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Spotlight!

Pre-implementation findings from the Neighborhood Stabilization Program

- Milwaukee, Wisconsin
- Lafayette, Indiana
- Cook County suburbs

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Pre-implementation findings from the Neighborhood Stabilization Program:

Milwaukee, Wisconsin, Lafayette, Indiana, and Cook County suburbs

by Robin Newberger

Introduction

In 2009, states, counties, and cities across the country applied for approximately $3.9 billion from the United States Department of Housing and Urban Development (HUD) to confront the problems of foreclosures and property abandonment. The Neighborhood Stabilization Program (NSP) is the principal federal response to address the impact of foreclosed properties on neighborhoods. NSP provides federal grants to every state and certain local communities to purchase foreclosed or abandoned homes and rehabilitate, resell, or redevelop them to stem the decline of values of neighboring homes. Under NSP1, HUD allocated the money to 308 eligible state and local governments (50 states plus 258 cities and counties). Direct entitlement grantees (those that received the funds directly from HUD) also had the authority to re-allocate these funds to other cities and towns that did not receive an NSP grant from HUD.

This article analyzes the experiences of launching an NSP project at three NSP sites in the Federal Reserve Bank of Chicago's district. The sites are Milwaukee, Wisconsin, Lafayette, Indiana, and the southern suburbs of Cook County, Illinois. At each of these sites, the local foreclosure problem was (self) described as "severe" and each received about the same amount of NSP funds to stabilize the impacted neighborhoods. But these sites were also a diverse group in terms of the geographic scope of their projects and the process by which they received NSP funding: Milwaukee was an entitlement city, Lafayette was a sub-grantee of the state of Indiana, and the suburban Cook County program received its NSP1 funding from the county, which itself was a direct grantee from HUD.

The discussion that follows is based on a survey developed through a team of Community Affairs researchers in the Federal Reserve System, and follow-up interviews conducted by the Community Development department at the Federal Reserve Bank of Chicago. The survey asked grantees across the country about the causes of foreclosures in their areas, their capacity to carry out NSP activities, the types of projects they intended to do, the administrative hurdles they faced getting started, and how they planned to measure success. (See Appendix A for selected results.) The face-to-face interviews conducted by the Chicago Fed allowed three of the NSP allocatees to expound on these themes and describe the thinking behind their project formation in greater detail.

At the time of the interviews in late 2009, it was too early for NSP grantees and sub-grantees to say which strategies were working best. However, they were able to talk about the circumstances and factors that either helped or hindered their initial progress. These responses are organized into five main topics below:

- the grantee/sub-grantee distinction;
- the size of the problem versus the size of projects;
- the value of partnerships and coordination with other organizations;
- the challenge of selecting properties; and
- expectations for support from financial institutions.

This synthesis is intended to highlight some of the background considerations that informed how grantees developed their programs (and which are likely shared by many others across the country), and to give a better understanding of some of the specific hurdles that NSP sites faced – and surmounted – in working through complex issues on a short timetable. With NSP2 grants having been awarded in early 2010, this comes too late to inform planning decisions for the second round grantees.[1] The audience for this discussion includes grantees for the third round of NSP funding whose applications are due in March 2011, as well as organizations carrying out neighborhood stabilization and community development projects that are not funded by NSP grants.

Table 1: NSP-funded activities by site

Eligible Use Activities:	Milwaukee, WI	Lafayette, IN	Cook County Collaborative, IL
Financing Mechanisms/Home Ownership Assistance	2 programs, 80 units	17 units	0
Acquisition and Rehabilitation	2 properties	1 multi-family; 8 single-family units	50 units
Land Bank	30-40 units	0	0
Demolition	75 units	1 multi-family; 6 single-family units	48 units; 21 buildings
Redevelopment	40 units	90 multi-family; 6 single family and 10 new single-family	126 units
NSP Award	$9.2 million	$7.8 million	$9 million
Project Budget	$9.2 million	$20 million	N/A

Note: "Purchase and rehab" and "redevelopment" are listed as one category in the statute.
Sources: City of Milwaukee Neighborhood Stabilization Program Substantial Amendment; Lafayette, Indiana Neighborhood Stabilization Program Comprehensive Neighborhood Revitalization Fund Proposal Submission; South Suburban Collaborative list of NSP1-funded towns and projects.

Overview of projects at three NSP sites

Staff at the Milwaukee, Lafayette, and southern suburban Cook County sites have been overseeing and/or carrying out the range of stabilization activities permitted by the statute. The statute authorizes NSP funds for:

- financing the purchase and redevelopment of abandoned or foreclosed homes;
- purchasing and rehabilitating abandoned or foreclosed-upon properties in order to sell or rent them;
- establishing land banks for foreclosed homes;
- demolishing blighted structures; and
- redeveloping demolished or vacant properties.[2]

Table 1 gives an overview of the NSP-funded activities at each of the sites. Each of the sites planned to carry out at least three of these activities, and Milwaukee received funds to carry out all of them. The focus on acquisition and rehab was typical of the trend at NSP sites across the country, though fewer sites nationally had committed to redevelopment and demolition.[3]

The city of Milwaukee anticipated providing financing assistance for about 80 units through programs for owner-occupants and local landlords (about 21 percent of the budget); running a rental redevelopment program to help developers and landlords redevelop and rent foreclosed and abandoned properties through forgivable loans on a matched basis (27 percent of the budget); tearing down 75 units (14 percent of the budget); land-banking about 30 units (9 percent of the budget); and re-using vacant land to benefit neighborhoods, like urban gardens and storm water management (14 percent of the budget – not shown here).

The centerpiece of Lafayette's project was the redevelopment of a vacant and foreclosed multifamily apartment complex known as Bridgeway Apartments. In addition to the acquisition, demolition, and re-development of this property into the new "Glen Acre Commons," Lafayette's NSP activities included the acquisition and rehab of eight single-family houses currently in foreclosure; financing the purchase of these houses as well as of nine newly-constructed homes; the demolition of six single-family homes in the surrounding neighborhood; the redevelopment of six properties for single-family owner-occupied homes in partnership with Habitat for Humanity; and the construction of 10 units of single-family homes.

The South Suburban Housing Collaborative is a joint effort of 26 southern Cook County towns, which are members of the South Suburban Mayors and Managers Association (SSMMA). The original proposal from the Collaborative to the county was based on an integrated stabilization plan involving most of these members and totaling over $40 million. The proposal was an effort to link housing revitalization to economic development and transit opportunities. The activities listed in Table 1 reflect plans for the 11 members of the Collaborative that actually received NSP1 funding from the county. Forty-eight percent of the award was designated for rehab either for home purchase or rentals, 38 percent for redevelopment, and 8 percent for demolition.

