

Neighborhood Stabilization Program (NSP): Stabilizing and Revitalizing Neighborhoods

This document was developed by ICF International, a national expert in the CDBG Program, as well as in state, local and nonprofit affordable housing and community development program design and implementation. It provides a brief summary of the Neighborhood Stabilization Program (NSP) under Title III of Division B of the Housing and Economic Recovery Act (HERA) and indicates several key program design or implementation questions that grantees will need to consider. Grantees are strongly encouraged to review the statute - Title III of Division B of the Housing and Economic Recovery Act of 2008 - and the complete HUD Federal Register Notice published September 29, 2008. For more information about NSP or about how ICF can assist grantees to design and implement NSP programs, visit the ICF website at icfi.com/nsp.

REQUIREMENT	PROGRAM DESIGN & IMPLEMENTATION
Action Plan	
<p>The grantee must submit a substantially complete application by December 1, 2008.</p> <p>The application will consist of a substantial amendment to their existing Consolidated Plan and Action Plan that is specific to the NSP funding. This plan amendment needs to include a discussion of how the grantee intends to use the NSP funds for eligible activities.</p> <p>The citizen participation process is abbreviated to 15 calendar days for these funds but the grantee must post the plan on its website.</p>	<p>There are several key topics for grantees to consider when developing the NSP Action Plan:</p> <ul style="list-style-type: none"> ✓ Approach to determining greatest areas of need and community interests ✓ Method of program delivery: <ul style="list-style-type: none"> ▪ Will the grantee undertake the activities directly or involve partners such as state recipients, subrecipients or developers? ▪ Which potential partner organizations have the experience and capacity to do this work? What roles are they interested in playing? ✓ What changes will the grantee need to make in current staff and operations in order to: <ul style="list-style-type: none"> ▪ Use funds within 18 months? ▪ Expend funds within four years? ▪ Maintain properties before disposition, if acquired? ▪ Dispose of property with 10 years if land banked? ▪ Meet rehabilitation standards? ▪ Collect and track program income? ▪ Meet the URA requirements? ▪ Meet the environmental requirements? ✓ How will the grantee define: <ul style="list-style-type: none"> ▪ "Blight" ▪ "Local Rehabilitation Standards" ▪ "Affordable Home Price" ▪ "Affordable Rent" ✓ What business does the grantee want to be in given the local market characteristics (see eligible activities below for more information): <ul style="list-style-type: none"> ▪ Land bank ▪ Demolition ▪ Development (rehabilitation or new) and/or finance ▪ Homeownership v. rental housing

Action Plan (continued)	
	<ul style="list-style-type: none"> ✓ Process used to select eligible projects to fund and anticipated beneficiaries ✓ Approaches to distributing funds to the greatest areas of need (loans, grants, loan loss reserves, shared equity loans etc) and terms of that assistance ✓ Budget by activity type and for administration ✓ How the grantee will assess the performance of their NSP program and ensure long term impact from the investment of NSP funds
Eligible Activities	
<p>NSP eligible activities are a subset of the eligible CDBG activities:</p> <ul style="list-style-type: none"> ✓ Establish financing mechanisms – done as an activity delivery cost ✓ Purchase and rehabilitate abandoned or foreclosed properties ✓ Establish land banks (see below for more information) ✓ Demolish blighted structures ✓ Redevelop demolished or vacant properties <p>Grantees may also request approval of additional eligible activities if those activities are in compliance with the NSP statute.</p> <p>Grantees cannot use NSP for foreclosure prevention activities or to purchase properties that are not abandoned or foreclosed.</p> <p>NSP can be used to purchase and redevelop FHA foreclosed properties.</p> <p>NSP funds cannot be used by grantees to buy tax foreclosed properties from themselves (e.g, properties already owned by the grantee and taken through local tax foreclosure). However, the grantee can pay for reasonable appraisal and title transfer costs for these properties.</p>	<p>In selecting activities, grantees should consider questions such as:</p> <ul style="list-style-type: none"> ✓ What is the current status of foreclosed units in the community? How big is the inventory and where is it located? What is its physical condition? ✓ What is the market for the resale of foreclosed units? Are there a sufficient number of income eligible homebuyers who have the financial capacity and credit to buy these units? ✓ What types of assistance are needed to assist these households to become buyers? Down payment assistance? Mortgage finance assistance? ✓ If there are currently an insufficient number of homebuyers to absorb the available units, what other program approaches will the grantee consider? Land banking? Acquisition with demolition? Development of rental housing? Development of special needs housing? Re-use as commercial space? <p>Grantees may want to contact their local HUD Field Office to learn more about FHA foreclosed homes and the process for buying these homes. For a listing of HUD foreclosed homes in your area, go to: hud.gov/homes/index.cfm</p>

