

## HUD NSP Problem Solving Clinics

*In early 2010, HUD offered a series of locally-based Neighborhood Stabilization Program (NSP) Problem Solving Clinics on implementing the NSP program. The clinics were targeted to the needs of individual housing markets and thus were open to grantees and their nonprofit, developer and financial institution/ lender partners from each local market area.*

*The NSP Problem Solving Clinic provided grantee, non-profit staff, and other stakeholders access to technical experts and HUD staff that were able to field program design and implementation questions, provide clarifications on regulations, and suggest alternative approaches to address hurdles and roadblocks.*

*Both one-on-one sessions between specific grantees and experts, as well as more general workshop sessions were offered. Below is the transcript from one of the workshops.*

### **Workshop: Meeting the 25% Set Aside For Low-Income Persons**

**Presenter: Leslie Leitch, Cloudburst**

PRESENTER: Good afternoon. I figured you all were really the diehards that wanted to hear this topic or your train left a little later today and so you were stuck here. But I really thank you for sticking it out and obviously this is a topic that is dear to your hearts and that's why we're here to help you. My name is Leslie Leitch and I am from one of the technical assistance providers, Cloudburst. And I'm here to provide you an overview of information. I hope if you did have specific questions you had the opportunity to sit at the one-on-one table. We will also have a representative from HUD here, David, who was at the table, so he's heard several questions already and probably can also support any ideas, or recommendations or thoughts for you in your own community. So I have to do multi-things. I've got my own... let's see if I can do all this. What we're going to go through to make sure we're all on the same platform as we launch into the discussion is to review a couple of things that you've been hearing all day and then really go into some strategies, some case examples—a couple of case examples. We're going to have a little quiz at the end just to make sure you're awake as you walk out of here. And then we'll certainly open it up to any questions and provide you additional resources. Quickly, we've been through this a million times, I hope you have memorized it; everybody knows exactly what A is, B is, C is, D is, E—don't worry about E, E doesn't count in this particular conversation, so when we start talking about 25%. I'm going to go through some of this information pretty quickly on the front, so we can get to the meat of the discussion and get you out at a reasonable time. As you know, at least 25 % of your NSP funds must create housing for low-income individuals. This also includes any re-allocated funds which obviously no funds have been re-allocated, but if they are recaptured, there will certainly be that opportunity. It does not include program income. Again, that was one of those rumors we were hearing about. This is just your initial allocation and any re-allocated funds. It's about the funds, not the beneficiaries—not 25% of the people, 25% of the funds. I just want to make sure we're all clear, that we're all hearing the same thing, all walking out of here with no question about that. It is for abandoned and foreclosed properties only—again, that's why we said E doesn't really

count. Not all properties count—I'm kind of reading through all this stuff because again, we're just setting the platform. It must also be for permanent housing. This is long-term, stable housing. There was a wonderful quote that I thought was very important that HUD used in the initial kickoff website that I'm sure everybody watched, but I just want to make sure that you're reminded of this important topic. It's not enough to show that at least 25% of the beneficiaries are low-income, the set aside applies the amount of funds used to benefit such persons and can be met only by the use of NSP-funds to purchase and redevelop foreclosed and abandoned properties to house them. This is all about permanent housing—long-term commitments to low income individuals. We're going to talk about how to do this. Many of you may define in your own community what permanent housing is. Some general concepts are that it cannot be time-limited. You can't say you're here for two years, you're permanent for two years, but then you have to go away. That is not generally considered permanent housing. And you should have some sort of lease agreement—sometimes a piece of paper, sometimes your local law says even a verbal agreement is a lease agreement. So whatever is considered permanent, long-term stable housing—no group homes, no shelters, no transitional (depending on how your jurisdiction defines transitional housing)—so I'm getting into semantics there, this is permanent long-term housing.

How do you like this one: starting off with accurate record keeping as opposed to going after the concept of the individuals. The only way we're going to know if you do it is if you keep accurate records. How many of you had the opportunity to participate or at least be present at the DRGR primer this morning? They really talk about using your 25% set aside as a specific activity, otherwise how are you going to know? Set it up in DRGR so you are always knowing what is happening with those 25% set aside dollars at any given moment. I thought that was brilliant. DRGR... set up recordkeeping... again, HUD should be proud of us for coming up with that—first tracking your stuff before you even focus on who you're working with. In some jurisdictions one of the best ways to make sure you actually do this is to focus on these projects first. These are going to be the hardest properties, clients, renters, homeowners, that you're going to find in your community, or try to find in your community. Do it first—don't wait until the backend. Do it first. It's very easy to find people with 120% of AMI, it's a little tougher to find them at 50, 48, 30, that are going to qualify and be stable homeowners or renters and not continue this cycle that they may have been on their whole life of instability. Many of your potential candidates, and we'll go into how you're going to find them, may be special needs households, so this may be housing for individuals with disabilities. They are often, unfortunately, they fall within that 50% or below.

