2011

Community Scope

Vol. 2 Issue 1

Where Did the Dollars Go?

An Exploration of Neighborhood Stability Strategies Chosen by NSP1 Recipients

Community Development Department

Federal Reserve Bank of Richmond

Community
Scope

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Where Did the Dollars Go?

An Exploration of Neighborhood Stability Strategies Chosen by NSP1 Recipients

AUTHORS

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At the end of 2007, more than 1.2 million properties in the United States were in some stage of the foreclosure process.[1] Media coverage showed images from across the nation of residential construction at a standstill, foreclosure signs on front lawns and sidewalks, and green swimming pools in vacant houses.

To address the foreclosure crisis, Congress authorized the Neighborhood Stabilization Program (NSP) in 2008 for the purchase and redevelopment of foreclosed properties to prevent neighborhoods with high concentrations of such properties from falling into decline.[2] It was the first foray by the federal government, under the management of the U.S. Department of Housing and Urban Development (HUD), into designing and administering a program to deal specifically with the impacts of foreclosures. The first round of the program (NSP1) awarded nearly $4 billion in total, with every state in the U.S. receiving some funds. Awards ranged from $2 million to $145 million based on the intensity of foreclosures, subprime mortgages, and mortgage defaults and delinquencies in the areas.[3] Since the first round of funding was announced in 2008, there have been two additional rounds – NSP2 ($1.93 billion) in January 2010 and NSP3 ($1 billion) in September 2010.

The authorizing legislation explicitly described NSP1 as "emergency assistance," and the desire for swift implementation was apparent in its deadlines.[4] Recipients were required to identify properties almost immediately, designate funding to specific projects within an 18-month deadline and expend all funds within four years (by 2013).

Introduction

This article describes the different strategies that a sample of 98 NSP1 recipients from across the nation implemented to allocate their funds.[5] NSP1 guidelines specified five strategies or "eligible uses" of funds. Recipients could choose one or more of these eligible uses. The following discussion describes the various eligible uses and how recipients chose to allocate their NSP1 funds across these strategies, thereby providing some early indication of the impact of the NSP program on neighborhood stabilization. We also analyze the factors that influenced the recipients' choice of eligible use strategies. NSP was designed to allow for flexible responses to variable local market conditions. Yet other factors also seem to have influenced the choice of neighborhood stabilization strategies, which may ultimately decrease the efficacy of NSP.

Neighborhood Stabilization Options: Eligible Uses of NSP Funds

NSP1 recipients were allowed to allocate their funds across the following five eligible uses:

- **Financing mechanisms —** Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft seconds, loan loss reserves and shared-equity loans for low- and moderate-income homebuyers.
- **Acquisition and rehabilitation (A&R) —** Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon in order to sell, rent or redevelop such homes and properties.
- **Land banking —** Establish land banks for homes that have been foreclosed upon.[6]
- **Demolition —** Demolish blighted structures.
- **Redevelopment —** Redevelop demolished or vacant properties.[7]

Table 1 lists eligible activities and properties for each eligible use of funds. The table highlights distinctions in the types of properties that could be targeted under each use. For example, while A&R could be carried out on both abandoned and foreclosed properties, financing mechanisms were restricted to foreclosed properties. With respect to eligible activities, redevelopment offered the most options while demolition was restricted to clearance alone. Housing counseling was an eligible activity under all eligible uses except demolition. The following discussion provides more details on the individual eligible uses, including what is permissible under each, examples of the ways in which the money might be spent and potential trade-offs in choosing one strategy over another.

Financing Mechanisms

Financing mechanisms covers a range of tools for buyers to purchase foreclosed houses. The statutory language mentions three main tools: soft seconds, loan loss reserves and shared-equity loans. A soft second is a subsidized second mortgage. The second mortgage may be waived either after a certain number of years of occupancy or the homeowner may receive assistance with payments for a limited period. Loan loss reserves refer to funds set aside for lenders to cover potential losses from loans not repaid. Shared-equity loans allow the homebuyer to receive a lower interest rate on their mortgage in exchange for giving the lender a share of the equity in the house. Financing mechanisms can also include assistance with down payments, closing costs and mortgage insurance.

Financing mechanisms is the one eligible use that can finance other eligible uses such as acquisition, demolition and redevelopment. It was also one of the best strategies for quickly obligating funds to meet NSP1's tight deadlines. As one recipient noted, it was "the best way to get funds on the street in the quickest manner."

However, certain restrictions provided some limitations to this strategy. Potential homeowners are required to be creditworthy, to have an income no greater than 120 percent of Area Median Income (AMI) and to undergo eight hours of ownership counseling. Economic conditions may have made it difficult for NSP1 recipients to identify potential homebuyers who met these requirements.

Acquisition and Rehabilitation

Funds allocated to A&R can be used to acquire, repair and renovate abandoned and foreclosed homes so that they can then be sold or rented to eligible individuals and families. Some recipients engaging in A&R pursued a scattered-site approach whereby single properties were targeted in several neighborhoods. Others concentrated their efforts on all of the eligible houses on a single block or on a series of blocks in one neighborhood. Figure 1 illustrates the two approaches. Successful stabilization with either approach depends upon the rehabilitation of these properties having a positive impact on the surrounding properties in the neighborhood.

A&R is a core strategy in any neighborhood stabilization effort and one of the most comprehensive NSP eligible uses. It also has the advantage of being another good strategy for quickly obligating NSP1 funds. The trade-off is that properties might not sell as swiftly as expected, tying up much needed funds. Depending upon a recipient's capacity, some may be able to continue rehabilitating other units while they wait for the completed units to sell, while others may have to stop all of their activities until the completed units sell. In some states, the unsold properties could be turned into rentals, but that also creates a set of property management issues. Some recipients may not have the capacity to manage rental properties.