Land Banking	
<p>Grantees may use NSP funds to land bank. The grantee may use the area benefit (LMMA) national objective if the grantee is doing more than just acquisition, such as maintenance and demolition. The land bank may not hold property for longer than 10 years.</p>	<p>Grantees that plan to land bank, will need to consider:</p> <ul style="list-style-type: none"> ✓ Where the land bank will operate? ✓ How the land banked properties will be re-used? ✓ How the land banked properties will be maintained while held by the grantee or entity managing the land bank for the grantee? ✓ How the grantee will ensure that the land banked properties are sold or otherwise transferred from the land bank, or redeveloped within 10 years? <p>Information on land banking may be found on Knowledgeplex at: knowledgeplex.org/search.html?key=metadata&value=land+banks&doSearch=Search</p>
Income Eligibility	
<p>Grantees may only use NSP funds to benefit households at up to 120% of median and below.</p> <p>The grantee must use at least 25% of funds to purchase and redevelop homes to house individuals and families at 50% of median and below. Compliance with this will be determined at grant close-out.</p>	<p>The NSP expands income eligibility to households at 120% of median and, unlike the regular CDBG program, also includes a target for assistance to very low income beneficiaries. Grantees will want to consider:</p> <ul style="list-style-type: none"> ✓ What changes are needed in program designs and marketing to reach households between 80% and 120% of median. ✓ How NSP resources might be combined with other resources to provide housing for very low income special needs populations. ✓ How best to meet the 50% targeting requirement – ownership, rental housing, or special needs housing. ✓ Whether to use innovative homeownership models such as lease purchase, Individual Development Accounts, sweat equity, cooperatives or land trusts to provide ownership opportunities for households below 80% of median. <p>Although most CDBG grantees have a methodology for documenting income eligibility, the new income targeting and reporting requirements for NSP may require some modifications to the process.</p> <p>The NSP notice does not dictate third party verification of income. So, it appears likely that, similar to standard CDBG program rules, grantees may elect to use a verifiable self-certification of income. However, in order to ensure that all households are eligible, grantees may wish to back-up this self-certification with source documentation such as pay stubs, tax returns, bank statements etc. Grantees may find useful forms and information in HUD’s <i>Guide to Determining Income</i> at: hud.gov/offices/cpd/affordablehousing/library/modelguides/1780.cfm</p> <p>And HUD’s tool for calculating income eligibility at: hud.gov/offices/cpd/affordablehousing/training/web/calculator/</p>

