



Implementing the Neighborhood Stabilization Program (NSP)

COMMUNITY STABILIZATION
IN THE NEIGHBORWORKS® NETWORK



Working Together for Strong Communities

NeighborWorks®
AMERICA

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Table of Contents

EXECUTIVE SUMMARY	1
CASE STUDIES	
1 Sustainable Neighborhood Partnerships	5
Home HeadQuarters, Inc. – Syracuse, NY	
2 Operation Neighborhood Recovery	11
Housing and Neighborhood Development Services, Inc. – Orange, NJ	
3 Implementing NSP through Community Partnerships	17
Neighborhood Development Services, Inc. – Ravenna, OH	
4 Collaborating to Expand Access to Capital	23
Neighborhood Housing Services of Orange County – Anaheim, CA	
5 One-stop Service Center for NSP	27
Neighborhood Housing Services of Kansas City – Kansas City, MO	
6 Nonprofit-Driven Collaboration	33
Neighborhood Housing Services of South Florida – Ft. Lauderdale, FL	
7 Creating Foreclosure-resistant Communities	39
NeighborWorks® Salt Lake – Salt Lake City, UT	
8 Midtown Renaissance	47
New Directions Housing Corporation – Louisville, KY	
9 Organizing Helps Stabilize Communities	53
Nuestra Comunidad Development Corporation – Boston, MA	
10 Using Integrated Strategies to Promote Recovery	59
Primavera Foundation – Tucson, AZ	
11 Stabilizing Rural Communities Through Housing Partnerships	65
Southwest Minnesota Housing Partnership – Slayton, MN	
12 “No Risk” Single-family Purchase-rehab-resale	71
Tampa Bay Community Development Corporation – Clearwater, FL	

Executive Summary

Background

The housing crisis continues to challenge communities across America. In the third quarter of 2010 banks foreclosed on a record number of properties and experts predict that the peak of foreclosure activity will not come until 2011.^{1,2} Where once the primary cause was predatory lending and inflated real estate prices, increasing numbers of foreclosures are resulting from job loss due to the prolonged economic recession. Regardless of their cause, the continued influx of foreclosed, vacant and abandoned homes has a chilling effect on local housing markets and threatens the vitality of affected communities.

Community development practitioners are nonetheless making headway in their efforts to stabilize communities by acquiring and redeveloping foreclosed and distressed housing. This progress has occurred against a backdrop of unprecedented demand for assistance, rapidly evolving conditions at the local and national levels and new funding tools with their own unique demands and requirements. These very challenging conditions have stimulated the formation of new partnerships and creative program designs, some of which may have long-term effects on the community development field. The 12 case studies in this report showcase innovative efforts to address a wide array of community needs.

Typical challenges community development practitioners have faced in dealing with the housing crisis include:

- Scaling up programs to handle the higher volume of foreclosures

¹ Jon Prior, "REOs Reach Record High in 3Q: RealtyTrac," HousingWire, October 13, 2010.

² Dan Levy, "U.S. Home Seizures Rise 38% to Record as Banks Process Backlog," Bloomberg.com, July 15, 2010.

- Maintaining or expanding program operations even as revenues are reduced due to the economic recession
- Developing relationships with lenders and servicers to acquire foreclosed properties
- Learning the regulatory framework of available funding sources, including how to combine them on a project
- Finding foreclosed, vacant, or abandoned properties that meet funding requirements
- Identifying, evaluating, and acquiring target properties before speculators take them off the market
- Locating buyers who meet eligibility criteria for housing subsidy programs, have sufficient income to afford a mortgage and have credit histories that will meet more stringent underwriting criteria
- Repairing the torn social fabric of communities affected by foreclosures

New Community Stabilization Tools and Resources

Community development practitioners have had the benefit of several new resources as they work to stabilize the areas they serve. Chief among these are the Neighborhood Stabilization Program and the National Community Stabilization Trust. These are described briefly below.

The Neighborhood Stabilization Program

An important new source of capital has been the Neighborhood Stabilization Program (NSP), for which Congress appropriated funding in three separate rounds, now known as NSP1, NSP2, and NSP3. The NSP program is administered by the U.S. Department of Housing and Urban Development

(HUD). All but one of the organizations showcased in this report are using NSP funding to acquire foreclosed, vacant or abandoned properties and restore them to productive use. The table below summarizes the three rounds of NSP funding.

The National Community Stabilization Trust

The National Community Stabilization Trust (NCST) has proven to be highly effective at helping community development organizations garner access to foreclosed properties. Launched in 2008 specifically for this purpose, NCST facilitates the transfer of foreclosed properties from financial institutions nationwide to local housing providers to promote productive property reuse and neighborhood stability. NCST is sponsored by six of the nation’s largest housing and community development intermediaries: NeighborWorks® America; Enterprise Community Partners;

the Housing Partnership Network; LISC; National Urban League; and the National Council of La Raza. Through the First Look program, local organizations are provided a 12-14 day window during which they can inspect and bid on bank-owned inventory before the properties are listed for sale to the general public. A single entity, including many of the organizations highlighted in the following case studies, typically serves as the lead contact for each locality for interactions with NCST. Without the assistance of NCST, many practitioners report they would be unsuccessful at competing with speculators for foreclosed inventory in their neighborhoods.

