

**HUD \$3.92 BILLION
NEIGHBORHOOD STABILIZATION PROGRAM**

DE-MYSTIFIED

Helping Cities Mobilize to Address Foreclosed Properties

October 2008



**Making Neighborhood
Revitalization Happen.**



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INTRODUCTION

Housing and Economic Recovery Act 2008

The Housing and Economic Recovery Act (HERA) was signed into law on July 30, 2008 and contains \$3.92 billion in Neighborhood Stabilization Program Funding which cities and states can use to buy and redevelop abandoned and foreclosed homes and residential properties. On September 29, 2008, HUD issued a Notice on the Neighborhood Stabilization Program (Docket FR-5255-N-01) to advise the public on the allocations, grantees and program requirements. Unless HERA states otherwise, the grants are to be considered Community Development Block Grants (CDBG) and fall under the Disaster Recovery Grant Reporting System (DRGR).

State and Entitlement Cities Allocations

HUD allocated the funds to states and entitlement cities based on greatest need, i.e. those states and cities experiencing high rates of foreclosures, sub-prime mortgages and defaults. HUD allowed states the flexibility to distribute their funds to areas of greatest need, even those cities receiving their own direct allocation.

Grantees are allowed 10% of their original allocation plus program income to cover administrative and planning costs.

The State of Indiana received \$83,757,048; the City of Indianapolis \$29,051,059.

IMPORTANT DATES

November 15, 2008 – Draft Action Plan Amendment published

The proposed Action Plan Amendment must be published via usual methods and on website for no less than 15 calendar days of public comment.

December 1, 2008 – Action Plan Amendment submitted to HUD

Final Action Plan must be posted on the website and submitted to HUD by December 1, 2008, otherwise, grantee's funds are subject to recapture and distributed to the State.

Contract Award Date and Term

A grantee will be deemed to have received its NSP grant at the time HUD signs its NSP Grant Agreement. HUD signs the agreement after approving the Amendment, but before completion of environmental review and approval of request for release of funds.

Obligation of Funds

When HUD signs the NSP Grant Agreement, the grantee has 18-months to obligate funds. Otherwise, they are subject to recapture. Obligated is defined as "when orders are placed, contracts are awarded, services are received, and similar transactions have occurred that require payment by grantee during the same or future period.

Expenditure of Funds

When HUD signs the NSP Grant Agreement, the grantee has four (4) years to expend an amount equal to or greater than the initial allocation of NSP funds or HUD will recapture and reallocate the amount of funds not expended.

SUMMARY OF ELIGIBILITY

Eligible Property, Activities and Beneficiaries

State and local grantees may use NSP to purchase, rehabilitate, demolish and redevelop abandoned or foreclosed property and specifically in target areas of greatest need. HUD also strongly encourages that grantees use NSP funds to not only stabilize their neighborhoods, but to leverage the funds to meet broader community, sustainability and economic goals.

NSP Funds may assist households or areas with incomes up to 120% AMI, with 25% of benefiting households earning 50% AMI or below. There are five (5) eligible activities under NSP to assist these households and address abandoned or foreclosed property:

1. Establish Funding Mechanisms for purchase and redevelopment of abandoned or foreclosed property, including soft seconds, loan loss reserves, and shared equity loans for homebuyers
2. Purchase and/or rehabilitate abandoned or foreclosed property in order to sell, rent or redevelop them
3. Establish Land Banks for abandoned or foreclosed
4. Demolish blighted structures
5. Redevelop demolished or vacant property.

Balancing Immediate Need with Long-term Housing Goals

Capital Access, Inc. has observed three neighborhood typologies affected by the foreclosure crisis and assist in developing criteria for selecting target areas to balance the political environment and financial and housing needs of communities:

1. **Tippling Point Neighborhoods:** Established neighborhoods and housing market threatened to de-stabilize due to presence of foreclosures
2. **“Opportunity” Neighborhoods targeted for Future Revitalization:** Neighborhoods plagued by abandonment, blight, vacancy and mortgage and tax foreclosures.
3. **Foreclosed Multi-Family:** Foreclosed, large-scale apartments of multi-family buildings that suffer from disinvestment and tax property management.

HUD REQUIREMENTS

Rehabilitation Standards

HERA provides that any NSP-assisted rehabilitation of an abandoned or foreclosed property shall be to the extent necessary to comply with housing safety, quality and habitability to sell, rent or redevelop them. This means that it (1) goes beyond what is requested from the regular CDBG program and (2) each grantee must describe or reference in its NSP Action Plan Amendment what rehab standards will apply.

HUD strongly encourages to strategically incorporate modern, green building and energy-efficiency.

Sale of Homes

If an NSP-assisted home is sold to an individual as a primary residence, then such sale shall be in an amount equal to or less than the cost to acquire and redevelop or rehabilitate such home or property up to a decent, safe and habitable condition. The maximum sales price for a property is determined by aggregating all costs of acquisition, rehabilitation and redevelopment (including related activity delivery costs.)

In determining the sale price limitation, HUD will not consider the cost of boarding up, lawn mowing, or simply maintaining the property in a static condition. In the absence of NSP-assisted rehab or redevelopment, the costs of completing a sales transaction or other disposition to be redevelopment or rehabilitation costs is also not considered.