National Objectives	
<p>All NSP activities must meet the low/moderate income National Objective. The grantee may use the <i>housing</i> national objective for housing activities serving households at up to 120% of median income (LMMH). <i>Area benefit</i> activities may serve a service area where 51% of the residents are at 120% of median and below (LMMA). If the grantee reuses acquired properties for commercial activities, the <i>job creation and retention</i> national objective may be used for persons taking or holding jobs at up to 120% of median income (LMMJ). <i>Limited Clientele</i> may be used for services and other activities focused on persons up to 120% of median (LMMC). The NSP funds may not be used under either the urgent needs or the slums and blight National Objective.</p>	<p>Unless the grantee intends to target all of their NSP resources to households below 80% of median and below, grantees will need to modify forms to document national objective compliance.</p> <p>Grantees should exercise caution when selecting a national objective. In most cases, especially those involving the rehabilitation and sale of housing units to individuals, the LMMH national objective will be the most appropriate. LMMA may only be appropriate for those NSP activities that benefit a neighborhood service area not those that serve individual households. If a grantee has a question about the appropriate national objective for a specific project, they should consult with their local HUD Field Office.</p>
Joint Applications	
<p>Grantees may elect to undertake a joint request for funds to operate a program in combination with another contiguous entitlement jurisdiction.</p> <p>Grantees may also participate as a part of an existing urban county relationship. Grantees may also elect to choose another jurisdiction as a subrecipient.</p>	<p>Grantees should assess their capacity to undertake NSP activities. If the grantee does not have sufficient capacity or if the issue with abandoned or foreclosed properties expands into a multi-jurisdictional area, the grantee may wish to consider a joint request.</p> <p>Consider tradeoffs:</p> <ul style="list-style-type: none"> • Time to negotiate the agreement and still get action plan completed by December 1 v. long term efficiency in getting money used within 18 months and expended within 4 years. • Strengths and weaknesses of each potential partner • Cost efficiencies of joint operation v. cost and time required to collaborate
Key Definitions	
<p>HUD notice includes key definitions such as Abandoned, Blighted Structure, Current Market Appraised Value, Foreclosed, Land Bank</p>	<p>Grantees need to develop standards for determining which homes in its community are “abandoned”, “blighted”, or “foreclosed”.</p> <p>Each community needs to define what it considers “blighted”.</p>

Distribution of Funds	
<p>Grantees must distribute and use funds in the greatest areas of need within the community. This includes areas with the greatest percentage of home foreclosures, the highest percentage with subprime mortgages, and those likely to experience a significant rise in home foreclosures.</p>	<p>Grantees need to assess which neighborhoods within their community are particularly distressed due to foreclosures. This data may be difficult to obtain and grantees may wish to coordinate with their local lenders, property tax offices and courts in order to obtain information on foreclosures, subprime mortgages and predicted future foreclosures.</p> <p>For an overview of subprime and foreclosure rates by community, go to the Federal Reserve Bank at newyorkfed.org/mortgagemaps/</p> <p>Additional information under the Home Mortgage Disclosure Act (HMDA) may be found at the Federal Financial Institutions Examination Council website at: ffiec.gov/hmda/</p> <p>In some target neighborhoods and for some eligible NSP activities, NIMBYism may be an issue. The grantee will likely need to work with remaining residents of those neighborhoods in order to come up with its approach to investing funds. Grantees may wish to establish partnerships with community organizations in order to develop approaches that not only address the foreclosure problem and meet overall grantee community development goals, but also meet the needs of other neighborhood residents. For tools and reports on addressing NIMBY, go to HUD User at: huduser.org/search/results.asp?cref=http://www.huduser.org/search/hucsbe.xml&client=google-csbe&cof=FORID:11;NB:1&sa=Search&q=nimby#1160</p>
State Distribution of Funds	
<p>State grantees may distribute NSP funds directly to projects, rather than working through units of general local government, as is required for CDBG.</p> <p>States may also distribute NSP funds to entitlement areas and tribes, if these are the areas of greatest needs within the state.</p>	<p>State grantees will need to determine how to distribute funds given NSP's targeting requirements and increased flexibility to operate a centralized program.</p> <ul style="list-style-type: none"> ✓ Does the state have the capacity, or can it quickly contract for capacity, to operate a centralized program? ✓ Can the state utilize its existing state recipients to administer the program? In some states the areas of greatest need may not be in the local governments that participate in the State CDBG program but rather the areas with highest need may be located in entitlement areas or in smaller communities that are not currently operating CDBG programs. ✓ If the areas of significant need are in smaller localities, do the local governments have the capacity to undertake the NSP activities? ✓ Can the state spend the NSP funds more quickly if it directly contracts with developers, subrecipients, CBDOs etc? <p>If the state elects to work via new state recipients, developers, subrecipients, or CBDOs, it will likely need to modify its project application process, develop new agreements, and provide training and support to ensure compliance with CDBG and NSP requirements. .</p>