The 5 Cs of Community Stabilization

The paradigm of the 5 Cs of Community Stabilization was developed by the National Community Stabilization Trust (the organization founded by NeighborWorks® America, Enterprise Community

Round	Funding/ When Released	Overview
NSP1	\$3.92 billion October 2008	<ul style="list-style-type: none"> ▶ Authorized by the Housing and Economic Recovery Act, 2008 ▶ Awarded by formula to states and to CDBG entitlement cities or counties ▶ Targets areas hardest hit by foreclosures and delinquencies ▶ Treated as a special CDBG allocation to help communities address the problem of vacant, abandoned and foreclosed homes ▶ Had to be obligated within 18 months of contract execution
NSP2	\$1.93 billion May 2009	<ul style="list-style-type: none"> ▶ Authorized under the American Recovery and Reinvestment Act of 2009 ▶ Competitive application process open to states, local governments, nonprofit and for-profit entities or a consortium of entities (two or more) ▶ Targets areas hardest hit by foreclosures and delinquencies ▶ Treated as a special CDBG allocation to help communities address the problem of vacant, abandoned and foreclosed homes ▶ Three-year deadlines to expend grant funds
NSP3	\$1 billion September 2010	<ul style="list-style-type: none"> ▶ Authorized under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ▶ Awarded by formula to states and to CDBG entitlement cities or counties ▶ Targets areas hardest hit by foreclosures and delinquencies ▶ Also treated as a special CDBG allocation ▶ Paired with First Look program administered by the National Community Stabilization Trust (NSP grantees get exclusive 2-week window to evaluate and bid on properties)

Partners, the Housing Partnership Network and LISC) to help define and identify effective local community stabilization efforts. Each of the case studies demonstrates use of one or more of the 5 Cs into stabilizing or strengthening the communities they serve. The 5 Cs are as follows:

Comprehensive – Community stabilization efforts should result from a plan that addresses all destabilizing forces in the community.

Concentration – Community stabilization efforts should be targeted for maximum impact.

Collaboration – Community stabilization efforts should include a broad array of partners with a strong focus on resident engagement.

Capacity – Community stabilization efforts should be undertaken by organizations with demonstrated capacity in the planned activities.

Capital – Community stabilization efforts should be adequately capitalized and explore creative methods to take advantage of new sources of capital.

Case Study Summaries

This report presents case studies of 12 nonprofit housing and community development organizations, all affiliated with NeighborWorks® America. Each provides a powerful example of the 5 Cs of community stabilization. The 12 organizations are listed below, followed by a brief description of how they are using one or more of the 5 Cs.

1. Home Headquarters, Inc. – Syracuse, NY

Concentrated, Collaboration, Capacity, Capital

Collaborated with local residents and a wide range of stakeholders to focus community stabilization and revitalization efforts within a 15-20-block area (the SALT District). Used a combination of resources, including NSP and conventional lines of credit, to acquire and redevelop foreclosed, vacant and abandoned properties.

2. Housing and Neighborhood Development Services, Inc. – Orange, NJ

Collaboration, Capacity, Capital

Collaborated with nonprofit, for-profit and municipal agencies to acquire and redevelop

foreclosed inventory. Pioneered an innovative model to acquire the mortgages on 47 foreclosed 1-4 family homes (92 units) and raised \$3.6 million in equity and debt to complete the purchase. Local nonprofit partners renovate and re-sell the properties to eligible homeowners.

3. Neighborhood Development Services, Inc. – Ravenna, OH

Concentration, Collaboration, Capacity

In the small city of Barberton, helped acquire a 24-unit property from foreclosure and redeveloped it into an attractive community asset, preserving affordable housing units. Collaborated with local, county and state agencies to acquire needed capital and capacity and engaged residents in the process of designing the improvements of the target property.

4. Neighborhood Housing Services of Orange County – Anaheim, CA

Collaboration, Capacity, Capital

Collaborated with nonprofit, municipal and for-profit entities to access the capital and the capacity needed to acquire, renovate and resale foreclosed homes to eligible buyers. Accessed NSP1, NSP2 and lines of credit provided by a community development financial institution (CDFI).

5. Neighborhood Housing Services of Kansas City – Kansas City, MO

Comprehensive, Collaboration, Capacity

Became a one-stop shop for NSP buyers; identifying properties, providing first mortgage loans, developing scope of work, managing construction, assisting buyer with obtaining downpayment assistance and closing the loan. Collaborated with non-profit and municipal entities to maximize capacity and expand access to resources.

6. Neighborhood Housing Services of South Florida – Ft. Lauderdale, FL

Collaboration, Capacity, Capital

Collaborated with nonprofits to apply for and implement NSP1 funding from city and county governments and to obtain NSP2 funding through a consortium application. Employed

an innovative team approach to redeveloping foreclosed housing, utilizing partners' strengths on specific steps of the process, rather than assigning units to individual developers to handle from start to finish.

7. NeighborWorks® Salt Lake – Salt Lake City, UT

Comprehensive, Concentration, Collaboration, Capacity, Capital

Prevented foreclosure crisis in target neighborhoods by strengthening neighborhood resistance to predatory lending through homeownership education, leadership development and other community building strategies. Collaborated with for-profit, nonprofit and public partners to create a new entity for efficient utilization of NSP funds.

8. New Directions Housing Corporation – Louisville, KY

Comprehensive, Concentration, Collaboration, Capacity

Used NSP1 funds to acquire and renovate foreclosed and abandoned single-family homes to help jumpstart the Midtown Renaissance. Worked collaboratively with local residents, realtors, municipal agencies and nonprofit organizations to access capacity to complete ambitious stabilization and revitalization goals.

9. Nuestra Comunidad Development Corporation – Boston, MA

Comprehensive, Concentration, Collaboration, Capacity, Capital

Organized the community around crime prevention and neighborhood stabilization and community building activities in the Dacia Foreclosure Intervention Target area. Collaborated with residents as well as municipal and nonprofit partners to plan and implement strategies. Employed a comprehensive approach to revitalization that included housing redevelopment, job training for young adults and youth engagement activities.

10. Primavera Foundation – Tucson, AZ

Comprehensive, Concentration, Collaboration, Capacity, Capital

Promoted recovery in a high-poverty city through the integration of stabilization, revitalization and community engagement activities. Used NSP1 funding to acquire and renovate or replace foreclosed housing, involving residents in the design of the replacement homes. Partnered with residents of the Barrio Anita neighborhood to plan and construct a community garden that has strengthened resident relationships and engagement.

