



Department of Housing and Urban Development - Steve Preston, Secretary  
Office of Public Affairs, Washington, DC 20410

HUD No. 08-148

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<http://www.hud.gov/news/index.cfm>

FOR RELEASE

Friday

September 26, 2008

**PRESTON ALLOCATES NEARLY \$4 BILLION TO STABILIZE NEIGHBORHOODS  
IN STATES AND LOCAL COMMUNITIES HARD-HIT BY FORECLOSURE**

*HUD plans housing summit to explain new Neighborhood Stabilization Program*

WASHINGTON - U.S. Housing and Urban Development Secretary Steve Preston today allocated a total of \$3.92 billion to all states and particularly hard-hit areas trying to respond to the effects of high foreclosures. HUD's new [\*Neighborhood Stabilization Program\*](#) (NSP) will provide targeted emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities.

HUD plans to host a national housing summit in Washington, DC on October 7-8, as well as a series of regional conferences to explain the details of this new program to governors, mayors, county executives and other State and local leaders.

"To those areas trying to recover from the effects of foreclosure and declining property values, help is on the way," said Preston. "Clearly, the intent is to put this money to work in communities with the highest need and to have a meaningful impact. Now the real work begins and HUD stands ready to support these States and communities as they work to stabilize their neighborhoods."

The funding is provided through HUD's *Community Development Block Grant (CDBG) Program* under the *Housing and Economic Recovery Act of 2008*. These targeted funds will be used to purchase foreclosed homes at a discount and to rehabilitate or redevelop them in order to respond to rising foreclosures and falling home values.

State and local governments can use their neighborhood stabilization grants to acquire land and property; to demolish or rehabilitate abandoned properties; and/or to offer downpayment and closing cost assistance to low- to moderate-income homebuyers (household incomes not exceed 120 percent of area median income). In addition, these grantees can create "land banks" to assemble, temporarily manage, and dispose of vacant land for the purpose of stabilizing neighborhoods and encouraging re-use or redevelopment of urban property.

In determining the allocations announced today, HUD followed Congress's direction that grants be targeted to areas based on the number/percent of foreclosures, subprime mortgages and mortgage defaults and delinquencies. HUD took a data driven approach to this process, relying on numerous data sets from government agencies and private sources.

HUD also will issue specific rules that will assist communities in the administration of this new program and to ensure, as Congress directed, that these grant funds be obligated for specific activities within 18 months. This Congressional timetable may present challenges to state and local governments undertaking ambitious, and in some cases unprecedented, acquisition and rehabilitation activities. Meanwhile, HUD is actively encouraging local governments receiving direct grants to coordinate with each other, and with their state governments, to make most effective use of available funds.

The NSP Program also seeks to prevent future foreclosures by requiring housing counseling for families receiving homebuyer assistance. In addition, the Agency seeks to protect future homebuyers by requiring States and local grantees to ensure that new homebuyers under this program obtain a mortgage loan from a lender who agrees to comply with sound lending practices.

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*HUD is the nation's housing agency committed to increasing homeownership, particularly among minorities; creating affordable housing opportunities for low-income Americans; and supporting the homeless, elderly, people with disabilities and people living with AIDS. The Department also promotes economic and community development and enforces the nation's fair housing laws. More information about HUD and its programs is available on the Internet at [www.hud.gov](http://www.hud.gov) and [espanol.hud.gov](http://espanol.hud.gov).*

### **HUD's Methodology for allocating the Supplemental CDBG Appropriation**

The Housing and Economic Recovery Act of 2008 calls for allocating funds to States and local governments with the greatest need, as determined by:

- (A) "The number and percentage of home foreclosures in each State or unit of general local government;
- (B) "The number and percentage of homes financed by a subprime mortgages in each State or unit of general local government; and
- (C) "The number and percentage of homes in default or delinquency in each State or unit of general local government."

To ensure these funds have the maximum impact possible and are targeted to States and local communities with the highest needs, HUD analyzed data from several different sources, including:

- The Mortgage Bankers Association National Delinquency Survey data on the rate of foreclosure starts in 2007 and 2008 as well as current rates of subprime loans and loans in default or delinquency at the state-wide level;
- Census Bureau data from 2006 on the number of owner-occupied mortgages in each state to ensure that all states are treated equally;
- Federal Reserve's *Home Mortgage Disclosure Act (HMDA)* data on owner-occupied and investor mortgages made between 2004 and 2006, as well as the percent of those loans that are high-cost;
- Vacancy data from the U.S. Postal Service to determine areas where abandonment of homes due to foreclosure is more likely;
- Public data from the Office of Federal Housing Enterprise Oversight (OFHEO) to measure home price declines; and
- Labor Department data on the rate of unemployment at the city and county level.

