

# The Neighborhood Stabilization Program

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**Moderator:** *Welcome to the Federal Reserve Bank of Atlanta's Foreclosure Response podcast series. Today we're talking with Karen Leone de Nie, research manager for Community Development at the Atlanta Fed. Karen is leading the bank's study of neighborhood stabilization strategies in the Southeast, and we're going to be talking about how local governments in the Southeast are using the Neighborhood Stabilization Program to start to recover the communities that have been hit hardest by the foreclosure crisis. Karen, thanks for joining us.*

**Karen Leone de Nie:** Thanks for having me.

**Moderator:** *Throughout the U.S., neighborhoods, cities, and counties are facing growing numbers of vacant and abandoned homes. In response to that problem, the federal government created the Neighborhood Stabilization Program, which has allocated almost \$6 billion to help preserve struggling neighborhoods. Well, Karen, first off, what is the Neighborhood Stabilization Program, or NSP, as it's known?*

**Leone de Nie:** Well, the Neighborhood Stabilization Program is really an extension of the Community Development Block Grant Program, and it was created to target funds to be used to purchase foreclosed homes and to rehabilitate and redevelop them, ideally bringing these homes back into productive use. And while the Neighborhood Stabilization Program can be thought of as an overall effort to assist communities, especially the ones hardest hit by foreclosures and vacancies, there's really two different components of it. And the first one is NSP1, and then the second NSP2, and combined they allocate about \$6 billion to this effort.

NSP1 was created in July of 2008 through the Federal Housing and Economic Recovery Act, and it's known as HERA. HERA appropriated the first almost \$4 billion. Then, in February of 2009, the Congress recognized that more funding was really needed to target interventions at recovering these communities, and so they authorized an additional \$2 billion for NSP2 through the American Recovery and Reinvestment Act.

**Moderator:** *And what is the program intended to do?*

**Leone de Nie:** Well, the program's really intended to stem falling housing values by targeting homes that might otherwise begin a cycle of abandonment and blighted communities. Basically, what's happening is that, as the number of foreclosures have risen from 2008 and 2009, some neighborhoods are seeing the number of vacant homes increase. And really it's a supply and demand problem because...as foreclosures ramp up, the supply of housing in a neighborhood's going up as well. And under the current economic uncertainty—the job losses as well as the rising threshold for securing a mortgage—we're seeing the demand for housing going down. Ultimately, what this means is that we're seeing vacant homes stay in neighborhoods for a very long time. The problem that we know comes with that is that, from studies and on-the-ground accounts, those rising vacancy rates have real impacts on neighborhoods. They're both driving down housing values; they're causing neglect, vandalism; they're providing opportunities for crime; but they're also slowly diminishing that sense of community for the remaining residents.

And this impact isn't limited just to the individual neighborhoods; it also strains the resources of local governments. For as property values decline, so too do property taxes. And at the same time these local governments are being pressed to deliver more and more services because they're going to be dealing with responding to code violations, potentially taking on additional maintenance, and experiencing more calls for law enforcement. So, really, what that Neighborhood Stabilization Program is intended to do is to provide funding to the local community developers to really identify locally derived and implemented strategies to stop this downward slide.

**Moderator:** *How has the government gone about allocating the funding?*

**Leone de Nie:** The governments allocated that funding in two different ways. The first, for NSP1, was really a needs-based formula that they developed, where they fed in a lot of data into this formula. And this data really revolves around foreclosure rates, vacancy rates, delinquency rates for mortgages, [and] also the prevalence of subprime loans in certain areas. And then they allocated the funding based on the needs that they saw in the individual cities or counties or states. As a result of that, about 309 (or actually 309) jurisdictions received funding through NSP1.

In the Federal Reserve Bank of Atlanta district, which includes Alabama, Florida, Georgia, and parts of Louisiana, Mississippi, and Tennessee, we received about \$893 million to over 73 grantees. And, in fact, to note that in Florida, the state of Florida alone, where the foreclosure crisis is really pervasive, they received about \$541 million of that 893 coming to the Southeast. The difference, though, is that there's also NSP2 that is in process right now, and allocations are still being decided for that. And in that case it was decided that we needed a competitive process—that while in NSP1 we did a risk-based or a formula process based on needs, for NSP2 the recognition was that we needed to look more broadly at where the capacity was to handle these foreclosure issues and help bring these homes back into use again. So they opened up a competitive process, and instead of it just being for local governments and state governments, those who could apply included nonprofit entities and consortia of nonprofit entities. What that also means, though, is that these consortia can bring in for-profit entities to bring that additional capacity that we need to be dealing with the magnitude of this problem. At the time of this conversation, the NSP2 funds have not been allocated yet, but they're in the works.

**Moderator:** *Karen, can you talk a little bit about how some jurisdictions in the Southeast are using their NSP funds?*

**Leone de Nie:** With so many jurisdictions receiving funding, and with the goal that the plans developed by these jurisdictions really reflect local needs, it means that NSP activities, especially in the Southeast and throughout the country for that matter, are as variable as the weather. To start, I think I'd like to explain kind of the nuts and bolts of what NSP dollars can be used for and maybe talk a little bit about how some of the cities and counties are using these funds.

The first is they can be used for financing mechanisms, which means that trying to get new homeowners or returning homeowners into these foreclosed homes, there's incentives that can be created, and in addition to that, better interest rates and things like soft second mortgages, loan-loss reserves that will allow or will encourage more home ownership of foreclosed homes.

