

# Rehabilitation

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## Eligible Activities

CDBG funds may be used to finance the costs of rehabilitation as shown below.

### *Eligible types of property*

**Residential**—Residential property, whether privately or publicly owned. This includes manufactured housing when such housing constitutes part of the community’s housing stock.

**Commercial/industrial**—Commercial or industrial property, but where such property is owned by a for-profit, rehabilitation under this category is limited to exterior improvements of the building and the correction of code violations. (Further improvements for such buildings may qualify under the category of Special Economic Development Activities.)

**Other**—Nonprofit-owned, nonresidential buildings and improvements that are not considered to be public facilities or improvements under §570.201(c) of the CDBG program regulations.

*Note:* Additions to existing buildings may be assisted under this category when they are incidental to the rehabilitation of the property, and may be provided as a part of other rehabilitation if the addition does not materially increase the size or function of the building.

### *Eligible types of assistance*

**Costs**—Costs of labor, materials, supplies and other expenses required for the rehabilitation of property, including repair or replacement of principal fixtures and components of existing structures (e.g., the heating system).

**Financing**—Grants, loans, loan guarantees, interest supplements and other forms of financial assistance may be provided under this category. (A grantee may make a “lump sum draw down” for the purpose of financing rehabilitation of privately-owned properties. See §590.513 for details.)

**Refinancing**—Loans for refinancing existing indebtedness secured by a property being rehabilitated with CDBG funds, if such refinancing is determined by the grantee to be necessary or appropriate to achieve its community development objectives.

**Property acquisition**—Assistance to private individuals and entities (whether profit or not-for-profit) to acquire for the purpose of rehabilitation and to rehabilitate properties *for use or resale for residential purposes*.

**Security devices**—Installation costs of sprinkler systems, smoke detectors and dead bolt locks, and other devices for security purposes.

**Insurance**—The costs of *initial* homeowner warranty premiums and, where needed to protect the grantee's interest in properties securing a rehabilitation loan, hazard insurance premiums as well as flood insurance premiums for properties covered by the Flood Disaster Protection Act of 1973, as amended, pursuant to §570.605.

**Conservation**—Costs required to increase the efficient use of water (e.g., water saving faucets and shower heads) and improvements to increase the efficient use of energy in structures through such means as installation of storm windows and doors, insulation, and modification or replacement of heating and cooling equipment.

**Water and sewer**—Costs of connecting existing residential structures to water distribution lines or local sewer collection lines.

**Tools**—Costs of acquiring tools to be lent to owners, tenants and others who will use the tools to carry out rehabilitation.

**Barrier removal**—Costs to remove material and architectural barriers that restrict the mobility and accessibility of elderly and severely disabled persons to buildings and improvements that are eligible for rehabilitation under this category.

**Landscaping, sidewalks, and driveways**—The costs of installation or replacement of landscape materials, sidewalks, and driveways *when incidental to other rehabilitation of the property*.

**Renovation of closed buildings**—The conversion of a closed building from one use to another (e.g., the renovation of a closed school building to residential use).

**Historic preservation**—This category also authorizes the costs of preserving or restoring properties of historic significance, whether privately- or publicly-owned, except that buildings for the general conduct of government may not be restored or preserved with CDBG assistance (see the section on Public Facilities and Improvements concerning this limitation). Historic properties are those sites or structures that are either listed in or eligible to be listed in the National Register of Historic Places, listed in a State or local inventory of historic places, or designated as a State or local landmark or historic district by appropriate law or ordinance.

**Lead-based paint hazard evaluation and reduction**—The costs of evaluating and treating lead-based paint may be undertaken under this category whether alone or in conjunction with other rehabilitation.

**Rehabilitation services**—Staff costs and related expenses required for outreach efforts for marketing the program, rehabilitation counseling, screening potential applicant households and structures, energy auditing, preparing work specifications, loan underwriting and processing, inspections, and other services related to assisting owners, tenants, contractors, and other entities who are participating or seeking to participate in rehabilitation activities eligible under this category; under the Section 312 of the Housing Act of 1964, as amended; under Section 810 of the Act; or under Section 17 of the United States Housing Act of 1937.

**Business in a residence**—In some cases where a business is conducted in a residential unit, it may be necessary to make improvements to the residence in order to conduct the business. (This would be the case where, for example, the business is providing child care and local requirements for such business dictate that modifications be made to the housing unit.) In any case where the improvements are of such nature that, in addition to facilitating the business, they also provide a benefit to the resident(s), such rehabilitation costs may be covered under this category. Other improvements not meeting this test needed for such a business could be eligible under the category of Special Economic Development.