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Numbers are finally out. More for PA than I thought. Here's the press announcement and the links to the webpage that shows the country. Pennsylvania's numbers are:

PA State	\$59,631,318
Allegheny County	5,524,950
Allentown	2,113,456
Philadelphia	16,832,873
Pittsburgh	2,002,958
York County	2,017,253

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## **HUD Neighborhood Stabilization Program (NSP) Procedures and Requirements Summary of Notice Published in the Federal Register**

**Prepared by Citizens' Housing and Planning Association  
September 30, 2008**

On September 29, 2008, HUD released a [Notice](#) outlining the procedures under which the new Neighborhood Stabilization Program (NSP) for foreclosed or abandoned properties will operate. The Notice is effective immediately. In it, HUD explains that it is treating NSP funds as an FY2008 "special allocation" of Community Development Block Grant (CDBG) funds and specifies the ways in which NSP requirements will and will not differ from CDBG requirements. The Notice also includes a listing of allocations by state and locality nationwide. Key elements of the Notice are summarized below. Among other things, it:

- Requires formula grantees to submit an application to HUD (in the form of an amendment to their CDBG Annual Action Plan) by December 1, 2008, that outlines how they will distribute and use funds and meet income targeting and long term affordability requirements.
- Allows formula grantees (e.g. contiguous cities or cities and the State) to join together to submit a single combined application.
- Encourages localities to consider allocating some of their funds to their State administrator to carry out programs more efficiently or to contract with other jurisdictions or nonprofit or other entities to administer some or all of their grant.
- Requires grantees to obligate all funds within 18 months of grant receipt and spend all funds within 48 months of grant receipt.
- Establishes key definitions, including foreclosed, abandoned and current appraised value
- Spells out eligible program activities, including administration and planning (up to 10% of the grant) and the cost of preparing an application.
- Spells out income targeting (all assistance must benefit persons or areas with incomes not exceeding 120% of AMI and 25% of spending must benefit households at or below 50% of AMI) and minimum long term affordability standards.
- Requires that all properties be purchased at less than appraised value. Every property purchased with NSP funds must be priced at least 5% below current appraised value and grantees must achieve an average purchase price of 10-15% below appraised value.
- Requires compliance with the Uniform Relocation Act in terms of appraisals and relocation.
- Requires NSP-assisted homebuyers to complete homebuyer education and use mortgages that comply with federal standards if non-traditional.

The summary below largely follows the order in which the Notice is written.

### **I. ALLOCATIONS**

**A. Formula Allocations** As required by the Housing and Economic Recovery Act of 2008 (HERA), HUD devised a formula to allocate funds based on state and local shares of foreclosed and vacant homes, subprime and delinquent mortgages. It then calculated each state's allocation,

subject to the statutory requirement that each receive a minimum allocation of 0.5% of the total (\$19.6 million). After reserving \$19.6 million for each state, it calculated how much of the remaining state amount CDBG entitlement and non-entitlement areas would receive under the formula. To ensure targeting to areas of greatest need, HUD limited direct allocations to those localities owed at least \$2 million under the formula and allocated the balance to the State to assist all high-need locations. In Massachusetts, four cities will receive direct allocations (Boston, Brockton, Springfield and Worcester) totaling \$11 million and the State will receive \$43.6 million.

## **B. Reallocations**

- If a State or locality fails to submit a substantially complete application by December 1 or applies for less than the full amount, HUD will cancel all or part of the allocation and reallocate the funds. Local allocation funds will be reallocated for use within the same state; State allocations will be reallocated to one of the 10 highest-need states identified by HUD.
- HUD will recapture and reallocate funds not committed within 18 months of receipt, following its usual CDBG reallocation procedures.

## **II. CDBG ALTERNATIVE REQUIREMENTS AND REGULATORY WAIVERS**

All CDBG statutory and regulatory requirements apply other than the waivers and alternative requirements specified in the Notice.