Land Banking

Land banks operate much like a real bank where land parcels (with or without a structure on them) are deposited and then withdrawn when a potential project comes up or the market has corrected itself. NSP marked the first federally funded effort by HUD to promote land banks, though they are not a new concept. They have been around at least since 1943, with an expansion in their numbers during the 1990s and early 2000s.[8] Prominent examples can be found in: Atlanta, Ga., Cleveland, Oh., Genesee, Mi., Louisville, Ky., and St. Louis, Mo. They vary in their governance, funding, sources of properties, disposition pricing and disposition priorities.

A land bank is set up to correct inefficiencies that occur in the real estate market because land, by its immovable nature, does not respond as quickly to fluctuations in supply and demand as other markets might.[9] One recipient described the situation in their community: "In many areas the price of housing is so low — $5,000 to $25,000 — that the market will not recover for literally decades. The best alternative is to use land banking to hold the property and maintain it until reuse is a possibility." Properties within a land bank are not supposed to be held in perpetuity by the land banking authority.

Out of the five NSP eligible uses, land banking may be the most time-consuming to implement. The establishment of a land bank involves setting up both a legal and an organizational structure before properties can even be targeted for purchase. Several things must be in place prior to property acquisition. Figure 2 presents a general overview of the steps in the creation of a land bank and its operation. Land banking is also not an immediate remedy to the problems created by the foreclosure crisis. As one recipient stated, "We need to have an impact now, not 10 years from now, which is what would be the situation with a land bank."

Demolition

NSP defines demolition as the destruction and clearance of any existing "blighted" building(s) on a property, resulting in a vacant lot. The lot can either remain vacant, or it can be redeveloped with new construction. This eligible use is not restricted to residential structures, but also includes commercial and industrial structures.

Table 1: Eligible Properties and Activities under Each Eligible Use of Funds[10]

Eligible Use	Eligible Properties	Eligible Activities
Financing Mechanisms	*Homes* and *residential properties* that have been *foreclosed* upon	• Activity delivery cost for an eligible activity (designing and setting it up) • Financing an NSP eligible activity, such as soft second loans, loan loss reserve or equity sharing • Housing counseling for program participants • Other activities in eligible uses below
Acquisition and Rehabilitation	*Homes* and *residential properties* that have been *abandoned* or *foreclosed* upon	• Acquisition • Disposition • Relocation • Direct homeownership assistance • Eligible rehabilitation and preservation activities • Housing counseling for program participants
Land Banking	*Homes* and *residential properties* that have been *foreclosed* upon	• Acquisition • Disposition (includes maintenance) • Housing counseling for program participants
Demolition	*Blighted structures*	• Destruction and clearance
Redevelopment	Demolished or *vacant properties*	• Acquisition • Disposition • Public facilities and improvements • New housing construction • Housing counseling public services (limited to purchasers or tenants of redeveloped properties) • Relocation • Direct homeownership assistance • Rehabilitation • 570.204 activities by community-based development organizations (CBDOs) • Housing counseling for program participants

Terminology[11,12]
Abandoned: Mortgage or tax foreclosure proceedings have been initiated for that property; no mortgage or tax payments have been made by the property owner for at least 90 days; and the property has been vacant for at least 90 days.
Blighted structure: Exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety and public welfare.
Foreclosed: Under state or local law, the mortgage or tax foreclosure is complete.
Homes: Any type of permanent residential dwelling unit, such as detached single family structures, townhouses, condominium units, multifamily rental apartments (covering the entire property) and manufactured homes, treated under state law as real estate (not personal property).
Land bank: Government or non-government entity that temporarily assembles, manages and disposes of homes.
Residential properties: Homes plus vacant land that is currently designated for residential use, e.g., through zoning.
Vacant properties: Unoccupied structures or vacant land that was once developed.

Figure 1: Illustration of Scattered Site vs. Concentrated Acquisition and Rehabilitation

