



TO: Mayor Chuck Barney
Members of the City Council

FROM: John R. Zakian, DR Grant Program Manager & Chief Resilience Officer

DATE: April 16, 2018

SUBJECT: **Grant Forgiveness to Homeowner Who Failed to Maintain Flood Insurance (Hardship)**

I. RECOMMENDED ACTION

Approve staff recommendation to forgive and release Lind M. Boyd from Promissory Note for failing to maintain flood insurance

II. DEPARTMENT CONTACT PERSONS

John R. Zakian, DR Grant Program Manager & Chief Resilience Officer, 423-4528

III. DESCRIPTION

A. Background

The city of Minot financed a flooded home rehabilitation program under CDBG-DR Allocation #1 for eligible homeowners. A requirement of receiving CDBG-DR assistance was that the homeowner had to sign a promissory note and/or commensurate contractual requirement which required maintaining flood insurance on the home for a fixed period of time. It should be noted that it is federal law (Stafford Act) that once a homeowner receives federal assistance specific to repair, rehabilitation, or other capital improvement related cost for a home damaged as a result of a disaster that the homeowner must maintain flood insurance in perpetuity. The penalty for failure to meet this federal law by a homeowner is that should there be a subsequent disaster then that homeowner is barred from receiving any federal assistance from any federal agency including FEMA. Ms. Linda M. Boyd signed an agreement with the city to receive CDBG-DR assistance for rehabilitating her home promising to maintain flood insurance for three years. It should be noted that the three-year requirement was a completely discretionary decision made by the city at the time that it launched this program. The HUD rules on the subject of flood insurance requires a Grantee (city of Minot) assure that the recipient of CDBG-DR funds used for real and/or personal property through a grant demonstrate that at the completion of the project that the property owner has secured required flood insurance, and through a loan, maintains flood insurance for the life of the loan. HUD also requires the Grantee to make sure the beneficiary of the CDBG-DR funds understands the Stafford Act and NFIP (National Flood Insurance Program) requirements on flood insurance. During the three-year period covering 2014 to May, 2017, HUD would expect the city to periodically check all participants to assure they remain in compliance since it was city policy on this rehab program. While lack of thorough compliance monitoring by a Grantee does not alter the requirement of the homeowner to meet all requirements in a contract or agreement, it is expected by HUD that the Grantee will make reasonable efforts to assure compliance. For this program, there was an effort to undertake modest compliance monitoring which entail communicating with participants to be sure all obligations were met. Those not in compliance were so advised and requested to

correct the deficiencies identified with homeowners, but, in the case of Ms. Boyd, who failed to provide proof during the entire two-year period, there was no elevated diligent action taken by the city despite staff referrals to administrative decision makers regarding the matter including considering commencement of court action. During the past 10 months with the support and active involvement of the Finance Department and Internal Auditor, there has also been established a clear set of protocols establishing multiple steps involving compliance requirements covering CDBG-DR and CDBG-NDR funds up to and including decisions on pursuing legal action. It was a result of this undertaking full compliance review for all CDBG-DR and CDBG-NDR activities that it was determined that in reviewing the case with Ms. Boyd that any further measures were not of value.

B. Proposed Project

Ms. Boyd upon being made aware of her failure to maintain flood insurance advised the city that she could not afford the cost of flood insurance. She was advised that she could submit a written request to be forgiven for failing to meet the requirement and, after staff review of such a written request, it would be submitted to the City Council for final disposition. Staff recommendation to forgive Ms. Boyd is based on the following factors:

- City could require Ms. Boyd to carry flood insurance for two additional years to meet the obligation or take action requiring her to repay \$44,000 of her CDBG-DR grant (the pro-rated amount for the 2 years not covered by flood insurance) but in light of her case of hardship it is highly unlikely the city would recover any funds since her mortgage which is in first position is almost identical to the \$44,000
- Statutorily, the city as Grantee met its obligation under the HUD rules requiring a CDBG-DR grant recipient to commence flood insurance (Ms. Boyd carried flood insurance the first year)
- Ms. Boyd's eligibility for receipt of the CDBG-DR funds as well as eligible use of the funds received is not in question but rather her failure to maintain flood insurance which was a city imposed requirement apart from the HUD statutory requirements
- It is evident from Ms. Boyd's letter that had this program been regularly monitored during the three period and her lack of flood insurance been discovered that her financial situation was the same resulting in her not being able to carry the insurance
- Ms. Boyd's failure to maintain flood insurance does not place the city at any risk but, rather, only the homeowner should there be a future disaster

IV. IMPACT:

A. Strategic Impact:

A demonstrated reasonable, reasoned case has been made consistent with HUD policy to forgive Ms. Boyd for failure to maintain flood insurance

B. Service/Delivery Impact:

Part of HUD's expected standards for Grantees is to institute practices which demonstrate that the Grantee regularly reviews and monitors its management and delivery of services funded through CDBG-DR grants to identify shortcomings and flaws before sustained problems occur. The city has demonstrated this capacity through the policies and procedures the City Council approved in the Fall of 2017 establishing clear roles and responsibilities of the Internal Auditor and the Federal Compliance Officer regarding CDBG-DR and CDBG-NDR funds. These roles and responsibilities formalized steps commenced in June, 2017 which resulted in discovering the gap in compliance monitoring for CDBG-DR Allocations #1 and #2 programs and activities. The corrective action and the policies and procedures instituted throughout the latter half of 2017 demonstrate to HUD the city's total commitment to adhering to the expectations to regularly review and monitor management and delivery of services and correct flaws that are identified.

C. Fiscal Impact:

None

V. ALTERNATIVES

N/A

VI. TIME CONSTRAINTS

VII. LIST OF ATTACHMENTS

- i. Ms. Boyd's Letter