



US Dept. of Housing and Urban Development
Office of Community Planning and Development

Neighborhood Stabilization Program

October 2008



NSP Information

- Extensive information available on HUD's website – www.hud.gov/nsp
- Includes
 - Statutory language from PL 110-289
 - Federal Register Notice – October 6, 2008
 - Action plan amendments guidance
 - Area median income data required by NSP
 - HUD targeting data
 - Best practices



Background

- Title III of Division B of the Housing and Economic Recovery Act, 2008 (HERA)
- Signed by the President on July 30, 2008
- Section 2301-Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes
- HUD has assigned name of Neighborhood Stabilization Program



Rules of Construction

- Treated as CDBG Funds under Title I
- Alternative requirements to expedite the use of funds published in the Notice published in the *Federal Register* on October 6, 2008
- HERA alters several key CDBG provisions



Allocations

- HERA Provides \$3.92 Billion to assist States and localities in redevelopment efforts
- Considered a Special Allocation of 2008 CDBG Funds
- Amounts determined by formula established by HUD using criteria specified by HERA



Allocations

- Need is based on number and percent of:
 - Home foreclosures in each State or unit of general local government
 - Homes financed by a subprime mortgage related loan in each State or UGLG
 - Homes in default or delinquency in each State or Unit of General Local Government (UGLG)

- Formula details provided in the notice



Criteria for Local Distribution

- NSP grantees must target funds to give priority emphasis and consideration to areas with greatest need, including those:
 - With the greatest percentage of home foreclosures;
 - With the highest percentage of homes financed by a subprime mortgage related loan; and
 - Identified as likely to face a significant rise in the rate of home foreclosures.



Period to Use Funds

- NSP grantees must use funds to purchase and redevelop abandoned and foreclosed homes and residential properties **no later than 18 months** after execution of the grant agreement
- Use=obligate for a specific project



Reallocations

- Triggers
 - Failure to apply
 - Application is for less than the full amount
 - HUD ultimately disapproves an application
- Disposition
 - Money not awarded to a local government goes to that state
 - Money not awarded to a state or insular area goes to the 10 highest-need states



Recaptures

- Triggers
 - Failure to use funds (obligate to specific activities) within 18 months
 - Failure to expend funds within 4 years
- Recaptured NSP funds will be utilized for disaster recovery assistance to CDBG entitlement grantees



Applying for NSP Funds

- Action Plan Substantial Amendments due by December 1, 2008
 - Submit to local field office
 - Use Disaster Recovery Grant Reporting (DRGR) System or paper submission
- Grantees should consider administrative capacity
- Joint agreements are permitted



Grantee Submission

- To receive NSP allocation, grantees must submit:
 - Signed and Dated SF-424
 - Signed certifications from October 6, 2008 FR Notice, not “regular” CDBG certs
 - Summary of public comments and evidence of the duration of the citizen comment period
 - Substantial Action Plan amendment



Action Plan Amendment

- Proposed Action Plan Amendment must be placed on the Internet
- 15 day public comment period
- Ensure appropriate language coverage
- Revisions/resubmissions of disapproved plans are due to HUD NLT 45 days from first disapproval –in no case later than February 13, 2009



Amendment Content

- General information about needs, distribution, definitions, use of funds, etc.
- Information by activity describing how grantee will use the funds
- Description of general terms under which assistance will be provided
- Contact information



Amendment Content

- If acquisition: amount of discount
- If financing mechanism: range of interest rates
- Duration and term of assistance
- Tenure of beneficiaries (rent or own)
- How activities ensure continued affordability
- Whether activities provides housing for HH at/under 50% AMI



Action Plan Review by HUD

- Once HUD accepts the plan:
 - Grant agreement signed by HUD
 - Grantee returns agreement
 - HUD establishes Line of Credit and Voice Response System (VRS) access
 - Grantee may draw down funds after environmental request for release of funds is approved



Joint Agreements

- Joint Agreements:
 - Existing FY'08 entitlement city/urban county joint agreements for regular CDBG apply to NSP
 - Local government NSP grantees may develop joint agreement with its state to have state administer local program
 - 2 or more local government NSP grantees may develop joint agreement for joint program
 - Must be contiguous, in same metro area
 - All participants must be eligible NSP grantees
 - One lead government administers program for all



Joint Agreements

- Benefits of Joint Agreements:
 - Locality might not have capacity to run its own grant
 - Locality might not have expertise in administering NSP activities
 - Economies of scale, cost efficiency
 - Holistically treat neighborhoods or problems that cross boundaries



Joint Agreements

- Urban Counties
 - If county qualifies for an NSP grant, existing urban county cooperation agreements for FY '08 regular CDBG will apply to NSP
 - Counties should review cooperation agreements to address potential conflicts with HERA provisions
 - If a locality is not presently part of an urban county, look to state for funding