11. Southwest Minnesota Housing Partnership – Slayton, MN

Comprehensive, Concentration, Collaboration, Capacity, Capital

Partnered with the city of Worthington to help identify single- and multi-family housing needs and plan and implement community stabilization projects. Engaged residents and other stakeholders in comprehensive planning process, using its expertise to help access the resources needed to achieve housing and community stabilization goals.

12. Tampa Bay Community Development Corporation – Clearwater, FL

Collaboration, Capacity, Capital

Collaborated with Pasco County, other nonprofit developers, lenders and realtors in an innovative model for addressing high numbers of foreclosed properties. The County assumes the risk in a single-family purchase-rehab-resale program; Tampa Bay CDC is guaranteed a \$7,500 developer fee for a prescribed set of duties that includes identifying properties, overseeing construction and finding buyers.

Sustainable Neighborhood Partnerships

HOME HEADQUARTERS, INC.
SYRACUSE, NEW YORK

Program Overview

In Syracuse, New York, Home HeadQuarters (HHQ), a NeighborWorks® organization, collaborated with residents and organizations, including the Syracuse Center of Excellence, to develop a strategy for sustainable development and retrofit within a targeted existing neighborhood known as the SALT (Syracuse, Art, Life, Technology) District. By leveraging the complementary resources of its partners, HHQ both enhanced sustainability in its own projects and helped the SALT District become the first existing neighborhood in the country to achieve a stage of LEED-ND certification.

This has in turn attracted residents and businesses to live and work in an area challenged by high vacancies and disinvestment. HHQ is moving down a path of sustainable revitalization that responds to the current foreclosure crisis while creating a durable future for the SALT District.

Neighborhood Background

The SALT District is located in the northern portion of Near Westside, a neighborhood directly adjacent to downtown Syracuse, New York. In the early 1900s the area was home to several manufacturing headquarters and industrial job centers, with residential development occurring within walking distance. Syracuse thrived as an industrial employment center until the 1950s, when its population peaked. What followed, however, was a gradual erosion of jobs and residents that has continued to this day. As the city experienced continual population loss the surrounding metropolitan statistical area (MSA) continued to grow, a process often termed “sprawl without growth.” Approximately 725,000 residents live within the MSA compared to just 140,000 in the city of Syracuse.



Before and after photos of a foreclosed home renovated by Home HeadQuarters in the SALT District

PROJECT SNAPSHOT

LEAD ORGANIZATION

Home HeadQuarters
15 Staff members
Founded in 1998

PARTNERS

Near Westside Initiative
Syracuse Center of Excellence
UPSTATE
Syracuse College of Architecture

FUNDING SOURCES

Syracuse University
Gifford Foundation
Syracuse Neighborhood Initiative
Restore New York
Neighborhood Stabilization Program
Lines of Credit

STRATEGY

To focus a collaboration of sustainable stabilization efforts within a concentrated area

OUTCOMES

Over 70 homes and vacant lots have been purchased within a 30 block area while obtaining the first LEED ND designation for an existing neighborhood

CONTACT INFORMATION

Alysm Mann
Director of Neighborhood Planning and Property Development
Home HeadQuarters
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Alysm@homehq.org

Despite its close proximity to the central business district, Near Westside was virtually severed from downtown Syracuse when urban renewal carved the six-lane West Street highway through it in the late 1950s. Continued industrial decline and redlining practices resulted in widespread vacant warehouse buildings and deteriorating housing. Today, Near Westside is one of the poorest communities in Syracuse, with a median household income of \$11,200 and a poverty rate of 51 percent, more than twice that of the city as a whole. While challenged by disinvestment, Near Westside has several local assets and a diverse cultural heritage to build on, including the Delavan Art Center, Blodgett Elementary School and Skiddy Park. Its diverse population is 40 percent black, 34 percent white and 30 percent Hispanic, the highest percentage of Hispanic and Latinos in the region. HHQ's revitalization strategy has sought to preserve the unique character of Near Westside while strategically building on the community's assets.

Implementation

In 2007, Syracuse University (SU) and the Gifford Foundation joined forces to create the Near Westside Initiative, a nonprofit focused on place-based economic development, housing revitalization and quality of life enhancements. HHQ was brought into the partnership early on for its expertise in improving the housing stock and community outreach, as well as its experience with business development and attracting artists to live and work in the neighborhood. HHQ reached out to include local stakeholders and neighborhood residents in the planning process and helped recruit board members for the Near Westside Initiative.

Using the local elementary school, park and public housing development as central community assets, buttressed by housing and warehouse buildings, HHQ and the Near Westside Initiative outlined a 15-20 block area where they would focus and invest their resources and efforts. They branded the area the Syracuse Art, Life and Technology District and sought to attract creative industries. SU has played a key role in directing its institutional resources to the benefit of the SALT District. For example, by extending its free bus service to the area, SU helps link the neighborhood to the central business district and SU campus.

LEED for Neighborhood Development

Home HeadQuarters has also collaborated with SU and the Syracuse Center of Excellence to leverage its own resources. HHQ's internal planning department collaborated with the Center of Excellence and Raimi + Associates, a planning and urban design firm in California, to pursue the first LEED for Neighborhood Development (LEED-ND) certification of an existing neighborhood in the country. Raimi + Associates proposed and implemented a three-stage process: 1) to assess the existing neighborhood conditions using the LEED-ND Rating System, 2) to identify strengths and weaknesses, and 3) to propose design and policy measures that would address the issues. Originally created as a designation for new developments to integrate smart growth, new urbanism and green building, LEED-ND posed both challenges and synergies in its application to the SALT District. According to Raimi + Associates Senior Planner Aaron Welch, "LEED-ND's urban design standards are modeled on the traditional neighborhood design that many older neighborhoods already have, so the historical fabric is an asset. However, older neighborhoods also tend to perform poorly for things like energy efficiency or storm water management. The good news is that these can be improved greatly without disrupting the pattern and infrastructure of the community." The recommendations for the neighborhood to achieve the LEED-ND certification included design changes such as improving the pe-

"LEED-ND's urban design standards are modeled on the traditional neighborhood design that many older neighborhoods already have, so the historical fabric is an asset."

