COMMUNITY PERSPECTIVES: Implementing the Neighborhood Stabilization Program

Since 2006, more than 5 million homes in the country have been lost to foreclosure. It is estimated that 8.1 million homes will go into foreclosure during 2008-2012.[1] Many communities worry that these properties will destabilize their neighborhoods because they are often concentrated and fall into disrepair. Such neighborhood blight is linked to increases in crime and declining property values. The following pages compare the strategies and challenges of two community organizations—one in Virginia and the other in South Carolina—that are trying to tackle the negative impacts of foreclosure through the federal Neighborhood Stabilization Program (NSP).

Congress initially allocated nearly $4 billion to the U.S. Department of Housing and Urban Development (HUD) for a new Neighborhood Stabilization Program (NSP) under the Housing and Economic Recovery Act (HERA) of 2008. The NSP was intended to deliver "emergency assistance" directly and rapidly to low- and moderate-income communities experiencing high foreclosure rates. Some communities received direct NSP grants according to a complex funding formula established by HUD.[2] HUD divided the remaining NSP funds across states for allocation to communities that did not qualify for direct funding but that faced significant foreclosure problems.

While state NSP programs are bound by the parameters and policies established by HUD, they also have been given some liberty to tailor their programs to best meet local conditions. The Community Affairs Offices of the Richmond and Cleveland Federal Reserve Banks, in partnership with the National Vacant Properties Campaign (NVPC),[3] recently completed an analysis of NSP implementation in four states (Ohio, Pennsylvania, Virginia and South Carolina), using four NSP recipients as case studies.[4] Two NSP recipients were profiled to understand the impact of the program at the local level. In Virginia, the profiled recipient is a regional government agency that is collaborating with three non-profits. In South Carolina, it is a smaller, nonprofit organization that acts as the lead for ten local housing and development agencies.

The degree to which an NSP accomplishes its stated objectives clearly depends upon the capacity of the local organizations that implement the neighborhood stabilization initiatives. Findings from the two case studies suggest that variations in state NSP requirements create different opportunities and constraints for local organizations and therefore, most likely, different outcomes.

NSP Guidelines at the State Level

HUD required state governments to submit "action plans" by December 1, 2008, describing how they intended to use their funds. States were required to obligate all of their grant funds within 18 months of signing their contract with HUD and to spend all of the funds within four years. HUD utilizes the Community

Development Block Grant (CDBG) program's basic infrastructure to deliver NSP funds, although the program's requirements are supplemented by NSP guidelines. HUD continues to make program changes specific to NSP.[5]

State NSP administering agencies are required by HUD to target funding to areas identified as having "the greatest need," as defined by (1) percentage of foreclosures (2) percentage of homes financed by subprime mortgage related loans and (3) likelihood of increased rates of home foreclosures. HUD also limits eligible neighborhood stabilization activities to the following five: (1) establish financing mechanisms for the purchase and redevelopment of foreclosed properties (2) purchase and rehabilitate properties that have been abandoned or foreclosed upon (3) establish and operate land banks for homes and residential properties that have been foreclosed upon (4) demolish blighted structures and (5) redevelop demolished or vacant properties.[6]

Virginia

The Commonwealth of Virginia, excluding the direct-recipient communities, received $38.7 million in NSP1 funding, which is being administered by the Virginia Department of Housing and Community Development (DHCD).[7] The DHCD created four programs for disbursing its initial NSP allocation: an open submission program ($20 million), planning grants ($0.25 million), a competitive proposal program ($10 million) and a performance-based pool ($4.9 million). The DHCD's intent was to provide funding immediately to organizations that were ready to act while also reserving some funds for applicants who needed more time to prepare and plan.

To meet HUD's targeting requirements, the DHCD identified 83 communities (counties and cities) eligible for funding based on the number and the rate of foreclosures; each community had at least 200 foreclosed properties or a foreclosure rate of at least 4 percent. As justified in the DHCD's NSP Action Plan, "Targeting through this means provides an opportunity for those larger, metropolitan localities that have high numbers of foreclosures, along with smaller, central city and rural localities that have significant foreclosure rates, to access funds." [8] Within the targeted communities, applicants were further expected to focus their efforts on neighborhoods in which at least 10 percent of housing units, properties or structures were either abandoned or foreclosed.