**A. Definitions** Some of the key definitions include the following:

- Abandoned – a home is considered abandoned when mortgage or tax foreclosure proceedings have been initiated, no mortgage or tax payments have been made by the owner for at least 90 days and the property has been vacant for at least 90 days
- Blighted – a structure is considered blighted when it displays “objectively determinable signs of deterioration” sufficient to constitute a threat to human health, safety and public welfare
- Current market appraised value – value of foreclosed upon residential property established through an appraisal made in conformity with the requirement of the Uniform Relocation Act (49 CFR 24.103) and completed within 60 days prior to an offer made by grantee, subrecipient, developer or individual homebuyer.
- Foreclosed – a property is “foreclosed upon” when tax or mortgage foreclosure is complete under state or local law (HUD is generally defining as after title has transferred)
- Land Bank – a governmental or non-profit entity established, at least in part, to assemble, temporarily manage and disposed of vacant land for the purpose of stabilizing neighborhoods. For the purpose of NSP, it must operate in a defined geographic area and purchase abandoned or foreclosed upon properties. *If a governmental agency, the Land Bank may also maintain abandoned and foreclosed property that it does not own, provided it charges the owner the full cost of the service or place a lien on the property for the full cost of the service.*
- “Use of Funds” (in terms of 18 month deadline) – Funds are used when obligated by a state, unit of local government or any subrecipient for a specific NSP activity (e.g. acquisition of a specific property). Funds are considered obligation when “orders are placed, contracts are

awarded, services are received, and similar transactions have occurred that require payment by the state, unit of local government or subrecipient during the same or a future period.” The definition notes that subawards (e.g. grants to subrecipients or a local unit of government) do not meet this definition.

## **B. Pre-Grant Process**

- Formula grantees must submit an Annual Action Plan “substantial amendment” to HUD by December 1, 2008 (described in more detail below). The application can be submitted electronically. HUD conduct an expedited review for completeness and consistency with NSP requirements and will give applicants 45 days from the date of first disapproval (but no later than February 13, 2009) to revise/resubmit disapproved plans.
- The Notice encourages grantees to carry out NSP activities in the context of a comprehensive plan to stabilize and strengthen neighborhoods. *Local Grantees are encouraged to review their administrative capacity in light of the 18 month obligation deadline and consider reallocating some funds to their State administrator*
- Joint applications are allowed:
  - Jurisdictions can join with the State or other local NSP entitlement communities (if contiguous) to submit a combined application for a single combined grant and single action plan amendment (the lead entity’s amendment will cover any participating members, though citizen participation requirements must be met for each entity). Joint applications must specify which jurisdiction will administer the funds (the State must be the administrator if it is part of the joint application).
  - Jurisdictions can also enter into a subrecipient agreement with another jurisdiction or nonprofit to administer some or all of their grant (e.g. a single land-bank entity, a state housing finance agency).
- Citizen participation – The proposed Action Plan Amendment must be published via usual methods and on the grantee’s official website for no less than 15 calendar days of public comment. The Final Action Plan amendment, along with a summary of citizen comments, must be posted on the grantee website at the time it is submitted to HUD (no later than 12/1/2008). Materials must be accessible in appropriate languages for the jurisdiction(s).
- Once HUD has accepted the plan, it will draw up and send a grant agreement to the jurisdiction for signature. It will then establish a line of credit and set up system access with the grantee.
- *After completing the environmental review(s)* and receiving from HUD or State an approved Request for Release of Funds, the grantee may draw down funds from the line of credit. The 18 month deadline to “use” funds starts upon date grant agreement is signed with HUD (or signs an amendment, in the case of reallocated funds).

### **Contents of NSP Application/ Action Plan Substantial Amendment:**

The Notice lists items that must be included in the Action Plan Substantial Amendment including:

- Needs – summary information identifying geographic areas of greatest need. A state must discuss in terms of entire state. In discussing needs of entitlement jurisdictions, it can restate or link to that jurisdiction’s Consolidated Plan.
- Proposed distribution funds to assist areas of greatest need (based on need factors it chooses as well as the required statutory factors of areas with the greatest percentage of home foreclosures, highest percentage of homes financed by a subprime mortgage, and identified by the grantee as likely to face a significant rise in the rate of home foreclosures)
- Proposed Uses of Funds:
  - definition of blighted structure under state or local law.
  - definition of affordable rents it will use initially and to meet the continued affordability requirement for NSP-assisted housing (HOME programs standards can be used but any alternative standard must be longer term), and enforcement mechanisms (see below).
  - housing rehabilitation standards it will use.
  - Performance measures it will use (e.g. units of housing to be acquired, rehabilitated or demolished for households at or below 50% AMI, at 51-80% AMI and at 81-120% AMI)
  - Proposed activities: amounts budgeted for each activity, name and location of entity that will carry it out and expected start and end dates for each activity.
- General terms under which assistance will be provided, including:
  - Discount rate to be used in case of acquisition.
  - Range of interest rates (if any).
  - Duration or term of assistance, tenure (rent or own) of beneficiaries.
  - If producing housing, design methods used to ensure continued affordability.
  - Extent to which funds will be used to benefit very low income persons.
  