Aaron Welch, Senior Planner
Raimi + Associates

destrian network, bus stops and street connections adding parks and storm water retention, as well as policy prescriptions such as sustainable development standards and protection of the local creek.

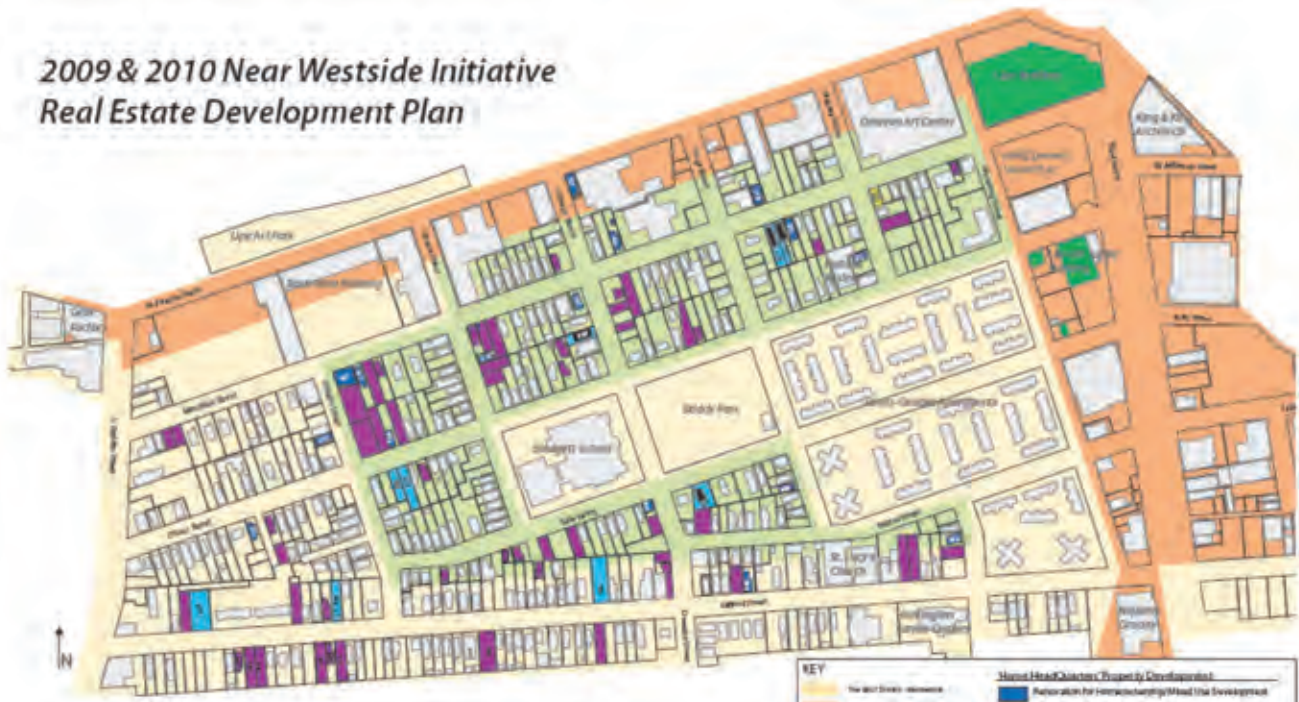


Two of the homes under construction selected through the "From the Ground Up" design competition.

"From The Ground Up" Competition

In addition to the broader neighborhood sustainability efforts, HHQ has used sustainable construction practices when redeveloping foreclosed homes and vacant lots. In order to generate excitement and innovation around sustainability, HHQ partnered with the Syracuse Center of Excellence in Environmental and Energy Systems and the SU School of Architecture's UPSTATE, a center for design, research and real estate. The collaborative held a sustainable, affordable housing competition called From the Ground Up for the design of new homes on three vacant lots in the SALT District. The competition generated interest from across the country and a diverse jury of 15 people comprised of HHQ staff, residents and architecture professionals selected

**2009 & 2010 Near Westside Initiative
Real Estate Development Plan**



KEY		Home HeadQuarters' Property Classifications	
Yellow	The Salt District - Commercial	Blue	Authorization for Interlocking/Shared Use Development
Orange	The Salt District - Commercial	Light Blue	New Construction for Historic/Community
Green	The Commons	Yellow	Neighborhood Information Center - Funded by Urban Initiatives
Light Green	Building Footprints	Purple	Other Home HeadQuarters Owned Properties
White	Open	Green	Other Home HeadQuarters Owned Properties
Grey	Public-Use/Shared	Dark Green	Low/Midrise and Commercial Development

Funding Sources for Property Re-development include:
 - Syracuse NY - NY State Development Corporation
 - Syracuse Neighborhood Initiative - HHQ
 - NY Department of Housing and Community Renewal
 - Syracuse University School of Architecture
 - Neighborhood Stabilization Program - HUD
 - NY Affordable Housing Corporation
 - Syracuse Capital of Excellence
 - Local Housing Initiatives

three winners from a pool of 52 submissions. The homes utilize several cutting edge technologies, including airtight insulation. In addition to the three prototype homes being built resulting from the com-

HHQ is moving down a path of sustainable revitalization that responds to the current foreclosure crisis while creating a durable future for the SALT District.

petition, HHQ is replicating some of the sustainable construction practices in additional homes renovated throughout the neighborhood.