The DHCD sought to maintain the pre-foreclosure-crisis character of neighborhoods. As emphasized in its Action Plan, "It is the intent of the Virginia NSP to ensure that projects will not significantly change the preexisting nature, characteristic, or stability of the neighborhood." [9] While there are five eligible NSP stabilization activities, two were given highest priority in Virginia: (1) establishing financing mechanisms to help homeowners purchase and redevelop foreclosed homes and residential properties and (2) purchasing, rehabilitating and selling homes that have been abandoned and foreclosed upon. The DHCD also placed a high priority on projects that provided homeownership opportunities and reviewed those that included rental components on a "case-by-case basis." Proposals that included land banks were actively discouraged.[10]

With the NSP, the DHCD has adopted an investment perspective that emphasizes measurable outcomes and includes a "pay for performance" requirement. Local recipient administrative costs are capped at approximately 5 percent of their total NSP award. After recipients have spent their initial allocation, they are entitled to 8 percent of the NSP award to cover administrative costs if they utilize their program income to continue project implementation.

NSP1

Under NSP1, the U.S. Department of Housing and Urban Development allocated $3.92 billion based on formula criteria to 309 grantees, including 55 states and territories and 254 selected local governments.

South Carolina NSP1 Allocations

Recipient	NSP Allocation
SOUTH CAROLINA STATE PROGRAM	$44,673,692
GREENVILLE COUNTY	$2,262,856
RICHLAND COUNTY	$2,221,859

Virginia NSP1 Allocations

Recipient	NSP Allocation
VIRGINIA STATE PROGRAM	$38,749,931
FAIRFAX COUNTY	$2,807,300
PRINCE WILLIAM COUNTY	$4,134,612

Source: U.S. Department of Housing and Urban Development, www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/nsp1.cfm

South Carolina NSP1 Awards

Catawba Regional Council of Government
$4,283,000
(Lancaster and York Counties)

Community Assistance Provider
$1,500,000
(Lexington County)

Santee-Lynches Affordable Housing CDC
$1,293,612
(Orangeburg County)

City of Columbia
$3,900,000

TN Development Corporation
$1,038,350
(Richland County)

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Photography: Courtney Mailey

This is one of the first homes originally identified for rehabilitation using NSP funds in Front Royal, Virginia. Front Royal is one of the localities participating in the regional Neighborhood Stabilization Program in the northern Shenandoah Valley region.

However, the administrative fees are only paid to recipients after certain pre-established outcomes or milestones are achieved.[11] Also, all NSP program income earned by the local recipients, such as revenue from the resale of a property, initially must be returned to the DHCD. If a recipient demonstrates sufficient need and the ability to continue implementing NSP initiatives, the returned funds will be earmarked and given back to the recipient; otherwise the program income will be retained by the DHCD and added to its performance-based pool.

Eligible applicants included local governments, nonprofit organizations, planning district commissions (described later), and housing authorities. Individual towns were expected to apply through their county, while projects serving multiple communities could submit regional proposals. Applicants were encouraged to identify partners that could offer resources to homebuyers, such as housing counseling. The DHCD requires every NSP-assisted homebuyer to complete counseling from a HUD-approved housing counseling agency. The DHCD also expects recipients to create a project management team, comprised of internal and external stakeholders, to oversee the project.

South Carolina

The state of South Carolina, excluding the direct-recipient communities, received $44.7 million in NSP1 funding, which is being administered by the South Carolina State Housing Finance and Development Authority (SHFDA).

Utilizing HUD foreclosure data and definitions of "greatest need" (outlined above), the SHFDA identified 20 counties in the state as the focus for their NSP funding.[12] They also developed a tiered system for allocating the funds across different neighborhood stabilization initiatives. Through a competitive proposal process, the SHFDA allocated $29.4 million for Tier I initiatives, which included all five eligible NSP activities for populations at or below 120 percent of area median income, and an additional $11.2 million for Tier II initiatives, which specifically addressed low-income rental housing for populations at or below 50 percent of area median income. In addition to the allocation for rental housing, the SHFDA contracts also state that any NSP properties intended for homeownership automatically convert into rental units if they do not sell within six months of completion.

Local recipient administrative costs are capped at 4 percent of the total NSP award, which the SHFDA reviews and pays out after the expenditures have been incurred. In addition to administrative fees, recipients are eligible to receive "project delivery" income, which includes fees from developers. All NSP program income can be retained by the local recipient, although it must be spent on NSP-eligible projects, and the SHFDA requires it to be depleted before any additional NSP funds will be administered.[13]

Eligible recipients included local governments, nonprofit organizations, public housing authorities and for-profit organizations. In addition, the SHFDA actively encouraged proposals that included what it considers "essential partnerships for successful implementation."[14] These partnerships comprise affordable housing providers, lending institutions, and homebuyer counseling agencies.