So you can now start thinking about—where am I going to target those kinds of individuals and communities? It is often very good, obviously, to have partners in this process, rather than you, the grantee, expecting to go out there. And some of your partners, who will hopefully know this type of population, will be non-profit developers—organizations that are already working with this population, developing housing for this population. Operators of permanent supportive housing—Continuum of Care—what's the Continuum of Care? Who does it serve? Homeless—it's the homeless communities. If you don't know who operates your Continuum of Care in your community, they're a great resource! They're obviously working with low-income

individuals. Very few homeless individuals have wealth management issues—they're just trying to get by day-to-day. So it's a great area. Whoever is doing the low-income tax credit development, they are obviously working with low-income individuals. Habitat for Humanity—anyone in here from Habitat? It's the population that they tend to work with, so again a great resource in your community or in your region—don't just think about your particular city or jurisdiction. CHDOs, CDCs, CSBG—who knows what CSBG stands for? Community *Service* Block Grant, an area that sometimes HUD recipients aren't involved with often comes out of social service arms or health departments depending on the community that you're in—but those are individuals who are getting community service support. So community hubs, mayor's stations, CACs—all sorts of wonderful phrases for that particular population. Aging associations, senior centers, senior services... homeownership counseling groups, job training agencies—we'll talk a little bit more about, again, where you're going to find these particular areas. Any other ideas? Any other partners that you all can think of that anybody else is working with that's been a beneficial referrer of low-income individuals? [inaudible audience response] Housing authorities—absolutely! Partner with public housing authorities—how about that? You were just prepping this! There's something called FSS- Family Self-Sufficiency programs in housing authorities. So these are programs that are working to help improve, increase the wealth, increase the financial wherewithal of public housing residents, but it's great to give them something to move to in the end—to provide an opportunity for them outside of always being in public housing or having to figure out how to get their own housing on their own. We've even given you information on how to find out more about them. Job training workforce development programs. And I know you're thinking—gosh who are those people... we have that little job training corps down the street. But you do have in each jurisdiction a workforce development board. And they are trying to build the wealth, the income of individuals. Goodwill is a perfect place to start linking with for people who have income potential. Especially if you're talking about homeownership, which we'll get to in a minute, you want to make sure you aren't developing housing for people that in two years aren't going to have the strength to continue operating or continue owning that home, and you're again creating that cycle. You want people moving into homeownership that have income potential that's going to keep growing, so that they can afford to maintain that housing. Question?

PERSON IN AUDIENCE: Some municipalities and institutions have homebuyer programs for their employees, and, you know, often they fall within those targets... service employees.

PRESENTER: Excellent, so homeowner programs within municipalities. Could be a live-near-your-work... universities may have them—good point. So again, there are some really creative ways that you have maybe not thought of, and I'll look for your comments back to those. I'm looking to see if there's anything else... Again, we're looking to build future stable housing.

Homeownership. We're going to talk about some of the set aside challenges because we know that they are there. Homeownership is very, very difficult with 50% and below. And we know that. How many of you have homeownership plans for that 25% set aside? One. Oh isn't that good. I wish it was only one in all of them. So I'll kind of go quickly through this, but it's a concern. The buyers obviously must be income eligible. The big issue is they must be bankable.