Timeliness	
<p>Grantees have 18 months to use NSP funds. HUD has defined “use” as being obligated for eligible activities. NSP funds are “obligated” when orders are placed, contracts awarded, or services received.</p> <p>If the grantee earns program income from the NSP activities, the 18 month test will be met if the grantee’s expenditures and unliquidated obligations are at least equal to the NSP allocation.</p> <p>Funds must be expended within four (4) years.</p>	<p>The 18 month timeframe may be a challenge for some grantees. To help expedite “use” of NSP funds:</p> <ul style="list-style-type: none"> ✓ Evaluate the attractiveness of a program design against the ability to obligate funds quickly since some program designs may be very attractive but it may not be feasible to obligate funds quickly. ✓ Develop standardized forms and a process for quickly reviewing and committing to projects. Ensure that the review process is prudent but not unduly burdened by administrative steps. ✓ Seek partners, such as nonprofits, developers and contractors, who can assist with implementation. ✓ Make use of staff and expertise from other grantee agencies such as code enforcement inspectors or public housing authority occupancy experts.
Pre-Award Costs	
<p>Grantees may incur and reimburse eligible NSP pre-award costs related to developing the Action Plan amendment and other administrative actions.</p>	<p>If the grantee has already used its CDBG administrative funds, it should plan to use the NSP pre-award provisions. Be certain to document all costs and their eligibility under the NSP rules so that these costs may be reimbursed once the amended Action Plan is found to be compliant and the NSP grant agreement with HUD is executed.</p>
Planning and Administration	
<p>Up to 10% of the NSP grant and 10% of any program income may be used for administration and planning of these grants.</p>	<p>For some grantees, the 10% administrative cap may seem to be restrictive, especially if they are accustomed to the CDBG 20% cap. Options to address this issue include:</p> <ul style="list-style-type: none"> ✓ If NSP is combined with CDBG funds, use some of the CDBG program administration funds to cover NSP administration; ✓ Carefully track all “program delivery costs” and charge those costs to direct activities rather than to administration of the program; ✓ Seek partners, such as CHDOs, who may have other sources of funds for their operations, such as HOME CHDO operating funds.
Counseling	
<p>Grantees must require each NSP-assisted household to complete at least 8 hours of housing counseling.</p>	<p>For many CDBG grantees, this requirement will be a new addition to their program. For a list of HUD certified housing counseling agencies in your community, go to: hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm</p> <p>Grantees should consider the appropriate content to be provided in the sessions and how and when to incorporate the housing counseling into their homebuyer selection and financing process. The grantee may also wish to create partnerships with local HUD housing counseling agencies so that these agencies can act as a referral resource for potential buyers.</p>