Overall, the SHFDA's Action Plan includes fewer additional restrictions to the Federal NSP than the DHCD's in Virginia. Also, the SHFDA's set-asides and policies that support rental properties stand in marked contrast to Virginia's NSP program, which actively discourages rental property activities. Another important distinction is that while the DHCD in Virginia allows for higher administrative expenses overall, it also has stricter requirements for handling program income. Finally, the SHFDA, unlike the DHCD, created incentives for applicants to build broad-based public-private partnerships by awarding higher scores to proposals with such partnerships. It is interesting to note that in Virginia, over half of the NSP1 recipients were local governments whereas the majority of recipients in South Carolina were nonprofits. [See side bar starting on page 3.]

A Tale of Two NSP Recipients

The two NSP recipients studied in Virginia and South Carolina highlight the range of local organizations that are implementing, and thus ultimately affecting, the outcomes of NSP. They also demonstrate differences in relationships with local partners needed to implement neighborhood stabilization programs. In the case of Virginia, the recipient profiled is a regional agent of several local governments that pulled together a group of three high-capacity housing nonprofits as partners. In South Carolina, the recipient profiled is a local nonprofit organization that acts as lead finance entity for a coalition of ten local organizations and agencies who share common housing goals within the same target market.

Virginia

In Virginia, the NSP recipient studied is the Northern Shenandoah Valley Regional Commission (NSVRC), which is one of 21 Planning District Commissions (PDCs) in the state.[15] For its NSP coalition, the NSVRC works with five of the fifteen local governments it represents as well as three local, nonprofit housing organizations: Community Housing Partners, People Incorporated and Habitat for Humanity of Winchester-Frederick County. The NSVRC chose the nonprofit partners based on their previous experience with affordable housing development and homebuyer preparation. The NSVRC and the three local partners have strong established reputations, but only the NSVRC and Habitat had worked together previously.

Virginia's PDCs are regional political subdivisions created by local governments that had state support in 1968. They are governed by elected officials and citizens appointed by local governments, and are funded by local and state governments. PDCs play a critical role in convening public officials, business leaders, private citizens and nonprofits around a variety of regional growth and development issues.[16] The NSVRC leads regional land use, environmental and transportation planning efforts along with a multitude of other technical assistance programs. However, the NSVRC is still in the early stages of developing its regional housing strategy.

With a staff of eight full-time professionals, the NSVRC serves the entire population of the rural five-county, northern Shenandoah Valley region (Clarke, Frederick, Page, Shenandoah and Warren counties and Winchester). Not all of the jurisdictions chose to participate in the NSVRC's NSP proposal. Winchester, the most populated jurisdiction in the region, chose to opt out even though it faces the highest number of foreclosures in the region. Clark and Page counties were not included in the proposal because they did not meet the DHCD's concentrated foreclosure requirements.

South Carolina

In South Carolina, the NSP recipient studied is Lowcountry Housing Trust (LHT),

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City of Anderson
$2,173,087

City of Greenville
$5,000,000

Pickens County Habitat for Humanity
$225,000

Companion Associates
$700,000
(Pickens County)

City of Spartanburg
$2,000,000

SC Association of Community Development Corporations
$1,000,000
(Greenwood and Laurens Counties)

Beaufort Housing Authority
$2,943,000
(Beaufort County)

Lowcountry Housing Trust
$7,409,679
(Charleston, Berkeley and Dorchester Counties)

Housing Authority of Myrtle Beach
$2,500,000

Sumter Housing Authority
$1,700,000
(Sumter County)

City of Florence
$1,000,000

Community Development & Improvement Corporation
$1,000,000
(Aiken and Darlington Counties)

Source: South Carolina State Housing Finance & Development Authority, March 25, 2009.
www.sha.state.sc.us/Press_Releases/id/354

Virginia NSP1 Awards

Catholics for Housing
$1,500,000
(Prince William County)

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which acts as lead financing entity and represents a consortium of ten affordable housing organizations, including two community development corporations (CDCs), two nonprofit organizations, three local governments, and three for-profit development companies.[17] Established in 2004 as the Charleston Housing Trust, and then renamed with a broader mission in 2005, LHT is a small, nonprofit community development financial institution (CDFI) with a relatively narrow mission of financing affordable housing production in the greater Charleston area.[18] It is also important to note that LHT has a longstanding, close working relationship with SHFDA, which administers the state NSP program. This relationship is akin to a partnership—SHFDA maintains a weekly dialogue with LHT during the implementation of NSP.