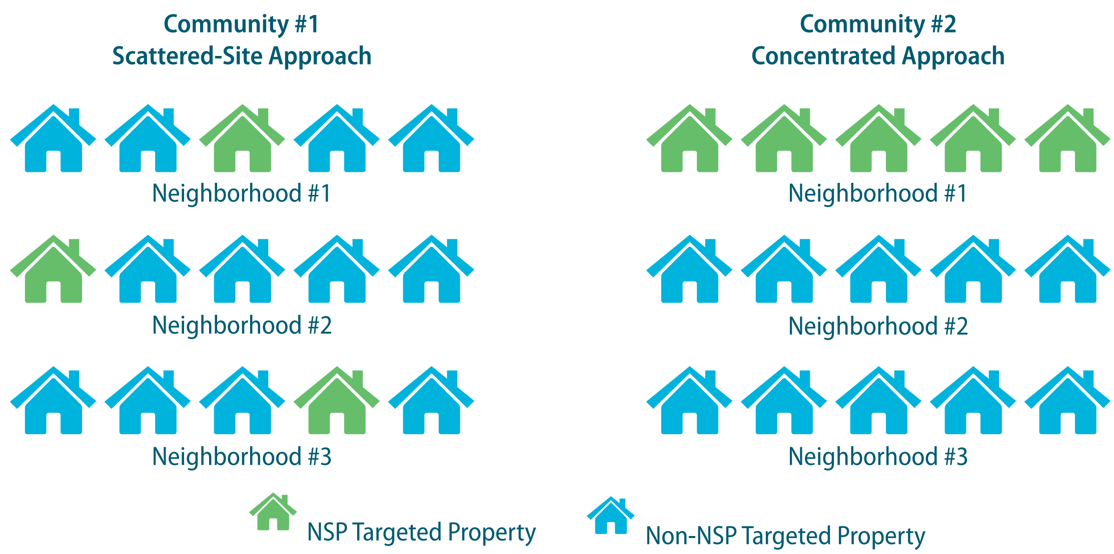
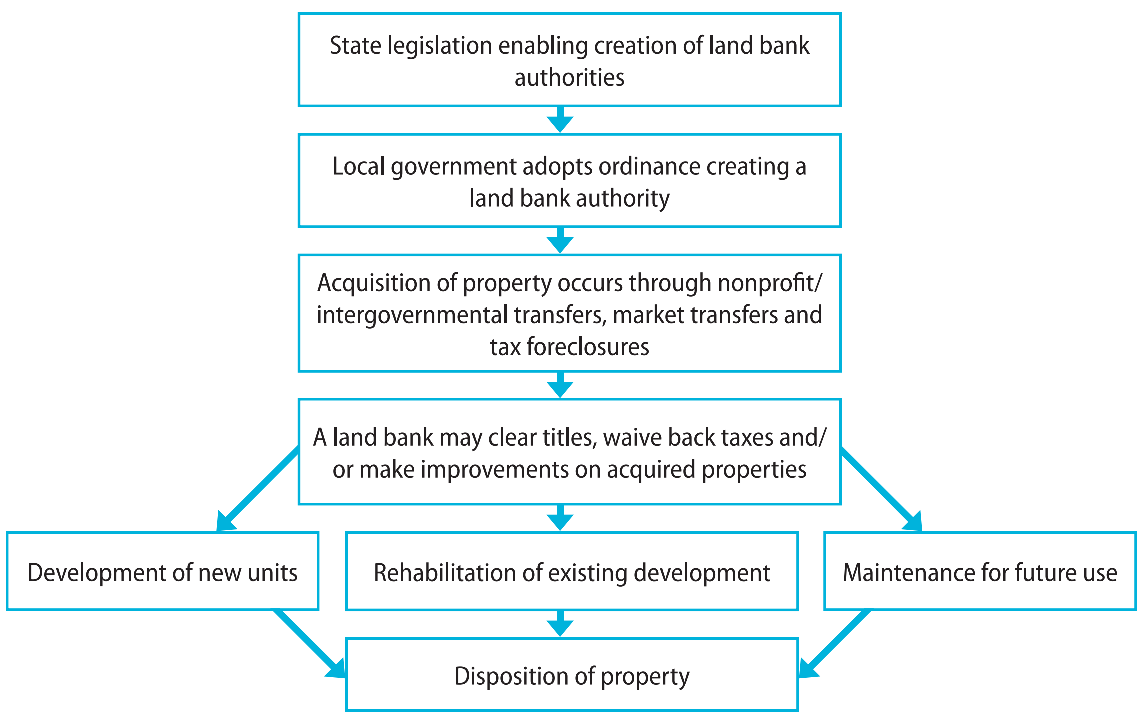


Figure 2: Brief Overview of Establishment and Functions of a Land Bank



Source: *U.S. Department of Housing and Urban Development, Office of Policy Development and Research. Revitalizing Foreclosed Properties with Land Banks. Washington, D.C.: August 2009.*

Demolition may be appropriate for a community that has been steadily losing population and has an excess supply of housing as a result. It is particularly appealing if the community does not anticipate having enough new residents moving in to reduce the excess supply. Demolition may also make sense to stabilize neighborhoods with a high concentration of older housing stock where rehabilitation may be too costly. Demolition can also open up areas for new construction and redevelopment. This was the approach taken by one respondent, who defined stabilization for their community as "right sizing." According to this respondent, "With the elimination of blight, property values will increase, and this in turn will attract reinvestment. We plan to use NSP funds for demolition of substandard units to improve the value of surrounding properties. We would like to assemble 90-100 parcels that line a commercial state route for future mixed use, including allowing existing businesses to expand."

Demolition may be more complicated than the name suggests because of regulatory restrictions. Demolition requires identifying properties that are "blighted," as defined by state and local regulations. Further, recipients' plans must ensure that all of the non-structural and structural materials resulting from the demolition can be recycled and reused and that environmental hazards, such as asbestos, are abated. As one recipient commented on demolition, "Not best use of money. Better to buy vacant land. Otherwise would have to pay for demolition, clearing, asbestos abatement, etc., which could double the cost for acquisition of vacant land." Another potential downside of demolition is that it leads to a decline in the housing supply that is not easily reversible. This may not be an appropriate strategy for a market that needs a consistent supply of affordable housing.

Redevelopment

Redevelopment includes the acquisition and rehabilitation of vacant properties. What distinguishes it from A&R is its focus on vacant properties rather than on abandoned or foreclosed ones. In addition, redevelopment allows for new construction on vacant land. Redevelopment can be used to transform commercial and industrial properties, construct new single-family or multifamily housing, or improve public facilities that support affordable housing. Commercial redevelopment is also permitted, although it cannot be the dominant purpose.

Redevelopment offers the advantage of being able to strategically target a large site or group of sites, which may have a greater impact on neighborhood stabilization. For example, one recipient purchased foreclosed vacant lots in three or four subdivisions that were partially built. In their words, "The reason we are buying lots in specific subdivisions is that buying a cluster of properties versus random ones means that we can scale up our impact." They will in turn sell the vacant lots to nonprofit or for-profit developers who will construct housing for sale or rent to households that are at or below 120 percent of AMI. Another recipient chose to redevelop an existing major site in the neighborhood — an 18-acre parcel with a foreclosed former public housing complex that was notorious for crime and drug activity.

With redevelopment, the trade-off is between the scale and impact of the project and the time it takes to complete. A construction of a single new home can take less than a year, but it would have less of a stabilizing effect than, for instance, the large-scale redevelopment of a blighted block.

Combining Strategies for Stabilization

Although recipients were allowed to focus their NSP1 funds on only one eligible use, the strategies were designed to work together as a multifaceted approach to neighborhood stabilization. For instance, as noted above, financing mechanisms could enable individuals and families to purchase properties that had been acquired and rehabilitated. If a rehabilitated property did not sell, the property could be moved into a land bank, where market conditions and the property itself could be monitored by the land bank's management. On the other hand, if an acquired property had structural issues that made rehabilitation inefficient, it could be demolished.

