regarding homebuyer eligibility, as inappropriate for this demonstration program. The Housing Authority asserted that applicants for public housing, as well as residents, could be eligible to become homebuyers, and therefore that the sentence should be amended to allow such applicants to be eligible.

HUD Response: HUD agrees that applicants for public housing can also be eligible homebuyers and has modified § 907.8(c) accordingly.

Another provision that the Housing Authority regarded as inappropriate to this demonstration program is § 907.11, regarding maintenance reserves. The Housing Authority remarked that this requirement is unusual for the single family homes affected by this program, and that these reserves would not be necessary if the qualifying resident was required to have sufficient income.

HUD Response: HUD's previous experiences in overseeing low-income homeownership has demonstrated that those administering such programs must provide adequately for foreseeable future maintenance needs. Failure to take such expenses into account can lead to defaults and foreclosures because homeowners could not withstand the financial impact of such expenses. The provision in the rule gives the Housing Authority two options for handling foreseeable maintenance costs. The Housing Authority can either establish maintenance reserves or it can demonstrate that homebuyer income will be sufficient over the long term to manage the expense.

The Housing Authority also commented that several sections of the interim rule contain inappropriate references to cooperatives, condominiums, or entities as purchasers. These sections include §§ 907.7(a), 907.7(b), 907.8(c)(2), and 907.20(h). The Housing Authority stated that section 132 confines this program to single family homes, such that families, not entities, will be the purchasers.

HUD Response: The rule gives the Housing Authority flexibility to structure the terms of purchase in a number of different ways, including by means of a cooperative or a condominium. HUD understands that at this time the Housing Authority does not believe that it needs the flexibility. However, it is important to allow maximum flexibility in the future to accommodate possible changes in circumstances without resorting to a waiver or change in the regulation.

The final aspect of the interim rule that the Housing Authority found inappropriate to this demonstration program is the reference in several sections to affirmative fair housing marketing strategies. These sections include §§ 907.7(b), 907.8(d), and 907.20(n). The Housing Authority stated that it intends to sell only to residents, and that marketing strategies should therefore only be required if it ever intends to sell units to other than its residents.

HUD Response: Implementing this demonstration program in accordance with fair housing objectives is of the utmost importance. The final rule has retained almost verbatim the civil rights related program requirements contained in the interim rule. Additionally, in response to the Housing Authority's comment above, the final rule includes as eligible homebuyers both current residents and applicants for public housing. Since HUD has changed the rule in this manner, the Housing Authority must comply with §§ 907.7(b), 907.8(d), and 907.20(n) of the rule. The affirmative fair housing marketing strategy is thus an integral part of this program, especially in view of the fact that the potential market for this program is 602 units or 20 percent of the total units administered by the Housing Authority.

3. The Housing Authority also objected to two sections of the interim rule containing language that it asserted is unnecessary to the rule. First, it objected to the parenthetical sentence in § 907.2, regarding the 20 percent ceiling. It asserted that this parenthetical is unnecessary and may lead to confusion, especially with regard to additional units developed by the Housing Authority. The Housing Authority explained that the manner in which it may have acquired any particular single family home and when it acquired that home is irrelevant. Second, it objected to the parenthetical example in the second sentence of § 907.8(c), describing sources of funds that a cooperative homeownership plan may include, claiming it is unnecessary.

HUD Response: The parenthetical language must remain to describe properly the statutory requirement that the demonstration program may be applied to not more that 20 percent of the total number of public housing units administered by the Housing Authority. The total number of public housing units administered by the Housing Authority can be expected to change over time as units are sold and as other units are added to the Housing Authority's inventory. If the 20 percent requirement were permitted to be reapplied to whatever the current number of units is at a given time, the Housing Authority would conceivably

be able to continue selling units until it reached a level at which 20 percent would no longer equal a whole unit. For example, if it began with 100 units and sold 20 percent (20 units), 80 units would remain. It could then reapply the 20 percent standard and sell 20 percent of 80 units (16 units), and then have 64 units remaining. The process would then go on until only 4 units were left and applying 20 percent would leave less than a whole unit. Clearly this was not the way that Congress contemplated the 20 percent provision to be applied. Therefore, the 20 percent should be applied once (as of the enactment date of the law, October 28, 1992) to establish a base figure. HUD calculated that 20 percent of the total units at the time of enactment was 602 units. The Housing Authority should also be able to add 20 percent of any newly acquired units that are not replacement units to the base figure as well. Newly acquired units that are replacement for units that left the Housing Authority's inventory should not be counted, since the units they are replacing were already taken into consideration in establishing the base figure of 602 units.

4. The Housing Authority objected to two provisions of the interim rule as burdensome or wasteful. First, the Housing Authority suggested that the requirement in the third sentence of § 907.6(b) for fire and safety inspections by local officials would be duplicative, since the Housing Authority will have already inspected the property several times. This requirement would be difficult, if not impossible, to fulfill, remarked the Housing Authority, since the City of Omaha does not normally conduct such inspections of existing single family homes.

HUD Response: HUD did not intend to create a burden in terms of inspections beyond that customarily imposed by the locality. HUD has therefore deleted this requirement.

Second, the Housing Authority commented that the environmental review required in § 907.18(d) would be an unwarranted expense to the taxpayer, since HUD will have already reviewed all the single family homes in the

HUD Response: The regulations in 24 CFR part 50 establish HUD's responsibilities in complying with several environmental requirements, including the National Environmental Policy Act (NEPA). In approving the homeownership plan, HUD must consult these regulations to determine which if any of these requirements apply. While HUD intends to perform its obligations in a rational and costeffective manner, it cannot categorically