NSP Neighborhoods

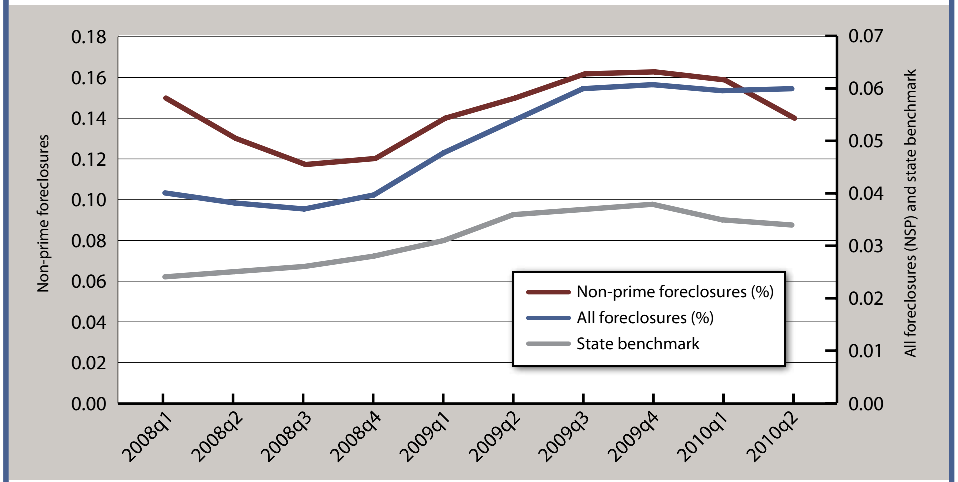
The city of Milwaukee has been focusing on zip codes with the highest percentage of home foreclosures, the highest percentage of homes financed by a subprime mortgage, and the areas most likely to face a significant rise in the rate of home foreclosures. The nonprime foreclosure rate in these neighborhoods has averaged about 14 percent since 2008, while the overall foreclosure rate has also been climbing between 2008 and 2010 to about 6 percent as of 2Q 2010 (according to data from LPS Analytics). The overall foreclosure rate for the state of Wisconsin is about half this rate.

In Lafayette, Indiana, the NSP is taking place in one census tract. This is the Glen Acres neighborhood, a first-ring suburb around Lafayette close to retail establishments, parks, the interstate, and city bus lines.

The nonprime foreclosure rate in this census tract has continued to climb since 2008 to about 20 percent as of 2Q 2010. The overall foreclosure rate has been about 2 percent over the period, below the state rate of about 4 percent.

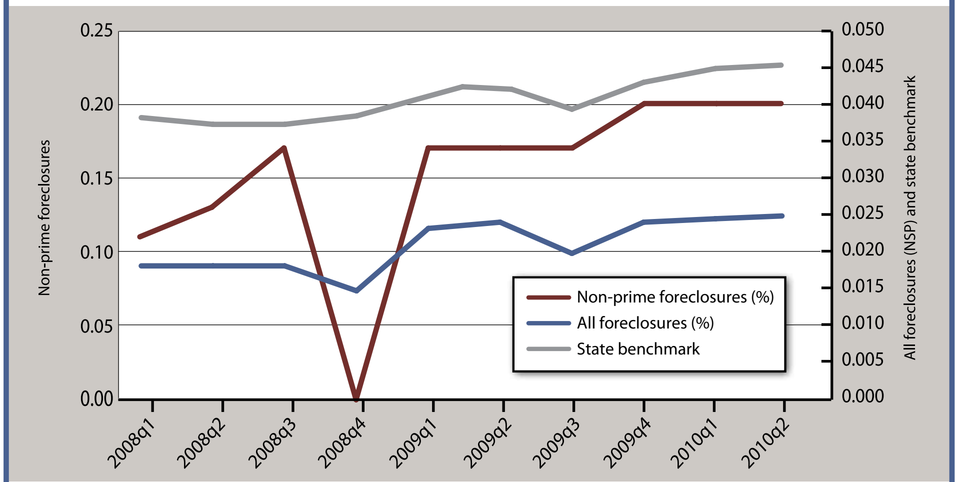
The towns included in the South Suburban Housing Collaborative are facing a nonprime foreclosure rate of over 15 percent, and an overall foreclosure rate of about 8 percent. The overall rate of foreclosures in the state is about 6 percent. The towns that received NSP1 funding from the county are Dolton, Ford Heights, Harvey, Hazel Crest, Lansing, Lynwood, Park Forest, Phoenix, Richton Park, Robbins, and South Holland.

Foreclosures, Milwaukee NSP site



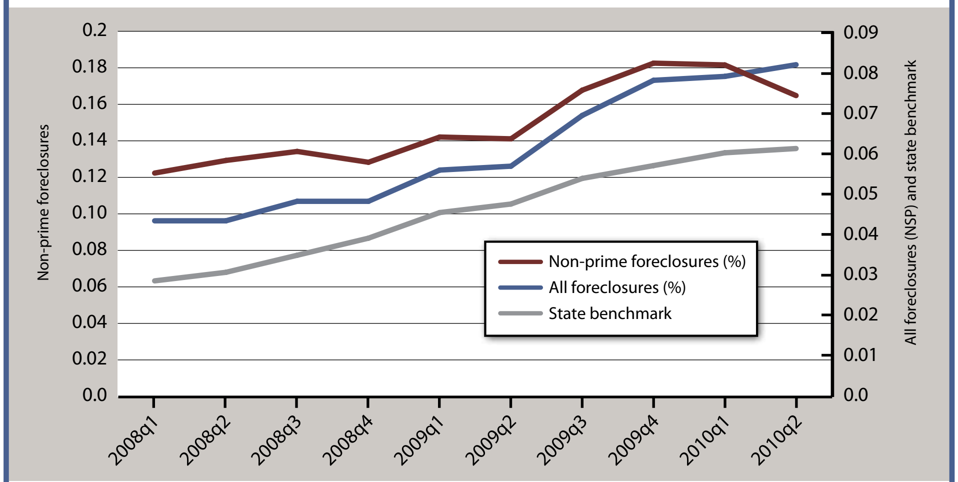
SOURCE: LPS Applied Analytics.

