sold or leased to income eligible household. Note: To meet set-aside, Acquisition and Rehabilitation is NSP2 Eligible Use B if property is residential abandoned or foreclosed structure or NSP2 Eligible Use E if property is residential vacant or demolished structure.
- Demolition of a blighted, vacant house, with a new house built on the site and sold or rented to an income-qualified household. Local grantee must demonstrate that market can absorb new construction unit. Note: To meet set-aside, Acquisition and Rehabilitation is NSP2 Eligible Use B if property is residential abandoned or foreclosed structure or NSP2 Eligible Use E if property is residential vacant structure and Demolition is Use D. Total Development Costs may count towards the set-aside, i.e. Acquisition, Demolition and Redevelopment Costs.
- Redevelopment of vacant lot with a new house built on the site and sold or leased to an income-qualified household. Local grantee must demonstrate market can absorb new construction unit. Note: To meet set-aside, Acquisition and Rehabilitation is NSP2 Eligible Use B if property is residential abandoned or foreclosed lot or NSP2 Eligible Use E if property is residential vacant lot.
- Redevelopment of commercial structure into multi-family housing and sold or leased to an income-qualified household. Note: NSP2 Eligible Use E
- Providing homebuyer assistance in the form of down payment assistance, closing cost assistance and mortgage buy down for income-eligible household where they purchase a foreclosed, abandoned, or vacant residential property. Note: A CDBG rule allows NSP funds to assist only 50% of the down payment required by the lender.

In every case that a property is purchased, the local grantee or program partners must ensure the outcome is homeownership, lease purchase or rental to an income-eligible household. Each household benefiting from homeownership or lease purchase will be required to attend eight hours of homebuyer education from a HUD-certified housing counseling agency. In addition, some homebuyers and all lease purchasers must attend post-purchase counseling. MSHDA will provide further guidance in a module on lease purchase and post-purchase counseling.

**Homebuyer Guidelines**

**Sales Price Requirements**

NSP2 requires that the sales price cannot exceed Total Development Costs or Appraised Fair Market Value / Market Sales Price, whichever is lower.
Affordability Requirements

Affordability requirements cover two aspects of project requirements:

1. **Housing Cost Burden and Mortgage Requirements:** For homeownership activities, housing cost burden is defined as principal, interest, taxes and insurance (PITI) and shall not exceed 30% of household’s gross monthly income.

2. **Long-term Affordability Requirements:** Long-term affordability requirements of the HOME Investment Partnerships Program requirements found at 24 CFR 92.254 will apply. Recapture guidelines apply, and affordability is based on dollar amount of final direct NSP subsidy that enabled homebuyer to purchase unit. A recordable document is placed on the unit to ensure continued affordability. MSHDA will require prior written authorization for the use of resale provisions as an affordability mechanism under Michigan NSP2 Consortium.

Recapture or repayment is a mechanism to recover all, or a portion, of the direct assistance if the buyer sells the house during the period of long-term affordability. Direct assistance is defined as the total amount received by the buyer for down payment assistance, closing cost assistance, mortgage financing, or principal buy down, etc. MSHDA will utilize a forgivable loan model to recapture all or a portion of the assistance provided. The long-term affordability and recapture guidelines are summarized below.

<table>
<thead>
<tr>
<th>Subsidy Type</th>
<th>Recordable Document</th>
<th>Continued Affordability Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development</td>
<td>Construction Mortgage</td>
<td>Satisfied at Home Sale or Permanent Financing</td>
</tr>
<tr>
<td>Homebuyer</td>
<td>Forgivable, Soft Second Mortgage</td>
<td>Affordability Period based on Direct Homebuyer Assistance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Direct Assistance</th>
<th>Affordability Period</th>
<th>Amount Forgiven</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $15,000 per unit</td>
<td>5 years</td>
<td>1/5 of direct subsidy amount per year over five years</td>
</tr>
<tr>
<td>$15,000 - $40,000 per unit</td>
<td>10 years</td>
<td>1/10 of direct subsidy amount per year over 10 years</td>
</tr>
<tr>
<td>More than $40,000 per unit</td>
<td>15 years</td>
<td>1/15 of direct subsidy amount per year over 15 years</td>
</tr>
</tbody>
</table>

**Recommended Subsidy Limits and Fees for Professional Service Providers**

MSHDA encourages local grantees to provide 100% construction financing of NSP-assisted homebuyer units. Construction costs must be reasonable based on underwriting to prevent undue enrichment and non-luxury improvements, such as, but not limited to, pools, Jacuzzis, and wine cellars.