*Reference: §570.202*

*Rehabilitation does **not** include:*

- ❖ Creation of a secondary housing unit attached to a primary unit;
- ❖ Installation of luxury items, such as a swimming pool;
- ❖ Costs of equipment, furnishings, or other personal property not an integral structural fixture, such as:
  - a window air conditioner; or
  - a washer or dryer (but a stove or refrigerator is allowed); or
- ❖ Labor costs for homeowners to rehabilitate their own property.

### *Use of Subrecipients*

Nonprofit entities are often used by grantees in carrying out a rehabilitation program. Where the nonprofit entity is acting in the same capacity as the grantee in selecting properties to be rehabilitated, they are appropriately designated as a subrecipient under the CDBG program and thus subject to subrecipient requirements. However, there are instances where a nonprofit entity may not be considered to be a subrecipient with respect to the use of CDBG funds for rehabilitation. Simply put, where the nonprofit owns property that is in need of rehabilitation and they take advantage of the grantee's program of using CDBG funds for such rehabilitation (in the same manner as other property owners do), the entity should not be considered to be a subrecipient for purposes of the program. Perhaps the most significant aspect of this is that any income the nonprofit might receive from the use or rental of the rehabilitated property would not be considered to be CDBG program income. If there is any question as to whether a nonprofit entity should be considered to be a subrecipient with respect to a particular use of CDBG funds for rehabilitation, contact the local HUD field office for advice.

### *Drawing Down Funds for Rehabilitation*

The general Treasury rules for drawing Federal funds require that funds not be drawn until needed. In the CDBG program, this usually means that the grantee or subrecipient should not draw funds from the line of credit (the Treasury) in an amount greater than that which it expects to use within the next three business days. The rules also require that any program income on hand must be used before drawing additional funds from the Treasury [but see the special rule applying to revolving funds at §§570.500(b) and 570.504(b)(2)]. There are, however, two regulatory provisions that allow drawing funds from the Treasury in advance which apply with respect to rehabilitation. They are: (a) Lump Sum Drawdown; and (b) Escrow Accounts. Each of these is discussed below.

**Lump Sum Drawdown**—The grantee may draw, as a single amount, the total amount needed for rehabilitation if it enters into an agreement with a financial institution that meets the requirements set forth in §570.513(b)(2) and if the grantee complies with other requirements under §570.513. Some of the key requirements outlined in that provision include: the agreement may not exceed two years; the financial institution must agree to provide certain benefits in conjunction with the activities paid for from the account; there are time benchmarks for when the rehabilitation carried out with funds in the account must begin and the pace at which the funds must be used; and there are limits to what the funds can be used for. If the grantee is interested in using this authority but has questions about the requirements, it should consult with its local HUD field office for assistance. *Reference: §570.513*

**Escrow Account**—Some grantees have experienced difficulty in making timely payments from their CDBG account to contractors engaged in rehabilitation. Where the grantee’s program makes use of small and minority contractors or subcontractors, delays in making payment for invoices presented by such entities can mean that the contractors or subcontractors are unable to participate in CDBG-assisted rehabilitation, since they cannot afford to wait long for payment. In such cases, the grantee may establish an escrow account for purposes of making timely payments from that account rather than from the program account, provided it does so in conformance with the requirements set forth at §570.511. Some of the key requirements contained in that provision include: the use of this feature must be limited to residential rehabilitation; the account may not hold more than the amount expected to be disbursed within ten working days; and interest earned on the funds on deposit is to be returned to HUD at least quarterly. It should be noted that, if the grantee has a lump-sum account, as described in the subsection above, it may serve the same purpose as an escrow account and the two may not need to be used together. If a grantee has an interest in establishing an escrow account but has some questions or concerns about the matter, the local HUD field office should be contacted for advice. *Reference: §570.511*

