
FAQs about CHDOs?

What is a CHDO?

A private nonprofit organization with a 501 (c) federal tax exemption, a CHDO must also include providing decent, affordable housing to low-income households as its purpose in its charter, articles of incorporation, or by-laws. It must serve a specific, delineated geographic area; either a neighborhood, several neighborhoods, or the entire community. Merely serving certain population groups (by ethnicity, race, age, or gender) does not qualify. Note on the 501 (c): participating jurisdictions cannot contract with nonprofits as CHDOs with pending 501 (c) applications.

Are there requirements for community participation in CHDOs?

The CHDO must have a formal process for involving potential and actual low-income HOME program beneficiaries in the design, siting, and development of CHDO programs and projects. The more complex standards involve low-income accountability: no less than one-third of the CHDO's governing board must be residents of low-income neighborhoods (defined as at least 51 percent of households with incomes below 80 percent or median), low-income residents of the CHDO's target area, or elected representatives of low-income neighborhood organizations. Some nonprofits may have trouble with both standards: the required board structure may necessitate restructuring or the creation of eligible subsidiaries plus, for CHDO projects, the establishment of project-specific advisory committees.

What kind of experience does a CHDO have to possess?

A CHDO must demonstrate the capacity to carry out HOME development projects, by displaying a development track record, by hiring experienced development staff, or by hiring experienced consultants with a plan to train the CHDO development staff. The CHDO must also have at least one year of serving its HOME target community prior to receiving HOME funds. Since some CHDOs are likely to be new organizations established specifically for HOME, they can inherit their required one year of community service from a parent organization, such as an existing community development corporation (CDC), a human service organization (such as the local United Way or a United Way affiliate), a community land trust, a mutual housing association (MHA), a church group, etc. Church organizations can create and sponsor CHDOs, but CHDOs must be secular, and CHDO projects must be available to any eligible low-income households regardless of religious affiliation.

Can local governments create CHDOs?

The HOME program calls for authentic community-based nonprofits as CHDOs. Public bodies or instruments of public bodies (public housing authorities, redevelopment agencies, housing finance agencies, etc.) do not qualify. Local or state governments can appoint no more than one-third of the membership of a CHDO board, and public officials can constitute no more than one-third of a CHDO board.

Can for-profit organizations create CHDOs?

Yes, for-profits can sponsor CHDOs, but there are important limitations. The CHDO must be truly nonprofit and not controlled or directed by people wanting to profit from the CHDO's activities. Like the government prohibition, a for-profit may appoint no more than one-third of the board members of a CHDO, and those members cannot appoint the remainder of the board. Despite its for-profit "parent," the CHDO has to be free to contract with whomever it wants for goods and services. Note: a for-profit real estate builder, developer, or manager CANNOT sponsor a CHDO.

Why should a participating jurisdiction bother with CHDOs?

If a PJ fails to contract for and commit its CHDO set-aside, the jurisdiction automatically loses the money, with no appeal. The participating jurisdiction has 18 months to reach a written agreement with a CHDO (or more than one CHDO) to reserve the funds for specific CHDO-sponsored projects and 24 months to commit the funds for specific CHDO project activities. CHDOs producing housing under rental housing production set-aside funds for communities eligible for new construction have 36 months.

Is the PJ limited to only 15 percent for CHDOs?

The 15 percent set-aside is the floor for CHDO participation in local HOME programs, not the ceiling. Some participating jurisdictions are anticipating much higher proportions of HOME funding for CHDOs, up to 100 percent.

Is nonprofit participation limited to the CHDO set-aside?

The CHDO set-aside is for nonprofit CHDOs only. Other nonprofit developers can participate in the non-CHDO portions of HOME programs.

What can CHDOs do with HOME funds?