Currently, LHT has only three permanent, full-time staff. The mission of LHT is to be a regional advocate and local source of funding for affordable housing initiatives. Specifically, it assists nonprofit and for-profit developers in constructing a full spectrum of lower-priced housing. To accomplish this mission, LHT raises and pools funds from public and private sources and awards them to developers who produce and rehabilitate affordable housing in recognized community areas. Since its inception, LHT has provided over $3.2 million in community development financing in Charleston, Dorchester and Berkley counties and has helped finance the development of more than 500 affordable housing units.[19]

Both of the NSP recipients highlighted in this article work with many partners to achieve their missions. However, LHT has worked closely with all of the organizations that it partners with on NSP assistance, while the NSVRC has not. Furthermore, while the NSVRC is a more established organization, it has a much broader mission than LHT. This means that the NSVRC has less experience with housing programs, especially in terms of purchasing, rehabilitation and resale.

Neighborhood Plans

Both NSP recipients target specific neighborhoods, as prescribed by federal and state NSP guidelines. In Virginia, the NSVRC received $2.5 million in funding from the DHCD to purchase, repair and sell 12 foreclosed properties to qualified homebuyers in neighborhoods in Frederick, Shenandoah and Warren counties. At least four of the properties will be available for sale to low-to-moderate income homebuyers. Initially, the NSVRC expected to use program income to purchase an additional 15 properties. However, the condition that all program income has to be returned to the DHCD, as well as higher-than-anticipated purchase and rehabilitation costs, has compelled the NSVRC to remain focused on meeting its original goal of 12 properties. It should be noted, though, that the NSVRC will be eligible to utilize the program income it generates if it meets its initial objectives and there is a demonstrated need to continue the program.

Frederick, Shenandoah and Warren counties all met the "areas of greatest need" as defined by the DHCD. Using similar criteria and input from HUD, the NSVRC identified five target neighborhoods: Senseny Road Corridor and Stephens City in Frederick County; Strasburg in Shenandoah County; and two neighborhoods in the town of Front Royal in Warren County.

In contrast, the much smaller LHT in South Carolina received $7.4 million to purchase, repair and sell or rent 71 properties in seven targeted corridors in Charleston, Dorchester, and Berkley counties. LHT identified the seven areas as having the greatest need for neighborhood stabilization based on concentration of foreclosed properties and short sales.

The goal of LHT's plan is to put renovated, formerly foreclosed properties back on the market, as either rental properties or single-family homes, at affordable prices. As the lead financing entity, LHT will use NSP funding to provide its partners with loans to purchase the targeted properties. It anticipates creating a revolving fund from the sale of properties, with the goal of purchasing an additional 50 units over the next four years. All partners in LHT's consortium are required to return any program income generated from NSP funds, including from rental properties, to LHT.

The Best Laid Plans

While implementing NSP, both LHT and the NSVRC have already encountered similar challenges, including the following four: complex and dynamic program requirements, challenging local housing markets, access to capital, and partnership tensions. Each organization and its partners have responded somewhat differently to these factors, in part because of distinctions in their state NSP programs as well as disparities in their experience with housing programs and the resources of their partners.

Complex and Dynamic Program Requirements

The layers of NSP requirements create expenditure bottlenecks and frustration for the local recipients as they work to meet their objectives within the short 18-month timeframe. HUD dispenses the money to the state, which then dispenses the funds to the NSP recipient. So, the recipient has to navigate two layers of procurement—reporting and auditing processes—which may not be clearly articulated by either HUD or the state NSP administrator. As noted above, HUD continues to add new rules and makes changes to the CDBG program that are NSP-specific. For those organizations familiar with CDBG requirements, navigating the new rules around NSP can be challenging.

One of the consequences of the NSP's bureaucratic procedures is delayed property closings. For example, LHT requested a $2.2 million drawdown on its funds from the state of South Carolina, which required the state to approve each set of properties LHT identified. Failure to get state approval and the appropriate state documents delayed their closing on some properties. Failure to close can mean a loss of property to another investor and delays in meeting program deadlines because a new property has to be identified. This sentiment was echoed by one of our case study participants in Virginia: "many properties are already under contract before we can compile the sufficient documentation needed to submit to the DHCD for approval before submitting an offer."

