



North Carolina
Department of Commerce
Division of Community Assistance

Michael F. Easley, Governor
James T. Fain III, Secretary

Gloria Nance-Sims, Director

BULLETIN **06-5**

Subject: Substantial Rehabilitation

Date Issued: August 21, 2006

Attention: All CDBG Recipients

The Bulletin Replaces 98-1

This bulletin addresses amendments to the Housing and Community Development Act of 1974, regarding rehabilitation that is considered substantial rehabilitation. **(Note increased limits in paragraph 3 from bulletin 98-1).**

Section 105(a) (19) of the Housing and Community development Act provides that CDBG funds can be used for substantial rehabilitation of housing owned and occupied by low-and moderate-income persons only (A) where the need for substantial rehabilitation was not determinable until after rehabilitation had already commenced, or (B) where the rehabilitation is part of a housing revitalization effort and the grantee determines that the cost of substantial rehabilitation is significantly less than the cost of new construction and less than fair market value of the property after substantial rehabilitation.

For the purposes of the Small cities CDBG program in North Carolina, substantial rehabilitation is defined as the lesser of the two following standards: total CDBG rehabilitation costs for the unit exceed \$40,000, or total CDBG rehabilitation costs exceed \$38 per square foot of heated, occupiable space.

In order to be eligible under Item A above, the history of the determination of the need for substantial rehabilitation must be documented and must meet the following criterion: (1) the initial rehabilitation contract must be based on a work write-up that addressed all N.C. Small cities CDBG Housing Rehabilitation Standards (Effective 9/1/98) deficiencies that could be identified in a reasonably thorough initial inspection and (2) during the rehabilitation, hidden deficiencies are uncovered with respect to major systems, and the cost of addressing these deficiencies takes the total CDBG rehabilitation cost over the cost threshold for substantial rehabilitation. If this occurs, the grantee should promptly notify DCA in writing of its determination and the facts supporting the determination.

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DCA approval must be obtained where substantial rehabilitation is proposed as part of a neighborhood revitalization effort under Item (B) above. In order to receive DCA approval, justification for substantial rehabilitation must be based on the following two circumstances:

- (1) The estimated cost of rehabilitation is at least 20 percent less than the estimated cost of purchasing comparable newly constructed housing (including land) in the locality's jurisdiction; and
- (2) The estimated cost of rehabilitation (excluding demolition, site preparation and temporary relocation) is less than the fair market value of the reconstructed housing and land.

Substantial rehabilitation of a unit owned or occupied by persons above moderate income is not eligible under the Act under any circumstances. Owner occupied housing that is occupied by low-and moderate-income persons is eligible for substantial rehabilitation. Rental housing must be both owned by and occupied by low-moderate income persons to be authorized for substantial rehabilitation.

ISSUED BY: _____
Gloria Nance-Sims, Director
Division of Community Assistance

DATE: _____