Foreclosures, Lafayette NSP site



SOURCE: LPS Applied Analytics.

Foreclosures, Cook County NSP site



SOURCE: LPS Applied Analytics.

Pre-implementation findings from three NSP grantees

The issues identified below are an attempt to synthesize the pre-implementation experiences at the three sites in the Federal Reserve Bank of Chicago's district. These issues reflect the activities and concerns taking place during the early stages of the programs, given the timing of the conversations in late 2009 and early 2010.[4] At the time of the interviews, one of the programs had not begun to draw down NSP money, and another had only recently signed its contract with the NSP direct grantee. In addition, as the grantees and sub-grantees ramped up their programs, not all plans were being followed as they had originally been designed. For example, the city of Milwaukee was expecting to shift resources away from investor-home buyers given a lack of bank financing for local investors. In southern Cook County, the number of towns that received funds and the particular purposes for which the funding was awarded did not completely match the Collaborative's original strategic vision. These caveats underscore why these issues and findings described here may not be the same as those that have surfaced during the operational (and post-implementation) phases of the programs.

Issue #1:

Whether an entity is a direct or indirect grantee of the (NSP1) program can impact how well the NSP timeline is served.

NSP was created to be an immediate response to an immediate problem. According to the NSP program principles, NSP uses and activities are intended to "rapidly arrest" the decline of neighborhoods negatively affected by abandoned or foreclosed properties. From the date HUD signed grant agreements with the entitlement grantees, grantees had 18 months to obligate the money and four years to expend allocations (not including program income).

The same 18-month window applied to NSP sub-grantees as well, even if sub-grantees signed their own agreements with the direct grantee at a later date. In the case of sub-grantees, HUD allocated the money to the entitlement entity (state, city, or county), which then re-allocated the funds (entirely or in part) to a third entity that carried out the implementation of the project.

At the time of these interviews, the sites were at widely different stages of implementation. The city of Milwaukee, an entitlement city that received NSP money directly from HUD, signed its contract with HUD in March 2009. The city moved quickly to get started, having completed a framework for neighborhood stabilization through the Milwaukee Foreclosure Partnership Initiative (MFPI) prior to the NSP award in September 2008.[5] By 3Q 2009, the city had made inroads in its financing, demolition, land banking, and redevelopment plans, and had obligated 15 percent of its award. Half of its award was obligated by 1Q

NSP1 Timeline

July 2008: Housing and Economic Recovery Act (HERA) signed into law.

October 2008: HUD allocated formula allocations for the Neighborhood Stabilization Program (NSP) and published the Notice of Funding Availability (NOFA) with program rules.

December 2008: Entitlement states, cities, and counties submitted action plans to HUD that detailed planned uses for NSP funds.

March 2009: Grant agreements were signed with HUD; countdown began to obligate NSP money. Quarterly reporting to HUD began.

September 2010: Grantees had to obligate all of NSP1 funds or funds were subject to recapture.

March 2013: Grantees had to expend all NSP1 funds or funds would be subject to recapture.

NSP Timeline: City of Milwaukee

December 2008: Final Report of MFPI including recommendations for neighborhood stabilization

March 2009: Milwaukee signs grant agreement and NSP program is launched

June 2009: MFPI recommendation: Milwaukee Homeownership Consortium* is launched

July 2009: Milwaukee applies for competitive NSP2 grant Homeownership Consortium launched

July 2009: MFPI recommendation: Milwaukee Foreclosure Mediation Program is launched

March 2010: Milwaukee awarded NSP2 grant

September 2010: Milwaukee obligates 100% of its NSP1 award

NOTES: *A consortium of lenders, counseling agencies, government agencies, and academic institutions to assist home owners with loan modifications.

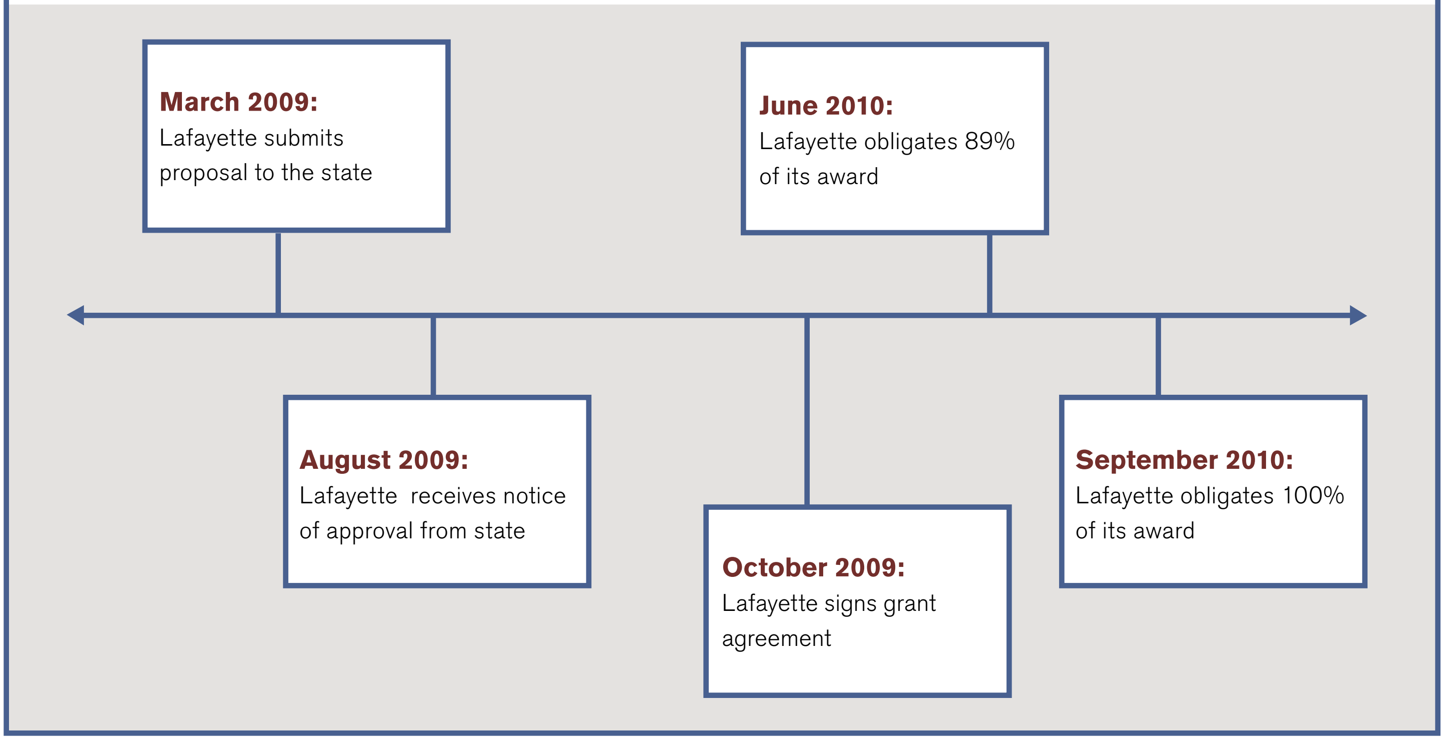
2010. By September 2010, the deadline for obligating NSP1 funds, the city of Milwaukee had not only obligated all of its NSP1 funds, but it had expended about a third of the money.