<table>
<thead>
<tr>
<th>Assistance</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal Gap / Development Subsidy</td>
<td>Total Development Costs less Appraised Value / Market Sales Price</td>
</tr>
<tr>
<td>Affordability Gap / Homebuyer Subsidy</td>
<td>Appraised Value / Market Sales Price less Buyer Purchase Power. Buyer Purchase Power based on 30-year fixed rate mortgage where</td>
</tr>
</tbody>
</table>
PITI ranges between 20% to 30% Housing to Income Ratio and does not 40% Debt to Income Ratio

| Total Subsidy per Unit | Development Subsidy + Homebuyer Subsidy |

<table>
<thead>
<tr>
<th>Professional Fee*</th>
<th>Description</th>
<th>Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developer Fee</td>
<td>Percentage of Total Development Costs awarded to Developer for providing professional services to manage construction and marketing strategy to sell house to qualified, income-eligible buyer</td>
<td>15% of Total Development Costs Budget for carrying costs for up to six months</td>
</tr>
<tr>
<td>Sales Referral Fee</td>
<td>Percentage of Homes Sales Price awarded to State of Michigan Licensed Real Estate Agent for bringing a qualified, income-eligible buyer to purchase NSP-assisted house Developer is eligible to receive fee if they bring buyer to close and have a licensed real estate agent on staff</td>
<td>6% of sales price or $5,000 whichever greater</td>
</tr>
<tr>
<td>Housing Counseling</td>
<td>Fee for bringing a qualified, income-eligible buyer to purchase and close on NSP-assisted house</td>
<td>Up to $1,500 per unit</td>
</tr>
</tbody>
</table>

*All fees paid out at closing.

**NSP2 Loan Products**

**First Mortgages**
If buyer does not use a MSHDA Single Family mortgage product, conventional mortgages must meet MSHDA’s requirements for acceptable mortgage products. See Section G of MSHDA Community Development Housing Resource Fund Summary:


**80/20 Loan**
MSHDA recommends that local grantee develop an 80 / 20 loan product with NSP2 funds. Local grantee will provide 20% in mortgage buy down for all eligible homebuyers. This product eliminates PMI and, therefore, increases affordability. The product is an affordability and marketing strategy to attract households earning up to 120% AMI.

The 80% can be a MSHDA Single Family first mortgage or conventional/FHA mortgage.

At a minimum, the buyer is required to provide 50% of the down payment required by the mortgage lender.
Rental Guidelines

Affordability Requirements
Local grantees must lease projects completed with NSP funds to households with income at or below 120% AMI. If the rental project seeks to meet the low-income set-aside requirement, then units completed with NSP funds must be leased to households at or below 50% AMI.

1. Long-term Affordability
   Long-term affordability requirements of the HOME Investment Partnerships Program, found at 24 CFR 92.252 (a), (c), (e) and (f), will apply. The long-term affordability period is based on the total NSP dollar amount per unit.

   The long-term affordability regulation is enforced through a mortgage lien recorded on the property for the length of that period.

   The long-term affordability requirements are summarized below:

<table>
<thead>
<tr>
<th>Direct Assistance</th>
<th>Affordability Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $15,000 per unit</td>
<td>5 years</td>
</tr>
<tr>
<td>$15,000 - $40,000 per unit</td>
<td>10 years</td>
</tr>
<tr>
<td>More than $40,000 per unit</td>
<td>15 years</td>
</tr>
<tr>
<td>Rental New Construction</td>
<td>20 years</td>
</tr>
</tbody>
</table>

Recommended Subsidy Limits and Underwriting Criteria
MSHDA encourages local grantees to provide 100% construction financing of NSP-assisted scattered-site rental units and management fees to incent property managers. MSHDA will require that any net cash flow from the units be placed into replacement reserves to ensure property management and maintenance. MSHDA recommends the following final subsidy limits on rental / lease purchase projects:

<table>
<thead>
<tr>
<th>Assistance</th>
<th>Description</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Subsidy</td>
<td>Total Development Costs</td>
<td>Up to $150,000 per unit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Underwriting Criteria</th>
<th>Description and Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent Financing</td>
<td>Financing is used to pay off and replace a construction loan upon completion and lease-up of an affordable rental project</td>
</tr>
<tr>
<td></td>
<td>Not required if insufficient positive cash flow</td>
</tr>
<tr>
<td>Feasible Project</td>
<td>Income less expenses produces net operating income of 20%</td>
</tr>
<tr>
<td></td>
<td>Floor PITI front-end ratio of 20% if limited by income</td>
</tr>
</tbody>
</table>
Debt Coverage Ratio (DCR) | No less than 1.20
--- | ---
Replacement Reserves | $600 per unit per year
| Kept in account with restricted access & MSHDA must approve expenditure
Management Fee | 7% - 15% of gross income, depending on project type and size
Vacancy Rate | 10%

### VII. ACTIVITY DESCRIPTION: DEMOLITION AND/OR LAND BANKING

Demolition of blighted structures and holding and maintaining of vacant lots in a land bank results in a temporary outcome of a site that is cleared and prepared to produce a buildable lot for future redevelopment. Local grantees will create and manage subsequent redevelopment plans of land banked properties and will overlay their plans with:

- NSP2 regulations on future redevelopment of property
- Market conditions

When demolishing blighted structures, local grantees should consider the efficient use of resources and ability to create jobs through deconstruction. When using deconstruction techniques, the value of reusing resources must be weighed against added costs and concerns about the market for deconstructed materials, demand for deconstruction workers, and environmental hazards, such as lead-based paint.

For purposes of the NSP2 activity outcomes, land banking is the holding of any property prior to or after February 10, 2013. If the local grantee holds the property beyond February 10, 2013, the property must be redeveloped or an eligible disposition must occur per NSP2 regulations prior to February 11, 2020.

It is important to note that there can be only one outcome for a particular project during the program period. It is either residential development or land banking, but never both. If the property is redeveloped during the grant period into a residential use, then it is residential development. If it is not, then it must meet the requirements of the land banking activity and be counted as an outcome accordingly. Land Banking is an LMMA (or area) benefit and will become a LMMH (or housing) benefit when redeveloped in Years 4 – 10.

Demolition of blighted structures without ownership is also eligible with no required reuse in targeted census tracts because they are located in low-, moderate- and middle-income areas, i.e. census tracts with at least a 51% concentration of LMMI households.

### Guidelines

#### Subsidy Limits
Local grantees may finance 100% of Demolition and Land Banking costs, which include acquisition and disposition of land banked property for the three-year program period. Costs must be reasonable and necessary. Local grantee will have to submit required documentation.

#### Acquisition
Appraisals are required on all acquisitions of foreclosed property, unless the value is less than $25,000, which requires only a Market Valuation, State Equalized Value or other equivalent method. Please refer to Section 2 – Federal Regulations of this document for further guidance and requirements to acquire foreclosed residential property.

Acquisition costs include:
- Purchase price
- Closing costs
- Title clearance
- Environmental review
- Activity Delivery Staff Costs (Set-up and Billed under Eligible Use C – Feasible Activity Delivery Costs)

Demolition
Local grantee must demonstrate property is blighted per the definition outlined in the Michigan NSP2 Consortium Application. Please refer to Heading 2 – Federal Regulations on pages 3 for further guidance and requirements on demolition of blighted structures and the Glossary for the definition of blighted.