Capacity

While promoting sustainable development, HHQ has not lost sight of the immediate need to stabilize the community by addressing the sheer volume of foreclosed and vacant properties. It has purchased more than 90 properties within the concentrated area of the SALT District. HHQ is one of a very few community development corporations with an in-house planning department to help with strategic direction and community outreach. Kerry Quaglia, executive director of HHQ, says this department was originally created to fill a void in the community. "We would receive funding to work in a neighborhood and no one had a plan or knew what residents thought was important or wanted to see locally", says Quaglia. Although there may have been a broad comprehensive plan for the city, HHQ's planning department helped engage

neighborhood residents to create local roadmaps for development while identifying targets for early wins. Using GIS (geographic information system) mapping and strategic property acquisition, HHQ's planners have been instrumental in creating a long-term vision for revitalization efforts in the SALT District.

Capital

The effectiveness of HHQ's property acquisition activities has been further aided by its strategic use of capital. Namely, the community development corporation utilizes competitively priced lines of credit totaling \$5 million from a combination of 14 different local and national banks. This is largely a result of the relationships it has built over the years and its reputation for good loan repayment. Banks would initially extend a \$100,000 line of credit and gradually increase the funding limit over time, in response to HHQ's consistent performance and its steadily improving balance sheet. In the acquisition of foreclosed homes and vacant lots, the use of lines of credit has been critical to HHQ's ability to compete with speculative investors who can purchase properties quickly—with cash—and without the oversight required by public and private lenders. While HHQ inspects properties prior to purchase to determine project feasibility, it is still able to provide a cash offer with closing in 30 days, and then use NSP or other funding to repay the line of credit.

Lessons Learned

The Near Westside Initiative illustrates several elements of effective community stabilization. By adjusting its revitalization lens to a long-term vision of sustainability, HHQ has positioned Near Westside neighborhood for recovery and growth in a way that protects future generations. It has concentrated its impact by targeting its efforts within a defined geographic area. The rationale for this approach is explained further by Quaglia. "Our early revitalization efforts were scattered and didn't show many results. When we tried a block-by-block strategy you could see a dramatic change, so we adopted that approach." By targeting resources and attention to the SALT District, HHQ and the Near Westside Initiative partners have been able to reach a tipping

point of activity to attract new residents and businesses to the area.

Collaboration with local partners has been another hallmark of the Near Westside Initiative, which is a partnership among all of the local stakeholders and residents. Partnerships can be challenging when incorporating diverse institutions with disparate cultures and backgrounds. Alys Mann, HHQ's

"Our early revitalization efforts were scattered and didn't show much results, but when we tried a block-by-block approach you could see a dramatic change so we changed to that approach."

Kerry Quaglia, Executive Director
Home HeadQuarters

director of neighborhood planning and property development, identifies the keys to making it work. "Everyone has a different perspective and objective, including design, sustainability and development, but we are all focused on the goal of improving the community. We all have a genuine respect for each other." Effective partnerships use members' complementary strengths to achieve a common vision. Whereas the local institutions bring important expertise, capacity and resources, HHQ adds the implementation experience of a seasoned community developer.

A final lesson learned comes from the implementation of sustainable building practices. The prototype homes in the From the Ground Up competition demonstrated the use of many building materials and construction methods that had not previously been used in the United States. Thus, there was a learning curve from the local construction crews and the cost of these first homes was higher than expected. However, they have already realized efficiency in replicating some of the techniques in ad-

ditional homes. The air sealing process for improved energy efficiency was initially time-intensive and “a little messy.” Now this process is used with all construction and without noticeable difficulties. Quaglia

likens this to the days of lead remediation. “At first it was an expensive and time-consuming process,” he says, “but as more and more contractors began to do it the price came down significantly and the same will happen with green technology.”

LEED (Leadership in Energy and Environmental Design) was established by the U.S. Green Building Council (USGBC). LEED for Neighborhood Development (LEED ND) was publicly launched in April 2010 and seeks to integrate the principles of smart growth, urbanism and green building into neighborhood design. Pendall, Rolf. “Sprawl Without Growth: The Upstate Paradox.” The Brookings Institution, October 2003.

Operation Neighborhood Recovery

HOUSING AND NEIGHBORHOOD DEVELOPMENT SERVICES, INC.
ORANGE, NEW JERSEY

Program Overview

The rapid collapse of the housing market and the scale of the foreclosure crisis that quickly flooded neighborhoods they had spent decades revitalizing, caught New Jersey community development corporations (CDCs) by surprise. They had to develop the capacity to compete with speculators who could pay fast cash for properties and negotiate with multiple lenders whose real estate-owned (REO)¹ inventory was scattered throughout the state.

Patrick Morrissy, executive director, Housing and Neighborhood Development Services (HANDS),

¹ Real estate that banks have taken back through foreclosure due to nonpayment of the mortgage

realized that CDCs needed a new model to respond adequately to a problem of this magnitude. With the help of other staff and board members, Morrissy created Operation Neighborhood Recovery, LLC (ONR) to negotiate bulk purchases of foreclosed properties from banks. ONR raised \$2,875,000 in debt and \$725,000 in equity from investors to acquire 47 delinquent mortgages from JP Morgan Chase. Once the mortgage acquisition transaction was closed, HANDS immediately moved to board up, clean out and maintain the properties—improvements much appreciated by neighbors. It is now facilitating their responsible redevelopment. ONR has demonstrated the efficacy of purchasing mortgage notes before the foreclosure occurs in order to save the time and expense associated with the foreclosure process.



58 Crawford Street, before rehab



58 Crawford Street, after rehab

PROJECT SNAPSHOT

LEAD ORGANIZATION

Housing and Neighborhood Development Services, Inc.