The city of Lafayette was not a direct HUD grantee and officially began its NSP program in October 2009. The city of Lafayette submitted its proposal to the Indiana Housing and Community Development Authority (IHCDA) in March 2009 and received approval in August 2009, but could not begin the program until IHCDA signed the grant agreement in October. The city of Lafayette was able to move quickly with important aspects of its acquisition and demolition plans despite the lag by using other sources of funding besides NSP. It used Community Development Block Grant (CDBG) funds for clearing the land for redevelopment and Tax Increment Financing (TIF) for infrastructure improvements in the NSP target neighborhood. With the support of the entire city, the NSP office had little difficulty in corralling other sources of funds for the project. This allowed the city to keep pace with its aggressive NSP timeline so that it was able to obligate nearly all its award three months ahead of the September 2010 deadline.

The South Suburban Collaborative followed a very different timetable. The Collaborative was neither a direct entitlement entity nor did it receive a sub-grant from the state. Rather, it received approval from Cook County for its NSP1 funds in November 2009. By April 2010, the county (which has allocated funds to other sub-grantees for other projects as well) had obligated just 20 percent of its award.[6] By July 2010, two months before the deadline to commit all funds, a handful of towns in the Collaborative had obligated 100 percent of their funds while a handful of others reported zero commitments.[7]

The various layers of government to which the SSMMA applied for funds was clearly a factor in the length of time it took to receive an award; but more specifically, the delay reflected the challenge of funding a cross-jurisdictional strategy when the traditional approach was to designate resources for autonomous cities and towns. The southern Cook County case is perhaps an extreme example, but it makes the point that it was not necessarily a quick or seamless process for sub-applicants to secure an award from formula grantees. Policymakers at various levels of government – federal, state, and local – may have understood the value of cross-border coordination, but many of the policies and procedures guiding the review and allocation process were not in place to support this strategy. As in Lafayette, third-party funding (from foundations) was instrumental in allowing the Collaborative to move forward while

NSP Timeline: City of Lafayette



they waited for formal approvals and signed contracts.

Issue #2:

Grantees must be highly strategic about where they spend the money given that NSP alone cannot offset the detrimental effects of foreclosures, even in smaller and mid-size towns.

To be sure, the funds provided through NSP1 far exceeded other resources available from public or private entities. The state of Wisconsin received about $50 million in total, $9.2 million of which went to Milwaukee as an entitlement city.[8] (See Table 2.) Lafayette, Indiana, received $7.8 million of the $150 million allocated to the state. This was the single largest award among all of the state's 21 (non-entitlement) sub-grantees. In Illinois, Cook County received $28 million from HUD as an entitlement county, and of that, the South Suburban Collaborative received about $9 million. The SSMMA combined these funds with additional resources and grants from other agencies, such as technical assistance from the Environmental Protection Agency and $3 million from a HUD sustainable community challenge grant to build out pieces of the plan that had not received NSP funding.

Table 2: NSP Allocation to States in the Federal Reserve Bank of Chicago's District (in millions)

	Illinois	Indiana	Iowa	Michigan	Wisconsin
Total State Allocation	$172.5	$151.9	$21.6	$263.6	$48.0
Portion to direct entitlement cities and counties	$119.4	$68.2	--	$164.9	$9.2
Remainder for state to allocate	$53.1	$83.8	$21.6	$98.7	$38.8

Sources: www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/states/ia.xls

But foreclosures, reale state owned (REO), vacancies, and falling home prices have continued to plague many of the hardest-hit neighborhoods. The grantees recognized that for the money to have an impact, they would have to focus their resources on a select number of neighborhoods. These were neighborhoods they saw as "tipping points." In Milwaukee, these were places where the foreclosure problem was not only "burning out of control," but it was also bringing down surrounding communities. In Lafayette, they reasoned that their interventions should include a foreclosed Section 8 complex that was also a magnet for crime and drugs. The inter-jurisdictional approach of the South Suburban Housing Collaborative was designed precisely for its strategic effect: to allow small, contiguous communities to coordinate their efforts around the stabilization and development of a transportation corridor running through the area.

In addition, the grantees chose neighborhoods where they could access additional funds to leverage with the NSP dollars. The city of Milwaukee chose neighborhoods where it ran other programs using CDBG and HOME funds, and could access loans for "green" building. At $20 million, Lafayette's plan costs about three times the amount of funds it received from NSP, but it determined that developers could finance half of the cost of the multi-family units with Low Income Housing Tax Credits; use CDBG funds for owner- occupied rehab in the neighborhood (for income-qualified home owners); and apply TIF funds from the Lafayette Redevelopment Commission to re-build surrounding infrastructure. In Cook County, the South Suburban Housing Collaborative chose areas that could be layered with stimulus dollars for energy efficiency, workforce development, and transit improvements. The plan was designed not only with the specific goal of mitigating the effects of foreclosures, but also to align with federal directives to coordinate housing, jobs, transportation, and land use policies. A 2008 Regional Transportation Authority grant to the SSMMA on the facilitation of transit-oriented developments helped inform the decision of where the South Suburban Collaborative, would focus its NSP efforts.[9]

Issue #3:

The successful execution of an NSP plan relies on partnerships with external organizations that have expertise in residential development, marketing to potential home owners, and other strengths not necessarily housed within the NSP grantee.