Demolition costs include, but are not limited to:
- Environmental risk assessment and abatement
- Demolition / Deconstruction Costs
- Disconnection of utilities
- Title clearance
- Site inspections to certify blighted condition
- Planting and fencing
- Activity Delivery Staff Costs (Set-up and Billed under Eligible Use D – Feasible Activity Delivery Costs)

Disposition of Land Banked Properties
Local grantee may finance 100% of the costs to maintain, manage and dispose of properties in the three-year program period. Costs may include:

Disposition costs may include, but are not limited to:
- Insurance
- Maintenance, e.g. lawn mowing and debris removal
- Staffing and soft project delivery costs to manage land banked properties
- Marketing
- Activity Delivery Staff Costs (Set-up and Billed under Eligible Use C – Feasible Activity Delivery Costs)
## NSP2 Lien Requirements – Who holds the lien?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Held by (mortgagor)</th>
<th>Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demolition, if stand-alone or green space redevelopment</td>
<td>Local grantee (if privately-owned)</td>
<td>Minimum 5-year forgivable, not prorated, in the amount of NSP2 assistance. Lien retained in grantee’s file.</td>
</tr>
<tr>
<td>Demolition, as part of a NSP2-funded construction project</td>
<td>MSHDA</td>
<td>Amount of demolition will be included in the construction mortgage (see terms of construction mortgage below).</td>
</tr>
<tr>
<td>Demolition with end use being the sale or donation of vacant parcel.</td>
<td>Local grantee (if privately-owned)</td>
<td>Minimum 5-year forgivable, not prorated, in the amount of the NSP2 assistance. If sold for less than Fair Market Value, within 5 years, lien transfers to the new owner.</td>
</tr>
<tr>
<td>Construction of grantee-owned property, as part of a NSP2-funded construction project</td>
<td>MSHDA</td>
<td>0% Construction mortgage. $0 payment, discharged upon resale in compliance with regulations and upon accountability for tracking of sales proceeds; allows repayment of any construction loans (sample). Required only if grantee acquires, owns and develops property.</td>
</tr>
<tr>
<td>Construction of nonprofit and for-profit developer-owned property, as part of a NSP2-funded construction project</td>
<td>Local grantee</td>
<td>0% Construction mortgage. $0 payment, discharged upon resale in compliance with regulations and upon accountability for tracking of sales proceeds; allows repayment of any construction loans (sample).</td>
</tr>
<tr>
<td>Homebuyer subsidy</td>
<td>MSHDA</td>
<td>See Affordability Requirements under Homebuyer Guidelines (page 14)</td>
</tr>
</tbody>
</table>

**NOTE**: The grantee must have an agreement, contract, or lien against non-grantee-owned property to ensure NSP2-assisted units meet NSP2 eligible activities and income-eligibility requirements and first mortgage product meets MSHDA standards. Such agreements, contracts or liens will be held by the grantee within their project files.
VIII. GLOSSARY

**Abandoned.** A home or residential property is abandoned if either (a) mortgage, tribal leasehold, or tax payments are at least 90 days delinquent, or (b) a code enforcement inspection has determined that the property is not habitable and the owner has taken no corrective actions within 90 days of notification of the deficiencies, or (c) the property is subject to a court-ordered receivership or nuisance abatement related to abandonment pursuant to state, local or tribal law or otherwise meets a state definition of an abandoned home or residential property.

**Appraisals.** If NSP2 funds are to be used to acquire a foreclosed upon home or residential property (other than through donation) and the market value of property is $25,000 or more, the grantee must ensure that the purchase price includes a discount from the value established by an appraisal that meets the following requirements:

1. The appraisal must have been completed within 60 days of the offer made for the property (we have advised that an initial offer can be made, subject to the completion of the appraisal within 60 days of a final offer).
2. The appraisal must meet the URA definition of an appraisal (see 49 CFR 24.2(a)(3) and the five following requirements (see 49 CFR 24.103(a)(2)):
   - An adequate description of the physical characteristics of the property being appraised (and, in the case of a partial acquisition, an adequate description of the remaining property), including items identified as personal property, a statement of the known and observed encumbrances, if any, title information, location, zoning, present use, an analysis of highest and best use, and at least a 5-year sales history of the property.
   - All relevant and reliable approaches to value. If the appraiser uses more than one approach, there shall be an analysis and reconciliation of approaches to value used that is sufficient to support the appraiser's opinion of value.
   - A description of comparable sales, including a description of all relevant physical, legal, and economic factors such as parties to the transaction, source and method of financing, and verification by a party involved in the transaction.
   - A statement of the value of the real property to be acquired and, for a partial acquisition, a statement of the value of the damages and benefits, if any, to the remaining real property, where appropriate.
   - The effective date of valuation, date of appraisal, signature, and certification of the appraiser.