Like any participating nonprofit developer in the HOME program, CHDOs can use the funds for any eligible HOME activities: acquisition, rehab, construction, first-time homebuyer assistance, relocation, etc. However, the only HOME activities that qualify for the CHDO set-aside are projects that are developed, sponsored, or owned by the CHDO. That means the CHDO must be the hands-on developer of a HOME project, with the financial risk for the deal, with effective management control of the fundamental decisions of development. In a federal Low Income Housing Tax Credit rental project, a CHDO or its wholly-owned for-profit subsidiary (also eligible as a CHDO for HOME set-aside purposes) must be the managing general partner or co-managing general partner. CHDO set-aside funds cannot be used for otherwise HOME-eligible tenant-based rental assistance.

Can CHDOs do things that other HOME program participants cannot?

One unusual part of the HOME program concerns new construction. Many jurisdictions are prohibited from using HOME funds for new construction. There are two exceptions, one for special needs housing, the other for new construction in conjunction with neighborhood revitalization efforts. In officially designated neighborhood revitalization areas (not the entire municipality), a CHDO or a public agency can own, develop, or sponsor HOME subsidized new construction projects with the following caveats:

- No less than 51 percent of all the public funds spent on the neighborhood revitalization program during the previous year were spent on rehabilitation of substandard housing.
- The participating jurisdiction must certify that rehab is not the most cost effective way of meeting the affordable housing needs of the neighborhood and that affordable housing needs cannot be met solely through rehab.
- The neighborhood must be low-income.

The jurisdiction must certify that either the HOME-assisted new construction will not exceed 20 percent of the total number of HOME-assisted units in the neighborhood revitalization program, or (choose one) 1) the housing will be in severely distressed neighborhood with large expanses of vacant land and abandoned buildings, 2) the neighborhood has an inadequate supply of housing that can be economically rehabilitated to meet needs, or 3) the new construction is essential to accomplish the neighborhood revitalization program.

All those requirements mean that a CHDO-linked neighborhood revitalization program might be the only vehicle for some jurisdictions to do needed new construction.

Are the additional eligible program uses for HOME funds in CHDO projects?

The participating jurisdiction can reserve up to 10 percent of the CHDO set-aside for forgivable project-specific predevelopment loans. A CHDO can use these loans for project planning, feasibility studies, site control, architectural and engineering costs, legal fees, etc. For non-CHDO developments, such predevelopment loans must be repaid to the jurisdiction if the HOME-subsidized project does not proceed. The 10 percent seed loan reservation applies to the total amount of the CHDO set-aside established by the participating jurisdiction, not just the required 15 percent.

Who will pay a CHDO for carrying out CHDO set-aside projects?

Unfortunately, there is no general administrative or operating money in HOME for participating jurisdictions, CHDOs, or other HOME development sponsors. However, direct project-related staff costs are HOME-eligible, such as a CHDO's expense in hiring a project manager for HOME-assisted development. A CHDO staff member's activity on tasks other than direct development roles in HOME developments will be ineligible expenditures. Homebuyer counseling is not an eligible HOME cost except when the CHDO, as project owner, has actually incurred the cost of counseling provided to households that will ultimately purchase a HOME-assisted unit.

Are there other benefits available to CHDOs?

A provision of HOME authorizes funding for national and single-state nonprofit intermediary organizations to assist CHDOs. Among eligible uses of HOME technical assistance funding is organizational support for CHDOs; that is, “pass-through” funding for CHDO administrative and operational expenses, housing counseling assistance, and training and technical assistance on nonprofit development and management. However, CHDOs cannot receive funding through the HOME technical assistance pot for operating and educational uses if, together with other federal assistance, they add up to more than 5 percent of the CHDO’s total fiscal year operating budget.

Are there non-HOME benefits from becoming a CHDO?

Currently working their way through HUD and the Office of Management and Budget (OMB) are regulations for the preservation of federally subsidized rental projects with expiring subsidies (known as Title VI or LIHPRHA). Under Title VI, organizations that qualify as community-based nonprofit organizations (CBNOs) can be eligible for special financial incentives (federal moneys covering transaction costs and subsidizing the acquisition price) as priority purchasers of expiring use projects. Under the legislation, CBNOs and CHDOs look almost identical. A functioning CHDO, therefore, might be able to qualify as a CBNO priority purchaser under Title VI.