9 staff members

Founded in 1986

Annual budget: \$920,000

PARTNERS

City of Newark

City of Orange

La Casa de Don Pedro

Unified Vailsburg Services Organization

Brand New Day

Greater Newark Housing Partnership

Episcopal Community Development

FUNDING SOURCES

New Jersey Community Capital

Prudential Social Investments

LISC

NeighborWorks® America

Enterprise Community Partners

STRATEGY

To create and scale up a model for stabilizing neighborhoods through acquisition, rehab and disposition of scattered-site properties.

OUTCOMES

Acquired mortgages on 47 foreclosed 1-4 family homes (92 units)

Raised \$3.6 million in equity and debt

CONTACT INFORMATION

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HANDS, Inc.

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Background

HANDS operates in Orange and East Orange New Jersey, just west of Newark. Typical of northern New Jersey, both Orange and East Orange have relatively low homeownership rates: 29 percent and 25 percent, respectively. This is due in part to the predominance of large, multi-family properties, but also to the relatively high cost of housing. The two cities have a combined population of a little more than 100,000 people, with high concentrations of minority residents.

Ten years ago there were about 400 abandoned homes in Orange, according to Wayne Meyer, HANDS' former housing director who heads up New Jersey Community Capital. HANDS pursued a policy of redeveloping pivotal properties in target neighborhoods, increasing homeownership and strengthening neighborhood associations. This approach helped stimulate private investment, with only 39 abandoned properties remaining by 2006. In 2007 their annual neighborhood survey showed a sharp increase in foreclosed and abandoned properties, threatening to reverse all of the positive gains HANDS had worked so hard to secure. When Morrissy and Meyer investigated, they found a widespread pattern of mortgage fraud had forced many of the foreclosures.

Further research revealed that Washington Mutual held a large group of mortgages scattered in many communities throughout the state. Negotiations were complicated by the fact that the lenders' staffs were located in other states and did not have the detailed knowledge of the local real estate market that HANDS had acquired from decades of work. The acquisition process was further delayed by the FDIC's closure of Washington Mutual and the transfer of its assets to JP Morgan Chase. Eventually, after more than a year of negotiating, Community Asset Preservation Corporation of New Jersey (CAPC) successfully purchased 47 mortgages on properties with a total of 92 units. These were mortgages on which the borrowers had never made a payment and the properties were sitting vacant and boarded up.

Implementation

To acquire the 47 mortgages, ONR would require two types of capital: debt and equity. The \$725,000 in equity was furnished by an assortment of local and

national partners including: HANDS (\$100,000); NeighborWorks® America (\$100,000); LISC (Local Initiatives Support Corporation) (\$100,000); New Jersey Community Capital (NJCC) (\$375,000); and Enterprise Community Partners (\$50,000). This provided a “first loss” coverage for ONR that helped attract the debt needed to conduct the work on a larger scale. The debt, totaling \$2.875 million, was provided by NJCC (\$475,000), Prudential Social Investments (\$1.9 million) and LISC (\$500,000). The debt was structured as interest-only payments and is being repaid as properties have been sold to nonprofit and for-profit developers. Impressively, within a year of putting the deal together, ONR repaid \$1.775 million to investors.

Of the initial group of 92 units, 32 have been completely renovated, another 28 are in process and activity on the final 32 units is pending, as of September 2010. From the start, Morrissy and Meyer understood that in order to move the units quickly they must work with private investors, and with local CDCs as well, accepting that not all of the units would be owner-occupied in the end. They sold some of the units to responsible investors with whom they had prior relationships and who had a strong track record in rental property management.

The unusual approach of purchasing the delinquent notes, rather than waiting for the lender to foreclose and then trying to acquire the properties, gets a cautious thumbs-up from those involved. Yves Mombeleur, vice president and REO community revitalization program manager for JP Morgan Chase, notes that it is advantageous to both the lender and the community to avoid foreclosure. From the lender’s perspective, avoiding foreclosure saves legal fees, property taxes and the costs of disposition. This is particularly true when, as was the case with the 47 properties ONR acquired, the units are low value to begin with. Left vacant and uncared for during the lengthy foreclosure process, the properties will continue to deteriorate.

Meanwhile, unpaid property taxes and fines also accumulate, so when the bank finally takes ownership, the properties are no longer financially viable. Neighborhoods also suffer when properties sit boarded up for long stretches of time. “Having a

CDC purchase the paper doesn’t make the bank whole,” Mombeleur notes, “but it stems the losses and allows the CDC to work with the city around the property taxes and final disposition.”

Mombeleur cautions that in order for these deals to work, the CDC acquiring the mortgages must have the capacity to service the mortgages and manage the legal process of disposition, whether that is foreclosure or some other strategy such as negotiating a deed in lieu of foreclosure. However, the positive results from the ONR deal have encouraged him to begin negotiating another one with them and to look for similar projects with other CDC partners.

The unusual approach of purchasing the delinquent notes, rather than waiting for the lender to foreclose and then trying to acquire the properties, gets a cautious thumbs-up from those involved.

Meyer and Morrissy agree that acquiring paper from the lender can be an effective model that can shorten the time to disposition. Still, the strategy presents some of the same challenges that CDCs face when buying properties after foreclosure. Coming to agreement on the value of the properties can be difficult when lenders’ REO staff do not understand the local market, as do the CDCs that operate in those neighborhoods. Lenders also want to rid themselves of the least valuable properties in the most challenging neighborhoods, which require more redevelopment subsidy and are harder to market. As Meyer notes, “Even in the best of times this work is really challenging and the scope of the foreclosure crisis makes it so much harder.” Public funding, such as the Neighborhood Stabilization Program (NSP), which supports redevelopment of foreclosed properties, comes with complex regulations and is far below what is needed to meet the need. Even when properties are successfully redeveloped, the lack of end mortgage products and the difficulty of finding qualified buyers make it challenging to get them occupied.