The majority of recipients in the sample engaged in two or more eligible uses (see Figure 3). Only 3 percent of respondents utilized all five eligible uses. For every eligible use, there was at least one respondent who engaged in it (see Chart 1). A&R was carried out by a vast majority (84 percent) of the sample. Financing mechanisms was the next most popular use, chosen by nearly half the sample. Redevelopment was undertaken by a third of the sample, land banking by 17 percent and demolition by 15 percent.

To illustrate how the various strategies were combined, three fairly representative examples of different NSP1 funding allocations drawn from our sample are outlined in Table 2. While Recipients 1 and 2 chose to spread their funds across several eligible uses, Recipient 3 pursued a more focused strategy, largely utilizing land banking.

NSP1 parameters required recipients to target low- and moderate-income individuals and families. All of the funds were to be used for individuals and families whose income was not greater than 120 percent of AMI. At least 25 percent of funds were to be used for the purchase and redevelopment of abandoned or foreclosed residential properties for individuals and families whose income was not greater than 50 percent of AMI. This requirement is known as the 25/50 rule.

A more detailed description of the various combinations of strategies chosen by the sample is presented in Table 3. While A&R, financing mechanisms and redevelopment were utilized by some recipients in isolation, demolition and land banking were only chosen in conjunction with other strategies. Certain activities were more commonly bundled together than others. For example, A&R was most often paired with financing mechanisms. Doing so allowed the NSP1 recipient to directly help interested homebuyers purchase their rehabilitated houses. Demolition and redevelopment are also complementary — once a blighted property is demolished, the vacant lot may be redeveloped. Of the respondents who engaged in demolition, 80 percent engaged in redevelopment as well.

Clearly, NSP1 funds were allocated and expended through a multitude of different approaches across the country. The following sections analyze the choice of strategies, examining the influence of market and recipient characteristics.

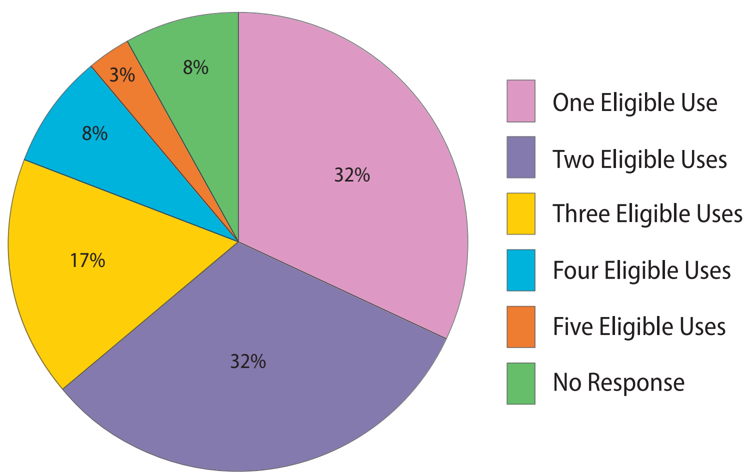
Effective Policy: Strategy Decisions in Response to Market Conditions

NSP was designed to allow communities to choose among proven strategies to best meet the particular challenges of their local markets. Our results suggest that there was less regional variation in the use of funds than one would have anticipated given that the foreclosure crisis hit some parts of the country harder than others. For example, A&R was the most widely used choice, with NSP1 recipients from 23 out of the study's 26 states using it (see Map 1).[13]

It is possible that the widespread use of A&R was a response to market and housing stock conditions. NSP1 respondents shared remarkably similar perceptions about local housing market conditions. As reported in Table 4, the majority felt that their local housing market was characterized by falling prices, minimal construction activity and a significant or pervasive presence of bank-owned (REO) properties and foreclosures. A&R may have been the most appropriate use of funds in this market. For example, a recipient with an award of over $14 million chose to do A&R because it was the "biggest need for the county; most of the new subdivisions existed in the county's area outside of the city because of the availability of cheap land." The majority of the foreclosed or REO housing stock in this recipient's community was new construction, so they needed to rehabilitate rather than demolish existing houses. Another recipient chose A&R not because the housing stock was new, but because it was solid construction that only required minimal rehabilitation in order to resell. The recipient wrote, "We need to maintain affordable housing in our neighborhoods, and in the majority of areas we selected, the housing stock is over 50 years old but was built with sound construction and should last for years with proper care. Acquisition allows us to fix the house on the block needing repair and, at the same time, would help maintain property values of the homes around it, helping to save the neighborhood."

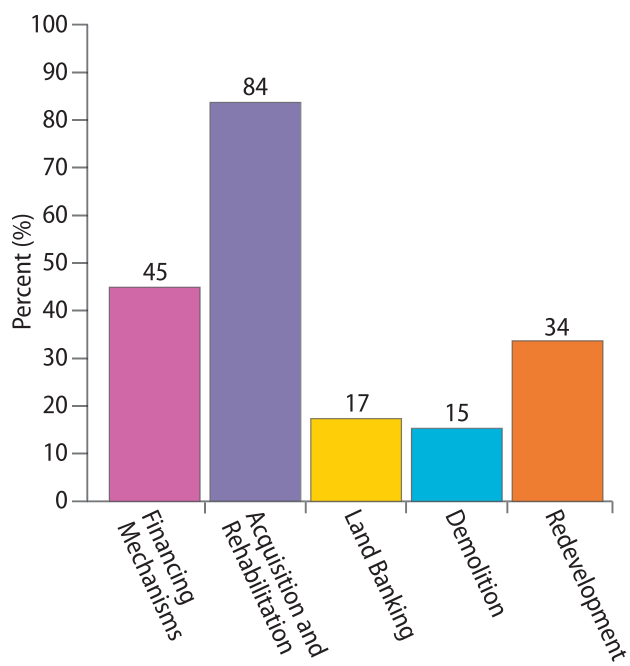
The role of existing housing market conditions and housing stock is further suggested by the regional pattern in the use of demolition. As Map 1 shows, those who engaged in demolition were predominantly concentrated in Rust Belt states, where population decline has resulted in