## **Complying with National Objectives— Rehabilitation**

Section 105(c)(3) of the authorizing statute, the Housing and Community Development Act of 1974, requires that, in order for an activity that involves the acquisition or improvement of property for housing to qualify as benefiting L/M income persons, the housing must be occupied by such persons. Even though a particular housing activity may provide a clear benefit to an area containing predominantly L/M Income residents, it cannot qualify on that basis. Instead, the housing must be occupied by L/M Income households. (See page 3-3 of the Guide for a discussion about the distinction between L/M households and L/M persons in this regard.) That limitation is reflected in the charts that follow which provide general guidance on how rehabilitation activities may qualify as meeting a national objective under the CDBG program. This section of the statute also limits the extent to which CDBG expenditures for housing activities may count towards the Overall Expenditures Benefit requirement, as discussed in Chapter 4 of this Guide. It should also be noted that the section on L/M Income Benefit for housing in Chapter 3 of this Guide covering National Objectives contains important information on the rules that must be followed concerning housing activities that are not covered in the following charts in this section. That chapter also discusses the circumstances under which occupancy of a CDBG-assisted housing unit by a L/M income household may qualify for the assistance to that unit without regard to the income of households occupying any other units that may be located in the same structure.

## **Additional Considerations**

When CDBG funds are used under this category for refinancing, the grantee should maintain documentation showing that the rehabilitation was done with CDBG funds and that the borrower needed the refinancing in order to make the rehabilitation affordable. *References: §570.202(b)(3) and §570.200(e)*

If the grantee or a subrecipient makes a number of loans for rehabilitation, it will be important that appropriate steps be taken to manage its portfolio of loans. Some guidance and advice on this matter is contained in Appendix G, Selling or Securitizing CDBG Loans.

## NATIONAL OBJECTIVES — REHABILITATION

Objective	Qualifies If	Example	Additional Information
<b>L/M Income Area Benefit</b>	Rehabilitation of a building to be used for a purpose that will benefit all the residents of a qualifying L/M income primarily residential area.	Facade improvements to a commercial structure serving a predominantly L/M income primarily residential area.	For more information, see page 3-7.
<b>L/M Income Limited Clientele</b>	Not applicable.	Not applicable.	Not applicable.
<b>L/M Income Housing</b>	Rehabilitation of housing to be occupied by L/M income persons. Rental units must be occupied at affordable rents.	Conversion of an abandoned warehouse into rental housing for L/M income households at affordable rents. Also improvements to a single family residence used as a place of business provided the improvements generally benefit the unit's residential occupants.	For more information, see page 3-19.
<b>L/M Income Jobs</b>	Rehabilitation of nonresidential property that will create or retain jobs for L/M income persons	Correction of code violations that will enable a business to survive and retain jobs the majority of which are held by L/M income persons.	For more information, see page 3-24.

## NATIONAL OBJECTIVES — REHABILITATION

Objective	Qualifies If	Example	Additional Information
<b>Slum or Blighted Area</b>	Rehabilitation of residential structures located in a designated slum or blighted area; the structure to be rehabilitated is considered substandard under local definition before rehabilitation, and all deficiencies making the structure substandard are corrected <b>before</b> less critical work is undertaken. <i>Reference: §570.208(b)(1)(iv)</i>	Rehabilitation of substandard housing located in a designated blighted area and where the housing is expected to be brought to standard condition and sold to non-L/M income households.	For more information, see page 3-35.
<b>Spot Blight</b>	Rehabilitation of a structure located outside a designated slum or blighted area, where the rehabilitation is limited to the extent necessary to eliminate specific conditions of blight or decay that are detrimental to public health and safety.	Rehabilitation of the deteriorated exterior of an abandoned building located in an area that has not been designated as slum or blighted and where the rehabilitation is limited to removal of the exterior blight. Rehabilitation of plumbing in a building located in an area that has not been designated as slum or blighted and where rehabilitation is limited to corrections of code violators that are detrimental to public health and safety.	For more information, see page 3-38.



## NATIONAL OBJECTIVES — REHABILITATION

Objective	Qualifies If	Example	Additional Information
<b>Urban Renewal Completion</b>	Rehabilitation of property located in an Urban Renewal area and for a use that is specified in the latest approved plan for the area.	Conversion of a warehouse to residential housing in an Urban Renewal project area, necessary to complete the urban renewal plan.	For more information, see page 3-40.
<b>Urgent Needs</b>	The rehabilitation is part of an activity designed to alleviate existing conditions for which the grantee certifies are a serious and immediate threat to the health or welfare of the community, the conditions are of recent origin or recently became urgent, the grantee is unable to finance the activity on its own, and other sources of funds are not available.	Rehabilitation of housing that has been badly damaged by an earthquake.	For more information, see page 3-41.