

**PRELIMINARY DRAFT – NSP2
FOR DISCUSSION PURPOSES ONLY**

**PROPOSAL: NEIGHBORHOOD STABILIZATION PROGRAM 2 (NSP2)
AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009**

Overview

The Neighborhood Stabilization Program – 2 (NSP-2) is one of the initiatives of the American Recovery and Reinvestment Act of 2009 (ARRA). The program was modeled after the Neighborhood Stabilization Program – 1 (NSP-1) created under the Housing and Economic Recovery Act of 2008 (HERA). Under NSP - 1, the City was allocated \$5.07 million funds from U.S. Department of Housing and Urban Development (HUD) in order to purchase foreclosed or abandoned homes and to rehabilitate, resell, or redevelop these homes, stabilize neighborhoods and stem the decline of house values of neighboring homes. The City Council approved the plan for the use of NSP-1 funds at their November 18, 2008 City Council meeting. Soon afterward, the Department of Community Development began implementing the program.

Properties in foreclosure continue to be a problem across the country, prompting the U.S. Congress to add the Neighborhood Stabilization Program – 2 (NSP-2) to the American Recovery and Reinvestment Act of 2009. NSP-2 is a competitive grant program rather than an entitlement program. NSP-2 regulations are virtually identical to NSP-1 with few exceptions.

Application Process

The City of Long Beach Department of Community Development, as the lead, and its partner Habitat for Humanity Greater Los Angeles (HFH GLA), a non-profit full service developer, herein collaborate with and submit this joint application for NSP2 funds. Once selected, the City and HFH GLA are ready to meet HUD’s published NSP requirements, as described in Appendix 1 of its notice.

The central foundation of this joint application has overarching goals: creating affordability and increasing homeownership in highly affected targeted neighborhoods, mitigate negative effects of foreclosure like blight and decline of housing values, and revitalize and reconnect targeted neighborhoods to higher level and sustainable economy and housing market.

Target Geography

One difference between the NSP-1 regulations and NSP-2 is the rating system of eligible geographies where NSP-2 may be spent. HUD released new data in May 2009 related to the risk of foreclosure by census tract. The new data has a rating scale of 1 – 20, and scored both foreclosure risk and vacancy risk caused by foreclosure. To apply for funds, selected census tracts must score an average of 18 in one of the two categories. Based on these mandatory criteria, the City of Long Beach has identified 34 eligible Census Tracts, mainly concentrated in the north, west and central areas of the City. Staff analyzed eligible census tracts and the potential of acquiring foreclosed properties. NSP-2 requires that funding must be spent in every selected census tract(*see NSP-2 map*).

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Program Criteria

NSP-2 funds may only be used to address bank-owned foreclosed or abandoned properties. The minimum award that can be requested from HUD is \$5 million to assist at least 100 units to return to the occupied housing stock. No more than 10% of the funds may be used for administrative costs. Households that occupy the rehabilitated or redeveloped housing shall not earn more than 120% of area median income (AMI) and at least 25% of the NSP2 funds must be used to assist households earning less than 50% AMI. The NSP-2 application requires Long Beach to select eligible NSP-2 activities that would address the highest priority local needs. Eligible activities through the NSP-2 program are as follows:

- ❖ Establishing financing mechanisms for purchase and redevelopment of foreclosed homes
- ❖ Purchase and rehabilitate properties that have been abandoned or foreclosed
- ❖ Establish land banks for foreclosed homes
- ❖ Demolish blighted structures
- ❖ Redevelop demolished or vacant properties

Citizen Participation

To expedite the process and to insure that NSP2 grants are awarded in a timely manner, while preserving reasonable citizen participation, HUD is requiring a minimum time for citizen comments of 10 days. The following notice will be published in three languages (English , Khmerand Spanish) and appropriate steps will be taken to provide NSP2 application materials in the above mentioned languages.

Notice is hereby given that the City of Long Beach is proposing to apply for funding from the Neighborhood Stabilization Program 2 (NSP-2) under the American Recovery and Reinvestment Act (ARRA), 2009. This is a competitive grant program and the purpose of these funds is to assist in the purchase or rehabilitation of abandoned and foreclosed home and make them affordable to low and moderate income households. The City will submit an application for funding under the NSP-2 program to the United States Department of Housing and Urban Development (HUD) by the submission deadline of July 17, 2009.