**Blighted Structure.** A structure is blighted when it exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare. Further defined in the Michigan NSP2 Consortium Application as:

A blighted property is a blighted / abandoned / uninhabitable property that meets any of the following criteria:

- Declared a public nuisance in accordance with local housing, building, plumbing, fire, or other related code or ordinance.
- Attractive nuisance because of physical condition or use.
- Fire hazard or is otherwise dangerous to the safety of persons or property.
- Has had utilities, plumbing, heating, or sewerage disconnected, destroyed, removed, or rendered ineffective for a period of 1 year or more so that the property is unfit for its intended use.
- Has a subsurface structure or demolition debris that renders the property unfit for its intended use.
**Bona Fide Lease or Tenancy:** A lease or tenancy shall be considered “bona fide” only if: (1) mortgagor under the contract is not the tenant; (2) the lease or tenancy was the result of an arms length transaction; and (3) the lease or tenancy requires the receipt of rent that is not substantially less than fair market rent for the property. A “lease” does not have to be written, but either the lease or tenancy must meet the requirements of the Recovery Act.

**Foreclosed.** A home or residential property has been foreclosed upon if any of the following conditions apply: (a) The property’s current delinquency status is at least 60 days delinquent under the Mortgage Bankers of America delinquency calculation and the owner has been notified of this delinquency, or (b) the property owner is 90 days or more delinquent on tax payments, or (c) under state, local, or tribal law, foreclosure proceedings have been initiated or completed, or d) foreclosure proceedings have been completed and title has been transferred to an intermediary aggregator or servicer that is not an NSP grantee, contractor, subrecipient, developer, or end user.

**Funding Agreement:** The award agreement executed between MSHDA and local grantee on February 11, 2010 that outlines the terms and conditions of MSHDA and local grantee to expend and administer NSP2 funds.

**Mortgage Bankers of American Delinquency Calculation:** NSP grantees will use the Mortgage Bankers Association (MBA) Delinquency Calculation Method to determine the current delinquency status of a mortgage. Under the MBA method, a loan would be considered delinquent if the payment had not been received by the end of the day immediately preceding the loan’s next due date (generally the last day of the month which the payment was due). Using the example above, a loan with a due date of August 1, 2009, with no payment received by the close of business on August 31, 2009, would have been reported as delinquent in September. From September 1 to September 30, 2009, the mortgage’s current delinquency status would be 30 days. On October 1, 2009, the mortgage’s current delinquency status would become 60 days.

**Non-residential:** NSP funds may be used to acquire and redevelop nonresidential property for housing under “Eligible Use E – Redevelop demolished or vacant properties.” Nonresidential uses include, but are not limited to, public parks or mixed residential and commercial use.

**Program Partners:** Local professional service providers, non-profit or for-profit developers, housing counselors, realtors, property managers, etc. who are not direct grantees of NSP2 funds but have entered into a third-party contract with local grantee to provide services, develop housing, or qualify buyers or renters to implement NSP2 activities.

**Purchase Discount Price:** Any purchase of a foreclosed upon home or residential property with NSP2 funds shall be at a one percent (1%) discount from the current market appraised value (or market valuation if less than $25,000) of the home or property, taking into account its current condition, and such discount shall ensure that purchasers are paying below-market value for the home or property.

**Homes or Residential Property:** HUD interprets homes as any type of permanent residential dwelling unit, such as detached single family structures, townhouses, condominium units, multifamily rental apartments (covering the entire property), and manufactured homes where treated under state law as real estate (not personal property). Residential properties includes all of the above plus vacant land that is currently designated for residential use, e.g. through zoning.

**Vacant:** “Vacant properties” includes both vacant land and properties with vacant structures on the land. However, HUD understands redevelopment to imply that properties were once developed; therefore previously undeveloped or “greenfield” sites may not be acquired under Eligible Use E.

For additional guidance on property types under each Eligible use, please refer to:

- the NSP Budget Guide, and
Valuation: Any purchase of a foreclosed upon home or residential property that has an anticipated value of less than $25,000 requires a market valuation instead of an appraisal. A market valuation is based on available data to verify value, and conducted and certified by a grantee-approved professional or entity with knowledge and qualifications to conduct such a review.