Acquisition and Relocation

NSP to be discount from the current market-appraised value of the home or property and that such discount shall ensure that purchasers are paying below market value for the home or property. The minimum discount for an individual property is 5%, but the average discount for the portfolio is 15%.

All acquisitions will be voluntary, which are not subject to URA guidelines. HERA prevails over URA.

HERA requires an appraisal for purposes of determining the statutory purchase discount and applies to any NSP-assisted acquisition of an abandoned or foreclosed home.

Grantee will not be required to provide one-for-one replacement of low- and moderate-income dwelling units demolished or converted. Alternatively, each grantee must submit the information described below relating to its demolition and conversion activities.

FHA properties are eligible for NSP acquisition and redevelopment.

Eminent Domain

Eminent Domain is not an eligible acquisition method because NSP-assisted properties are acquired at a discount and must be voluntary. Eminent Domain requires that private property shall not be taken for public use without paying fair market value.

Consult legal counsel if grantee is contemplating using NSP funds for eminent domain.

Program Income

Revenue received by a grantee that is generated from the use of NSP Grant Funds is program income. Any revenue from the sale, rental, redevelopment, rehabilitation or any eligible use must be provided to and used by grantee.

Program income received before July 30, 2013 may be retained by the grantee.

Program income received after July 30, 2013 is returned to the U. S. Treasury.

Any profit earned, except from the sale of a home to individual as a primary residence, may be retained if authorized by HUD. Otherwise, it is returned to the Treasury.

Reporting

HUD is requiring regular reporting on each NSP grant in the DRGR System.

Performance reports are due every quarter. From month 15th, they are due every month.

KEY ISSUES

Since analyzing the NSP Regulations and considering the current housing market, CAI has identified key issues that will need to be addressed to successfully meet the objectives of the Neighborhood Stabilization Program and assist in the stabilization of neighborhoods and economic recovery of cities. Those issues are:

1. Reconciling Data-driven Analysis with Political Considerations to address “Greatest Need”
2. Acquisition of Free and Clear Title of Foreclosed or Abandoned Property
3. Cultivation of New Homebuyers, Renters, and Property Owners/Managers
4. Fostering Partnerships to ensure successful implementation
5. Aligning Neighborhood Stabilization Program with Grantee’s Economic Development and Neighborhood Revitalization Initiatives

CAI has the on-the-ground expertise as developers of large-scale revitalization projects and management consultants to housing and redevelopment agencies to address these issues. CAI can develop and manage Neighborhood Stabilization Program Planning and Implementation Process that

HOW CAI CAN HELP

CAI has the ability to assist the grantee in managing the Neighborhood Stabilization Program from drafting the Action Plan Amendment, developing the Implementation Strategy, to administering the Program during the 18-month award term. We are high value consultants that know how to get the job done while using a market-driven approach to meet community development goals.

Action Plan Amendment

The Action Plan Amendment must be submitted to HUD by December 1, 2008, but really must be complete by November 15, 2008 for public comment.

The Action Plan Amendment will meet the HUD requirements but formulate the specific target areas, properties, beneficiaries and households to determine where to obligate the NSP funds quickly and effectively. However, the Amendment will seek to support community sustainability and neighborhood revitalization plans while placing abandoned or foreclosed property back into productive use.

CAI will assist the grantee in:

1. Determining will do the work
 2. Managing the Work Plan and Calendar
 3. Organizing Data Collection and Analysis to determine “Greatest Need”
 4. Developing Criteria for Acquisition, Demolition, Rehabilitation and Redevelopment
 5. Determining Policy Priorities of Elected Officials and Community Leaders
 6. Conducting Planning and Feasibility Analysis for NSP Resource Allocation
 7. Cultivating Partners to assist in Implementation
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Development of the Implementation Strategy

Due to the intense timeframe of obligating the funds, CAI transition immediately into assist the grantee with developing their Implementation Strategy. The Implementation Strategy will when, where and how to intervene on individual, target abandoned or foreclosed property. From there, CAI will assist the grantee to develop the programs and guidelines to:

1. Strategically use the NSP funds to expeditiously obligate and expend them;
2. Maximize impact through leveraging additional funds and NSP program income, and;
3. Comply with HUD NSP regulations.

Management of the Neighborhood Stabilization Program

CAI can provide direct program management and technical assistance to grantee to manage the Neighborhood Stabilization Program. CAI will develop and implement management systems from acquisition, project underwriting and deal structuring, demolition and stabilization, and property rehabilitation and redevelopment. CAI will also assist the grantee in cultivating NSP stakeholders such as elected officials, community leaders, developers, homebuyers and neighborhood residents.

Most importantly, CAI works directly with grantee to build their staff capacity and ensure effective and efficient implementation to strategically, properly and quickly deploy funds.

CALL US FOR MORE INFORMATION

Please call us so we may help you develop your Neighborhood Stabilization Program.

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“And if our times are difficult and perplexing, so are they challenging and filled with opportunity.”

- Robert F. Kennedy