To better meet the needs of communities, HUD and some state administrators have changed certain program requirements during the implementation phase. As we heard from one participant in South Carolina, "the local organizations are faced with monthly and even weekly changes in NSP requirements." As a result, the local organizations are compelled to learn new program requirements and implement their programs at a much faster rate than they are generally accustomed to.

In Virginia, the DHCD implemented what they called an NSP "fast track boot camp" for all recipients after they were notified that they had received an NSP grant. In these meetings, the DHCD relayed changes to the NSP requirements and offered training on how best to adapt their NSP plans to the new guidelines. For the NSVRC, the changes required alterations in its original NSP plan, causing one partner to back out of its commitment, while stalling another until the NSVRC can find a resolution with the DHCD.

Challenging Local Housing Markets

Identifying and purchasing foreclosed and abandoned properties often can be difficult and time consuming for local housing organizations. It is not always clear which properties have been abandoned or are for sale after foreclosures. As one participant in the South Carolina study noted, "There isn't a visible impact in newer communities because it's kept hush-hush; there is no big sign saying 'foreclosed.' It is really hard for community developers to find these properties." LHT has worked with its local realtor's association to help identify foreclosed properties through the MLS site.

In the northern Shenandoah Valley, some manufacturing-dependent communities have experienced high unemployment, while the greater D.C. metropolitan area continues to create service jobs about an hour east of the Shenandoah region. "These mixed market trends have made it difficult for us and our partners to time their purchases of NSP eligible properties in our target neighborhoods," said Martha Shickle, the NSVRC community development program manager coordinating the NSP effort. The NSVRC finds that it is challenging to identify neighborhoods that meet the DHCD's 10 percent foreclosure rule because the foreclosures are not concentrated in single neighborhoods.

Once suitable properties have been located, housing organizations often face difficulties in trying to establish the owner of the property. The homeowner's original mortgage provider is rarely the servicer that forecloses on the property. As one of the participants in South Carolina informed us, most of the properties they had identified had been listed by local realtors. However, investors are also searching these listings and quickly purchasing the best deals.

Access to Capital

For local NSP recipients, access to sufficient capital can prevent them from purchasing and holding the properties targeted for stabilization. The state administrators only reimburse expenses after what has been described by the case study participants as a time consuming and arduous reimbursement process. This leaves the NSP recipients, often nonprofits with limited resources, to cover holding costs that prevent them from moving forward on new deals until they recoup capital from either the state NSP administrator or property sales. Delays in NSP funding in South Carolina required the local partners to seek lines of credit in order to start purchasing properties immediately. Unfortunately, many of the organizations did not have sufficient capital to allow them to seek such temporary financial assistance, and financial institutions were unwilling to underwrite the deals. Therefore, LHT offered its NSP partners a 3 percent bridge loan to ensure timely closings while they wait for reimbursement.

The NSP recipients in both case studies found it challenging to obtain bridge loans from banks. In South Carolina, the participants said that banks were not interested in providing gap financing to NSP recipients because they did not have confidence in the process and did not want to deal with the government's "red tape." As one participant in South Carolina said, "They don't know the lingo of the program. They don't understand all of its intricacies." In addition, the NSP recipients have found that banks prefer to sell foreclosed properties in bulk to investor groups instead of one or two at a time. Others said that banks are focusing more on short sales rather than foreclosures, and NSP funds do not cover short sales.

Furthermore, the timing and cost of traditional financing does not always coincide with planned NSP implementation. In the northern Shenandoah Valley one of the partners recalls, "Our nonprofit was willing to front all of the money for acquisition and rehabilitation using our bank lines of credit to act on the market quickly. But when would we get paid back? How would we cover market rate carrying costs while we waited for the government to pay us back?" The DHCD has stated, however, that funding will be made available to all recipients on a just-in-time basis for acquisition, and recipients are not required to carry those costs.

In South Carolina, community development groups have reported missing out on purchasing foreclosed homes because lenders refused to expedite the process. Another participant shared his frustration, noting, "A lot of groups have had to pick new properties because they lost the original ones they had their eye on."

