

To: Property Owners and Managers Compliance Memorandum: 19-03
From: Jennifer Henderson, Director Date: May 30, 2019
Planning and Housing Division Director
Re: Clarification of Onsite Physical Inspection and Tenant File Review

This memorandum is intended to remind property owners and managers of the procedures and expectations of the onsite physical inspection and tenant file review process. It should be circulated to all staff involved in onsite property management.

North Dakota Housing Finance Agency (NDHFA) is the state monitoring agency for the federal Low Income Housing Tax Credit (LIHTC), Housing Trust Fund (HTF), Neighborhood Stabilization Program 3 (NSP) and the FDIC Affordable Housing Program (RTC), and the North Dakota Housing Incentive Fund (HIF) and other state-funded housing programs.

All of the federal programs require NDHFA to conduct onsite physical inspections and tenant file review on a periodic basis. The agency is charged with doing the same for the state-funded programs it administers. NDHFA's Planning Division utilizes similar procedures for every program to ensure the inspections are conducted and information is collected in a consistent manner.

For most programs, NDHFA is required to inspect the property, at minimum, every three years. The inspection includes a physical inspection of 20 percent of the restricted units and 20 percent of the tenant files. NDHFA's inspection procedures follow.

- Approximately three weeks prior to an inspection, NDHFA will contact the main property manager and request a current rent roll and schedule the inspection. The rent roll is a detailed list of each unit in the property including current tenant name or identified as vacant, the Area Median Income (AMI) restriction and the rental rate.
- After NDHFA reviews the rent roll, we will send a **formal site inspection notification** confirming the date of the inspection, who the inspector will be and the site visit expectations.
 - The notification will include a list of the tenant files that have been selected for review.
 - The notification will be sent to the main point of contact for the property management organization. That individual is **responsible for providing** the onsite property manager, the individual who will participate in the onsite inspection, with a copy of the notification.
- The property manager is required to **notify all tenants** of a possible unit inspection, the notification can be posted in common areas of the property. The property manager must follow the terms of the lease agreement for entry.
- Tenant **file selection** and **unit inspection** selections **may not** be the same units.
- On the scheduled date, NDHFA will conduct the onsite inspection and complete the tenant file review.
- After the inspection and review, NDHFA will issue an **exit letter**. If any findings are identified, the letter will indicate those findings and require a management response.
- Following the management response, a closing letter will be issued.

Note: On February 26, 2019, the Internal Revenue Service published a final regulation on how Housing Finance Agencies must monitor LIHTC properties to meet the requirements of Section 42 of the Internal Revenue Code. The regulation will make significant changes to the inspection protocol. The final rule must be implemented no later than December 20, 2020. NDHFA is working with other state agencies to address concerns and plans to implement the changes closer to the required date. More information will be released as we develop procedures to meet the new compliance requirements. A copy of the Federal Register with the final rule is available online, <https://www.govinfo.gov/content/pkg/FR-2019-02-26/pdf/2019-03388.pdf>

Questions regarding this memo and the procedures outlined should be directed to the Planning and Housing Development Division Staff at (701) 328-8080 or hfainfo@nd.gov.