



# Memorandum

**TO:** COMMUNITY AND ECONOMIC  
DEVELOPMENT COMMITTEE

**FROM:** Leslye Krutko

**SUBJECT:** SEE BELOW

**DATE:** March 6, 2009

Approved

Date

3-12-09

**COUNCIL DISTRICTS:** 2, 3, 5, 7  
**SNI AREA:** Mayfair, KONA, EV/680

**SUBJECT: UPDATE ON THE HOUSING AND ECONOMIC RECOVERY ACT OF  
2008 – NEIGHBORHOOD STABILIZATION PROGRAM**

## **RECOMMENDATION**

It is recommended that the Committee accept this report on the City's Neighborhood Stabilization Program (NSP) update.

## **BACKGROUND**

The Housing and Economic Recovery Act of 2008 (HERA), signed by the President on July 30, 2008, appropriated \$3.92 billion in funds for the Neighborhood Stabilization Program (NSP). These funds were allocated to address the national crisis of skyrocketing home foreclosures through the acquisition, rehabilitation, and re-occupancy of vacant or foreclosed homes. The City of San Jose, one of 47 jurisdictions statewide receiving a direct NSP allocation from HUD, was allocated \$5,628,283.

On October 27, 2008, the City Council authorized the Housing Department to accept the NSP funds, approved a Substantial Amendment to the 2008-09 Consolidated Plan Annual Action Plan that outlined the City's proposed program for the NSP funds, and authorized the Director of Housing to apply for and accept additional NSP funds under the State's allocation of \$145 million. On February 2, 2009, HUD approved the City's Substantial Amendment and implementation plan. Funds will be available for use once the Agreement between the City and HUD is executed, which is expected to arrive soon.

By statute, NSP funds may be used to:

- Establish financing mechanisms to purchase and redevelop foreclosed homes

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- Purchase and rehabilitate properties that have been abandoned or foreclosed in order to sell or rent them
- Establish land banks of residential properties that have been foreclosed
- Demolish blighted structures
- Redevelop demolished or vacant properties

These funds may not be used for foreclosure prevention activities.

### **Basic NSP requirements**

The NSP program carries strict requirements, which significantly limit the City's flexibility in developing programs to utilize the funds.

- Households served may not have incomes that exceed 120% of Area Median Income as defined by HUD
- At least 25% of the NSP funds must be set aside for households with incomes at or below 50% of Area Median Income, or \$53,050 for a family of four
- All properties purchased with NSP funds must be foreclosed-upon homes or residential properties, or those that have been abandoned for at least 90 days
- All properties purchased with NSP funds must be acquired at an aggregate 15% discount below the current appraised market value
- All NSP funds must be obligated within 18 months of the award
- All NSP funds must be expended within four years of the award.

Based on the foreclosure market in San Jose and the parameters for NSP funds, staff has developed two programs, as described below, to best utilize the funds.

### **Areas of Greatest Need**

NSP guidelines require jurisdictions to identify areas of greatest need defined by: 1) percentage of home foreclosures, 2) percentage of sub-prime loans, and 3) likelihood of a significant rise in foreclosures. Additionally, the City has focused on locations within Strong Neighborhood Initiative (SNI) Areas or SNI pilot areas. The SNI program provides a mechanism for residents of blighted neighborhoods to communicate with the City and other resources in order to plan, prioritize, and secure funding for needed improvements. The focus of NSP resources on SNI areas will provide greater positive impact and will help the City to mitigate blight caused by foreclosed properties.

HUD conducted an analysis of the foreclosure rates throughout the nation and assigned areas a Foreclosure and Abandonment Risk Score. In San Jose, zip codes 95111, 95116, 95122, and 95127 ranked between 7 and 10 (10 being the highest risk area) in the HUD analysis. Staff analysis during the period of October 1 to December 31, 2008 indicates the rate of foreclosure filings in these zip codes range from 3.0% to 4.9%. Based on the HUD scores, continuing foreclosure rates and the location within SNI areas, these zip codes will be the focus of the City's NSP funding. (See attached maps)

## **Distribution and Uses of Funds**

Based on research and information on the foreclosure market in San Jose and the parameters of the NSP funds, the City of San Jose has developed two programs to best utilize this funding source.

