



Changes to the Neighborhood Stabilization Program in the American Recovery and Reinvestment Act of 2009

Summary and Overview

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA) into law. This bill included \$2 billion for a second round of funding for the Neighborhood Stabilization Program (NSP) along with several major changes to the program, some of which will affect the first allocation and some of which will only apply to the second allocation. A summary of the changes is outlined below. The changes are divided into those that will affect the original round of NSP funding, allocated in the Housing and Economic Recovery Act of 2008 (HERA), and those that will only affect the second round of NSP funding as established in ARRA. However, until HUD releases its interpretations of the new ARRA language, there may be changes to the categories below.

Changes that will affect both the first and second rounds of NSP:

1. **Elimination of the Program Income Section:** The entire section on Program Income has been repealed. As a result, reinvestment of profits and other revenues are no longer subject to the complex NSP program income rules. Also, the Treasury recapture provision has been eliminated.
2. **Expansion of the Land Banking Eligible Use:** The section on Land Banking has been amended to read “establish and operate land banks for homes and residential properties that have been foreclosed upon.” In the original HERA bill, operating expenses were not an eligible use, and only “homes” were eligible, not all residential properties.
3. **Redevelopment as Housing Only:** Funding used for all redevelopment activities can only be used for the redevelopment of demolished or vacant properties as housing. This restricts redevelopment to residential projects only, whereas the original HERA language permitted redevelopment for non-residential uses.
4. **Prohibition to Refuse to Lease to Section 8 Voucher-Holders:** Grantees may not refuse to lease a unit to a participant under Section 8 because of the status of the prospective tenant.
5. **Tenant Protections:** Several provisions to protect rental tenants in properties whose landlords have been foreclosed upon, including the requirement that tenants with bona fide leases that were signed before foreclosure be permitted to remain in the unit until the end of the term of the lease, and that tenants without leases be granted a 90-day notice to vacate.



Changes that will affect only the second round of NSP:

6. **Competitive Allocation Process:** Funding will be allocated by competition and the following are eligible entities:
 - a. States
 - b. Units of local government
 - c. Nonprofit entities or a consortia of nonprofit entities that may partner with for-profit entities
7. **Establishment of Capacity Building Funds:** The HUD Secretary may use up to 10% of NSP funds (\$200 million) for grantees for the provision of capacity building of and support for local communities receiving funds.
8. **Expenditure Timeline:** Grantees must expend 50% of allocated funds within 2 years of the date funds are available to the grantee, and 100% of funds must be expended within 3 years.
9. **Criteria for Allocation:** HUD must ensure that grantees are located in areas of greatest need (number and percentage of foreclosures), and that additional award criteria are:
 - a. Capacity to execute projects
 - b. Leveraging potential
 - c. Concentration of investment to achieve neighborhood stabilization
 - d. Any additional factors determined by the HUD Secretary
10. **Competition Timeline:** The HUD Secretary must publish criteria within 75 days of enactment (approximately April 30, 2009), applications must be submitted to HUD within 150 days of enactment (approximately July 15, 2009), and HUD must obligate all funds within one year of enactment (February 17, 2010).
11. **Prohibition of Demolition of Public Housing:** No NSP funds may be used to demolish any public housing.
12. **Establishment of 10% Cap on Demolition:** Grantees may not use more than 10% of NSP funds for demolition, unless they receive specific authority from the HUD Secretary.

A link to the ARRA text is available through THOMAS and the Library of Congress at: <http://thomas.loc.gov/cgi-bin/query/z?c111:H.R.1.enr>: under Division A, Title XII, "Community Development Fund."

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