The Milwaukee, Lafayette, and southern Cook County programs varied in the types of expertise they sought and the stages of the projects in which they relied most on outside entities. In Milwaukee, internal expertise to carry out the project was largely in place prior to the project. The Department of City Development that operates the NSP program had years of experience with large-scale affordable housing developments and rental rehab programs. They had overseen financing mechanisms for home buyer assistance, demolished buildings, land banked properties, and partnered with private developers on redevelopment. Once NSP began, the city also identified partners outside of local government to supplement activities that the city could not do on its own. With no marketing budget for NSP, the city provided information about its home financing programs through events sponsored by Fannie Mae and Freddie Mac and from donated time from television stations. The city partnered with the realtors association, faith-based organizations, and aldermen to hold town meetings to attract interest in foreclosed properties, and with Marquette University for foreclosure mediation.[10]

In Lafayette, the redevelopment and community development departments operate the NSP program. This was the largest and most complex project that the city had ever undertaken, and they followed a steep learning curve to ready

South Suburban Collaborative NSP Timeline

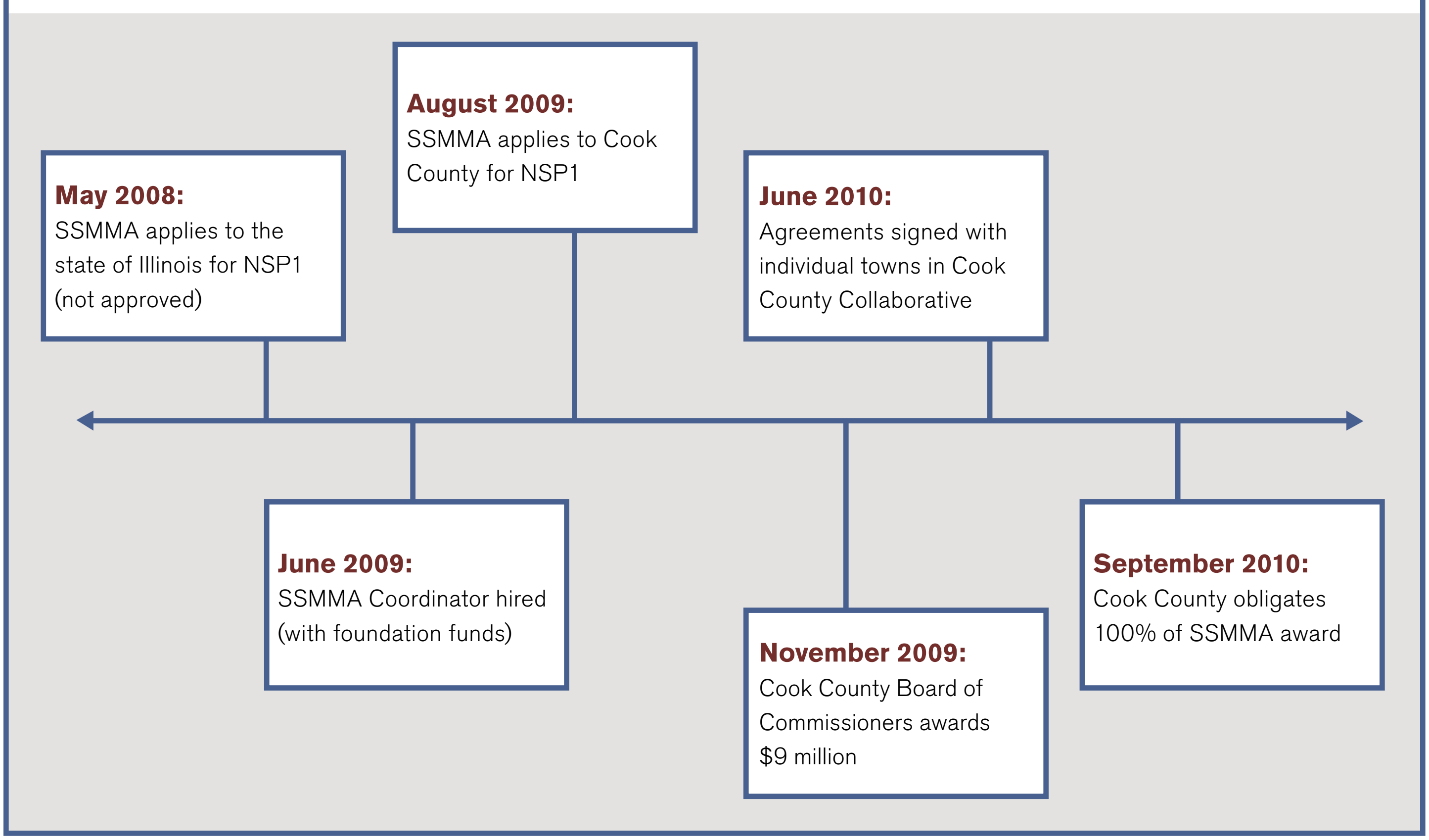


Table 3

Grant Size	Count of Awardees	County of "High Capacity" Partners	Avg. Number of "High Capacity" Partners/ Recipient
Under $2 million	17	40	2.4
$2 - $5 million	18	40	2.2
$5 - $10 million	21	78	3.7
$10 - $20 million	8	34	4.3
Above $20 million	4	19	4.8
All respondents	68	211	3.1

Source: *The Foreclosure Crisis: Lessons from NSP Recipients.*

themselves. They used a portion of the NSP budget allowed for administration to hire two project planner managers, one in the community development department and the other in the redevelopment department. Staff attended training and technical assistance offered by NeighborWorks®, HUD, and the state of Indiana, which they rated as being very effective. The city contracted with the private-sector Brinshore Development to develop the rental units (known as the Chatham Square project), and with Habitat for Humanity for the single-family units. The city also identified community-based organizations to provide complementary services for neighborhood residents, including the Tecumseh Area Partnership that offers job search and job skill programs (not funded with NSP dollars), and a neighborhood association that organizes residents of the neighborhood.

The Collaborative could not have advanced any of its goals without its expert partners. First, the Collaborative was organized with the help of three well-established regional planning organizations – the Chicago Metropolitan Agency for Planning, the Metropolitan Planning Council, and the Metropolitan Mayors Caucus – which had expertise in transportation, affordable housing, and economic development planning. In addition to advising and consulting directly on the project plan, these organizations hired a director of the Collaborative, a former director of community development in a south suburb who herself had years of experience managing government grants. The Collaborative also hired the well-regarded Chicago Metropolitan Housing Development Corporation (CMHDC), a nonprofit affordable housing developer, to oversee acquisition and construction activities. CMHDC is charged with ensuring that all predevelopment, acquisitions, rehab, redevelopment, resale, and rental activities are in compliance with local and federal regulations, making it possible for local developers to work across town borders without having to learn the rules and permitting processes of each locality. In addition, the Collaborative selected Habitat for Humanity to lead the single family-rehab work, and partnered with various nonprofits, including Diversity, Inc., NHS of Chicago, Spanish Coalition for Housing, South Suburban Housing Center, and the Regional Fair Housing Centers for home ownership counseling. As the project moved forward, the Collaborative also relied on external partners to carry out work that was not specifically funded by the NSP grant. For example, the Collaborative is working closely with a public interest law and policy center to set up a land banking entity.

