

Pitfalls to Avoid for DOB Related to Housing Programs

The purpose of this document is to provide a quick guide for users to ensure that duplication of benefits is well documented when working with housing applicants potentially receiving a CDBG-DR award.

Things that must be present on ALL submitted documents:

- ❖ Dates (on or after date of the federally declared disaster)
 - For receipts, make sure dates are only up to the 1-year anniversary. Anything outside these parameters requires a HUD waiver or HUD approval on a case-by-case basis.
- ❖ Delivery address matches the damaged property.
 - Repairs to temporary homes are not an allowable use for DOB funds. (*Program-specific*)
 - Normal maintenance and service calls to damaged properties and/or temporary housing is not an allowable use for DOB funds.
 - Clear indication of repair related services and materials purchased.
 - All materials and services are installed (visual confirmation) accounted for in the inspection reports.
- ❖ DOB funds are for the damaged Primary residence with only a few exceptions.
 - Ingress/egress to enter the property, if blocked – photos and receipts required to support expenses.
 - Tree(s) fallen on the primary residence – photos and receipts are required.
- ❖ Proof of Payment (e.g., cannot show balances due or the handwritten word “PAID”. Cashed checks to a business or contractor are allowed) be wary of large sums paid by cash.
- ❖ Insurance policies that contain supplemental and recoverable depreciation.

DOB Pitfalls to Avoid:

- ❖ Proof of intent: If you are unsure what the funds were intended for, ask for a letter from the providing agency, program, or office. DO NOT ASSUME!!
- ❖ In-Kind Services: This is a DOB; avoid giving applicants credit for nonprofit or grant “in-kind” work performed.
- ❖ Homeowners “Sweat Equity”: CDBG-DR does not allow labor costs to be paid for this type of work.
 - Example: If the applicant fixes their windows or furnace, they can receive credit for the material but not the labor. Therefore, proof of contractor/labor work is required.
- ❖ Materials:
 - No credit for materials that are not installed.
 - Make sure applicants are not purchasing materials or labor through their businesses.
 - Confirm delivery addresses – validate that materials and repair work was for the damaged primary dwelling and not another site or location.
- ❖ Receipts: If receipts are in someone else’s name, those receipts are not allowable.
- ❖ FEMA Allowances:
 - FEMA repair funds may be used for things such as clothing, medical, death expenses as long as all other assistance was exhausted and are in line with FEMA Caps. (language starts on page 87 of the [Individual Assistance Program and Policy Guide](#)).
 - It must be proven by receipts; FEMA requires applicants keep them for up to three (3) years after the disaster. Make sure you have them!
- ❖ NFIP requirements: if FEMA has designated the property as a SFHA (Special Flood Hazard Area) they must carry NFIP insurance into perpetuity (or until the flood plain changes).
 - Collect the FEMA issued NFIP insurance (2-3 years coverage)

- Ask the applicant for private NFIP insurance to show that the property was covered 30 days from the issuance of the FEMA Award letter, until program approval. Program should not process the file until it is received and confirmed valid.
- If the home was in a SFHA area at the time of the storm and they did not apply for FEMA or were not awarded any funds – you need the income for the year of the disaster. If the applicant is 120% AMFI – they are not eligible as per program policies.
- NCOMP – if the FEMA database shows the applicant is non-compliant, they have to appeal with FEMA to have it removed. Do not process the file. Wait until FEMA updates.
- ***Caveat if the home is destroyed by the disaster most private NFIP carriers will not cover the home until it has been repaired. Subrecipients should review on a case-by-case basis, look for condemned notices, or where the municipality has demolished the home. DOCUMENT it!!
- Confirm if there are LOMA's – FEMA issues Letter of Map Amendments and (LOMR) Letters of Map Revisions and Revalidations. Make sure the Environmental report addresses these as they arise.
- ❖ GAP Deficits & Reduction in Scope (RIS):
 - If needs exceed the program cap, to have the program complete the home, the applicant can choose to supply the remaining balance of funds or have a discussion about reducing the scope of work as long as it meets habitability rules.
 - Be aware of not violating specific local municipalities codes and requirements that speak about occupancy rules.

Best Practices & Tips:

- ❖ Document Everything: Make sure due diligence is completed on every file. Do NOT backdate files. Make sure the burden of proof has been met and all attempts to have complete and accurate documents are in the file.
 - Files are dated.
 - Proof of payment is adequate.
 - Verify the project type (e.g., rehabilitation vs reconstruction of the home) and be consistent across all documentation.
 - Always confirm repairs with photographs, and line items. If not present, ask the damage assessor how the repair was confirmed.
 - Make sure self-certification forms are updated when applicable.
 - Do not use “white out” on applicant files. Mark through the item to remove it and have applicant initial and date the correction.
- ❖ Completing Forms: Some applicants may not want to sign documents, but the program is voluntary, and in order to participate, applicants must agree to comply with the rules and requirements. Program staff will counsel the applicant on requirements and encourage them to comply with the guidelines and affordability period. But they always maintain the right not to participate. The program will attempt to help the applicant complete all the forms, as necessary.
- ❖ Communicate: Set applicants' expectations and inform them of the documentation required and what makes valid supporting document. Give them a list of acceptable documents and what is expected in order to process the file, if they are not in the office, mail or email them the checklist!! Make sure their intake/processor checks in with them every so often to say “Hi, where are your documents?”
 - Document every form submitted, conversation and contact with your applicants, so you can open the file and know exactly what is happening.
- ❖ DOB Calculator: Should be updated if the DOB amount has changed, either increase or decrease. Have the applicant, builders and vendors (program representatives) sign with current dating, with notes indicating the reason for the update.
 - Stop Work Form: There should be a form that indicates when there is a stop to all previous repairs. This form should be signed early in the process with other forms like the Right of Entry. The DOB should be reviewed from that date, so there can be an accurate assessment of need.