### **Program #1: Rental Housing Development**

A key strategy to maximize neighborhood impact and the number of affordable housing units assisted will be the purchase of multi-family rental properties in highly impacted neighborhoods. Focus will be on the Santee area (95122) that currently has a large number of four-plexes, many of which are already foreclosed upon or in the foreclosure process. The goal is to acquire as many as seven properties, demolish existing structures and eventually rebuild to maintain or increase the density of multi-family housing. Rents on the resulting housing will be set at a rate affordable to Very Low-Income households. Whenever practicable, energy saving green technology will be incorporated in the construction.

### **Program #2: Homebuyer Acquisition/Rehabilitation Program –**

The City's other program for NSP funds will be to assist lower-, moderate-, and middle-income (LMMH) households or eligible nonprofits providing services to low-, moderate, and middle-income clients (LMMC), to acquire single-family homes. After acquisition, the properties will be rehabilitated to mitigate any damage due to deferred maintenance or vandalism. As with Program #1, energy saving green technology will be incorporated whenever practicable. The homes will then be sold to income-qualified households at or below the City's cost of acquisition and rehabilitation.

The City may carry a second mortgage of up to 20% of the purchase price of the home, with a minimum 15-year affordability restriction as required under NSP. The second mortgages will bear no interest, and repayment will be deferred until sale, title transfer, or expiration of note and affordability term as a balloon payment. Loans for acquisition, rehabilitation and or construction would be carried by the City, in second position to primary funding obtained by the borrower.

In order to expedite the process of acquiring, repairing, and reselling properties, the Department is exploring the possibility of entering into an agreement with one of its nonprofit housing partners that can act as the City's agent in acquiring, maintaining, and/or reselling the properties at a negotiated fee structure. This use of an intermediary is expected to help streamline and expedite the acquisition and resale process.

In addition, homes, acquired and rehabilitated in this process may be sold to nonprofit organizations that will operate the residences in shared rental housing arrangements to low- and very-low income individuals, including special needs populations such as seniors.

**Administration:**

The manager of the City's CDBG program is the assigned manager of the NSP program, and other experienced grant administrators will form the NSP administration team for the City. Although NSP regulations allow grant recipients to utilize up to 10% of funds to administer the program, the Housing Department has opted to limit its administrative budget to 8% in order to maximize direct program funds.

**IMPLEMENTATION PLAN STATUS**

While awaiting final execution of the City's contract with HUD, staff is moving forward with the implementation plan as NSP legislation provides an extremely tight timeframe for utilization of funds. The activities currently under way include:

**Program #1**

1. Develop an acquisition plan, including:
  - a. Site identification
  - b. Evaluation of the physical condition of the target units to determine whether they should be rehabilitated or demolished
2. Negotiate an agreement with the Redevelopment Agency to act as the Housing Department's agent in the acquisition/demolition process
3. Target date to start this activity is May 2009
4. Target budget for this activity is \$3.7 million

**Program #2**

Although the primary focus for the City's NSP funds will be Program #1, to the extent that funds are available, Program #2 will purchase, rehabilitate, and resell single family homes. Steps in this program will include:

1. Identification of partner to act as agent for the acquisition and rehabilitation of single-family homes.
2. Acquisition and rehabilitation activity will begin upon completion of an agreement with the partner agency.

**FUTURE NSP FUNDING**

In addition to the \$5.6 million in NSP funds awarded directly to the City, staff intends to apply for additional funds as they become available. The State is expected to publish a Notice of Funding Availability (NOFA) for its \$145 million in NSP funds in the coming weeks. Staff

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continues to monitor the status of the State program and will submit an application as soon as the NOFA is published.

On February 17, 2009, the American Recovery and Reinvestment Act (ARRA) of 2009 was signed into law. ARRA includes an additional \$2 billion in NSP funds which will be awarded to state and local jurisdictions on a competitive basis. The City will submit an application for these funds as soon as the application process is opened.

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LESLEYE KRUTKO  
Director of Housing

Attachments