



HUD NEWS

U.S. Department of Housing and Urban Development – Shaun Donovan, Secretary
Office of Public Affairs, Washington, DC 20410

HUD No. 09-237

FOR

RELEASE

Tuesday

December 22, 2009

<http://www.hud.gov/news/index.cfm>

HUD TO ASSIST HOMEOWNERS FACING PROBLEM DRYWALL

Temporary relief available to make home repairs affordable for at-risk borrowers

WASHINGTON – The U.S. Department of Housing and Urban Development today announced that FHA-insured families experiencing problems associated with problem drywall may be eligible for assistance to help them rehabilitate their properties. In addition, HUD's *Community Development Block Grant (CDBG) Program* may also be a resource to help local communities combat the problem.

FHA is reminding its approved lenders that they are to offer special foreclosure for borrowers confronted with the sudden effects of damaging drywall products in their homes including the financial hardship associated with related home repairs.

“We’re instructing our FHA mortgage lenders nationwide to extend temporary relief to allow these families time to remove problem damaging drywall and repair their homes,” said FHA Commissioner David Stevens. “We want to remove additional pressures for these families as they find solutions to allow them to return to a safe, decent and sanitary home.”

FHA Type 1 Special Forbearance ([noted in Mortgage Letter 2002-17](#)) provides relief that is not typically available under an informal forbearance or repayment plan. This relief provided can include one or more of the following:

- suspension or reduction of payments for a period sufficient to allow the borrower to recover from the cause of default;
- a period during which the borrower is only required to make their regular monthly mortgage payment before beginning to repay the arrearage; or
- a repayment period of at least six months.

HUD is instructing lenders that no late fees are to be assessed while the borrower is making timely payments under the terms of the Special Forbearance plan. The total arrearage for a Type 1 Special Forbearance cannot exceed 12 months of delinquent payments. Lenders can review borrower applications and make a determination as to the most appropriate loss mitigation tool including loan modification, partial claim, or FHA HAMP. Any questions or clarification regarding the Type 1 Special Forbearance should be directed to the HUD National Servicing Center at 888-297-8685.

HUD's CDBG Program is another resource to help states and local communities address the rehabilitation expenses associated with problem drywall. Historically, CDBG has helped to support local efforts to rehabilitate homes through grants, loans, loan guarantees, and other means. In addition, CDBG may also support the following activities:

- Code enforcement.
- Acquisition
- Clearance and remediation activities
- Relocation

All CDBG-assisted activities must meet one of the program's three national objectives: Provide benefit to low- and moderate-income persons; Eliminate slums or blighting conditions; or address an immediate threat to the health or welfare of the community.

The Consumer Product Safety Commission (CPSC) reports that more than 2,360 homeowners in 35 states and the District of Columbia (primarily in Florida, Louisiana, and Virginia) have filed complaints of possible drywall-related problems including damage to electrical wiring, plumbing, utilities, and a variety of health concerns. The drywall emits sulfur gases. One of these, hydrogen sulfide, which corrodes copper, was found at higher levels in homes with the drywall. Copper sulfide corrosion damage has been found on wiring, pipes, and household appliances in homes with the drywall. In addition, the Centers for Disease Control and Prevention (CDC) is examining possible health consequences related to this drywall.

Last June, as part of the National Day of Service, HUD Secretary Shaun Donovan welcomed a New Orleans family back to their home after the installation of problem drywall had further delayed their return following Hurricane Katrina. Then, in October, Donovan toured another home in Boyton Beach, Florida to see for himself the effects of problem drywall. The family's air conditioner condenser coils were corroded, the home smelled of sulfur, and the family's 16-month-old daughter suffered from allergies and upper respiratory problems, which the family believed were associated with home's drywall.

CPSC, in partnership with the CDC, the Environmental Protection Agency (EPA), U.S. Customs and Border Protection and HUD is coordinating the federal government's response into which particular drywall products pose a risk to human safety and health and structural integrity. All related reports and findings are available online at the [CSPC Drywall Information Center](#).

HUD is the nation's housing agency committed to sustaining homeownership; creating affordable housing opportunities for low-income Americans; and supporting the homeless, elderly, people with disabilities and people living with AIDS. The Department also promotes economic and community development and enforces the nation's fair housing laws. More information about HUD and its programs is available on the Internet at www.hud.gov and espanol.hud.gov.

Using the Community Development Block Grant (CDBG) Program To Address Problems with Problem Drywall

Summary - CDBG funds may be used by grantees to address problems arising from problem drywall installed in housing units. Any decision or action to use CDBG funds for this purpose will be made by the grantee. This document highlights key issues for grantees considering using CDBG to address problem drywall. Links to complete regulatory requirements and detailed guidance is included at the end of this document.

Funding

- CDBG funds are allocated annually on a formula basis to local governments and states.
- FY 2009 funding for the CDBG program was \$3.635 billion, distributed to 1,155 local governments, 49 states, Puerto Rico and the Insular Areas.
- FY 2010 funding for CDBG is approximately \$3.99 billion and HUD will allocate FY 2010 funds in accordance with the CDBG statutory formula.
- HUD does not have any discretionary CDBG funds available to address problem drywall.
- Section 108 loan guarantee funds may also be available for certain eligible activities.

Eligible Activities – Grantees may employ a variety of CDBG eligible activities to address problem drywall. The following list is not exhaustive but presents likely approaches under the Entitlement CDBG Program. State CDBG funds may also be used to address these needs but a state would have to permit local governments to use funds for the purpose. Please refer to the CDBG regulations (link provided at end) for a complete description of these provisions.