- ❖ **Inspection:** Housing inspection reports (e.g., need the Estimated Cost to Repair for work to be done and an inspection report for work completed prior to the program) performed by the damage assessor should never have notes indicating it was created to align or mirror the applicant's self-certification form. The damage assessor's role is to independently confirm repairs from a 3rd party disinterested perspective. You cannot finalize the DOB review without this report and the estimated cost of repair report.
- ❖ **Lost receipts:**
 - If an applicant is missing receipts, sometimes stores are able to reprint receipts (such as Home Depot, Target, etc.). Contractors also usually keep receipts and can easily reproduce paid receipts. If the repairs are evident to the damage assessor and in the inspection photographs, credit can be given to the repair less any LABOR. For materials only.
 - Do not accept credit or store card statements in lieu of receipts. The program needs to verify the items or services and the actual dates. Some statements use "postdates" the date the item posted not the date the transaction occurred.
 - Verify that invoices and receipts are from a valid operating business.
 - If unsure what an item is on the receipt – look it up, most stores have their inventory listed online.
 - Confirm all invoices are actually from a valid and operating business, if the business closed in 2015, there are very limited circumstances they were doing work in 2020.
- ❖ **Subrogation:** If applicants are pending settlements or insurance proceeds, make sure your subrogation agreement is correct and no changes have occurred, such as 911 address changes or legal description changes. Make sure the file contains current correspondence from the insurance company and/or attorneys.
- ❖ **DOB Verification:** Always request copies of letters from FEMA, SBA, NFIP, all insurance letters and supporting documents with inspections in their entirety. Confirm dates, policies, claim numbers, supplemental proceeds, unrecoverable depreciation, recoverable depreciation. Appeals and mediations.
 - Collect documents from nonprofits or any type of in-kind services.
- ❖ On file you should have the housing inspection report and a self-certification form from the applicant attesting to repairs. Always use the lesser amount of the two, compare the housing inspection report vs the Self Cert form and make sure you can identify the repairs, ask questions, get additional documentation. Confirm and have them updated if necessary. Then process your final DOB Calculations. Otherwise, when the discrepancy is found, the applicant may have to repay those funds.
- ❖ **You have resources:** Reach out to DLG when you need guidance.

Recap of the Two Documents in the Training:

These documents do not affect the eligibility of your applicant but will play a crucial role in the duplication of benefits process!!

The first is a Lender Placed Insurance Policy aka Forced Placed Insurance:

- In this document you will see that the dwelling (sometimes other structures) is covered, does not offer any additional coverage, and does not cover replacement costs. The Lender (may be the bank, mobile home company, etc.) is able to underwrite their own insurance lines and this policy is in place for the Lender, to cover any risk (investment) they have in the property.
- The applicant has chosen, for whatever reason, not to have private insurance (it may be cheaper in some cases for the lender to provide) therefore the lender has placed their own policy over the property and charge additional fees on the mortgage statement. This type of policy does not cover the homeowner 99% of the time and it is imperative that you read the fine print on these documents, so you are able to discern what is happening.
- Contact the Lender and get a letter or verbal confirmation if the applicant received any proceeds. Ask for a Ledger Sheet to show the payment was applied to the loan balance and if they have it the letter confirming the Lien Release Date. Any funds returned to the applicant are DOB.

- Lenders who place policies against property from an outside insurer will appear like a normal policy and will expire within 1 year – but they will not offer additional coverage and only the lender is listed as insured. READ your documents as they can be confusing.

The second document that may be present is a Forced Mortgage Letter aka Total Loss letter:

- If the letter starts with “Congratulations”, it may not be a forced mortgage!
- Your letter should be on Lender letterhead, with dates after the storm and the first line is the lender's condolences for the disaster.
 - The applicant would file a claim with the insurance company. The insurance company inspects the property, deems it a “total loss”, and notifies the Lender.
 - The Lender will identify that the insurance carrier has notified them that the property is a “total loss” – when this is present it allows the lender to accelerate the loan (i.e., the current mortgage balance plus outstanding fees becomes due) and pay themselves – in full – with the funds that the insurance pays out for the property.
 - If the liabilities with the Lender are satisfied, the Lender will provide the applicant with the title, and walk away from the property. Ownership is not affected by a lender placed insurance policy or a forced mortgage situation, these actions will return Title to the owner.
- The letter should close with directions and a contact name and a way to reach the Lender.
- HUD does not allow funds to be used to pay off or short sale a property.