



CAPITAL ACCESS

237 Tasker Street
Philadelphia, PA 19148
tel (215) 551-2000
fax (215) 551-3086
in@capitalaccessinc.com

HUD Sends Congress Draft Notice Implementing \$3.92 Billion Neighborhood Stabilization Program

September 19, 2008

The following is a summary of a draft Notice for the new \$3.92 billion Neighborhood Stabilization Program (NSP) that is part of the Housing and Economic Recovery Act of 2008 (H.R. 3221) that the Department of Housing and Urban Development (HUD) sent to the House Financial Services and Senate Banking Committees. The Office of Management and Budget (OMB) will publish the final rules and formula allocations to the NSP in the Federal Register on September 29.

- A. Local entitlement communities will get their grants directly rather than having to rely on the discretion of their state.
- B. The term "use" of the funds within 18 months is defined as obligated -orders placed, contracts awarded, or services are received. However, NSP funds that are allocated to a sub recipient do not constitute an obligation. All funds must be expended within four (4) years.
- C. Grantees will be permitted to spend up to 10% of their grant, plus program income, for administrative costs. Grantees may charge program delivery costs to activities such as purchase of a foreclosed property.
- D. Grantees that use funds for demolition **will not** have to provide 1-for-1 replacement as Community Development Block Grant (CDBG) program requires. They will have to document their demolition and conversion activities in their action plan.
- E. States will be permitted to spend the funds they receive in entitlement communities with the greatest need regardless of whether such community also receives a direct share of NSP funds. Contiguous entitlement cities and counties that are in the same metropolitan area may join together to undertake a joint program.
- F. The Notice provides for a reallocation of funds that are not used by entitlement communities and states. Reallocations will occur if a potential grantee fails to submit a substantially complete application by December 1, 2008 or it submits an application for less than the total amount of its allocation. In these cases, the unused funds will be reallocated with the state.
- G. The application of funds will consist of a substantial amendment action plan to the Consolidated Plan, as is used in the regular CDBG program.
- H. HUD is waiving the normal CDBG citizen participation process for the use of NSP funds. Instead, it will rely on a shorter process that is used with CDBG disaster funds. Grantees must publish the action plan via the usual methods and put it on the agency's internet site for 15 calendar days. Citizens must have equal access to the information. HUD will then undertake an expedited review, and once the environmental review is completed by the grantee HUD will release the funds.

- I. **Grantees must submit Action Plans no later than December 1, 2008.** Action Plans must include:
1. Summary needs data identifying areas of greatest need within its jurisdiction;
 2. Narrative describing how the distribution and use of funds will meet the statutory requirement that funds be targeted to areas of greatest need according to the formula elements, which may also include other relevant data;
 3. Narrative is also to include a definition of blighted structures in the context of state or local law and information on their demolition and conversion activities;
 4. Definition of affordable rents when using the funds for rental housing;
 5. Description of how the grantee will ensure continued affordability for NSP-assisted housing and a description of the rehabilitation standards that will apply;
 6. Description by activity of the use of the funds for eligible uses under NSP, eligible CDBG activities, areas of greatest need, expected benefit to income qualified households and appropriate performance measures (units to be acquired, rehabbed or demolished for income levels at or below 50% of area median income (very low-income), 51-80% of AMI (low-income), and 81-120% of AMI (middle income);
 7. Name and location of entity to carryout the activity;
 8. Expected start and end date;
 9. The discount for acquisition to be used (5% from current appraised market value for single purchases and 15% for bulk purchases);
 10. Range of interest rates;
 11. Duration or term of assistance;
 12. Tenure of beneficiaries (rental or homeownership);
 13. Statement if the activity produces housing how the design will ensure continued affordability for the maximum extent practical and for the longest feasible term for households between 50-120%;
 14. Statement on how the activity will benefit households at or below 50% of median income; and
 15. Reference on how and whom citizens may contact for information.
- J. HUD encourages grantees to carry out their program in the context of a comprehensive plan for their vision of stable and sustainable neighborhoods.
- K. NSP funds may only be used to address the low-and moderate-income national objective, not for slums and blight or urgent needs. Grantees must document that at least 25% of the NSP funds that it receives have been spent on housing for those at or below 50% of AMI. If used for rental housing, then grantees must publicize their definition of affordable rents. In addition and to expedite the timely use of funds, those eligible for grants may incur pre-award costs as if they were a new CDBG grantee to develop their action plan amendment and other necessary administrative actions.
- L. Homeowners that are assisted with NSP funds are required to undergo eight hours of pre-purchase counseling from a HUD-approved provider.