Housing Rehabilitation – CDBG funds may be used to finance rehabilitation of owner-occupied or rental housing units including both single family and multi-family structures. Assistance may be provided through the use of grants, loans, loan guarantees, interest supplements, or other means. CDBG funds may be made available for:

- Acquisition of properties for rehabilitation, and to rehabilitate properties, for residential purposes;
- Labor, materials, and other costs of rehabilitating properties, including replacement of principal fixtures and components of existing structures, alterations or enhancement

- of existing structures and improvements, and abatement of asbestos hazards (and other contaminants) in buildings;
- Loans for refinancing existing indebtedness secured by a property being rehabilitated with CDBG funds;
 - Improvements to increase energy efficiency in structures through means such as installation of storm windows and doors, siding, wall and attic insulation, and conversion, modification, or replacement of heating and cooling equipment, including the use of solar energy equipment;
 - Rehabilitation services, such as rehabilitation counseling, energy auditing, preparation of work specifications, loan processing, inspections, and other services related to assisting owners, tenants, contractors, and other entities, participating or seeking to participate in CDBG-funded rehabilitation activities.

Code enforcement – CDBG funds may be used for costs incurred for inspection for code violations and enforcement of codes in deteriorating or deteriorated areas when such enforcement together with public or private improvements, rehabilitation, or services may be expected to arrest the decline of the area.

Acquisition - Acquisition of real property, in whole or in part by the recipient, or other public or private nonprofit entity, by purchase, long-term lease, donation, or otherwise for any public purpose.

Clearance and remediation activities - Clearance, demolition, and removal of buildings and improvements, including remediation of known or suspected environmental contamination. Remediation may include project-specific environmental assessment costs not otherwise eligible. Demolition of HUD-assisted or HUD-owned housing units may be undertaken only with the prior approval of HUD.

Relocation - Relocation payments and other assistance for permanently and temporarily relocated individuals, families, businesses, nonprofit organizations, and farm operations where the assistance is either required under CDBG regulations or determined by the grantee to be appropriate.

CDBG National Objectives – All CDBG assisted activities (with the exception of general planning and administration) must meet one of the program’s three national objectives:

- Provide benefit to low- and moderate-income persons. Grantees are required by statute to expend at least 70 percent of funds for activities that primarily benefit low- and moderate-income persons. Benefit to low-mod persons can be demonstrated in several ways but, for housing rehabilitation activities, the assisted housing unit must be occupied by a low-mod person or household in order to meet this standard.
- Eliminate slums or blighting conditions. This can be demonstrated on an area basis or on a spot (individual property) basis.
- Address immediate threat to the health or welfare of the community. Qualifying problems must be of recent origin or which recently became urgent, that the recipient is unable to finance the activity on its own, and that other sources of funding are not available. A

condition will generally be considered to be of recent origin if it developed or became critical within 18 months preceding the certification by the recipient.

Section 108 Loan Guarantee Program – Section 108 is the loan guarantee provision of the CDBG program. Section 108 eligible activities are effectively a subset of CDBG eligible activities and include both housing rehabilitation and acquisition activities. Assisted activities must meet a CDBG national objective. Grantees may obtain loan guarantee commitments equal to five times their most recent annual CDBG allocation (net of existing Section 108 loan commitments and loan balances). Grantees must include Section 108 loans in their annual action plans and must submit an application to HUD for a commitment of Section 108 guarantee authority. HUD arranges for financing of the loan and provides both a floating and fixed rate option for these loans.

Planning Requirements

- Existing funds - Grantees wishing to use existing CDBG funds to address problem drywall issues should be sure to review their annual action plans governing those funds to ensure that appropriate activities or programs are included in the applicable plan. If not, grantees should amend their action plans to include these activities or programs.
- Prospective funds – Grantees desiring to use FY 2010 funds to address problem drywall issues should incorporate appropriate activities or programs in their annual action plan for submission to HUD.

Neighborhood Revitalization Strategy Areas (NRSAs) – CDBG Entitlement grantees may designate portions of their jurisdictions as NRSAs and thereby take advantage of a set of regulatory incentives. One incentive under an NRSA designation is the ability to count CDBG-assisted housing units scattered throughout a neighborhood as a single structure for purposes of meeting the low- and moderate-income benefit national objective. This enables grantees to assist some homeowners or renters that are not low and moderate-income so long as at least 51% of the assisted units are occupied by low- and moderate-income households. Another incentive exempts public service activities carried out within the NRSA from the 15% public service cap if the activities are carried out by a community-based development organization. A grantee must obtain HUD approval of its proposed NRSA before using these incentives. Additional information on NRSAs can be found on HUD's website as noted below.

Resource Links – Below are a series of links to HUD web pages that provide more detailed information on the issues discussed in this summary. HUD urges grantees contemplating the use of CDBG funds to address problem drywall to contact HUD Community Planning and Development (CPD) staff in their designated field office to review program design and other regulatory issues.

CPD Field Offices - <http://www.hud.gov/offices/cpd/about/staff/fodirectors/>

CDBG Program Homepage - <http://www.hud.gov/offices/cpd/communitydevelopment/programs/>

CDBG Funding - <http://www.hud.gov/offices/cpd/about/budget/budget09/>

CDBG Regulations - http://www.access.gpo.gov/nara/cfr/waisidx_09/24cfr570_09.html

CDBG Entitlement Guide to Eligible Activities and National Objectives –
<http://www.hud.gov/offices/cpd/communitydevelopment/library/deskguid.cfm>

Section 108 Loan Guarantee Program -
<http://www.hud.gov/offices/cpd/communitydevelopment/programs/108/>

CPD Planning Requirements – <http://www.hud.gov/offices/cpd/about/conplan/>

NRSA Notice - <http://www.hud.gov/offices/cpd/lawsregs/notices/1996/96-1.pdf>