Scaling Up to Address Foreclosures: The Community Asset Preservation Corporation

ONR was an important step toward growing HANDS' capacity to respond to the foreclosure crisis in northern New Jersey. However, large banks prefer to dispose of large numbers of REO in many locations in single transactions. Banks found it much easier to work with real estate speculators who can move quickly and pay cash for properties and operate virtually anywhere. HANDS would need to find a way to work beyond its original borders on an even larger scale, in order to help restore communities hard hit by foreclosures. This is what prompted the creation of the Community Asset Preservation Corporation.

Resolving the foreclosure crisis in New Jersey neighborhoods is a complex undertaking requiring multiple elements. All elements must be present for the process to go forward and all are challenging in the current environment.

Resolving the foreclosure crisis in New Jersey neighborhoods is a complex undertaking requiring multiple elements. All elements must be present for the process to go forward, and all are challenging in the current environment. Michael Meyer, director of the Division of Housing & Real Estate for the city of Newark, lists the following required elements. Capacity to make bulk purchases from lenders in multiple jurisdictions

- ▶ Capital to support the initial acquisition
- ▶ Subsidy to help make units affordable to end users
- ▶ Construction financing
- ▶ Permanent financing for both homebuyers and multi-family developers
- ▶ CDC capacity to redevelop properties
- ▶ Homebuyer education to prepare buyers for successful homeownership

CAPC was created to bring several of the pieces of this puzzle together. It can aggregate properties

through discount bulk purchases from multiple lenders and establish a pool of capital that can be used by CAPC and others to redevelop properties. It can get forward commitment of subsidies for properties that need improvements and develop strong working relationships with nonprofit and responsible for-profit redevelopers and key public officials and agencies. CAPC can also operate statewide, avoiding the “turf” constraints faced by smaller CDCs.

As a new organization with no independent track record or balance sheet, CAPC needed a parent organization that had plenty of both. The logical parent was New Jersey Community Capital (NJCC), a statewide community development financial institution founded in 1987. NJCC has built longstanding relationships with communities throughout New Jersey, with a focus on helping to create sustainable urban neighborhoods. It is now headed by Wayne Meyer, who worked at HANDS for 10 years while honing his skills by acquiring scattered-site problem properties through a variety of creative strategies. The purchase of old property tax liens was one. While at HANDS, Meyer initiated the ONR mortgage purchase and worked with Morrissy and Harold Simon and Allan Mallach from the National Housing Institute, Diane Sterner of the Housing and Community Development Network and Ken Zimmerman of Lowenstein Sandler to launch CAPC.

CAPC is now a subsidiary of NJCC, but HANDS remains actively involved, serving as ONR's managing partner. The degree of collaboration between the two organizations is impressive and builds on Morrissy and Meyer's lengthy relationship at HANDS. Such relationships, built on an appreciation of the skills, mission focus and capacity of the partners, are vital in creating the system capacity needed to respond to new challenges such as the foreclosure crisis. The following graphic illustrates the relationships that support implementation of ONR.

Another important facet of ONR is the collaboration with five local CDCs that handle disposition of the REO properties at the local level. These include HANDS, fellow NeighborWorks® organizations La Casa De Don Pedro and Brand New Day, as well as Unified Vailsburg Services Organization, Greater Newark Housing Partnership, Inc. and Episcopal

Operation Neighborhood Recovery LLC

NJCC

- New Jersey Community Capital
- Parent corporation to CAPC
- Equity and debt investor in ONR
- Real estate lender
- Provides TA to nonprofit CDC partners and promotes collaboration.

CDC Partners

- La Casa de Don Pedro
- Unified Valisburg Services Organization
- Brand New Day
- Greater Newark Housing Partnership
- Episcopal Community Development

CAPC

- Community Assets Protection Corporation
- Statewide contact for NCST- coordinates "First Look" program
- Successor to ONR pilot initiative
- Bulk purchases of REO/joint ventures with CDCs

HANDS

- Housing and Neighborhood Development Services, Inc.
- Managing partner of ONR
- Equity investor in ONR
- Develops ONR and CAPC properties in designated neighborhoods

ONR Operation Neighborhood Recovery LLC

Equity Investors (\$725K)

- HANDS (\$100K)
- NeighborWorks America (\$100K)
- NJCC (\$375K)
- Enterprise Community Partners (\$50K)
- LISC (\$100K)

Debt Investors

- NJCC (lead lender) (\$475K)
- Prudential Social Investments (\$1.9 million)
- LISC (\$500K)

Don Marietta, VisualWisdom ad infi: graphic design & illustration

Community Development, Inc. All have long histories in the communities they serve and are critical to ensuring that the properties are properly renovated and sold to buyers who have been prepared for sustainable homeownership through homebuyer education and counseling.

Morrissy notes that the capacity of local CDC partners continues to be a challenge. "All CDCs have been hit with the same facts," he says. "Financial support is down while problems are increased." As they confront unprecedented demand for their services, CDCs are struggling to absorb cuts in operating funding from local and state levels and from foundations as well. This has slowed their progress in redeveloping the properties they acquired from ONR.

In addition, HANDS had over 20 years of experience clearing titles, acquiring and rehabilitating troubled properties and using a variety of govern-

Coming to agreement on the value of the properties can be difficult when REO staff do not understand the local market as well as the CDCs who work in those neighborhoods every day.

ment programs to support the work of neighborhood change. In contrast, many other CDCs had pursued new development of large multi-family properties, leaving them less prepared to manage scattered

site property acquisition, renovation and resale to homebuyers.

In retrospect, Morrissy thinks it might have expedited the process if CAPC had applied for a single allocation of NSP funds from the state of New Jersey. Instead, the CDCs all pursued the grant funds separately and it has taken them some time to come up to speed on administering NSP, further slowing their progress on property development.

Morrissy notes that the capacity of local CDC partners continues to be a challenge. “All CDCs have been hit with the same facts,” he says. “Support is down while problems are increased.”