- **Continued Affordability** Under HERA, grantees must ensure to maximum extent practicable and for longest feasible term ensure NSP-assisted properties remain affordable to households with incomes at or below 120% of area median income (AMI) and that at least 25% of the spending benefit households with income at or below 50% of AMI. Grantees must describe how they will define affordable rents and the long-term affordability requirements they will establish and enforcement mechanisms they will use.
  - HOME program standards can be used (they require affordability for 5-15 years for rehabilitated housing depending on the amount of subsidy funds involved) but HUD considers those to constitute minimal compliance and expects any other standards a grantee uses to be enforceable and longer in duration.
  - If an NSP-assisted property was previously assisted with HOME funds but had its affordability restrictions terminated due to foreclosure or deed in lieu, the restriction must be revived for the greater of the remaining period or “the continuing affordability requirements of this notice”.
  
- **Homebuyer Requirements:** Each NSP-assisted homebuyer must complete at least 8 hours of homebuyer counseling from a HUD-approved agency before obtaining a mortgage. Grantees must ensure that the homebuyer’s mortgage complies with federal standards for non-traditional mortgages and document compliance.

**C. Reimbursement for pre-award costs** HUD will allow states and jurisdictions receiving direct allocations to incur pre-award costs as if it were a new grantee preparing to receive its first CDBG allocation. This means the cost of pre-award actions to prepare to receive NSP funds, including developing the action plan amendment, can be charged to the NSP grant, subject to current CDBG limits (up to \$300,000). This provision does not apply to localities applying to State for an allocation.

**D. Conditions for “high risk” grantees** HUD will impose additional grant conditions for grantees it determines are high risk (not financially stable, has history of unsatisfactory performance under other grants).

**E. Income Eligibility Requirements** Spells out how NSP and CDBG requirements differ:

- All NSP activities must meet low and moderate income requirements (rather than objectives of preventing or eliminating slums and blight or addressing urgent community development objectives). An NSP activity meets in the low-mod income objective if it:
  - Provides/improves housing that will be occupied by a households at or below 120% AMI (calculated by multiplying the 50% AMI limit by 2.4)
  - *Serves an area in which at least 51% of residents have incomes at or below 120% of AMI*
  - Creates or retains jobs for persons at or below 120% AMI
  - Serves a limited clientele whose incomes are at or below 120% AMI
- Special requirements for Land Banking and Demolition Land banking activities will be considered to meet the above requirements if the assisted land bank is also involved in maintaining, demolishing and facilitating redevelopment of the properties. Land banks must obligate the property for a specific redevelopment activity within 10 years.
- Very low income targeting At 25% of NSP funds must be used to purchase and redevelop abandoned for foreclosed residential properties to house households with incomes at or below 50% of AMI. The initial NSP application must budget at least 25% of the grant for such activities. HUD will review compliance “prior to and at grant closeout” based on spending.

#### **F+G. State Distribution of Funds**

- A state may use its NSP grant to carry out program activities directly (e.g. hire staff, procure contractors, provide loans and grants through subrecipients) and can retain and re-use the program income.
- Any distribution to other jurisdictions must be based on need (e.g. high foreclosure rates, etc.), rather than whether the jurisdictions are or are CDBG entitlement communities.

#### **H. Eligibility and Allowable Costs**

- 10% of the NSP grant (and 10% of any program income) can be used for general program administration and planning costs (as defined under CDBG) and State technical assistance
- Eligible activities are spelled out in the notice and include:

- Financing mechanisms for the purchase and redevelopment of foreclosed upon homes and residential properties, such as soft seconds, loan loss reserves and shared-equity loans.
- Purchase and rehabilitation of residential properties for sale, rent or redevelopment (can include disposition, relocation and homebuyer counseling).
- Establishing land banks.
- Demolishing blighted structures.
- Redeveloping demolished or vacant properties.
- Ineligible activities include foreclosure prevention activities.

**I. Rehabilitation Standards** NSP-assisted rehabilitation must comply with state and local housing safety, quality and habitability requirements.

- Definition of rehabilitation includes improvements to increase energy efficiency or conservation or provide renewable energy sources and HUD strongly encourages use of NSP funds for these purposes.

**J. Sale of Homes** Sale prices of residential properties purchased, redeveloped or otherwise sold for a primary residence can't exceed the cost of acquiring and rehabilitating the property (sales and closing costs as well as related activity delivery costs are eligible NSP redevelopment or rehab costs). *The costs of boarding up a property, lawn mowing or maintaining a property in a static condition are not eligible costs for the purposes of the calculation.*

- When multiple properties are purchased and redeveloped by a single entity, HUD will permit reporting on the aggregated activity delivery costs across the portfolio until completion of the program (this treatment is for reporting purposes only).