Information for States

- HERA established minimum 0.5% grant allocation for each state
- Effective state minimum allocation is \$19,600,000



Information for States

- Role of States
 - Fund nonentitlement local governments
 - Fund CDBG or NSP entitlement grantees
 - Fund private or public nonprofits, Tribes, quasi-governmental entities
 - Directly carry out activities
 - Use contractors or developers
- But must distribute funds to areas of greatest need, including jurisdictions receiving NSP



Pre-Award Costs

- Pre-award Costs
 - NSP grantees may incur pre-award costs in compliance with 24 CFR 570.200(h)
 - Permissible costs include costs incurred as of 09/29/2008 for items such as:
 - Development of the Action Plan amendment
 - Other administrative actions necessary to receive grant



Continuing Affordability

- Define affordable rents
- Describe standards
- Describe enforcement mechanisms
- Minimum = HOME standards at 24 CFR 92.252(a), (c), (e), and (f) and 92.254
- Homebuyers must get 8 hours of counseling
- Subprime mortgages discouraged
- HOME affordability restrictions revive



National Objective Issues

- HERA preempts regular CDBG national objectives
- Directs that all funds be used to benefit individuals at or below 120% of area median income
- Slum/blight and urgent need national objectives not applicable to NSP



National Objective Issues

- CDBG 70% overall low-modincome benefit test not encompass NSP funds
- Additional HERA requirement - Not less than 25% of funds available to each grantee must be used for housing activities that benefit individuals whose incomes do not exceed 50% of area median income



Planning and Administration

- Up to 10% of NSP Grant plus program income
- No matching requirements
- 10% applies to the grant as a whole



Activity Delivery Costs

- Activity delivery costs permissible as part of activity
- Examples
 - Inspections and work-write ups charged to housing rehabilitation
 - Surveys and appraisals



Uses of NSP Funding

- Five eligible uses specified by HERA
- Eligible uses have root in CDBG program with exception of land banking provision
- HUD is tying NSP eligible uses to Entitlement CDBG eligibility provisions



Uses of NSP Funding

Eligible Use

A. Establish financing mechanisms for purchase & redevelopment of foreclosed upon homes & residential properties...

Eligible Activities

- As an activity delivery cost for an eligible activity (designing & setting it up)
- Financing of an NSP eligible activity, to carry out that activity, is eligible as part of that activity



Uses of NSP Funding

Eligible Use

B. Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties

Eligible Activities

- Acquisition
- Disposition
- Relocation
- Direct homeownership assistance
- Eligible rehabilitation and preservation activities for homes and other residential properties
- Housing counseling for those seeking to take part in the activity



Uses of NSP Funding

Eligible Use

C. Establish land banks for homes that have been foreclosed upon

Eligible Activities

- Acquisition
- Disposition (includes maintenance)



Uses of NSP Funding

Eligible Use

Eligible Activities

D. Demolish blighted structures

Clearance, for blighted structures only



Uses of NSP Funding

Eligible Use

E. Redevelop demolished or vacant properties

Eligible Activities

- Acquisition
- Disposition
- Public facilities and improvements
- Housing Counseling Public Services (limited to prospective purchasers or tenants of redeveloped properties)
- Relocation



Uses of NSP Funding

Eligible Use

E. Redevelop demolished or vacant properties (continued)

Eligible Activities

- New housing construction
- Direct homeownership assistance
- 570.204 activities by Community Based Development Organizations



Eligible Uses Summary

- All grant funds must be used for an eligible activity according to HERA
- Each activity must also be CDBG eligible and meet a LM national objective
- HUD must grant written approval for any CDBG activities not listed for that eligible use
- CDBG regulatory definitions of eligible activities apply to NSP except where specifically modified
- New housing construction is eligible as redevelopment



Ineligible Activities

- Ineligible Activities:
 - Generally, if an activity is ineligible under CDBG, it is ineligible under NSP
 - Not eligible under HERA:
 - Foreclosure prevention
 - Demolition of non-blighted structures
 - Purchase of properties not abandoned or foreclosed upon



NSP Income Targeting

- Income eligibility for NSP based on 120% of area median income
- Metro area median or state nonmetro median, based on where the activity is undertaken
- HUD is providing 120% AMI data on website – www.hud.gov/nsp



NSP Income Targeting

- 120% of area median income
 - New terminology for NSP: Low, Moderate- and Middle-Income
 - 80-120% of median = Middle Income
- CDBG Low/Mod benefit national objective criteria apply, except beneficiaries can be Low, Moderate and Middle Income



NSP Income Targeting

- 120% of median income
 - Area benefit activities
 - Grantee must define the service area
 - HUD will provide data on % LMMI by census tracts/block groups
 - Demolition or Acquisition + Demolition - benefits a defined service area



