



What NSPIRE Means for LIHTC Compliance Monitoring

by Scott Precourt, US Housing Consultants

Over the past five years, the Department of Housing and Urban Development (HUD) has developed a new approach to physical inspections that greatly departs from the past. This new inspection protocol is called the National Standards for the Physical Inspection of Real Estate, or NSPIRE. This new inspection protocol was born from a desire to have a single standard for all HUD-financed housing programs and modernize the approach to physical compliance monitoring.

For the past 15 years, the Low-Income Housing Tax Credit (LIHTC) program has looked to HUD's Real Estate Assessment Center (REAC) for guidance on how best to perform oversight of the physical condition of properties. Actually, it's enshrined in the IRC monitoring regulations (Treasury Regulations 1.42-5), which states that inspections are to be completed per 24 CFR 5.703 — referred to as the "UPCS Inspection Protocol." UPCS, or Uniform Physical Condition Standards, is being sunset this October and replaced with NSPIRE, which will update the LIHTC inspection standards.

NSPIRE is a New Philosophy of Compliance Oversight

NSPIRE is more than just a new checklist of deficiencies; it is a change in prioritization and attempts to draw new lines between damage that should be cited as non-compliance and normal wear and tear. Under the new philosophy, normal wear-and-tear issues should be handled between a landlord and tenant, while compliance monitoring should focus on health, safety and fundamental functionality.

This means that state housing finance authority (HFA) inspections under NSPIRE should not focus on minor issues or issues with temporary conditions related to tenant behavior. For example, under NSPIRE, issues with blocked emergency egress now exclude tenant-stored items blocking windows. Instead, the new standards focus on what HUD REAC refers to as the "built environment," e.g., installed components that are part of the building.

This new philosophy will require a new approach from state agencies, which will need to refocus their inspections.



Fixing Inconsistent Inspection Standards

For years, inconsistent inspections have created negative impressions of affordable housing programs. Owners and managers have opted out of HUD financing and subsidized programs to avoid REAC inspections, and similar complaints have been heard regarding inspections for all funding programs.

For example, landlord participation is one of the greatest challenges for the voucher program. Unpredictable and capricious housing inspections are an oft-cited complaint of landlords participating in the housing choice voucher (HCV) program.

A study by the Poverty and Inequality Research Lab of Johns Hopkins University confirms this: “The majority of landlords who chose not to participate in the HCV program did so due to negative past experiences with the program related to property inspections and frustration with program bureaucracy. With regard to landlord interactions with PHAs, landlords thought unit inspections were burdensome and costly, with a number of landlords complaining about the lack of consistency in the inspections.”

To address this lack of consistency and professionalism in housing inspections, NSPIRE greatly reduces the scope of what is inspected. NSPIRE draws a bright line between safety issues and conditions that should be handled between the landlord and resident, such as small holes, stained carpets and other normal wear and tear. Basically, the revision of the inspection protocol removes aesthetics from the inspection, and replaces it with a deeper and more professional deep dive into safety standards.

The new inspection standards are rooted more in standardized building codes such as the International Building Code, International Fire Code and other standards, which have been widely adopted by many cities and counties throughout the country. This approach appeals to many in the industry who have longed for a standard that is more consistent, objective and less open to interpretation.

How Will NSPIRE Work for LIHTC?

One of the most important distinctions between NSPIRE and UPCS is that NSPIRE has built-in guidelines for the length of time permitted for repairs for each deficiency. As the IRC requires that all issues are repaired within 90 days of LIHTC compliance inspections, NSPIRE works perfectly for monitoring.



The improvements for LIHTC don't end there. NSPIRE also changes how each item is recorded to remove issues that were rooted in larger "survey"-style observations, such as rating the overall condition of parking lots and replacing it with singular instances of damage. Also, the structure of NSPIRE now requires that every deficiency be associated with a specific building — which further aligns with IRC monitoring requirements.

In the tax credit housing industry, there has been much worry about NSPIRE, particularly because of the rushed nature of its implementation and the fact that HUD never tested NSPIRE on LIHTC communities during the demonstration. In fact, HUD didn't think much about how NSPIRE would impact agencies that had adopted UPCS, so the fact that NSPIRE is so well-aligned with LIHTC is somewhat of a happy accident.

Challenges With the Implementation of NSPIRE

So, the question remains: Should HFAs be reluctant or even fearful of the NSPIRE implementation? No. However, that does not mean that the transition from UPCS to NSPIRE will be without complications.

The most pressing challenge is training both HFA staff and stakeholders on the NSPIRE standards. The standards themselves aren't necessarily difficult to understand, but they represent a significant departure from UPCS and Housing Quality Standards (HQS). It is imperative that HFA compliance monitors understand the new standards, so they can properly execute inspections and explain them to industry stakeholders.

Secondly, communicate the new standards to stakeholders in a way that is not rooted in REAC terminology. So much of the language around NSPIRE is rooted in the mission, and the language of REAC is more closely related to how items are scored on HUD inspections and how REAC inspectors are to operate. Those elements of the NSPIRE standards can be disregarded when reading the standards for LIHTC, HOME and other agency monitoring.

Brandon Bay, a US Housing Consultants inspection protocol trainer, has similar concerns.

"Many HFAs have compliance teams with years and years of UPCS experience; it will not be easy to make such a significant change in the inspection protocol," Bay says. "HFAs need to get direct NSPIRE training to their teams, and update policies, procedures and manuals."

With NSPIRE implementation coming soon, Bay reminds HFAs that, though they might believe the new protocol won't affect them significantly, they must be adequately prepared.



“Housing finance authorities have a responsibility to get updated information out to the stakeholders in a timely manner,” Bay says. “The implementation date of NSPIRE is coming quickly.”

US Housing Consultants developed an NSPIRE manual that can be accessed at no cost. It reorganizes the NSPIRE standards in a format that is more conducive for LIHTC, HOME and voucher programs. Downloaded it at nspire.us-hc.com.

Scott Precourt is the founder and managing partner of US Housing Consultants, a third-party compliance and inspection consulting firm. Scott has provided consulting and training on REAC and UPCS Inspections since 2004, and has worked with many state agencies to develop effective compliance and inspection monitoring solutions.

NAHB is providing this information for general information only. This information does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind nor should it be construed as such. The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers. Before making any decision or taking any action on this information, you should consult a qualified professional adviser to whom you have provided all of the facts applicable to your particular situation or question. None of this tax information is intended to be used nor can it be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. The information is provided “as is,” with no assurance or guarantee of completeness, accuracy, or timeliness of the information, and without warranty of any kind, express or implied, including but not limited to warranties of performance, merchantability, and fitness for a particular purpose.