

Changes to the Neighborhood Stabilization Program (NSP) in the NSP2 HUD Notice of Funding Availability

Summary and Overview

On May 4, 2009, HUD released the Notice of Funding Availability (NOFA) for the second round of the Neighborhood Stabilization Program (NSP2), as created in the American Recovery and Reinvestment Act (ARRA) of 2009. The NOFA outlines how to apply for \$1.93 billion in competitive NSP2 funds and details regulatory changes to the NSP2 program. On the same day, HUD released a separate NOFA for \$50 million in NSP technical assistance.

Below is a summary of regulatory changes to the NSP2 program as established in the NOFA. Note that outlined below are changes likely to be pertinent to most NSP recipients – it is not a comprehensive list of all changes to the program. Please refer to the full NOFA for more details: <http://www.hud.gov/recovery/nsp2-nofa.pdf>.

1. **Goals and objectives:** The first goal is to arrest neighborhood decline. Second, the recipient must stabilize the neighborhood and position it for a sustainable role in a revitalized community.
2. **Expenditure timeline:** Recipients must expend 50% of allocated funds within 2 years of the date funds are available to the recipient, and 100% of funds must be expended within 3 years.
3. **Expansion of the land bank eligible use:** Eligible Use C, Land Banking, has been amended to read “establish land banks for homes and residential properties that have been foreclosed upon.” In the original HERA bill, only “homes” were eligible, not all residential properties.
4. **Redevelopment as housing only:** Eligible Use E, Redevelopment, has been amended to read “redevelop demolished or vacant properties as housing.” This restricts redevelopment to residential projects only, whereas the original HERA language permitted redevelopment for non-residential uses.
5. **Establishment of 10% cap on demolition:** Recipients may not use more than 10% of NSP2 funds for demolition, unless they request an exception, justify their choice, and receive a specific exception from HUD.
6. **CDBG program income rules:** ARRA repealed the program income section of HERA. As a result, regular CDBG rules governing program income will apply to NSP2. Revenue (i.e. gross income) received by a NSP recipient or subrecipient that is directly generated from NSP2 activities constitutes program income. Substantially all program income must be disbursed for NSP2 eligible activities before additional cash withdrawals can be made.
7. **Change in discount requirement:** A minimum purchase discount of 1% (below the appraised value) must be achieved for each residential property purchased with NSP funds. A minimum average discount of 5% must be achieved for all residential properties each recipient purchases with NSP2 funds during the 3-year expenditure period. Recipients are required to obtain the “maximum reasonable discount” from the mortgagee, taking into consideration likely “carrying costs.”
8. **Appraisals waived for properties valued at less than \$25,000:** If the anticipated value of the proposed acquisition is estimated at \$25,000 or less, the current market appraised value of the property may be established by a valuation of the property that is based on a review of available data and made by a person the recipient determines is qualified to make the valuation.
9. **Mandatory green rehabilitation standards:** All gut rehabilitation of residential buildings up to three stories must be designed to meet the standards for Energy Star Qualified New Homes. All gut rehabilitation of mid- or high-rise multifamily housing must be designed to meet American Society of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE) Standards. Other rehabilitation must meet these standards to the extent

applicable to the rehabilitation work. Water-efficient fixtures must be installed. Recipients that will require NSP2 homes to achieve an established environmental or energy efficiency standard, such as Green Communities, do not need to provide the entire standard in detail, but must provide HUD enough information to locate and reference the standard.

10. **Requirement that all loans adhere to sound lending practices:** The recipient must ensure that homebuyers obtain mortgages from lenders that agree to comply with the bank regulators' guidance for non-traditional mortgages (guidance available through FDIC: <http://www.fdic.gov/regulations/laws/rules/5000-5160.html>). HUD cautions recipients against permitting homebuyers to obtain subprime mortgages.
11. **Waiver for non-HUD approved counselors:** If there are no HUD-approved housing counseling agencies in the recipient's jurisdiction, or there is other good cause as to why a recipient cannot meet the HUD-approved counseling requirement, the recipient may submit a request to its HUD field office for an exception to this requirement.
12. **Prohibition to refuse to lease to Section 8 voucher-holders:** Recipients may not refuse to lease a unit to a participant under Section 8 because of the status of the prospective tenant.
13. **Tenant protections:** Recipients must adhere to several provisions to protect rental tenants in properties whose landlords have been foreclosed upon. This includes the requirement that tenants with bona fide leases, 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.
14. **Prohibition of demolition of public housing:** No NSP funds may be used to demolish any public housing.
15. **Environmental review requirements for nonprofits:** Non-profits, and other recipients that are not designated responsible entities under 24 CFR part 58, may not assume environmental review responsibilities and must receive HUD approved environmental reviews unless they apply in consortia with states, Indian tribes, or units of general local government with jurisdiction over proposed projects. In the case of consortium applicants, states, Indian tribes or units of general local governments may perform the environmental reviews on behalf of the consortium for projects within their jurisdiction.
16. **Affirmatively further fair housing:** Recipients and subrecipients must affirmatively further fair housing by promoting fair housing rights and fair housing choice in housing programs funded by the award.
17. **Data and reporting:** Recipients must submit quarterly performance reports for the entire 3-year expenditure period. In addition, recipients must submit monthly reports on NSP obligations and expenditures until the reported total expenditures are equal to or greater than half the total NSP2 grant. Monthly reports will also have to be submitted from the 33rd to the 36th month, or until the entire NSP2 grant has been expended.
18. **Wage rate requirement:** Under Section 1606 of the Recovery Act, contractors and subcontractors hired with Recovery Act funds are required to pay prevailing wages to laborers and mechanics in compliance with the Davis-Bacon Act.
19. **Citizen comment period:** HUD is requiring a minimum time for citizen comments of 10 days. Application materials relating to target geography and proposed uses of funds must be posted on the applicant's official website as the materials are developed, published, submitted to HUD, and approved by HUD. Despite the competition process, applicants are still responsible for ensuring that all citizens have equal access to information about the programs.

For more information, please contact Amanda Sheldon, asheldon@enterprisecommunity.org, 202-649-3918.