Combination of NSP and CDBG Assistance	
<p>NSP assistance can be combined with CDBG assistance in eligible projects. However, the waivers and flexibilities of NSP only apply to those funds and not to the use of regular formula CDBG funds, even if they are combined in a project. Except as otherwise stated in the HUD notice, all the CDBG rules apply to NSP.</p>	<p>The grantee needs to determine if it will combine CDBG and NSP funds as well as whether HOME, HOPWA, McKinney or other available funds will be used in conjunction with the NSP resources.</p> <p>In deciding whether to combine funds, the grantee should consider whether there are eligible activities that are ineligible under NSP but may be paid for with CDBG or other funding.</p> <p>In considering how to use multiple sources of funds, some of the key decisions are:</p> <ul style="list-style-type: none"> • Should the grantee keep NSP and regular CDBG funds totally separate? • Should the grantee use NSP and CDBG funds in the same project to achieve desirable outcomes – for example, add NSP funds to an existing downpayment assistance program? • Should the grantee use NSP and CDBG funds in complimentary way to achieve desirable outcomes - for example, use NSP funds to acquire homes in neighborhood and use CDBG funds for job training and social services?
Rehabilitation Standards	
<p>Rehabilitation must comply with applicable laws, codes and requirements related to safety, quality and habitability. The grantee’s action plan amendment must describe the rehabilitation standards that will be used for NSP. Green building and energy efficiency improvements are also allowed.</p>	<p>Grantees may wish to look at the rehabilitation and property quality standards used by their local or state HOME program. Another resource for state and local codes includes the International Code Council at: iccsafe.org/cs/</p> <p>More information on green building, visit the HUD website: hud.gov/offices/cpd/affordablehousing/training/web/energy/help/green.cfm</p>
Other Federal Requirements	
<p>All other federal requirements, including the requirement to affirmatively further fair housing, remain in place for NSP funds, except as indicated below for Section 104(d).</p>	<p>Most grantees already have procedures for addressing these other federal requirements. However, grantees may wish to review these procedures and update them to be specific to NSP funds.</p>
Relocation and Acquisition	
<p>The URA applies to NSP projects with acquisition, demolition or rehabilitation. The URA does not typically require appraisals for voluntary sales, but NSP does require an appraisal.</p>	<p>There are several circumstances when the URA may be an issue under NSP. Examples of situations that may trigger URA responsibilities include:</p> <ul style="list-style-type: none"> ▪ Voluntary purchase of foreclosed properties from lenders or servicers; ▪ Purchase of tenant-occupied foreclosed properties; and ▪ Sale of tenant-occupied homes that were purchased with NSP funds.

Relocation and Acquisition (continued)	
<p>The Section 104(d) one for one unit replacement requirements are waived for NSP. However, the grantee must describe its demolition and conversion plans in its amended Action Plan. Eminent domain may be problematic under NSP and grantees should consult local legal counsel before taking that type of action.</p>	<p>For more information about the URA requirements, go to the HUD website at: hud.gov/offices/cpd/library/relocation/index.cfm and also look for guidance posted to HUD’s Neighborhood Stabilization Program web page at hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/</p>
Purchase Discount and Appraisals	
<p>Properties must be appraised in conformity with the standards in the Uniform Relocation Act and the appraisal must be done within 60 days of the offer to purchase.</p> <p>When buying foreclosed homes from lenders or other mortgagees, the purchase price must be at a discount from the appraised value. Grantees must seek a “maximum reasonable discount” from the seller, deducting the reasonable carrying costs that the mortgagee would have incurred if they had not sold the property to the grantee.</p> <p>The minimum discount is 5% for each NSP property. In addition, the average discount for the grantee’s entire NSP portfolio of properties is based on the discount method used by the grantee. If the grantee uses a detailed methodology that deducts total estimated carrying costs by the seller if this specific property were not purchased under NSP, the portfolio average discount must be 10%. If the grantee does not use this detailed type of analysis, the portfolio discount must be 15%.</p>	<p>All properties purchased by the program must be appraised. Grantees will want to consider the tradeoffs of:</p> <ul style="list-style-type: none"> • Using staff appraiser(s) • Relying on an appraisal provided by the financial institution selling the property • Contracting for appraisers through a procurement process. <p>For more information about certified appraisers, go to the Appraisal Foundation at appraisalfoundation.org/s_appraisal/index.asp</p> <p>Grantees will also need to develop a process for how to establish the price of the foreclosed homes it will purchase. Whether the grantee uses the 10% portfolio discount or the 15% portfolio discount will depend on the capacity to establish the estimated carrying costs of the seller.</p>