Figure 3: NSP1 Eligible Use Combinations for Survey Respondents



Note: *n=98*
Data source: *NSP Early Assessment Survey Database with Supplementary Information, Community Affairs Department, Federal Reserve System.*

Chart 1: Percentage of Eligible Use Participation by Respondents (n=98)



Note: *Most respondents used more than one strategy.*
Data source: *NSP Early Assessment Survey Database with Supplementary Information, Community Affairs Department, Federal Reserve System.*

Table 2: Examples of Eligible Use Choice Selection from Survey Respondents

Recipient #1	Recipient #2	Recipient #3
29% Acquisition - Buy vacant properties **25% Redevelopment (Multifamily)** - Purchase abandoned or foreclosed residential properties **23% Rehabilitation (Single-family)** - Rehabilitate and renovate structures **15% Down Payment Assistance (and Soft Second Loans)** - Provide a combination of down payment assistance and soft second loans to households between 70 and 120 percent of AMI for purpose of homeownership **0.20% Down Payment Assistance** - Provide down payment assistance to low income first-time homebuyers **7% Program Administration**	**41% Acquisition** - Acquiring and rehabilitating vacant foreclosed properties to be used in the rehabilitation or construction of housing to be made available to income-qualified persons **31% Rehabilitation** - Rehabilitating vacant foreclosed properties acquired with NSP funds to be made available to income-qualified persons **1% Demolition** - Removing blighted structures and clearing associated sites with NSP funds to create new housing opportunities for income-qualified persons **2% Counseling** - Provide funds necessary for housing counseling and any associated financial counseling for program participants **15% Program Delivery** - Implement the NSP activities, which include, but are not limited to, appraisals, property inspections, development of lead hazard reduction and rehabilitation work specifications, lead-based paint risk assessments, monitoring construction and rehabilitation activity, and other such costs typically associated with construction and rehabilitation of housing **10% Administration and Planning** - Provide funds necessary to administer the NSP acquisition, rehabilitation, demolition and counseling activities	**79% Land Banking** - Supply nonprofit developers with land for development of affordable housing **16% Demolition** - Purchase and demolish structures to allow new homes to be constructed using other funds **5% Administration**

Data source: *NSP Early Assessment Survey Database with Supplementary Information, Community Affairs Department, Federal Reserve System.*

both a lower demand for housing and a greater incidence of blighted homes.

Policy Distortions: Other Factors That Influenced Strategic Choices

NSP was also designed as an emergency response to the foreclosure crisis and, as such, included tight funding allocation and expenditure time frames. As one recipient noted, "HUD wanted NSP to be used like a defibrillator — a forceful government intervention to brace a neighborhood before its heart stops for good."[14] HUD also issued specific rules to ensure, as Congress directed, that funds would be obligated within the 18-month deadline, while acknowledging that the timetable could present challenges given the unprecedented crisis and ambitious goals.[15]

The timing constraints seem to have created a bias towards certain eligible uses. The need to obligate all funds within an 18-month deadline pushed recipients to select eligible uses with which they could hit the ground running as soon as they received funding. Several respondents cited quick turnaround times as a factor influencing their choice of strategy, even while acknowledging that this may have "constrained the program." As one respondent put it, "With the timeline for this one, there is not time to see what works and what doesn't and to make adjustments to provide for better programming. I understand that Congress wanted a quick solution. I just don't think we will get the results that we wanted."

It is therefore possible that the need for speed played at least as much of a role in the choice of A&R as market conditions. Most respondents to our survey perceived A&R to be one of the fastest ways to expend the funds quickly, closely followed by financing mechanisms. One recipient described how timelines played a role in their choice of strategies:

> *"We originally thought we would just do the rehab and not do any new construction, but because of the obligation timeline, the state agreed to waive the new construction in. Otherwise, we potentially would not have been able to get the obligation debt. We can obligate, and then we don't know how many houses we are going to be able to turn around and rehab. However, new construction is faster, and we can obligate new construction in 30 days. With a rehab it can take 90 days to purchase the home, take 15 days to close… timeline wise new construction is going to be a lot easier to implement."*

The need to spend funds quickly, and to leverage relatively limited funds, resulted in many organizations choosing strategies that complemented their existing programs and expertise. For example, one recipient already had a financing mechanism program in place, but was looking for ways to expand into A&R. The organization already offered homeowner assistance programs and did not need NSP1 funds to carry these out. However, they did not have the staff or experience to expand into A&R. Using NSP1 funds, the organization contracted with partners who would acquire and rehabilitate properties for the NSP1 recipient. Another recipient explained why they chose both A&R and financing: "Financing mechanisms are important to getting new homeowners into previously foreclosed homes. This also allows us to have a greater impact in a given geography. Acquisition and rehabilitation is expensive and the cost per unit for financing mechanisms is much lower."

Overwhelmingly, NSP1 recipients chose the eligible uses in which they had prior experience (see Table 5).[16] For example, of the survey respondents who decided to use financing mechanisms as a strategy, 90 percent had prior experience. Financing mechanisms had the highest percentage of participants with prior experience, which perhaps is not surprising given the complexity of some of its tools. However, some recipients also chose strategies that were new to their organizations. This was particularly true for land banking, where the majority of recipients who engaged in it did not have prior experience. The federal government was providing financial support for land banking for the first time, which may have encouraged recipients without prior experience to venture into it. Recipients may have also used their NSP1 funds to venture into other new strategies to develop a broader neighborhood stabilization strategy.