Not all partners bring the same level of expertise to an NSP project. The survey of 90 NSP programs across the country suggests that there was a positive relationship between the size of an NSP grant and the availability of partners with resources and skills to work on a substantial number of units (see Table 3).

Each of the sites profiled in this study gave their partner organizations very positive reviews, though the size of their NSP grants fell in the mid-range of the awards granted to the NSP sites surveyed.

Issue #4:

The process of identifying properties for acquisition (rehab) and resale relies on methodical review by staff with knowledge of the local real estate market, particularly if they must compete with investors/ speculators for the most marketable units.

Not only are certain neighborhoods tipping points for community-wide stabilization, but certain properties are tipping points within particular neighborhoods. To select properties for their NSP plans, grantees/sub-grantees had to conduct intensive on-the-ground reconnaissance within the NSP neighborhoods. NSP staff in Milwaukee went trawling with representatives from the environmental assessment, zoning, and real estate departments. NSP staff in Lafayette combed through records at the sheriff's and assessor's offices to find out the scheduled sale of foreclosed homes in the targeted neighborhood. They drove through the neighborhood to get a first-hand look at the condition of each of the foreclosed properties. The towns within the South Suburban Collaborative were particularly pressed for time to identify properties before the obligation deadline, and had to rely on the expertise of their developer partners to select the appropriate sites. This was a time-consuming process that could not be standardized or duplicated from one NSP locality to the next. Each grantee/sub-grantee had to choose the properties that made the most sense for its particular plan and neighborhood issues.

The NSP recipients faced an additional challenge from competition with investors and speculators. In a situation repeated at NSP sites across the country, real estate investors often sought to purchase the same properties as NSP grantees – and often did so with greater success. Investors had the advantage when banks were looking to sell their inventory in bulk, when investors were willing to make cash purchases, and when investors could pay more than 99 percent of the fair market value of a property (the limit with NSP).[11] The National Community Stabilization Trust (NCST), which maintains a database of information from REO owners, was originally designed to deal with this challenge. Through the NCST's First Look program, participating lenders and servicers provide NSP grantees with an opportunity to purchase their bank-owned properties prior to these properties being placed for sale on the open market. However, the system did not always work according to plan. Many REO properties are not available through the NCST channel. Investors also have access to the same foreclosure sales databases as NSP grantees, and work with real estate agents to get early notice of impending foreclosures as well. In addition, whereas private investors may purchase foreclosed properties in "as-is" condition, NSP grantees have to meet environmental and other program stipulations that slow the servicers' disposition of REO properties.[12] Any delays in signing allowed other investors to come in and purchase the properties identified by NSP staff and their partners. Losing a property to an investor further delayed NSP implementation because it forced grantees to restart the search process.

Issue #5:

NSP sites need to identify direct incentives for banks to offer financing products to NSP buyers.

Grantees/sub-grantees are authorized to establish financing mechanisms for the purchase and redevelopment of residential properties, but NSP is not expected to be the main source of mortgage financing for home buyers. Among the NSP sites included in the survey of grantees across the country, 19 out of 45 who answered this question (about 40 percent) reported plans for creating financing mechanisms with their NSP money. (See Appendix A.) Two of the interview sites profiled here intended to use their NSP allocation for soft second mortgages and loan loss reserves to help reduce risk. The other did not plan to use NSP funds for home buyer finance.

Bank financing was also hard to come by. Only one of the sites had identified banks with particular mortgages product that could be used to finance NSP home buyers. These banks offered portfolio-held rehab/loan products that allowed owner-occupied home owners to finance both rehab work and home purchase. The city of Milwaukee initially had expected that few families earning less than 50 percent of area median income would be able to get mortgage loans. Instead, they saw demand for home buyer assistance among this group at three to four times initial projections. On the other hand, the city saw no bank product offerings for local city investors (versus home owners). Programs such as "Buy In Your Neighborhood" and "New Construction" had little or no demand and were either de-funded or had dollars shifted to other program activity.

At the time of the interview, the city of Lafayette had yet to seek buyers for the (fewer than 20) rehabbed single-family homes that were part of its NSP plan. Lafayette's original plan was to pool loan participations from several institutions rather than matching individuals to banks, on the thinking that lenders would not be able to sell these loans to the secondary market if borrowers used NSP money for "soft seconds." By the September 2010 obligation date, however, Lafayette realized that the time it would take to identify home buyers and negotiate a sale would far surpass the deadline to obligate the NSP funds (including the mortgage assistance). Instead, they modified their plan to identify financing from both local and national banks for the relatively few – eight in total – single-family houses to be sold by the city. (Three other houses were being financed by Habitat for Humanity.)

The southern Cook County Housing Collaborative was not at the stage of matching buyers to bank products at the time of the initial interviews. The original plan for home buyer finance was to work through Neighborhood Lending Services (NLS), a nonprofit mortgage lender affiliated with Neighborhood Housing Services (NHS) of Chicago, and to pair a first-mortgage funded by an NLS partner lender with a second mortgage funded by the NLS pool. After the Collaborative was awarded its NSP1 funding, however, the county redesigned the program so that the responsibility for identifying both home buyers and their financing lay with the developers of those properties, not the Collaborative. It was expected that the developers (e.g., Habitat for Humanity) would draw on established relationships with agencies and financial institutions to help identify mortgage financing for their home buyers. The county also allocated a portion of the NSP grant to an NHS agency at one of the participating towns, to provide counseling to potential home owners.

