

“The Challenge of Foreclosed Properties: An Analysis of State and Local Plans to use the Neighborhood Stabilization Program,”

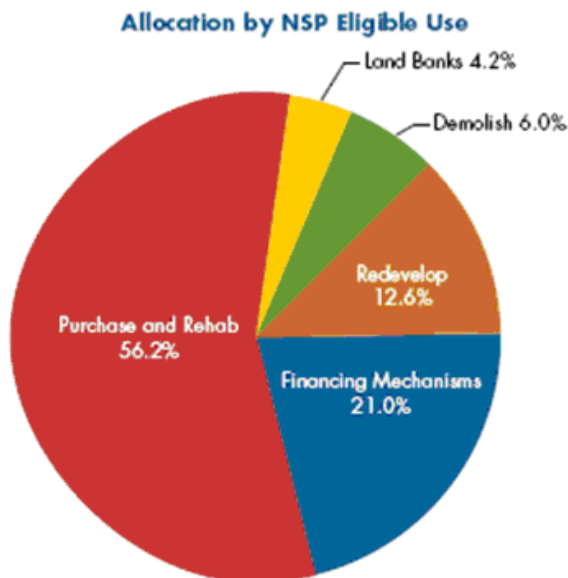
By Amanda Sheldon, Phillip Bush, Aaron Kearsley and Anne Gass

Summary of Project

- *The report is a compilation of promising program approaches, as identified through NSP action plans.* The promising approaches were identified so that they can be shared with localities to build better local programs.
- *The report provides a national snapshot of how NSP funds will be used.* The report distills information from 87 NSP action plans to provide a statistical overview of how localities are planning to use their funds.
- *Enterprise recommends more research.* There remain many outstanding questions regarding the ultimate impact of NSP and the design of local best practices. The natural follow-up to this compilation report is more in-depth research.

The economic crisis that continues to grip the nation was started, in large part, by a rapid increase in home foreclosures. As housing prices began to decline in 2006, residential foreclosures increased in the subprime market, and quickly spread to the rest of the housing market. The numbers are staggering – millions of Americans are losing their homes to predatory lending, declining housing prices and/or a decrease in household earnings. As the economy falls deeper into recession, job losses exacerbate the foreclosure problem as homeowners struggle to make their mortgage payments. Meanwhile, cities and towns suffer from lost tax revenue from vacancies.

Enterprise and our partners worked with Congress in 2008 to establish funds to address the growing number of vacant and foreclosed properties. In response, Congress allocated nearly \$4 billion for the Neighborhood Stabilization Program (NSP) in the Housing and Economic Recovery Act of 2008 and an additional \$2 billion in the 2009 stimulus bill. NSP is a new federal program designed to give localities grant funds to reduce the harmful effects foreclosed and vacant properties have on local neighborhoods.



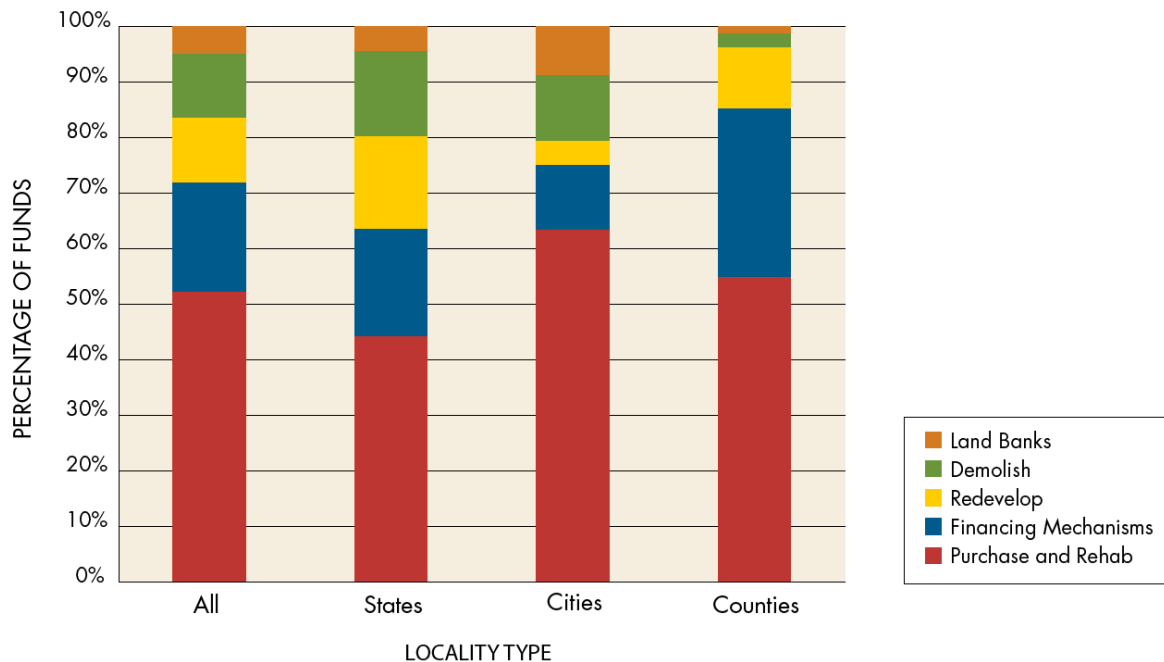
More than 300 state and local governments received a direct NSP allocation from the Department of Housing and Urban Development (HUD). These localities were required to write action plans that detailed how they would use these funds. In an attempt to quantify the impact of NSP, Enterprise reviewed and analyzed 87 of the 306 plans, which collectively account for 58 percent of the funds

We looked at spending by eligible-use category (figure on left) and by the type of locality receiving these funds (figure on page 2). Next, we considered the intended outcomes and performance metrics grantees included. We then



reviewed plans to find out if they leveraged NSP funds and whether they considered environmental sustainability. Finally, we forecasted NSP’s impact by calculating the number of units likely to be affected by NSP funds. We made this calculation with and without the assumption that a substantial portion of program income will be recycled.

Comparing Spending by Use Across Locality Type



In addition to a quantitative analysis of the allocation of resources, we looked for promising approaches – strategies, financing mechanisms and program models that appear to be sound, practical and in some cases innovative. We were able to identify promising approaches in the following areas: acquisition and discount strategies, disposition strategies, geographic targeting, green building and rehabilitation strategies, income targeting and long-term affordability, leveraging NSP funds and partnerships and management. No doubt other categories, beyond those that we chose, also contain promising approaches. However, we are confident that our list of categories is comprehensive enough to meet our main purpose: to inform state and local governments of the good NSP ideas developed by their peer localities. If we are going to avoid reinventing the wheel in each community, this type of knowledge sharing is critical, particularly in light of the \$2 billion NSP supplement, which will be distributed on a competitive basis this year.

We concluded that many NSP grantees are planning to use NSP for innovative and effective programs and that NSP has a good chance of having the desired effect of stabilizing communities across America. While it will be many years before anyone is able to definitively measure the success of NSP, it is a great first step to slow the decline of America's neighborhoods as a result of the foreclosure crisis.