



NSP Monitoring Policy and Procedures

Neighborhood Stabilization Program (NSP)
Department of Housing & Community Development (HCD)

1. Purpose

The purpose of this NSP Monitoring Policy and Procedures is to establish the State's post-closeout monitoring plan for completed NSP-assisted homebuyer activities with ongoing compliance obligations.

Although the NSP1 and NSP3 programs are closed and no new activities are being undertaken, the State remains responsible for ensuring continued compliance with applicable NSP requirements, including affordability, owner-occupancy, recapture or resale provisions, program income, and record retention. This policy establishes a risk-based monitoring approach that reflects the post-closeout status of the NSP program while ensuring program integrity and compliance with statutory and regulatory requirements.

Specifically, the State's monitoring activities are intended to:

1. Conduct annual internal compliance reviews of NSP projects with active program income and other projects with ongoing affordability or recapture/resale obligations
2. Utilize standardized checklists and certifications to review documentation completeness and accuracy
3. Verify continued compliance with NSP eligibility, affordability, and owner-occupancy requirements, as applicable
4. Confirm that required NSP documentation is maintained in each NSP-assisted homebuyer file
5. Identify, document, and resolve noncompliance or deficiencies in a timely manner
6. Ensure long-term record retention and audit readiness consistent with NSP requirements
7. Monitor recapture or resale provisions and program income activity, where applicable
8. Ensure owner-occupancy requirements are met during applicable affordability periods

Monitoring activities will be desk-based in most cases, with on-site reviews conducted only when warranted by risk indicators, unresolved findings, or HUD requests.

2. Authority

This policy is issued pursuant to the following authorities:

- Housing and Economic Recovery Act of 2008 (HERA)
 - NSP1 and NSP3 Federal Register Notices
 - HUD CPD Notices and related NSP guidance
 - 24 CFR Part 570 (CDBG regulations, as applicable)
 - HCD-approved NSP Action Plan(s) and Subrecipient Agreements
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3. Scope

This policy applies to:

- Completed NSP1 and NSP3-assisted homebuyer projects with remaining affordability, recapture/resale, or program income obligations
- Subrecipients, developers, lenders, and partners responsible for administering or overseeing NSP-assisted homebuyer activities
- NSP-assisted homebuyer files subject to post-closeout compliance or record retention requirements
- NSP projects generating program income
- State staff involved in NSP monitoring, compliance oversight, and grant closeout activities

Projects that have fully satisfied all NSP compliance requirements and no longer have ongoing obligations are subject to periodic or exception-based review only, as determined through risk assessment.

4. Monitoring Objectives

The State's post-closeout NSP monitoring objectives are to:

- Ensure continued compliance with NSP statutory, regulatory, and contractual requirements
- Focus monitoring resources on NSP projects presenting the greatest compliance risk, including projects with active program income
- Avoid duplication of monitoring efforts by coordinating with other State oversight functions, including Asset Management and Compliance (AMC)

- Maintain sufficient documentation to support HUD review, audit readiness, and NSP grant closeout
- Promote consistency, transparency, and accountability in post-closeout NSP oversight

5. Monitoring Responsibilities

5.1 State NSP Monitoring Staff

Programs Team in the Federal Financial Assistance Division is responsible for monitoring NSP projects with active program income and other projects with ongoing affordability, owner-occupancy, or recapture/resale obligations that are *not* under AMC oversight.

Programs monitoring includes:

- Conducting desk-based post-closeout compliance reviews of NSP projects with ongoing obligations (e.g., active program income, affordability/recapture requirements)
- Verification of continued compliance with affordability, recapture/resale, and owner-occupancy requirements
- Review of documentation maintained in homebuyer files for completeness and compliance
- Issuing monitoring requests and tracking responses'
- Managing the overall NSP post-closeout compliance framework
- Reviewing and tracking monitoring results, findings, corrective actions, and closures
- Issuing monitoring requests, findings, and corrective action letters to Programs when needed
- Implementing and maintaining the NSP Monitoring Policy and Procedures

5.2 Asset Management and Compliance (AMC)

AMC is responsible for ongoing monitoring of the eight (8) NSP Multi-family loans it manages.

AMC monitoring includes:

- Complete Risk Assessment
- Annual desk review of loan portfolio compliance
- Annual review of project budgets, reserve balances, and financial reports
- Proof of current required insurance coverage
- Documentation of tenant file reviews and unit inspection checklists (as applicable)
- Issuance of monitoring letters, findings, and corrective actions to loan recipients

5.3 Subrecipients

Subrecipients, developers, and implementing partners must:

- Maintain complete and accurate NSP1 and NSP3 homebuyer project files
- Respond to monitoring requests from State NSP Monitoring Staff or Programs in a timely manner
- Provide access to documentation and cooperation with reviews
- Implement corrective actions as identified through monitoring

Monitoring activities are primarily desk-based. On-site monitoring may occur only as needed when risk indicators, lack of response, unresolved findings, or HUD requests require further review.