And it is a very difficult... they have very difficult histories to be able to be bankable, unless you happen to be a Habitat—then you're actually willing to provide the lending yourself—great. Otherwise, it may not be readily available. And they have to be able to afford it on an ongoing basis. Can they afford it? Is their income going to support increased cost of homeownership long-term? Maintenance, taxes, et cetera. So you may need to look at other strategies. There was a whole lease purchase program, there was actually a table, David Kramer is an available resource to talk about how to structure a lease purchase program. Obviously there is a requirement of pre homeownership counseling, but it's only 8 hours and that may not be enough, and just because that's the minimum requirement, it does not mean it is the maximum requirement. And post ownership counseling—making sure you're going back in there to assure the stability of the household is critical. Everything from the issues of financial management just to general maintenance and repairs, general upkeep is really, really important. There are ways to get somebody into housing and NSP funds will allow you to do this. So it's writing down the purchase price. Getting them in is... there are great ways to do it. Again, it's just managing the resources that you have either through NSP or other sources—reduce the sale price, provide soft seconds. NSP can pay 100%-- it doesn't have to and I don't know any community that is really going to do that, but it's an opportunity. You still must recognize that the buyer must provide 50% of the down payment, but you can write that down, you can provide that assistance. So homeownership, again, is an opportunity. It is not necessarily what is being encouraged.

What is being encouraged is going into the rental market. So affordable rents may not be feasible... What you're going to want to do is, again, the low-income at 25% may not even have the money to move in to or maintain housing stability in a rental market. You can do it a couple of ways-- mixing the community such that you can have different rents in that particular condominium, that particular structure, so that higher income individuals are offsetting the costs of lower income individuals. You can have Supportive Housing and Shelter Plus Care certificates. Again, this is out of the Continuum of Care and these are rental subsidies. They come with a couple of issues that you need to be aware of. It's called supportive housing and shelter *plus* care because there are service elements that need to be tied to this. This means connecting with a service provider that's going to be there. Again, a wonderful way to support the housing stability of a renter is knowing that there's somebody who is checking up, who is available if they're having some problems, is going to be there for you, as a property owner/manager, to be able to call if something isn't going quite right. And then also using project based vouchers out of your housing authority. Here's another potential way to do it. If there is a foreclosed building—I thought this was brilliant, again this was somebody else's idea-- if there is a foreclosed building with income-eligible tenants, these can count towards your 25% set aside. Anybody doing that? You might look for a foreclosed building... Again, big issues. Special needs housing is complex. We talked about the Supportive Housing, the supportive part, and Shelter Plus Care. When non profit developers go into a property, the dream is to have no debt. You want to own that property outright, but you still have to operate it. And this may be a place where non profit providers may not have as much experience in managing the operations of a facility. So you have to make sure that the partners that you have do have that capacity, or you can support them through that. Operating a building is very difficult, especially

if you have very low rents. You may not have the operating money. There are lots of ways to think about how to do that—having tenants participate in the upkeep, maintenance of the larger property, ensuring that you're building the capacity of the non profit to be able to manage/operate that facility. The bottom line is we're in a real time crunch. And so again, I'm glad to see in this room that there aren't a lot of people that have done homeownership. I've certainly heard of a lot of people that have tried to do homeownership. It's going to be tough. It's going to be tough to find those people and find the lenders at the end to support them. We have David who has joined us from HUD also, and John is our expert here. So please feel free to contribute.

OK, got a couple examples of communities who are using their NSP effectively with that 25%. A couple different strategies—here is a case point in Maine. \$5 million in NSP... What they did was they set aside the money specifically for foreclosed properties and the idea was to target homeless communities. So they set that aside—it's all a conserve. They did that upfront. They also did it for special needs housing. They did an RFP and they let the providers, they let the nonprofit developers, the special needs housing developers identify the populations. So, the bottom line is that it's the grantee's obligation but they went to the people who know who this 25% set aside population is. So that is one very effective way that Maine is kicking this off. What they did is they also got project-based vouchers. And because they knew that the low-income individuals were not going to be able to afford the maintenance of or the ongoing rents such that the property could be maintained, so they needed to back-in with some rental subsidies for the low income individuals. And there's a question.

PERSON IN AUDIENCE: I'm just curious about who was responsible for sourcing the property. You said they identified the population to be served but how did they identify their multifamily properties or what scale? Was it 2-4 units? Was it 25 units? How did they meet the definition of a foreclosed property or an abandoned property?

PRESENTER: The question is: how did they scale, how did they identify the property? That was up to the developer to do.

PERSON IN AUDIENCE: But have they done it?

PRESENTER: Yeah, they have done it, they have done it. They have found abandoned and foreclosed property. They developers found it.

PERSON IN AUDIENCE: What's the unit size?

PRESENTER: I don't know, but I'm going to give you the phone number at the end if you want to contact them.

PERSON IN AUDIENCE: That's a difficult... that's a challenge for Philadelphia to find those properties that are eligible, that meet that definition of abandoned or foreclosed property.