NSP Income Targeting

- 120% of median income
 - Area benefit activities
 - Land Banks – benefit a defined service area if maintenance and demolition also take place
 - Land Banks – NSP-funded properties must be obligated for a specific, eligible redevelopment within 10 years



NSP Income Targeting

- 120% of median income
 - Limited clientele activities
 - Housing counseling for prospective purchasers/tenants
 - Public facilities such as emergency shelters, group homes



NSP Income Targeting

- 120% of median income:
 - Housing activities
 - Acquisition, rehabilitation, rental, sale, conversion, construction of housing units
 - Homeownership assistance
 - Infrastructure for housing as part of redevelopment
 - All units must be LMMI-occupied



NSP Income Targeting

- 25% to 50% of median income targeting
- Each grantee must use at least 25% of its NSP grant plus program income for purchase/redevelopment of abandoned/foreclosed residential properties to house individuals or families with incomes at/below 50% of area median income



NSP Income Targeting

25% to 50% Requirement

- Applies to each direct NSP grant, not to each project/ activity or the NSP program as a whole
- Grantee action plan amendment must show how grantee will comply
- Final determination of actual compliance upon completion of the grant
- Compliance based on dollars, not number of units



NSP Income Targeting

25% to 50% of median requirement:

- Principal way to comply will be through rental housing
 - New construction or conversion
 - Acquisition or acquisition + rehab
 - Affordable rents & affordability period
- Address needs in Continuum of Care



Rehabilitation Standards

- Any purchase of a foreclosed upon home or residential property under this section should be at a discount from the current market appraised value of the home or property.
 - Current condition must be taken into account



Rehabilitation Standards

- Any rehabilitation of a foreclosed-upon home or residential property should be to the extent necessary to comply with applicable laws, codes, and other requirements. This requirement differs from the “regular” CDBG program.
- Rehabilitation may include improvements to increase the energy efficiency of conservation of such homes and properties or provide a renewable energy source or sources for such homes and properties.



Sale of Homes

- The sale of an abandoned or foreclosed upon home or residential property to an individual as a primary residence must 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.



Sale of Homes

- Maximum sales price for a property is determined by aggregating the costs of acquisition, rehabilitation and redevelopment
- Grantees must maintain sufficient documentation
- Maintenance of the property w/o other NSP assisted activities not considered redevelopment or rehabilitation costs



NSP PROGRAM INCOME

- Revenue received by a State, unit of general local government, or subrecipient that is directly generated from the use of NSP funds is CDBG program income (e.g., proceeds from the sale of foreclosed upon properties acquired with NSP funds).
- CDBG Entitlement program income definition applies to amounts received by any State, unit of general local government, and subrecipient.



NSP PROGRAM INCOME

- Any revenue from the sale, rental, redevelopment, rehabilitation or any other eligible use of NSP funds must be provided to and used by the State or unit of general local gov't.
- This includes revenue received by a private individual or other entity that is not a subrecipient.



NSP PROGRAM INCOME

- For the purposes of NSP, revenue received has the same meaning as program income.
- Limitations and requirements based on:
 - NSP activity that generated the income
 - date the income was received.



NSP PROGRAM INCOME

- Activities carried out pursuant to Section 2301(c)(3)(B) and (E).
 - Program income received before July 30, 2013 may be retained by state or unit of local gov't, if it's treated as additional CDBG funds and used to carry out eligible activities.



NSP PROGRAM INCOME

- Program income received on or after July 30, 2013 must be returned to HUD.
- However, any program income that is in excess of the cost to acquire and redevelop or rehab an abandoned or foreclosed upon home or residential property may be retained by state or unit of local gov't if HUD approves a request to use the funds for other NSP activities.



NSP PROGRAM INCOME

UNIT OF GENERAL LOCAL GOV'T (UGLG)
ACQUIRES A FORECLOSED MULTI-FAMILY
RESIDENTIAL PROPERTY FOR \$100,000,
SPENDS \$100,000 TO REDEVELOP PROPERTY
AND SELLS IT FOR \$225,000.



PROGRAM INCOME EXAMPLE #1 (CONTINUED)

IF THE SALE OCCURS ON OR AFTER JULY 30, 2013:

- UGLG REMITS \$200,000 TO HUD IF HUD AUTHORIZES THE PROFIT OF \$25,000 TO BE USED FOR OTHER NSP ACTIVITIES
- UGLG REMITS \$225,000 IF HUD DOES NOT AUTHORIZE SUCH USE.



NSP PROGRAM INCOME

- Excess Revenue received by a private individual or other entity that is not a subrecipient (e.g. Developer).
- Any revenue generated by activities carried out pursuant to Section 2301(c)(3)(B) and (E) that is in excess of the cost to acquire and redevelop (including reasonable development fees) or rehabilitate an abandoned or foreclosed upon home or residential property must be provided to the State or unit of general local government and treated as program income.