The City proposes to apply for \$22,249,980 in NSP-2 funding to be utilized in the following eligible categories:

- ❖ *Establish financing mechanisms to purchase and redevelop foreclosed upon homes and residential properties, including such mechanism as soft-seconds, loan loss reserve, and shared-equity loans for low- and moderate-income homebuyers.*
- ❖ *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.*

Copies of the application will be available to the public on July 3, 2009, for a 10-day comment period ending July 13, 2009, at the Neighborhood Resources Center, 425 Atlantic Avenue, Long Beach, CA 90802 and Main Public Library, 101 Pacific Avenue, Long Beach, CA 90802. In

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addition, A copy can be obtained by contacting Alem S Hagos, CDBG Coordinator at 562/570-7403 or can be downloaded from or viewed on the Neighborhood Services web page:

WWW.longbeach.gov/cd/neighborhood_services

Proposed Use of NSP- Funds

The City and HFH GLA will use NSP2 funds in the areas of greatest need, including those with the greatest percentage of home foreclosures, with the highest percentage of homes financed by subprime mortgage loans, and these areas identified by the City, through its thorough and comprehensive housing and economic data analysis, as likely to face a significant rise in the rate of home foreclosure.

The City and HFH GLA will insure 100 percent of NSP2 will be used to benefit individuals and household with incomes below 120 percent of area median income. In addition, at least 25 percent of NSP2 funds will be used to benefit individuals and households with incomes below 50 percent of the area median income.

Program Design

The City and HFH GLA will establish NSP2 funded programs that fully comply with the eligibility requirement.

The proposed NSP2 funded programs will be fully implemented by the Community Development Department and HFH GLA according to HERA, CDBG and all other applicable federal rules and regulations. In addition, they will target eligible City residents that are in the income bracket of 51 to 120 percent area median income and 25 percent of the funds will also fully be “deep targeted “ to eligible residents at or below 50 percent of the area median income.

The NSP2 funds will be used by the City and its partner to under take the following two primary activities, plus administration:

- ❖ Establish financing mechanisms to purchase and redevelop foreclosed upon homes and residential properties, including such mechanism as soft-second, loan loss reserve, and shared-equity loans for low- and moderate-income homebuyers.
- ❖ 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.

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Create Financing Mechanism for First Time Home Buyers (FTHB)

NSP2 funds will be used to promote neighborhood stabilization through increased home ownership opportunities by providing secured, subordinate mortgage loans with contingent, deferred interest, for the benefit of persons and families of low- moderate- and middle-income families. Loan proceeds may be used only as gap financing toward the purchase of a single-family residence, condominium, or townhome located within a City of Long Beach qualified census tract. The "gap" is computed as the difference between the purchase price and the sum of the largest first trust deed mortgage deemed affordable to the borrower and the borrower's down payment. There will be no monthly payments due on the Second Mortgage loans. However, the principal amount of the loan will be due and payable after thirty years or upon sale of the property, whichever occurs first. Borrowers will be required to secure a 30-year fixed-rate 1st TD mortgage loan. Adjustable or interest only loans will not be permitted. Under this program the City will budget \$14,662,487 to finance and rehabilitate the purchase of 75 single-family foreclosed homes.

Purchase and Rehabilitate Single-Family Residential Properties That Have Been Abandoned or Foreclosed-Upon and Resale to Qualifying Homebuyers.

There is a low-income requirement where at least 25% of the NSP funds must be allocated for the benefit of families at or below 50% AMI. 25% of the NSP2 funds will be allocated to Habitat for Humanity of Greater Los Angeles (HFH GLA) for implementing this component of the program. HFH GLA through its Neighborhood Revitalization Initiative (NRI) model will rehabilitate foreclosed and REO properties into affordable homes for purchase by low and very-low income families that reside in the City. The City in coordination with (HFH GLA), will budget \$5.562 million dollars (25% of the total budget) for this activity.

Staff estimates the budget will be as follows:

Strategy	Amount allocated	Estimated housing units
Establishing financing mechanisms for purchase and redevelopment of foreclosed homes - 65%	14,662,487	75
Purchase and rehabilitate homes that have been foreclosed upon - 25% (for 50% area AMI buyer)	5,562,480	25
Administration - 10%	\$2,224,998	0
TOTAL	\$22,249,980	100

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Implementation of NSP-2 funds

Timeline for NSP-2

The City of Long Beach must submit its application for funding to HUD by July 17, 2009. HUDS expects to make decisions on the NSP-2 awards by December 1, 2009. As with the other economic stimulus funds, one of the federal objectives of the NSP-2 is to expend the funds quickly. Half of the NSP-2 funds must be spent within two years of the City entering a contract with HUD and 100% must be spent within three years of the City entering into a contract with HUD.

Action	Date of completion
Notice published in newspaper, CLB website	July 3, 2009
Public comment Period	July 3 – July 13, 2009
Send signed NSP-2 application Overnight Mail	July 15
HUD makes decision about NSP-2 awards	December 1
Half the NSP-2 funds must be spent	By January 1, 2012
Full amount of NSP-2 funds must be spent	By January 1, 2013