PRESENTER: We knew that was going to be a question here. I can't give you that answer. That is what we're hearing is the biggest problem—finding the properties themselves. I'm looking for comments, recommendations from the floor. David?

DAVID NOGUERA (HUD): We've heard from different grantees who've had some success working with local realtors who are familiar with homes in the particular area, who are familiar with homes in your target area. Some of them may be working with the tax assessor's office and identifying the homes that haven't, that are at least 90 days behind in their taxes. There is no silver bullet, but you really do need to utilize the local resources is what I'd say.

PRESENTER: I know that's not answering the question. I think she wants a silver bullet.

PERSON IN AUDIENCE: [inaudible]

PERSON IN AUDIENCE: For Philadelphia we've determined that to acquire the single family properties through NCST is not an effective way to meet the 25% set aside. We've learned that scattered site rental housing for very low income families is very challenging to manage. And the way it comes through the Trust, you have to achieve economies of scale. And basically you're acquiring one property at a time. So to package something that makes sense, say a minimum of 25 units, it's impossible and you're under a deadline. So we're looking at our expiring tax credits. We have a couple properties that are sort of in a place of being vacant, not foreclosed upon, and we are in a position to cause foreclosure, but we're stuck on a question of how do we operate them for longterm affordability? In our city, we don't have a housing authority who's willing to designate project-based certificates and we're searching around for other ways to operate those properties, whether it's a mixed income approach, and a lot of times these properties are in transitional or stressed neighborhoods, so to attract higher income people or at 80% or 120% is very challenging to try to subsidize those at 50%.

PRESENTER: Any other thoughts? This is a challenge. It's been thrown out.

JOHN LASWICK (HUD): On vacant residential land? New construction?

PERSON IN AUDIENCE: We've been working with folks in the affordable housing field, practitioners, working with the private market to identify properties—multifamily properties where there were either tax credits, publicly subsidized. We have a 58-unit property that is mainly efficiencies in a neighborhood that's very challenged in Philadelphia that we could possibly acquire, but it's a whole process of vetting through and it's challenging, so we're not looking at new construction.

JOHN LASWICK: I think in some cases your choices are not going to be the ones you'd like to have.

PERSON IN AUDIENCE: Well we're looking for any choice that actually fits that and is ready to go, so we understand we need to move quickly. And again, that affordability part of it and in terms of operating how that's going to look. But we're trying to determine what properties

meet the definition and then what are the issues because they all have very specific and unique issues you need to unravel before you get there and then pencil out on a pro forma about whether or not it's going to work.

DAVID NOGUERA: I was just going to ask if you're using a GIS to do any overlays.

PERSON IN AUDIENCE: No, we're not using GIS in terms of looking at the 25% set aside but we do have someone in-house with that capability. But we're very connected to the affordable housing industry or the practitioners in the field. We've reached out. We've done a focus group and a number of forums. We've done outreach and communicated via email to ask people to submit properties that they are aware of that are in a certain place where we are in a position to foreclose upon if they're not there already, in addition to what may already be on the market.

PERSON IN AUDIENCE: I think a potential resource are the non profit developers in permanent supportive housing because they at least have experience with dealing with the issues of feasibility over the period of operations. So they can't help you find properties but they could be the people who want to develop, own, and manage these properties once you've found them.

PERSON IN AUDIENCE: So before I came on board for the RDA, I worked for a nonprofit housing developer that served very low income families and these exact kind of transactions we did. We were serving people at 50% of Area Median Income and below. And the only way we were able to operate them without project-based certificates was by having an internal rent subsidy reserve which cannot do under an NSP. We have conversations with our Department of Behavioral Health who do have a limited number of vouchers that we can use; we can allocate 20% or 25% of the units there, but that's not going to make the deal run over a 20-year period. We have to get our head around it, but at the same time we're still struggling going after properties that will meet this definition and then pencil down what it looks like.

JOHN LASWICK: Well just to get into the politics of it, why doesn't your housing authority want to give you the certificates?

PERSON IN AUDIENCE: Our housing authority is not very cooperative in terms of working in partnership around NSP. So I can only say that there hasn't been a lot of discussion; we've invited the housing authority to participate on our roundtable discussions about meeting the set aside. We've had no representation.

JOHN LASWICK: Well I'm just thinking that if you tell your Mayor that you're at risk of losing a lot of money because your housing authority isn't helping you out, then... maybe you have to go there.

DAVID NOGUERA: As we get deeper into your issues.... I was just going to say that this sounds like a perfect example of a TA Request that's needed.