Recipients were also distinguished by the manner in which NSP1 funds were awarded — directly to state and local governments (direct recipients) and indirectly through state and local governments (indirect recipients). Indirect recipients include non-government entities, such as nonprofits. Our survey respondents included both direct (54) and indirect (44) recipients. Direct recipients received on average larger awards than indirect recipients. Among our survey respondents, the average

Table 3: Number of Respondents by Mix of Eligible Uses (n=98)

Eligible Use Mix	Respondents
Major A&R Eligible Use Mixes	**61**
Acquisition and Rehabilitation	26
Acquisition and Rehabilitation + Financing Mechanisms	18
Acquisition and Rehabilitation + Redevelopment	9
Acquisition and Rehabilitation + Financing Mechanisms + Redevelopment	8
Other A&R Eligible Use Mixes	**21**
Acquisition and Rehabilitation + Demolition	1
Acquisition and Rehabilitation + Land Banking	3
Acquisition and Rehabilitation + Financing Mechanisms + Demolition	1
Acquisition and Rehabilitation + Financing Mechanisms + Land Banking	3
Acquisition and Rehabilitation + Demolition + Land Banking	0
Acquisition and Rehabilitation + Demolition + Redevelopment	2
Acquisition and Rehabilitation + Land Banking + Redevelopment	1
Acquisition and Rehabilitation + Financing Mechanisms + Demolition + Land Banking	1
Acquisition and Rehabilitation + Demolition + Land Banking + Redevelopment	1
Acquisition and Rehabilitation + Financing Mechanisms + Land Banking + Redevelopment	2
Acquisition and Rehabilitation + Financing Mechanisms + Demolition + Redevelopment	3
Acquisition and Rehabilitation + Financing Mechanisms + Demolition + Land Banking + Redevelopment	3
Non-A&R Eligible Use Mixes	**8**
Financing Mechanisms	4
Redevelopment	1
Demolition + Land Banking + Redevelopment	2
Financing Mechanisms + Demolition + Land Banking + Redevelopment	1
No Response	**8**

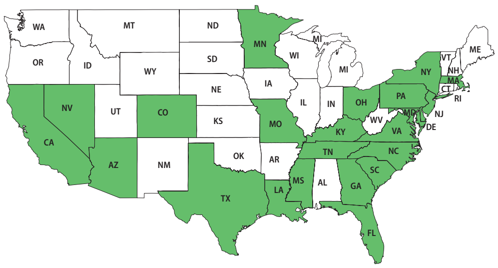
Data source: *NSP Early Assessment Survey Database with Supplementary Information, Community Affairs Department, Federal Reserve System.*

award to indirect recipients was roughly $2 million, while direct recipients received around five times that amount.[17] As Table 6 shows, the group that received $2 million or less was entirely composed of indirect recipients, while the group receiving $10 million or more was entirely made up of direct recipients. Direct recipients would generally have had more experience implementing larger federal programs and greater capacity in terms of staffing and resources.

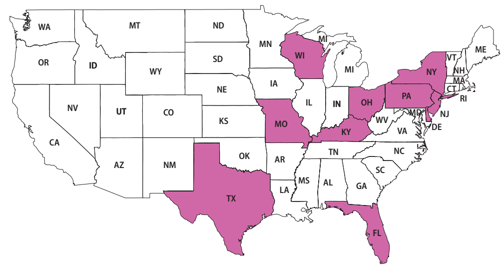
The difference in capacity between indirect and direct recipients seems to have played a role in the choice of eligible uses. As Table 7 shows, a higher percentage of direct grantees than indirect grantees was able to engage in financing mechanisms, A&R, demolition and land banking. The fraction of each engaged in redevelopment was about the same. The difference is most marked in the case of land banking, which saw substantial participation only among those with larger awards (see Table 8).

Nearly half the sample reported that they would have done more of the same strategy or added additional strategies given greater capacity. The capacity constraints of indirect recipients were compounded by state requirements on how funds could be allocated and expended.

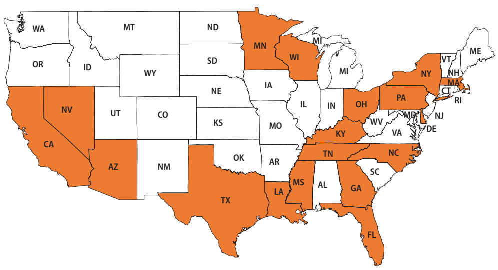
Map 1: Survey Respondents' NSP1-Eligible Activity Participation by State



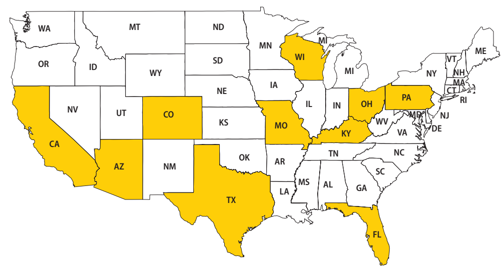
Acquisition and Rehabilitation



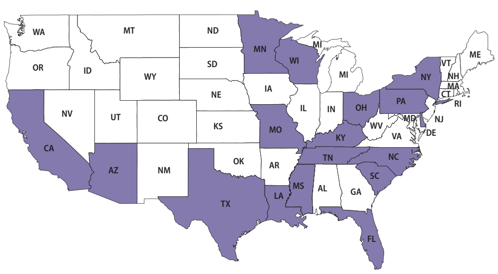
Demolition



Financing Mechanisms



Land Banking



Redevelopment

Data source: *NSP Early Assessment Survey Database with Supplementary Information, Community Affairs Department, Federal Reserve System.*

This was in addition to the myriad of regulations imposed by HUD. The additional layer of requirements made the tight deadlines even harder to meet. As one respondent described, "Regarding the State NSP, we are required to abide by HUD's original rule of acquiring foreclosed properties at a 15 percent aggregate discount versus the minimum 1 percent discount on individual properties that is the federal program's rule. Also, the contract period for the State NSP started September 1, 2009, although we did not receive the contract for execution until more than 40 days after that, leaving us with less time to obligate funds within their nine-month window."