### **K. Acquisition and Relocation**

- Acquisition prices for foreclosed-upon properties must be at a discount from the current market-appraised value. The purchaser must obtain an appraisal in advance.
- Uniform Relocation Act requirements apply to NSP
- One-for-one replacement is not required. However, grantees planning to use NSP funds to demolish or convert any low and moderate income dwelling units must detail these plans in their NSP application, including the number of such units expected to be demolished or converted with NSP assistance, the number of affordable units expected to be produced by activity and income level (with a specific estimate for very low income households) and the proposed timeline for these activities. They must also report on actual performance.

**L. Eminent Domain** The notice cautions that the requirement that properties be purchased at a discount may make use of eminent domain impossible (since the latter requires purchases at fair market value) and advises grantees contemplating eminent domain seek legal counsel.

### **M+N. Spending Deadlines and Program Income**

- “Use” Deadline: All funds must be obligated within 18 months but since program income must be spent first, HUD will count program income spending toward the goal (i.e. NSP grant and program income obligations together must at least equal the total NSP grant amount).

- Expenditure deadline: HUD will also recapture and reallocate any part of the NSP grant not spent out within four years of grant receipt (program income spending will count in this calculation of compliance also).
- Program Income: The notice defines Program income by example:
  - If a government spends \$200,000 to acquire and purchase a property for resale, all of the sale proceeds are counted as program income.
  - If a private individual or other entity that is not a subrecipient generates revenue as a result of NSP assistance, that revenue is also treated as program income but only in the amount by which it exceeds the developer's cost. The notice gives two examples. In one, a developer uses \$200,000 in NSP funds to fully fund the acquisition and rehab of a property, including a development fee and sells it for \$225,000. All \$225,000 is program income and returned to the jurisdiction. However, if the developer only used \$100,000 in NSP funds and \$100,000 of his own funds, the program income amount is \$125,000.
  - NSP grantees may retain all program income received before July 30, 2013 as long as they use it for NSP-eligible activities. Program income received after that date returns to the Treasury unless HUD approves local re-use.

## **O. Reporting**

- Performance reports All grantees will be required to submit quarterly performance reports to HUD online and to post those reports online for public viewing as well. Reports will be due 30 days after the end of each quarter, starting 30 days after the first full calendar quarter after grant award and continuing until the end of the 15<sup>th</sup> month after the initial award.
- Spending reports Grantees will have to submit monthly obligation and expenditure reports to HUD until reported total obligations are equal or greater than the total NSP grant. Once that point is reached, they will switch to quarterly reporting until all NSP funds (including program income) have been expended or HUD issues alternative instructions.

**P. FHA-foreclosed properties** The Notice encourages grantees to consider including FHA-foreclosed properties in their acquisition plan, noting that discounted pricing will be offered and possibly expedited closing time frames. HUD plans to offer online technical assistance regarding the use of NSP funds with FHA properties.

**Q. Required Purchase Price Discount** Grantees will be required to obtain the "maximum reasonable discount" from the mortgagee, which is calculated by taking into consideration the mortgagee's likely carrying costs if it were not to sell to the grantee (i.e. taxes, insurance, maintenance).

- Every property purchased with NSP funds must be purchased at a "discount "of at least 5% (that is, the price must be at least 5% below the then-current appraised value), and
- Programs must achieve an overall average discount of either 10% or 15% for all properties purchased during the 18-month obligation period.
  - The 10% figure will apply if the grantee or subrecipient determines the maximum reasonable discount for each purchase transaction "through use of a methodology that results in a discount equivalent to the total carrying costs that would be incurred by the seller if the property were not purchased with NSP funds (provided that the discount is at least 5%)." That methodology must include an estimate of the holding period for the

property and the nature and amount of the carrying costs of holding the property during that period, including taxes, insurance, maintenance, marketing, overhead and interest. Grantees must have written procedures to implement it, use it consistently for every purchase and maintain records of the analysis used for each purchase.

- If such a methodology is not used, programs must achieve a 15% discount.

**Limits on Sale of Properties owned by an NSP recipient** *An NSP recipient may not provide NSP funds to another party to finance an acquisition of tax foreclosed (or any other) properties from itself (except to pay for appraisal and title transfer costs). Properties transferred in this manner to a subrecipient, homebuyer developer or jurisdiction will be considered NSP assisted and subject to all NSP requirements.*