



Key Success Factors in NSP1

1. Strategies/acquisitions based on market data
2. Sufficient staff with NSP & real estate knowledge
 - Grantees, subrecipients, developers, contractors
3. Appropriate and comprehensive funding agreements
4. Full understanding of NSP eligible property types and acquisition steps
5. Solid plans for meeting 25% set-aside
6. Realistic approach to marketing and selling homes
7. Diligent grant management & good communications

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Typical NSP1 Market Strategies

- Tightly targeted redevelopment - blighted areas
 - Addressing vacant properties & foreclosures with rehab, new construction, demolition and land banking
- Bedroom suburbs with scattered foreclosures
- Rescuing failed new subdivisions
- Preservation of affordable rental properties
 - For VLI families and special populations
- Areas likely to rebound as “hot markets”
 - Foreclosed homes captured for long-term affordability

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Importance of Market Data

- What and where to acquire are key NSP decisions
 - Of course, driven by your NSP2 plan
 - Still, finding the right properties has been challenging
- Fresh market data can make all the difference
 - It's often worth paying for proprietary data
 - Public and utility company records can be crucial
- More data needed for "micro-area" redevelopment
 - Crime rates, demo-only candidates, infrastructure needs



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Management/Staffing Strategies

- Grantee level
 - Maximize adaptation of CDBG/HOME programs
 - Assign experienced staff in key positions, and contract for services to fill gaps
- Developer/sub-recipient level
 - Single family real estate development skills are essential
 - Light HOME/CDBG experience calls for a crash course
 - Step-by-step program manuals and training are crucial for smooth operations and NSP compliance



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Admin Vs. Program Delivery

- First-timers with NSP often need to sort this out
- The 10% limit on admin costs doesn't apply to program delivery
- Examples of program delivery costs
 - Acquisition, design, project management and inspection work on specific properties
 - Marketing properties and qualifying clients
 - Providing financial assistance to homebuyers



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Agreements With Partners

- This has been challenging with NSP1
 - Scopes, budgets and flow-through requirements are often not complete enough
 - “Developer” category is breaking new ground
- Help is on the way!
 - NSP technical assistance teams are creating “programs in a box” with many sample documents
 - Referencing a complete program manual can make the agreements much shorter and simpler – templates are being created as we speak



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Types of Agreements

- Subrecipient agreements
 - Typically used for nonprofits providing services
 - No developer fees. Program income/audit rules apply
- Developer agreements and loan agreements
 - Most suitable with for-profit and nonprofit developers that have the requisite experience
- Contracts
 - Required for services like appraisals, and title work
 - Have to be competed; others can be designated



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Mastering NSP Acquisitions

- Foreclosed upon
 - Commit to buy only after funding agreement signed or grantee gives advance permission (ditto, abandoned)
- Abandoned
 - Pending tax or mortgage foreclosure + 90 days vacant
- Blighted – must declare that before demolishing
- Vacant – For redevelopment (not foreclosed, abandoned)
 - Can’t count toward 25% set-aside



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Acquisition Compliance Pitfalls

- Not meeting foreclosed criteria
 - Purchased or under contract prematurely
 - Not purchased from foreclosing entity
- Purchase contracts/options lack NSP conditions
 - Must be conditioned on environmental review, appraisal
- URA and tenant protection laws not observed
 - Notice of voluntary acquisition, relocation plan/survey, tenant notices all must coincide with purchase offer
 - Due diligence to find out if improper evictions occurred



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Achieving the 25% Set-Aside

- Rental and special needs housing widely used
- Sales of homes to VLI buyers is more situational
 - Long-term viability an issue high-cost cities
 - Nonprofits like Habitat groups have a track record and the right counseling and support systems for buyers
 - First-time developers in this niche are taking a chance
- Properties must be foreclosed or abandoned,
 - Not just vacant - i.e. Eligible Use E doesn't count



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Marketing and Selling Homes

- Crucial and highly challenging in this market
- What we are learning from NSP1:
 - Location, location, location – pick the right ones and make sure to reach critical mass in “micro” redevelopment areas
 - Market the homes aggressively – you may need 10 or 20 lookers to get one buyer
 - Successful sales programs complete a prequalification very early on and use standards similar to FHA's



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Pricing and Subsidizing Homes

- More good practices we are learning from NSP1:
 - Price homes at cost or market value, whichever is lower
 - Provide 2nd mortgage subsidy as necessary to achieve a combined housing payment ratio of 30% to 35%
 - Be willing, judiciously, to invest over market value – particularly in redevelopment areas – and understand how “development subsidies” work with NSP.
 - Minor cash down payment assistance may be needed
 - If possible, use one recapture lien for 2nd mortgage subsidy and cash down payment assistance



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Grant Management & Monitoring

- The lead NSP2 applicant is responsible
- It's crucial to master the DRGR system early on
- In addition, tracking systems are needed:
 - For past, current and projected activities and expenses at the parcel level, by eligible property type and units meeting set-aside - flowing up to lead entity frequently
- Many major compliance issues have been mentioned today but of course there are more
 - Use the HUD resources like www.hudnshelp.info and clinics and request technical assistance



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Key Steps in Grant Management

- Orient and train staff and partners
- Make strong written agreements
- Set performance standards
- Monitor subrecipients, developers and contractors as frequently as necessary
- Track progress against milestones and deliverables defined in the agreements
- Follow up to resolve problems



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Learn and Communicate!

- Whatever you think you know about NSP, you will very likely learn something new every week
 - NSP is far more challenging than DPA or owner rehabs
 - All players have to be entrepreneurs in a dynamic market
 - Unpredictable issues about property eligibility, timing and other issues arise frequently with grantees and developers
 - Field offices often get involved, and now TA providers
 - All parties need to be frank and open about problems, and also provide the moral and practical supports for success



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Suggestions?

- HUD has requested your written suggestions on changes in policies and guidance for the NSP program
- Major policy changes requiring Congressional action are welcome, but we can't count on proposed amendments being approved – some have been proposed by industry groups.
- HUD's leadership has pledged to do all it can to make NSP policies and guidance more workable, within the current statutory framework
- www.hudnshelp.info will have more streamlined FAQs and up-to-date guidance on recently-resolved policy issues



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