PROGRAM INCOME

EXAMPLE # 2

REVENUE RECEIVED BY PRIVATE INDIVIDUAL OR ENTITY THAT IS NOT SUBRECIPIENT

UGLG MAKES A LOAN (OR GRANT) TO A DEVELOPER TO FINANCE THE ACQUISITION AND REHABILITATION OF A FORECLOSED UPON MULTIFAMILY RESIDENTIAL PROPERTY. THE DEVELOPER USES \$200,000 IN NSP FUNDS (LOAN OR GRANT) FROM THE UGLG TO PAY THE TOTAL COSTS OF ACQUISITION AND REHABILITATION (INCLUDING REASONABLE DEVELOPMENT FEES) AND SELLS THE PROPERTY FOR \$225,000.



PROGRAM INCOME

EXAMPLE # 2 (CONTINUED)

THE DEVELOPER IS REQUIRED TO PROVIDE \$225,000 LOCAL GOV'T. (IF THE NSP FUNDING WERE A LOAN, THE SALE PROCEEDS WOULD BE USED TO REPAY THE NSP LOAN.) IF THE SALE OCURS ON OR AFTER JULY 30, 2013, THE UGLG MUST REMIT \$225,000 to HUD FOR DEPOSIT IN THE TREASURY UNLESS HUD APPROVES A REQUEST TO USE \$25,000 OF THAT AMOUNT FOR OTHER NSP PURPOSES.



PROGRAM INCOME EXAMPLE # 2 (CONTINUED)

IF IN THIS SAME EXAMPLE, THE DEVELOPER RECEIVED \$100,000 OF NSP FUNDING AND USED \$100,000 OF ITS OWN FUNDS FOR ELIGIBLE COSTS, THE REVENUE/PROGRAM INCOME TO BE PROVIDED TO THE LOCAL GOV'T WOULD BE \$125,000.



NSP PROGRAM INCOME

- Activities carried out pursuant to Section 2301(c)(3)(A), (C) and (E).
- Program income received may be retained by the State or unit of general local government if it is treated as additional CDBG funds and used in accordance with NSP requirements.
- Revenue received by a private individual or other entity that is not a subrecipient must be returned to the State or unit of general local government



Additional Program Income Requirements

- Cash Management Requirements
- Agreements are required to ensure compliance



Periodic Audits

- In consultation with the Secretary, the Comptroller General of the United States will conduct periodic audits to ensure that funds appropriated are being used in a manner consistent with the aforementioned criteria.



NSP Purchase Discount

CURRENT MARKET APPRAISED VALUE

Value of a foreclosed upon home or residential property that is established through an appraisal made in conformity with the appraisal requirements of the URA at 49 CFR 24.103 and completed within 60 days prior to an offer made for the property by grantee, subrecipient, developer or individual home buyer.



NSP

Purchase Discount

- Purchase price must include a discount from CMAV
- Grantees must obtain "maximum reasonable discount" from the mortgagee
- Discount should reflect likely carrying costs if the mortgagee were not to sell the property



NSP

Purchase Discount

- Need for flexibility
- Individual v. portfolio
- Individual property minimum – 5%
- Portfolio average minimum – 15%
- Exception – 10%
- Acceptable methodology – based on seller's carrying/holding costs



NSP

Purchase Discount

- Carrying costs:
 - taxes
 - Insurance
 - Maintenance
 - Marketing
 - Overhead
 - interest, etc.
- written procedures/applied consistently



Example of a Purchase Discount Calculation

<u>PROPERTY</u>	<u>CMAV</u>	<u>PURCHASE PRICE</u>	<u>DOLLAR DISCOUNT</u>	<u>% DISCOUNT</u>
A	\$100,000	\$ 95,000	\$ 5,000	5%
B	50,000	45,000	5,000	10%
C	<u>120,000</u>	<u>103,000</u>	<u>17,000</u>	<u>14%</u>
	\$270,000	\$243,000	\$27,000	10.00%



Eminent Domain

- HERA appears to permit some use eminent domain for public purposes.
- Any foreclosed home/residential property must be at a discount from the current appraised value—purchasers must pay below market value
- However, Fifth Amendment provides that private property cannot be taken for public use w/o just compensation.
- Take away point: NSP grantees anticipating using the power of Eminent Domain should consult counsel before taking action.



Limitation on Distribution of Funds

- None of the appropriated funds shall be distributed to:
 - An organization which has been indicted for a violation under Federal law relating to an election for Federal office; or
 - An organization which employs applicable individuals* .



Questions and Answers

- References:
 - HERA Law
 - NSP Notice
 - NSP Website (allocations, questions and answers, best practices and more)
 - Submit questions via website
 - www.hud.gov/nsp