Affordability & Sale Price	
<p>Grantees must sell and rent units developed under NSP at an affordable price. The grantee must define "affordable rents" in its Action Plan. The HOME Program rent standards are considered a safe harbor and any other standard must be both enforceable and longer.</p> <p>The price for selling homes to assisted households under NSP cannot exceed the cost to acquire and redevelop/rehabilitate the home. In determining the sale price, the grantee may consider the direct and activity delivery costs but cannot consider maintenance costs, such as boarding up units, lawn mowing etc.</p>	<p>In determining affordable rents under the NSP program, the grantee may wish to look to one of three readily available sources:</p> <ul style="list-style-type: none"> ✓ Local HOME program rents: hud.gov/offices/cpd/affordablehousing/programs/home/limits/rent ✓ HUD Fair Market Rents: huduser.org/datasets/fmr/fmrs/index.asp?data=fmr08 ✓ Low Income Housing Tax Credit rents: Consult the tax credit agency in your state. <p>In determining the price to sell homes to individual buyers, grantees may want to consider factors such as:</p> <ul style="list-style-type: none"> ✓ Grantee's program goals in terms of target households ✓ Average home price that is affordable to targeted buyers ✓ Available levels of NSP, CDBG, HOME and other down payment, closing cost and financing assistance for buyers ✓ Building in a "cushion" for these buyers so that they may afford to maintain their home
Program Income	
<p>Program income under NSP is defined in the same way as CDBG. However, under NSP the use of program income is treated differently. All NSP program income must be repaid to and used by the grantee.</p> <p>Program income earned before 7/30/13 must be used for other NSP activities. Program income earned after 7/30/13 must generally be remitted to the Treasury. However, income earned after 7/30/13 may be retained and reused by the grantee if HUD approves a re-use request by the grantee.</p> <p>No profit above cost can be earned on the sale of NSP assisted properties to an individual buyer. See the text above about sale price.</p>	<p>Grantees are going to need to establish a process for tracking key program income questions such as:</p> <ul style="list-style-type: none"> ✓ When was income earned? ✓ Who earned the income and how will it be returned to the grantee? ✓ What expenses were incurred to generate the income (program income is net of expenses)? ✓ What process will be used to track the receipt and use of program income prior to 7/30/13, including tracking for purposes of the 10% administration cap and in order to ensure that NSP program income is used before additional draw downs of funds

Reporting	
<p>Grantees will use the Disaster Recovery Grant Reporting (DRGR) system for reporting. The CAPER will not be required for NSP funds. HUD will issue additional guidance regarding performance measures for NSP.</p> <p>Grantees will submit a quarterly report to HUD on NSP program status and will provide monthly reports of obligations and expenditures.</p>	<p>Grantees that have not used DRGR will need to become familiar with its requirements and screens. They may wish to update their data collection forms to track with the DRGR system. For more information, go to: https://drgr.hud.gov/DRGRWeb/index.jsp (note: HUD may issue additional edits or guidance on using this for NSP).</p> <p>Grantees will also need to determine who will be responsible for collecting, writing and sending the monthly and quarterly reports. This may be especially challenging if the program is implemented using subrecipients or state recipients and the grantee will need to develop a clear and absolute process for receiving timely reports from these partners so that it may report to HUD.</p> <p>Grantees will want to carefully consider how they will collect and maintain data such as the appraised value of acquired property, costs of maintenance, disposition price, etc. in order to document compliance with various program requirements.</p>

About ICF International

ICF International (NASDAQ:ICFI) partners with government and commercial clients to deliver consulting services and technology solutions in the energy, climate change, environment, transportation, social programs, health, defense, and emergency management markets. The firm combines passion for its work with industry expertise and innovative analytics to produce compelling results throughout the entire program life cycle, from analysis and design through implementation and improvement. Since 1969, ICF has been serving government at all levels, major corporations, and multilateral institutions. More than 3,000 employees serve these clients worldwide. ICF’s Web site is icfi.com.

For More Information

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