These alternative financing arrangements give a sense of the challenges facing NSP sites in qualifying NSP purchasers for traditional mortgages. Even with the availability of bank products, the city of Milwaukee spent considerable time educating consumers and servicers about the distinct process of purchasing/selling a property in need of rehab, and worked with counseling agencies, realtors, and other partners to ensure that all parties understood the extra time needed to prepare lenders and borrowers to finance both the rehab and the purchase of a property. Unlike the experience in Milwaukee, the other sites also found it challenging to identify qualified buyers (i.e., buyers who meet FHA down payments and credit scores standards) when buyers' incomes were less than 50 percent or even 120 percent of the area median.[13] Each of the sites recognized that what was needed for banks to participate in the program was to produce clear incentives to work with NSP buyers rather than with the investors and speculators described above. In Milwaukee, they identified the incentives as having to do with (1) the banks "protecting" their other investments in these neighborhoods; (2) the city mitigating risk with its soft financing in a second mortgage position; and (3) getting credit for Community Reinvestment Act activity. The city of Lafayette was focusing on the positive publicity that would come from a bank associating itself with the program, and on the potential opportunities from building a relationship with city officials.

Conclusion

The data collected on NSP sites around the country, and the in-depth interviews with the three grantees profiled here, illustrate how the NSP program has created the foundation for neighborhood stabilization in the midst of the foreclosure crisis. These responses show how the NSP money has encouraged a multi-pronged approach to addressing neighborhood decline, helped foment coalitions and partnerships where an array of organizations can apply their particular expertise, rallied complementary efforts by city councils and other local governments, and brought additional improvements like new parks and sidewalks to neighborhoods. These responses also demonstrate that there is a need for neighborhood stabilization in both smaller towns and suburban communities as well as in larger metropolitan areas.

It is also worth emphasizing that these sites – and nearly every site in the country – managed to obligate their entire NSP award within the requisite period, despite the compressed timeline and complex collaboration between governments, contractors, and private developers needed to set up the NSP projects.[14] To be sure, NSP sites had to act nimbly and creatively in order to meet the deadline. If a planned activity ran into an unexpected roadblock (i.e., no financing for local investors), or the process of implementing an activity took more time than anticipated (e.g., negotiating mortgage contracts with NSP "soft seconds"), NSP sites shifted their work to activities that could be accomplished more quickly. Their success was also made possible through the support of other city departments that had years of experience with housing development and the management of HUD program funds. The NSP sites or their partners had administered other grants (e.g., CDBG), although the annual amounts of those grants were not necessarily similar to the NSP allocations.[15] The energy and competence of partner organizations was an additional factor in enabling NSP sites to successfully obligate the funds. In Cook County, for example, it would not have been possible to identify all the properties for acquisition, rehab, or redevelopment within the few available months without the participation of local developers and nonprofits.

In regards to the most fundamental question, whether the NSP money was accomplishing its purposes, the interviews took place too early to evaluate the overall success of these projects. In the short-term, even as the NSP sites were putting together their programs, they recognized how difficult it was to get ahead of the foreclosure problem. Budgets were projected and programs were designed in late 2008. Foreclosures not only continued to mount in the interim, but many other factors in addition to those originally identified by the NSP sites slowed the recovery process. The sites established ambitious goals for themselves, and had to spread their funding over a variety of disparate activities. For the sake of complying with the tight deadlines, some worthy activities could not be carried out as part of these NSP programs, and otherwise highly-qualified contractors could not participate because they were unable to submit a bid within the required window. The extra time even to evaluate an innovative strategy (like an inter-jurisdictional collaborative) slowed implementation.

Perhaps the biggest impact that these sites were having at these early stages were the catalytic effects of the NSP on the surrounding neighborhoods. One site noted that the neighbors living around the rehabbed and redeveloped houses found a new interest in making improvements to their own homes. Parents and students at a nearby school were anticipating positive educational changes to accompany interventions in the housing arena. The NSP program spurred informal information exchanges between communities. Towns and communities outside of the NSP network became interested in the lessons that had been gleaned thus far, the action steps needed to be successful, and the expert resources that are available for giving advice on foreclosure mitigation issues.

Each of the sites profiled here approached their stabilization projects as if they were one piece of a broader effort to address the foreclosure problem. Either the sites combined NSP funds with other government money to conceive a larger project than the NSP alone could do; they integrated stabilization with other strategies for attacking the foreclosure problem, like prevention and interventions on behalf of at-risk home owners; or they linked the NSP's goals with related policies promoting comprehensive redevelopment and job creation, attracting additional resources from HUD, the Environmental Protection Agency, and state agencies to make this happen. The thinking at each of these sites was that the learning taking place through NSP affected their broader housing and community development agendas, and the relevance of these lessons would carry over into future projects that may or may not be funded by NSP grants.

Appendix

Appendix A presents (preliminary) responses to a survey sent to selected NSP sites across the country at the beginning phases of their programs. In the fall of 2009, researchers from the community affairs departments at the Federal Reserve Board and 11 of the Federal Reserve Banks conducted surveys of NSP1 grant recipients. The survey included questions about the planning process, the capacity of the NSP grantee and its partners, the process of implementing the project, and plans for assessing the program. A total of 90 sites were included in the survey – 51 direct recipients and 39 indirect grantees. For a complete look at the survey responses, see "The Foreclosure Crisis: Lessons from NSP Recipients" by Daniel Gorin, at www.newpartners.org/2010/docs/presentations/friday/np10_gorin.pdf.

1. Which of the following reasons were justifications for the neighborhood(s) that you chose to target?

1	The neighborhood(s) in the most dire situation(s)	Count	Percent
2	"Tipping point" neighborhood(s)	44	49%
3	Politics were involved	6	7%
4	Previously spent CDBG dollars there	20	22%
5	Had other (non-CDBG) programs there	23	26%
6	Because of future development plans	15	17%
7	To meet HUD's criteria	54	61%
8	Total responding	89	

2. What percent of sites had programs or partners in place before NSP?

Eligible Purpose	Under $2 million	$2 to $5 million	$5 to $10 million	$10 to $20 million	$20 million plus	All
Housing acquisition and rehab	78%	77%	75%	89%	60%	77%
Financing mechanisms	71%	83%	91%	89%	100%	84%
Demolition	20%	30%	55%	88%	60%	44%
Land banking	7%	11%	29%	33%	0%	17%
Redevelopment	38%	38%	78%	75%	40%	55%

3. What types of NSP-eligible activities were being planned, by type of housing stock?

Eligible Purpose	Number Responding	None	Single Family	2 to 4 units	5 to 9 units	10 of Larger	% Doing Nothing
Housing acquisition and rehab	79	6	62	26	14	22	8%
Financing mechanisms	68	10	54	17	6	6	15%
Demolition	63	24	35	11	8	6	38%
Land banking	53	39	12	6	5	2	74%
Redevelopment	61	20	33	13	9	11	33%