Partnership Tensions

Another challenge facing NSP recipients is that it often requires the development of new partnerships for implementation. In many state NSP programs, applicants had to complete their proposals quickly, which may have prevented fully defining all activities and objectives, leaving room for disagreements among partners during the implementation phase.

In northern Shenandoah Valley, the NSVRC and the three nonprofits had never worked together before. The NSVRC managed to align all these interests for the first time during the application phase of the project. However, this new consortium has not yet worked through their varying levels of commitment to the NSP proposal.

At the same time, as LHT's experience suggests, a consortium of partners that has a history of working together may be advantageous in these circumstances. The partners come together with a better understanding of their roles as well as the benefits gained from working with each other. This understanding is essential for successful and rapid execution of NSP plans.

Results to Date

Within the first six months of announcing its NSP allocation, LHT had expended $2.6 million, which is 35 percent of its total award, for the acquisition of 27 single family homes. LHT's strong relationship with the state NSP administrator and its local partners, coupled with its move to obtain bridge loans, has clearly allowed for a relatively swift execution. LHT's success can also be attributed to the executive director's willingness to devote the time necessary to understand all of the NSP requirements and provide oversight to ensure that all partners submit the correct forms with complete information. According to the SHFDA, this consistency in reporting helps expedite the NSP reimbursement process.

In contrast, as of October 2009, the NSVRC had not yet expended any of its NSP1 allocation because the commission and its partners have not been able to overcome the four barriers outlined above. However, it hopes to implement part of its entire NSP plan before the deadline for expending the funds passes. According to the DHCD, this case does not represent the situation for all NSP recipients in the state. Many recipients are on target and are successfully implementing their programs.

The Implications for Neighborhood Stabilization in the Fifth District

The Fifth District has received over $220 million in NSP1 funds.[20] It is clearly too

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City of Chesapeake
$1,500,000

Chesterfield County
$500,000

Town of Culpeper
$1,200,000

Fauquier County
$1,500,000

City of Franklin
$400,000

Lynchburg Neighborhood Development Foundation
$1,000,000
(City of Lynchburg)

Pathways
$600,000
(Petersburg)

Virginia Beach Community Development Corporation
$1,200,000
(City of Virginia Beach)

City of Alexandria
$936,955

Fairfax County
$1,000,000

City of Hampton
$2,000,000

City of Newport News
$700,000

City of Norfolk
$1,794,375

PEOPLE Incorporated in partnership with the City of Bristol
$859,330

PEOPLE Incorporated in partnership with Russell County
$1,162,670

City of Portsmouth
$2,000,000

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premature to meaningfully assess the impact of this round of NSP funding on neighborhood stabilization. However, our two case studies offer some early insights into the potential impact and recommendations for new partnership opportunities.

In the communities studied here, the NSP is creating new opportunities and incentives for diverse stakeholders, including local governments, nonprofit community organizations and for-profit developers, to work together to solve community issues. If continued long-term, these relationships will help build sustainable community investments.

With their vast experience of bringing together coalitions of diverse stakeholders, community development organizations are natural leaders for NSP initiatives. Public-private partnerships are generally considered an important ingredient for successful community development initiatives, but they may be critical for effective NSP implementation. As justified by the capital issues discussed above, banks represent one critical set of partners that needs to be explicitly included in the NSP process.

Community development financial institutions (CDFIs) could also help to bring essential capital to the table to help ease nonprofit liquidity concerns during NSP implementation. CDFIs have experience with government programs and financing a variety of projects in low- to moderate-income communities. Local NSP recipients may be able to leverage a partnership with a CDFI that finances affordable housing to address the capital constraints on implementation discussed earlier.

Given the ongoing foreclosure crisis, Congress passed the American Recovery and Reinvestment Act on February 20, 2009, which allocated an additional $2 billion for the second round of NSP (NSP2) as well as some amendments to NSP1. The second round of NSP funding will be distributed based on a competitive process. State and local governments, and nonprofits and for-profits (as partners) are eligible to apply directly to HUD. LHT plans on applying for NSP 2, but the NSVRC does not.

Conclusion

As both local NSP recipients noted, participating in the NSP is not for the faint of heart. If their organizations fail to meet the complex and strict reporting and spending guidelines, they may not recover their NSP expenditures, and possibly their administrative overhead, which could cause serious liquidity constraints for the organizations. With small, nonprofit organizations such as LHT, this could threaten their viability.