PRESENTER: They requested technical assistance today.

JOHN LASWICK: Can I just follow up? Just to reiterate, it's true that you typically can't use properties you acquire under E because typically those properties are vacant and they're not foreclosed or abandoned properties. But if you have a foreclosed or abandoned residential property that is vacant, whether it's a structure or a piece of land you can redevelop it under eligible use E, so new construction is the thing we've heard about the most. We were just talking to Wilmington, Delaware and they bought a foreclosed commercial property, tore it down, and now they're going to build 17 single family homes that are going to meet their set aside. So it can be done; it may not work for you but just don't rule it out.

PRESENTER: Thank you very much for your honesty and for bringing up the issue. I think this is what I've heard about a lot of today. So you're not alone out there, you just had the microphone available to you. Thank you for asking the questions.

BONNIE LESTER (ICF): Leslie, just as a comment, also don't forget we do have these input cards. There's a good segway to this—that if you have obstacles that you're facing, put them on these cards. HUD wants your input. If this is an obstacle and a barrier to you getting your money out, put it down, let them know. So all of you that are experiencing the same issue, please write it up. Thank you.

PRESENTER: That's Maine... Indiana did it a little differently. I heard some people talk about the way they did it there. They are requiring that each respondent to an RFP allocate 25% of their project to this income eligible population. Obviously this is their biggest challenge too. It's forcing that developer community into recognizing the need. Their goal is to really looking at mixed-income projects so that the developers aren't—everybody wants to go after that 120, but that they really are thinking about the use of these funds' benefit to the greater community. They can help offset each other. I think there's just more information about it and how it operates. So I guess we want to see what you all are doing. Is anybody else—what are you doing to meet that 25% set aside?

PERSON IN AUDIENCE: In Baltimore, a number of providers have gotten together and are using Section 8 through a consent decree to house non-elderly disabled people. One of the issues that I can see coming up with this Philadelphia issue that you were talking about is ours have to be in good neighborhoods where people want to live. The consent decree has to be in certain neighborhoods and I couldn't find just any property—you know, you've kind of eliminated all these different properties but the other thing is really important—it has to be in an area where people want to live, in an area that is up and coming or that isn't distressed. We can't use the Section 8's there, so it adds another layer of challenge to making it work. I mean, it's all about the people living in the housing, not just about fixing up a bad building.

PRESENTER: And being able to stay in the housing, it's not just getting into the housing. It really is housing stability for the long haul. Any other ideas or challenges that you've had? Again,

we're presenting you with some ideas and things that work—I think it's great that you're pursuing the TA, it's very important. What I want to do is make sure that you walk out of here today feeling like you've learned something. So, we have a pop quiz. OK, here you go.

Can properties slated for later development, landbanking primarily, with intended use by very low income households count towards the 25% set aside? I heard, "No." No! Good answer—somebody learned something. HUD will determine at grant closeout whether or not that 25% set aside has been met. So the landbank in ten years for use does not count. So they really want these units, the 25% set aside, occupied. They want people moving into housing—very low income people *in* housing.

Next question: can NSP funds be used to develop a homeless shelter? Trick question! Grantees may acquire the property. So there are a couple of ways they can do it. It does not, however, count towards your 25% set aside. That was a trick question.

Question: An NSP allows grantees to use up to 10% of its grant for general administration planning. Is the 25% set aside applied to the entire grant or only to the 90% after administration? See, you guys learned so much today. The 25% set aside must be counted against the entire grant amount. So if you didn't think you learned anything today, see what you're walking away with? We'd go through an example but you all knew the answer.

The last thing that we're really going to talk about is the maintenance of your records. You're going to do all of this wonderful work and if you just lump all of this together, no one's ever going to be able to figure out that this 50% and below was served by your efforts. So please make sure that you do your recordkeeping. Please set it up in DRGR correctly. I love that "You may be audited." You will be audited.

They're out there already.

Here are some resources. They are probably in your book, they are absolutely going to be available on the website which I understand is going to be available tomorrow for the entire group. Again, some areas for the 25% set aside. And I think that's the ... oh and so congratulations on learning something today, congratulations for you all sticking it out the whole day. You only have one more obligation and that is to complete the yellow evaluation... and the blue evaluation. Have they done the overall? ... Thank you very much for your time. Thank you very much for your comments, suggestions and recommendations, and good luck to all of you.