4. What acquisition and rehab activity took place after 5-7 monhts?

	Count	Percent
Established processes and procedures	37	76%
Identified one or more properties	37	76%
Purchased one or more properties	26	53%
Contracted with partner(s)	31	63%
Currently rehabbing one or more properties	18	37%
Completed rehabbing one or more properties	10	20%
Marketed one or more properties	11	22%
Sold one or more properties	9	18%
Submitted some expenditures to HUD for reimbursement	17	35%
Reimbursed by HUD	12	24%

5. What financing mechanism activity took place after 5 – 7 months?

	Count	Percent
Established processes and procedures	17	38%
Conducted marketing efforts to inform households of the program	12	27%
Contracted with partner	10	22%
Provided assistance to one or more homebuyers	9	20%
Submitted some expenditures to HUD for reimbursement	6	13%

6. What demolition activity took place after 5 – 7 months?

	Count	Percent
Established processes and procedures	12	27%
Identified one or more properties for demolition	11	24%
Contracted with a partner	7	16%
Navigated all/most legal requirements	7	16%
Purchased one or more properties for demolition	3	7%
Demolished one or more properties	6	13%
Submitted some expenditures to HUD for reimbursement	3	7%
Reimbursed by HUD	3	7%

7. What land bank activity took place after 5 – 7 months?

	Count	Percent
Established processes and procedures	10	22%
Contracted with a partner	4	9%
Navigated all/most legal requirements	5	11%
Identified one or more properties for land banking	6	13%
Purchased one or more properties for land banking	3	7%
Submitted some expenditures to HUD for reimbursement	0	0%
Reimbursed by HUD	0	0%

8. What redevelopment activity took place after 5 – 7 months?	Count	Percent
Developed a redevelopment strategy	17	38%
Selected one or more partners	16	36%
Navigated all/most legal requirements	12	27%
Identified one or more properties	16	36%
Purchased one or more properties	7	16%
Started redevelopment on the ground	6	13%
Submitted some expenditures to HUD for reimbursement	3	7%
Completed redevelopment of at least one property	0	0%
Reimbursed by HUD	1	2%

Notes:

1 In January 2010, HUD awarded $1.93 billion in NSP 2 grants to 56 grantees nationwide. HUD awarded an additional $1 billion in the third round of NSP funding.

2 The original wording of the statute did not allow the NSP1 funds to assist home owners who were in foreclosure or facing foreclosure. This was changed in April 2010 when HUD allowed jurisdictions to acquire properties earlier in the foreclosure process.

3 In a review of 87 NSP action plans representing 58 percent of the total NSP national allocation, Enterprise found that 56 percent of NSP dollars were going towards the purchase and rehabilitation of properties, 21 percent to home buyer finance, 13 percent to property redevelopment, 6 percent to blighted structure demolition, and 4 percent to land banks. See *The Challenge of Foreclosed Properties: An Analysis of State and Local Plans to use the Neighborhood Stabilization Program*, downloaded May 17, 2010.

4 Interviews took place with Suzanne Dennick and Maria Prioletta in Milwaukee, November 2009; Margy Deverall, Aimee Jacobsen, Dennis Carson, and Timothy Kraft in Lafayette, November 2009; Robin Snyderman, Beth Dever, and Lee Deuben, in Chicago, October 2009; and Janice Morrissy, in Chicago, March 2010.

5 The Milwaukee Foreclosure Partnership Initiative (MFPI) was launched by the mayor's office to formulate and implement policies and programs regarding foreclosure prevention, intervention, and stabilization to address the effects of mortgage foreclosures in Milwaukee.

6 See http://hudnsphelp.info/media/snapshots/04-30-2010/1GR-COOK_IL-R05-CHI-04302010.pdf.

7 See http://cookcountygov.com/taxonomy/CommunityDevelopment/General%20Information/cc_NSPActivity_7-19-2010.pdf.

8 Each state received no less than 0.5 percent of the total amount of the HUD allocation. At the sub-state level, the formula to divide up the state allocation among the CDBG-eligible grantees was based on the statewide allocation minus $19.6 million (the minimum allocation remaining with the state) * the local estimated foreclosure start rate * the local vacancy rate in census tracts with high-cost loans. See www.huduser.org/datasets/NSP_Allocation_Methodology.doc.

9 See the Obama Administration's Sustainable Communities Initiative and "Transit-Oriented Development Selector Analysis of South Suburban Corridors," March 2009.

10 The Department of City Development also collaborated closely with employees from the city's zoning, real estate, environmental, and economic development departments. City Council members also passed ordinances requiring owners to keep up properties after foreclosure and parties with a mortgage lien to register properties within five days of those properties being found abandoned.

11 NSP grantees and their partners had to be able to negotiate purchase prices below properties' market values. HUD initially set the discount at 5 percent for individual purchases, with a required 15 percent aggregate discount for the entire portfolio purchase. The required discounts were eventually dropped to 1 percent for the individual purchases and to zero percent for the aggregate. See Harriet Newburger, "Acquiring Privately Held REO Properties with Public Funds: The Case of the Neighborhood Stabilization Program" in *REO and Vacant Properties: Strategies for Neighborhood Stabilization.* Accessed at www.federalreserve.gov/events/conferences/2010/reovpsns/downloads/reo_20100901.pdf.

12 See Stergios Theologides, "Servicing REO Properties: The Servicer's Role and Incentives" in REO and Vacant Properties: Strategies for Neighborhood Stabilization. Accessed at www.federalreserve.gov/events/conferences/2010/reovpsns/downloads/reo_20100901.pdf.

13 Area median income in Milwaukee was $70,700 (120% = $84,840 and 50% = 35,350); in Lafayette was $60,500 (120% = $72,600 and 50% = $30,350); and in the Cook County south suburbs was $74,900 (120% = $89,880 and 50% = $37,450).

14 See http://hudnsphelp.info/media/snapshots/09-30-2010/1PW-DETAIL-09302010.pdf.

15 See www.hud.gov/offices/cpd/about/budget/budget10.

Biography

Robin Newberger is a senior business economist in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago. Ms. Newberger is currently working on research related to the growth and sustainability of community development finance institutions, and on identifying the neighborhoods with the highest rates of mortgage delinquencies and foreclosures in the 7th District. She holds a BA from Columbia University and a master's in public policy from the John F. Kennedy School of Government at Harvard University. She is a holder of the Chartered Financial Analyst designation.

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