M. HERA specifies the Eligible Use Of The Funds:

1. Create financing mechanisms to purchase and redevelop abandoned and foreclosed properties through soft-second loans, loan loss reserves, and shared-equity loans;
2. Purchase and rehabilitation of abandoned and foreclosed homes to re-sell, rent or redevelop;
3. Establish land banks of foreclosed homes;
4. Demolish blighted structures; and redevelop demolished or vacant properties.

According to the Notice, funds can also be used for public facilities and improvements, public services for counseling for those benefiting from NSP funds, direct homeownership assistance, and the construction and rehabilitation of commercial and industrial buildings.

HUD will not consider exception requests to allow foreclosure prevention or demolition of non-blighted structures or allow purchase of homes that are not abandoned or foreclosed. CDBG's prohibition on using funds for new construction is waived to the extent that new construction is necessary to redevelop demolished or vacant properties.

- N. NSP assisted-rehab must comply with applicable laws, codes and other requirements related to housing safety, quality and habitability, as well as improvements to increase energy efficiency and conservation.
- O. Green building techniques are encouraged.
- P. The sale of homes acquired with NSP funds must be in an amount equal to or less than the cost to acquire, rehab and dispose of the home. The maximum sales price is determined by aggregating all costs, including activity delivery costs related to the sale. HUD will not allow the cost of boarding up, lawn mowing or property maintenance to be included in the sales price.
- Q. Grantees are advised to consider Uniform Relocation Act (URA) requirements in designing their programs. Grantees must also follow their anti-displacement and relocation plans already in effect for the CDBG and HOME programs.
- R. The Notice contains a number of definitions.
1. Abandoned property is defined as an instance when the mortgage or tax foreclosure process has been initiated for the property, and no mortgage or tax payments have been made in 990 days and the property has been vacant for 90 days.
 2. Blighted structures are those that have objectively determined signs of deteriorated conditions sufficient to be a threat to health, safety and public welfare. Current market appraised value is the value of a foreclosed home established through an appraisal made in conformity with the requirements of the URA (at 49CFR 24.103) and complete within 60 days prior to an offer to purchase.
 3. A foreclosed property is one that is at the point, as defined by state or local law, where the mortgage or the tax foreclosure is complete and the title for the property has been transferred under a foreclosure proceeding or a transfer in lieu of foreclosure.

4. A land bank is defined as a governmental or non-profit entity that assembles, temporarily manages and disposes of vacant land for the purpose of stabilizing neighborhoods and encouraging redevelopment. Such land may be held for no more than 10 years.
- S. Program income earned during the first five years must be used for the same types of activity. Program income received after five years must be remitted back to HUD, although HUD can grant an extension.
- T. HUD will be using the Disaster Recovery Grants Reporting system rather than IDIS. Grantees will have to report to HUD on their progress in using NSP funds. Each report will include use of funds, project name, activity, location, national objective, funds budgeted and expended, non-NSP funds used, beginning and ending of activities and the number of low- and moderate-income households benefited.
- U. Grantees must make the same certifications they make with regular CDBG funds.

This is a synopsis of a summary prepared by National Association of County, Community and Economic Development (NACCED).

Founded by Jeremey Newberg in 1995, Capital Access Inc. is a management consulting firm for housing and redevelopment agencies. We are a HUD HOME Technical Assistance provider in Connecticut, Delaware, Indiana, Kentucky, Missouri, Pennsylvania, and West Virginia.

We offer on-the-ground expertise and develop strategies that contribute to the stabilization of communities, revitalization of neighborhoods, and economic recovery of cities and states. We plan. We implement. We make revitalization happen.

CALL US FOR MORE INFORMATION

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

Jeremey Newberg, President
jn@capitalaccessinc.com
215-551-2000

Wendy Smith, Senior Consultant
wks@capitalaccessinc.com
270-402-1478

Whitney Simic, Associate Consultant
wsimic@capitalaccessinc.com
215-551-2000