6. Monitoring Frequency and Methods

6.1 Monitoring Frequency

Monitoring frequency is based on project type and obligation:

Project Type / Compliance Focus	Monitoring Frequency	Responsible Party
Projects with active program income	Annually (desk-based)	Programs Team
Projects with ongoing affordability/recapture/resale obligations (but no program income)	Annually or risk-triggered	Programs Team
NSP multi-family loans currently active under loan terms	Annually	AMC
On-site Monitoring	As needed for elevated risk, unresolved findings, or HUD request	AMC

Monitoring effort will be concentrated where ongoing compliance obligations remain. Closed projects with no active obligations will not be reviewed.

6.2 Monitoring Methods

Desk Monitoring

Desk monitoring is the primary method for post-closeout compliance reviews and may include:

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- Issuing desk monitoring requests and tracking responses
- Reviewing program income reports and financial documentation
- Verifying continued compliance with affordability, recapture, and owner-occupancy requirements
- Reviewing file documentation against standardized checklists
- Assessing findings, documenting results, and requiring corrective action as needed
- Reviewing AMC monitoring reports for NSP loans under AMC oversight

All desk monitoring activities will be documented in the State's monitoring log.

On-Site Monitoring

On-site monitoring is not routine post-closeout and will be conducted only when:

- A project's risk assessment score exceeds established thresholds
- The grantee fails to respond to repeated desk monitoring requests
- Material compliance deficiencies are identified
- HUD specifically requests an on-site review

On-site monitoring may include file review, interviews, property inspection, and confirmation of corrective action implementation.

7. Annual Post-Closeout Monitoring Activities

Annual post-closeout monitoring focuses on continued compliance for NSP projects with ongoing obligations. Monitoring results will be organized, documented, and retained to demonstrate compliance and to support HUD review or audit requirements.

8. Monitoring Tools

The State uses the following tools to support consistent, risk-based post-closeout monitoring:

- **NSP1 Homebuyer Compliance File Checklist (Appendix A)** Used for desk review of required homebuyer documentation
- **Post-Closeout Monitoring Review Log (Appendix B)** Used to track monitoring outcomes, findings, and corrective actions
- **NSP Program Income Monitoring Checklist (Appendix C)** Used for annual review of program income projects

These tools are updated periodically to reflect changes in requirements, best practices, and guidance from HUD.

9. NSP Homebuyer File Documentation Requirements

Each NSP1-assisted homebuyer file must contain documentation sufficient to demonstrate eligibility, compliance, and proper use of NSP funds. At a minimum, the following documentation is required:

1. Program and Property Eligibility

- NSP activity approval/setup documentation
- Property address and census tract
- Evidence property meets NSP eligibility (foreclosed, abandoned, or vacant)
- Acquisition documentation (if applicable)

2. Homebuyer Eligibility

- Completed NSP homebuyer application
- Government-issued photo identification
- Household size and composition certification
- Income source documentation (third-party verifications or source documents)
- Income calculation worksheet
- Evidence household income is within NSP income limits at time of qualification

3. Environmental Review

- Environmental Review Record (ERR)
- Evidence of environmental clearance prior to commitment or expenditure of NSP funds
- Related correspondence and approvals

4. Property Standards and Value

- Appraisal establishing fair market value
- Documentation showing purchase price does not exceed allowable limits
- Property inspection and habitability documentation
- Lead-based paint disclosures (if applicable)

5. NSP Financial Assistance

- Subsidy calculation worksheet

- Documentation of eligible NSP costs
- Loan or grant agreement
- Evidence of NSP fund disbursement

6. Closing and Affordability

- Executed purchase agreement
- HUD-1 or Closing Disclosure
- Recorded deed
- Recorded affordability covenant (recapture or resale)
- Affordability period determination

7. Post-Closing Compliance

- Evidence of owner-occupancy as principal residence
- Income qualification data
- Annual tenant income reviews
- Correspondence Logs
- Ongoing affordability monitoring documentation, if applicable
- Recapture or resale tracking documentation⁸.

Post-Closeout Income Eligibility Requirements

Rental Housing Units: Must remain affordable to individuals/families earning $\leq 50\%$ or $\leq 120\%$ AMI (Area Median Income) as designated in original project files.

Homebuyer Properties: Homebuyers must be income-qualified at $\leq 120\%$ AMI at the time of purchase.

Ongoing Monitoring: Properties within the affordability period are subject to income and occupancy compliance reviews.

8. Federal Program Requirements

- Conflict of interest certification
- Fair Housing and Equal Opportunity acknowledgment
- Section 3 documentation (if applicable)

9. Record Retention

Documentation retained for at least five (5) years after the end of the affordability period or grant closeout, whichever is later.

10. Findings and Corrective Actions

If deficiencies are identified:

- The State will issue a written monitoring letter
- Findings will include required corrective actions and deadlines
- Technical assistance will be provided as needed
- Failure to correct may result in sanctions under the subrecipient agreement

11. Policy Updates

Key Policy Notes

- **Monitoring is risk-based:** only projects with active obligations or elevated risk are reviewed annually.
- **Desk-based monitoring is primary:** on-site reviews occur only as necessary.
- **Coordination with AMC** ensures no duplication of effort while maintaining compliance.
- **Documentation and record retention** are emphasized for audit readiness and grant closeout.

This ongoing monitoring process will remain in effect through NSP grant closeout to ensure that all NSP activities are compliant with NSP statutory, regulatory, and HUD Action Plan requirements.

This policy will be reviewed periodically and revised as HUD guidance or program requirements change.