This significant downside risk, coupled with high participation costs and uncertain (and in some cases state-limited) revenue, might explain why some community organizations are not willing to participate in NSP. This self-selection bias among community organizations may be compromising the reach and effectiveness of the program. Spatial analysis of NSP targeted communities and recipients might uncover interesting trends in participation. It would also be instructive to learn more about the barriers to implementation as well as lessons from local organizations that have successfully met their NSP objectives. As the two case studies in Virginia and South Carolina illustrate, trying to stabilize neighborhoods in the midst of continued foreclosures is a daunting task. The effectiveness of the federal NSP will ultimately depend upon the ability of local organizations to prevail.

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City of Richmond
$2,000,000

City of Suffolk
$971,444

Loudon County
$2,000,000

Northern Shenandoah Regional Commission
$2,500,000

Spotsylvania and Caroline County in Partnership with the Central Virginia Housing Coalition (CVHC)
$2,500,000

Stafford County and the City of Fredericksburg in partnership with the Central Virginia Housing Coalition (CVHC)
$2,500,000

Source: Virginia State Governor's Office, **www.governor.virginia.gov/**

Note: A special thanks to Tammie Hoy, Martha Shickle, the Virginia Department of Housing and Community Development and the South Carolina Housing Finance and Development Authority for their comments.

ENDNOTES

[1] Mortgage Bankers Association data 2006:Q1-2009:Q2, and Credit Suisse. "Foreclosure Update: Over 8 Million Foreclosures Expected." December 4, 2008.

[2] Information on the HUD methodology for allocation and the list of NSP1 recipients including 250 local governments is available at **www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/nsp1.cfm**.

[3] National Vacant Properties Campaign provides government agencies, developers, advocates and nonprofit groups with information resources and technical assistance to support vacant property revitalization efforts. **www.vacantproperties.org**

[4] Each of the four communities chosen as a case study received NSP1 funds, which were distributed in early 2009, and represented small towns, suburban neighborhoods, and rural counties: Cuyahoga County, Ohio; Fayette County, Pa.; Dorchester Terrace neighborhood in Charleston, S.C.; and the Northern Shenandoah Valley Region (Frederick, Warren and Shenandoah Counties) in Va. The case studies relied on primary and secondary sources of information.

[5] HUD's Community Development Block Grant (CDBG) program was created in 1974 through the Housing and Community Development Act to provide annual grants to cities and counties on a formula basis to help expand economic opportunities through revitalization projects for low- and moderate- income families. **www.hud.gov/offices/cpd/communitydevelopment/programs/**

[6] Housing and Economic Recovery Act of 2008. pp.L. 110-289. Section 2301(c)(3)(A)-(E).

[7] Federal Register. Vol. 73, No. 194. Monday, October 6, 2008. **www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/nspnotice.pdf**

[8] Virginia Department of Housing and Community Development. NSP Action Plan. P. 13. **www.dhcd.virginia.gov/CommunityDevelopmentRevitalization/PDFs/VA_NSP_Plan.pdf**

[9] Ibid. P. 17.

[10] Ibid. P. 12.

[11] For additional information on the threshold requirements, refer to the DHCD's NSP Action Plan, **www.dhcd.virginia.gov/CommunityDevelopmentRevitalization/Neighborhood_Stabilization_Program.htm**.

[12] State of South Carolina NSP 2008 Annual Action Plan. **www.sha.state.sc.us/library/NSP/NSP%20Action%20Plan%20Draft.pdf**

[13] Ibid.

[14] South Carolina Housing Finance and Development Authority. NSP Draft Substantial Amendment to the Consolidated Plan 2008 Annual Action Plan, P. 4.

[15] For more information on the NSVRC, visit **www.lfpdc7.state.va.us/501.html**.

[16] As established in the Code of Virginia (sec 15.2-4207), the purpose of PDCs is "to encourage and facilitate local government cooperation and state-local cooperation in addressing on a regional basis problems of greater than local significance."

[17] The partners in the NSP application included the Charleston Area CDC, the Charleston Renovation Group, the City of Charleston, Companion Associates, Crisis Ministries, Helping Hands, Jessco Homes, Metanoia CDC, and the towns of James Island and Mount Pleasant. LHT is also partnering with the Berkeley-Charleston-Dorchester Council of Governments and individual county governments to implement its NSP plans.

[18] **www.lowcountryhousingtrust.org**

[19] Ibid.

[20] This number is based on HUD allocations in five states including Va., W.Va., Md., S.C. and N.C. plus Washington, D.C.