

# National Foreclosure Prevention and Neighborhood Stabilization Task Force

## *Regulatory Solutions to Improve the Effectiveness of HUD's Neighborhood Stabilization Program*

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### 1. Requirement for Price Discounts in Acquiring Foreclosed Homes:

**Issue:** The NSP Notice requires a purchase “discount” below market value averaging at least 10%. This discount requirement is unnecessarily high and can have the effect of further driving down prices in already depressed markets. However, recognizing the bill’s discount requirement, one of the most feasible ways to persuade lenders and servicers to provide any discount is to use a net-realizable valuation model that preserves as-is values but allows lenders to reduce prices for bulk purchases by taking into account their avoided costs of holding, marketing and selling the homes. The National Community Stabilization Trust (NCST) has developed such a model. While HUD’s NSP notice mentions this approach, the language is not clear and might be taken as meaning that such price reductions are not discounts.

**Solution:** HUD should change the minimum average discount for the NSP portfolio to 5% and explicitly endorse the NCST net-realizable valuation model and characterize such price reductions as discounts. In addition, HUD should specify that the purchase discount only applies to NSP acquisitions, and is not a requirement for financing mechanisms such as interest subsidies and loan loss reserves or for NSP-funded rehabilitation.

### 2. Time Limits on Acquiring Homes:

**Issue:** Currently, HUD requires that all eligible homes be identified within 18 months. Grantees are concerned that this is an unrealistic deadline, and that they should be able to identify foreclosed homes as they come on the market, both before and after the 18-month deadline.

**Solution:** HUD should reconsider its current guidance and, rather, follow the precedent of the CDBG program, which allows funding of so-called single-family “pipeline” programs for which some or all properties have not been identified. If HUD continues to disapprove of this approach, corrective legislation should more carefully define “obligation” and “spending” of funds.

### 3. Use of Funds for Non-Foreclosed Properties:

**Issue:** HUD has strictly interpreted the NSP statute by stating that vacant properties that have not been abandoned or foreclosed upon are not eligible to meet the 25% low-income set-aside requirement. Such an interpretation severely restricts the types of multi-family properties that can be acquired and rehabilitated for the lowest-income group and therefore makes it difficult to develop quality, permanent housing that meets the 25% requirement.

**Solution:** HUD should amend its Notice to explicitly allow vacant residential and non-residential properties to qualify for the 25% low-income set-aside. If HUD continues to claim that the statute prohibits such a regulatory amendment, it can revise its definition of “abandoned” in the notice such that abandonment is not tied to foreclosure proceedings.

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## 4. Lump-Sum Advances to Revolving Loan Funds:

**Issue:** Advancing NSP funds in lump sums to revolving loan funds is a key mechanism for leveraging private funds, but HUD has not issued guidance on whether, or how, this can occur.

**Solution:** HUD can provide guidance regarding the conditions under which lump-sum draw-downs will be allowed and how revolving loan funds may keep and reinvest program income. In addition, HUD should clarify under what conditions lump-sum draw-downs will be considered to have met the 18-month obligation requirement. In order to assuage fears that localities will abuse lump sum draw-downs, HUD can insert additional requirements that private funds be under contract at the same time as the release of HUD funds.

## 5. Acceptable Forms of Appraisals:

**Issue:** HUD's guidance to date does not permit streamlined forms of appraisal or bulk appraisals. Bulk purchases of foreclosed homes are an essential program element because it allows purchases to occur more quickly and with lower appraisal expenses.

**Solution:** HUD should allow standard industry practices for appraising portfolios of eligible properties for purchases with NSP funds. Electronic and short form appraisals should be permitted.

## 6. Reallocation of Unused NSP Funds:

**Issue:** The NSP statute and notice are silent regarding methods for reallocation.

**Solution:** HUD should reallocate NSP funds based on need and the capacity of applicants to effectively use additional NSP funds. The criteria for reallocation could mirror the competitive allocation language in H.R. 1, the American Recovery and Reinvestment Act of 2009.

## 7. Alternatives to Foreclosure:

**Issue:** HUD maintains that homes purchased through short sales and other transfers of distressed properties do not qualify as "foreclosed" and therefore are not eligible for NSP funding in most instances.

**Solution:** HUD should amend its definition of "foreclosed" to explicitly permit short sales and other eligible transfers of distressed properties as forms of "transfer in lieu of foreclosure."

## 8. Continued Affordability for Tenants of Owner-Occupied Properties:

**Issue:** HUD is requiring that rents for small owner-occupied rental properties (2-4 units) must remain affordable for the specified affordability period. As a result, in addition to the affordability requirements placed on the homeowner, the owner must also impose rent restrictions and conduct ongoing income certifications for their tenants. This process can be burdensome on both the owner-occupant and the renters. The HOME regulations allow for a presumption of continued affordability for homeowners in certain markets, but this does not appear to apply to rental units.

**Solution:** HUD should not require ongoing income certifications for renters in small owner-occupied rental properties in areas where market rents, based on a market study, are expected to remain affordable to 120% of AMI.

## **National Foreclosure Prevention and Neighborhood Stabilization Task Force**

Convened in November 2007, the National Foreclosure Prevention and Neighborhood Stabilization Task Force is a cross-industry group of local and national organizations working to address the impacts of the foreclosure crisis on communities.

The following members of the Task Force have signed-on to endorse these fixes to the NSP:

CDFI Coalition  
Citizens' Housing and Planning Association  
Cleveland Housing Network  
Colorado Coalition for the Homeless  
Columbus Housing Partnership  
Community Shelter Board  
Diamond State Community Land Trust  
Enterprise Community Partners  
Homesteading and Urban Redevelopment Corp.  
Housing Partnership Network  
Local Initiatives Support Corporation  
Low Income Investment Fund  
Massachusetts Housing Partnership  
Mercy Housing Inc.  
National Affordable Housing Trust  
National Alliance of Community Economic Development  
Associations  
National Community Land Trust Network  
National Community Reinvestment Coalition  
National Community Stabilization Trust  
National Housing Conference  
National NeighborWorks Association  
National Vacant Properties Campaign  
NCB Capital Impact  
New Jersey Community Capital  
New York Housing Conference, Inc.  
Price Hill Will  
Self-Help  
Stewards of Affordable Housing for the Future  
The Affordable Housing Trust for Columbus and Franklin  
County  
The CDC Collaborative of Greater Columbus  
The Community Builders, Inc.  
The Genesee Institute  
The Wisconsin Partnership for Housing Development, Inc.  
Volunteers of America of Greater Ohio