The second is purchase and rehabilitation, and this is really the meat of the program. A lot of the local governments that are tackling this issue in NSP1 are purchasing—either themselves or by subcontracting with a nonprofit or for-profit entity—they're purchasing the foreclosed homes, rehabilitating them, bringing them up to code, making sure that they're truly livable and then marketing those homes for resale or for rental. Also, recognizing that the foreclosure challenge is larger than what can be accomplished in the time frame of this one program, the NSP1 has allowed for something called land banking. And what land banking does is it allows for the grantee, the NSP grantee, to purchase a property and hold it in a land bank for a length of time until such time as either the market for these properties is more viable again or to allow for additional planning for redevelopment of these properties for other uses—potentially higher-density residential uses.

In addition, NSP funds can be used for demolition. And in some cities where they've been especially hard hit by foreclosure but have had this as an enduring challenge, demolition becomes a very important tool for being able to remove from neighborhoods some of the most distressed, dangerous properties. Demolition is also being targeted in some of what are considered hot markets, or the markets that are expected to recover faster. Even there, they're finding there are several properties from long-time neglect that are required to be demolished.

And the last eligible use is redevelopment, and this can work hand in hand with demolition, with land banking. This is really thinking more long-term about what these areas should be, what would be in the best interest of those communities, and what opportunities the grantees can leverage to provide a higher quality of life for those neighborhoods.

**Moderator:** *Who is involved in implementing these plans, Karen?*

**Leone de Nie:** I have to go back to the variability of the plans because every jurisdiction developed their own plan and the potential to bring in a variety of actors is vast. So it just depends on which city or county you're talking about. Ideally, those involved in the plans...and implementation of NSP are really there to address that capacity issue to be able to execute in a very short time frame a large redevelopment strategy and a revitalization strategy in neighborhoods. And so those actors could be the city and county governments that are already active in community development and housing issues. They could include the nonprofits, the community development organizations that have long-term efforts in this regard, as well as community development financial institutions and other financial institutions...Many of those financial institutions are the ones that are holding these bank-owned properties now and are involved in the process of allowing NSP grantees to acquire them.

In addition, the for-profit developers are playing a role in bringing these properties back into productive use. And so, really, the key to success in NSP is to get the right combination of actors to be able to deal with the needs of these communities very quickly.

**Moderator:** *What's the timeline for the NSP program?*

**Leone de Nie:** The clock on NSP1 is already ticking. HUD has already given the go-ahead to grantees to obligate those funds, and they have 18 months from the time of obligation to complete their NSP1 plans. And that means that we're going to be seeing plans wrapping up in 2010 and 2011. But the clock for NSP2 hasn't started yet. But once it does, jurisdictions will have three years, and they must address at least 100 housing units using any of the eligible uses that I talked about earlier.

**Moderator:** *Karen, how is the community affairs department here at the Atlanta Fed, and those at other Federal Reserve Banks, playing a role in NSP?*

**Leone de Nie:** Throughout the country Federal Reserve Banks have been providing technical assistance, data, and convening relevant partners on NSP2 activities. At the Atlanta Fed, we have met with partners both in Georgia and Florida and Alabama about this issue, and we're continuing to provide assistance in a going-forward basis. But, in addition, throughout the system, we are all very interested in neighborhood stabilization strategies more broadly, not just NSP2 plans. And so a great deal of research and exploration has gone into understanding how different markets are responding to the foreclosure issues and how, by using the NSP program, they're able to overcome some of the challenges and make inroads into the foreclosure issue.

**Moderator:** *Where can local governments and neighborhood groups go to learn more about the NSP?*

**Leone de Nie:** For the basics on NSP, the first place to go is HUD's Web site, which is [www.hud.gov](http://www.hud.gov). It's very important to understand this very complicated program, and HUD has done a very good job of providing great detail, including frequently asked questions, which go into great depth. In addition, the Federal Reserve Banks have all provided a foreclosure resource Web site. At the Atlanta Fed at [frbatlanta.org](http://frbatlanta.org), we have an extensive foreclosure resource Web site that provides information, both for homeowners as well as local governments and policymakers, on foreclosure challenges and their responses. But, in addition, there's a large number of players, probably more than I can name in this short time, that are being excellent resources for neighborhoods [and] for local governments that are confronting these issues and trying to leverage their NSP dollars to really bring livability and vitality back to their neighborhoods. And so, just to name a few, NeighborWorks, LISC, Enterprise Community Partners, the Housing Policy Center, and many others provide excellent resources on how to make the most in the NSP program.

**Moderator:** *Karen, what results can you point to from NSP so far—in the Southeast, in particular?*

**Leone de Nie:** Well, it's still very early on in the program, and some of the funding is now just being disbursed. But, as one example, Cobb County, Georgia, has already begun the process of purchasing homes and lining up home buyers. And so, at this point they have, if I'm not mistaken, five homes already purchased, 15 that I think are under contract. And what they are doing, I find, is one of the biggest challenges that some of the NSP grantees are dealing with. They have a dual interest in buying and identifying the right properties to purchase that have to be marketable, that can be rehabbed at a reasonable cost, but then also lining up qualified buyers who can secure a mortgage and who are interested in the particular homes that they're buying. So they've got to deal with both sides of this equation and do it in tandem, and I think Cobb County's showing some early signs of having success with that.

**Moderator:** *All right, well, Karen, thanks a lot for your time today. I'm sure we'll be hearing more about these efforts going forward. And thanks for listening. For more information on foreclosures, visit the Foreclosure Resource Center on the Atlanta Fed's Web site at [frbatlanta.org](http://frbatlanta.org). This concludes our Foreclosure Response podcast on the Neighborhood Stabilization Program. Thanks for listening, and please return for more podcasts. If you have questions or comments, please e-mail [podcast@frbatlanta.org](mailto:podcast@frbatlanta.org).*