Impact of NSP1 Funding

As of December 31, 2010, based on quarterly performance reports to HUD, NSP1 recipients had rehabilitated or developed new units for greater than 5,300 households, given direct homeownership financial assistance to more than 6,000 households for the purchase of formerly foreclosed or abandoned properties, and demolished and cleared over 9,700 blighted properties.[18] These numbers may seem insignificant given that national foreclosure numbers are in the millions, but NSP1, as all targeted neighborhood stabilization

Table 4: Perceptions of Local Housing Market (%) (n=98)

	2009-2010
Local Housing Market Prices	
Falling Quickly	22.45
Falling Slowly	44.90
Stable	23.47
Rising Slowly	6.12
Rising Quickly	1.02
No Response	2.04
Total	**100.00**
New Construction Activity	
Minimal	92.86
Moderate	5.10
Rapid	1.02
No Response	1.02
Total	**100.00**
Presence of REO Property	
Nearly Non-Existent	0.00
Limited	21.43
Significant	47.96
Pervasive	28.57
No Response	2.04
Total	**100.00**
Incidence of Foreclosure	
Nearly Non-Existent	0.00
Limited	6.12
Significant	56.12
Pervasive	36.73
No Response	1.02
Total	**100.00**

Data source: *NSP Early Assessment Survey Database with Supplementary Information, Community Affairs Department, Federal Reserve System.*

programs, was expected to have a positive impact beyond the individual neighborhoods to which funds were applied.[19] Additional resources or investors may have leveraged NSP1 funds and efforts and expanded stabilization beyond the initial NSP1 investment.

Relatively limited resources were cited as a constraint by the recipients in our sample. As one respondent who was engaged in demolition wrote, "There are more blighted properties than we have funds to address."

In many markets NSP1 recipients were constrained by increasing property prices. A recipient who would have liked to engage in more A&R described their situation as "not a capacity issue; the constraints on buying vacant, foreclosed property [are] typically because of competitive forces in the marketplace."

Another constraint beyond the control of the recipients was the financial institutions. A recipient who wanted to do more redevelopment said that "current bank practices regarding working capital and first mortgage financing" were a major constraint to project completion. The role of financial institutions also came up with a respondent who wanted to do more A&R, but could not because they were "unable to secure financing and unsure if end loans will be available."

NSP1 recipients also had to work within existing property regulations. Several respondents described how their activities were constrained by assorted property issues, including neighborhood limitations and property requirements. "We are just starting single-family acquisition and rehab. When a foreclosing entity wants to dispose of property, we only have 10 days to purchase property, so we have to do every type of review in that time period: identify eligible target areas, do environmental reviews, crunch numbers to make sure we fall within the rehab cap, do the appraisal, make sure that we meet the 15 percent discount (we know that NSP only requires a 1-5 percent discount, but we're requiring 15 percent)."

NSP did not operate in a policy vacuum. Various neighborhood stabilization efforts were already underway in many communities by the time NSP1 funds were allocated. This makes it difficult to analyze the unique impact of the NSP1 funds. Moreover, certain eligible uses — such as large scale redevelopment projects or land banks — may take more time than others to show stabilization results.

The recipients themselves were asked about how they would define success within the context of their NSP1 program. For some, success simply meant meeting the goals and targets laid out in their action plans and staying compliant with the program's guidelines and regulations. Other recipients, however, envisioned a more comprehensive picture of success. "[Neighborhood X] is a tipping point neighborhood that can be saved. Our goal is for for-profit investors to follow us into the neighborhood by purchasing the empty houses that are not foreclosures and rehabbing/reselling them. If that happens, this neighborhood will be stabilized," commented one recipient. Another recipient defined success "not only as obligating the full NSP grant amount in the required time frame, but also as ensuring that all acquisition and rehabilitation and new construction activities result in helping to stabilize neighborhoods by creating more owner-occupied housing for low-income families. A successful demolition program will be one where blighted homes are demolished from fragile neighborhoods and new homes or green space will replace the blight."

While quick deployment of funds was the focus of NSP1, the most successful communities may be those who were able to see beyond the current crisis. As one recipient described, the eligible uses funded by NSP1 can be a gateway to tackling other problems in the community, such as "establishing the infrastructure for the long-term stabilization of these neighborhoods and contributing to ongoing goals to promote and preserve housing affordability, support transit-oriented and infill development, and responsibly provide affordability for first-time homebuyers."

Table 5: Percentage of Eligible Use Participation by Level of Experience and Capacity Constraint (%)

	Level of Experience	Level of Capacity
Eligible Use Type	Experience With the Same Eligible Use	Wanted to Do or to Do More of Any Eligible Use
Financing Mechanisms	90.48	47.62
Acquisition and Rehabilitation	77.22	46.15
Land Banking	42.86	43.75
Demolition	66.67	40.00
Redevelopment	73.08	54.84

Note: *Percentage represents those recipients who chose the strategy and responded that they had prior experience or were capacity-constrained. The number of recipients varies for each cell in the table.*
Data source: *NSP Early Assessment Survey Database with Supplementary Information, Community Affairs Department, Federal Reserve System.*

Table 6: Percentage of Respondents by Award Category and Grantee Type (%)

Grantee Type	Award Category					
	Less Than $2 Million (n=26)	$2 Million to $5 Million (n=24)	$5 Million to $10 Million (n=26)	$10 Million to $20 Million (n=10)	Greater Than $20 Million (n=7)	No Response (n=5)
Direct Grantee	0.00	66.67	80.77	100.00	100.00	0.00
Indirect Grantee	100.00	33.33	19.23	0.00	0.00	100.00
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Data source: *NSP Early Assessment Survey Database with Supplementary Information, Community Affairs Department, Federal Reserve System.*

Table 7: Percentage of Eligible Use Participation by Grantee Type (%)

Eligible Use Type	Grantee Type	
	Direct Grantee (n=54)	Indirect Grantee (n=44)
Financing Mechanisms	51.85	36.36
Acquisition and Rehabilitation	88.89	77.27
Land Banking	27.78	4.55
Demolition	18.52	11.36
Redevelopment	33.33	34.09

Data source: *NSP Early Assessment Survey Database with Supplementary Information, Community Affairs Department, Federal Reserve System.*

Table 8: Percentage of Eligible Use Participation by Award Category (%)

Eligible Use Type	Award Category					
	Less Than $2 Million (n=26)	$2 Million to $5 Million (n=24)	$5 Million to $10 Million (n=26)	$10 Million to $20 Million (n=10)	Greater Than $20 Million (n=7)	No Response (n=5)
Financing Mechanisms	30.77	45.83	61.54	20.00	71.43	40.00
Acquisition and Rehabilitation	84.62	87.50	88.46	80.00	100.00	20.00
Land Banking	3.85	12.50	30.77	20.00	42.86	0.00
Demolition	7.69	20.83	19.23	20.00	14.29	0.00
Redevelopment	38.46	37.50	26.92	30.00	42.86	20.00

Data source: *NSP Early Assessment Survey Database with Supplementary Information, Community Affairs Department, Federal Reserve System.*

Conclusion

As distinctive as the foreclosure problem is in communities across the U.S., NSP1 plans were remarkably consistent across recipients. A&R emerged as the dominant eligible use choice in this study. The only variation seemed to reflect recipients' prior experience and capacity. NSP1 recipients allocated their funds to various eligible uses in an attempt to effectively expend their resources in a timely manner while maximizing their potential impact.

The real test is whether A&R can actually contribute to neighborhood stabilization. The impact will depend in part on whether the choice was a strategic response to housing market conditions or NSP1 deadlines and regulations. A&R will be most effective if grantees are able to purchase, rehabilitate and sell or rent targeted houses as well as attract investment beyond government funding into the neighborhood.

The next step in the analysis of strategies needs to compare recipients' choices with the outcomes that actually emerge in their communities. Experience on the ground and future research will make it possible to analyze the impact of particular strategies. While it is certainly the most popular, it is too early to conclude whether A&R is the best tool for neighborhood stabilization.

Acknowledgements

We thank Sarah Eckstein, Lisa Hearl and Tammie Hoy for their valuable insights, assistance and encouragement with this issue. We also acknowledge the contributions of our Fed colleagues in Community Affairs departments across the Federal Reserve System who conducted extensive fieldwork for the system's research project on the NSP, which is this issue's primary data source. Dan Gorin, Karen Leone de Nie and Harriet Newburger deserve particular recognition.

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[2] *NSP was authorized within the Community Development Block Grant (CDBG) program.*

[3] *In September 2008 the U.S. Department of Housing and Urban Development (HUD) allocated $3.92 billion. NSP is part of the Housing and Economic Recovery Act (HERA). Following congressional guidelines, HUD awarded the funds based on the intensity of foreclosures, subprime mortgages, and mortgage defaults and delinquencies in the areas. In all, 307 grantees received awards from HUD. Minimum state awards began at $19.6 million, while other direct awards to local governments started at $2 million. http://archives.hud.gov/news/2008/pr08-148.cfm*

[4] *U.S. Department of Housing and Urban Development, "NSP Laws and Federal Register Notices," February 28, 2011. http://hudnsphelp.info/media/resources/NSPLawsNotices.pdf*

[5] *Our data is drawn from a nationwide survey of NSP1 recipients that researchers conducted during 2009-2010. All of the respondents, representing 26 different states, were in the first year of their program's implementation. The survey was a partnership between the Federal Reserve Board of Governors, 11 Federal Reserve Banks and Enterprise Community Partners. The comprehensive surveys were either completed through in-person interviews with NSP1 recipients or by the recipients themselves through an online website.*

[6] *In the Federal Register for June 19, 2009, the language for the eligible use of land banking was revised and expanded to read: "Establish and operate land banks for homes and residential properties that have been foreclosed upon." http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/pdf/nsp1_bridgenotice.pdf*

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[14] *Joice, Paul A. "Neighborhood Stabilization Program." Cityscape 13, no. 1 (2011): 139.*

[15] *U.S. Department of Housing and Urban Development, "Preston Allocates Nearly $4 Billion to Stabilize Neighborhoods in States and Local Communities Hard-Hit by Foreclosure:*

HUD plans housing summit to explain new neighborhood stabilization program," September 26, 2008. http://archives.hud.gov/news/2008/pr08-148.cfm

[16] Prior experience was defined as the organization having existing programs involving one of the eligible uses or partners who had existing programs involving one of the eligible uses.

[17] The average award in our sample was nearly $7 million, but varied between $143,489 and $39.5 million. The dollar amount of the direct state and local government awards varied based on need, which HUD determined using a weighted formulaic approach derived from housing market measures, such as foreclosure starts, subprime loan percentages, default rates, delinquency rates, etc. A recipient could have received both a direct award from HUD and an indirect award from their state. http://www.hud.gov/offices/cpd/community-development/programs/

[18] Marquez, Mercedes M., "Legislative Proposals to End Taxpayer Funding for Innefective Foreclosure Mitigation Programs," written testimony, March 2, 2011, before the U.S. House Financial Services Committee's Subcommittee on Insurance, Housing, and Community Opportunity. http://portal.hud.gov/hudportal/hud?src=/press/testimonies/2011/2011-03-02a

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