Yet CAPC has made great progress since its founding. It is now the New Jersey coordinator for the National Community Stabilization Trust (NCST) and has facilitated access to over 900 units under the First Look program. Of these, about 30 have closed. CAPC negotiated the acquisition of an additional 24 foreclosed properties totaling 61 units. With a successful track record, CAPC is pursuing larger deals with a number of lenders.

Lessons Learned

In New Jersey, as in many areas of the country, the scale of the foreclosure crisis demanded a different set of skills and financial capacity from CDCs. Creating first ONR and later CAPC, provided the vehicles for negotiating bulk purchases from banks, aggregating capital and facilitating the flow of properties to the CDCs and investors who would manage their final disposition. Still, forming a brand new corporation and getting it up to speed is a time-consuming process and may not be possible to carry out fast enough to respond to a local crisis. A key feature of getting CAPC launched relatively

quickly was the strong, prior partnership between Morrissy and Meyer—from their 10 years of working together at HANDS and their connections to other funders and community development practitioners in New Jersey.

The innovative strategy of acquiring delinquent mortgages in advance of foreclosure yielded positive results and interest among the principals in pursuing additional deals using this model. Avoiding an expensive and protracted foreclosure process allows properties to be redeveloped more quickly and eliminates the legal costs associated with lengthy court proceedings. Local CDCs are also more likely to be in a better position to negotiate with a local government around a reduction of overdue property taxes or fines.

Still, purchasing paper is far from easy. CDCs pursuing this approach must have the technical and financial capacity to negotiate bulk purchases. They must also have a thorough knowledge of local markets so they understand what the ultimate disposition of the property is likely to be and what it will cost to restore it to occupancy (or demolish it if that seems more appropriate). This will ensure that they pay the right price for the mortgages. Once they buy the paper, they must have the ability to service it while negotiating with the mortgagor to take possession of the property.

Finally, acquiring mortgages or properties in bulk requires local capacity to redevelop the units and get them into the hands of qualified homeowners or responsible landlords. In New Jersey, this has called for establishing partnerships with CDCs that work in multiple jurisdictions around the state. Unless they have prior experience with redeveloping scattered site properties, CDCs may need help developing the technical capacity to do the work, as well as garnering access to lines of credit to support the acquisition and renovation of the properties. This financing may need to be set up as short term, permanent financing so properties can be rented until the market recovers to the point that they can be sold to homeowners.

Implementing NSP Through Community Partnerships

NEIGHBORHOOD DEVELOPMENT SERVICES, INC.
RAVENNA, OHIO

Program Overview

Resolving challenging real estate and redevelopment conditions requires significant technical and financial capacity. In Northeast Ohio, city and county governments have turned to Neighborhood Development Services, Inc. (NDS), to help them respond to the foreclosures overtaking their communities. NDS has helped them utilize their Neighborhood Stabilization Program (NSP) awards to acquire and redevelop foreclosed single- and multi-family properties.

One example of this is in the small city of Barberton, where NDS worked with city officials, Summit County, the state of Ohio and the Akron Metropolitan Housing Authority to redevelop a 24-unit property

that was headed to foreclosure. The Washington Square project served a low-income, predominantly minority neighborhood that had been hit hard by the foreclosure crisis. If allowed to go to foreclosure, it most likely would have been purchased by an investor with little or no intention of improving it, and converted to market-rate rents. NDS' assistance was vital to the success of this project, as the city lacked the financial and technical capacity to complete the project on its own.

Background

NDS is a nonprofit community development corporation that serves as a development partner in about 14 counties in northeastern Ohio. In addition



Washington Square Apartments in Barberton, OH, a joint partnership between NDS, the city of Barberton, Summit County, the Ohio Housing Finance Agency and the Akron Metropolitan Housing Authority.

PROJECT SNAPSHOT

LEAD ORGANIZATION

Neighborhood Development Services, Inc.
21 staff members
Founded in 1985

PARTNERS

City of Barberton
Summit County
Akron Metropolitan Housing Authority
Ohio Department of Development

FUNDING SOURCES

NSP1
Community Housing Capital

STRATEGY

Provides housing development capacity to help local jurisdictions manage redevelopment of foreclosed properties.

OUTCOMES

In Barberton, helped acquire a 24-unit property from foreclosure and redevelop it into an attractive community asset that preserved affordable housing units.

CONTACT INFORMATION

Dave Vaughn, Executive Director
Neighborhood Development Services, Inc.
120 East Main Street
Ravenna, OH 44266
330.297.6400

to being a chartered NeighborWorks® organization, NDS is a community development financial institution (CDFI), a Community Housing Development Organization (CHDO), a HUD-approved Housing Counseling Agency and a HUD-approved non-profit for subordinate lending. It has a staff of 21 and an annual budget of over \$3 million.

Like the rest of the country, the city of Barberton, located near Akron in Summit County, experienced a wave of foreclosures in 2008 and 2009. Foreclosures began with the unfortunate victims of predatory mortgage loans, but quickly enveloped other homeowners who lost their jobs in the recession that followed. Housing prices plummeted; as of October 2010 foreclosed properties in Barberton were selling for as little as \$10,000.

Because NDS had an office in Barberton from which it administered the city's Community Development Block Grant (CDBG) and NSP programs for homeowner assistance, the decision to ask them for help with the Washington Square apartments was not difficult at all. The property is located in South Barberton, a historically African American neighborhood that struggled with poverty. To add to the neighborhood's woes, many residents became victims of predatory lenders, talked into mortgages they could not afford on homes that were worth far less than their sale price, even before the market crashed.

Built in 1994, the Washington Square apartment complex was comprised of four, six-unit buildings. The complex was originally built by Neighborhood Conservation Services, a local nonprofit, using the Low Income Housing Tax Credit (LIHTC) and loans from the city and state. Vacancies dogged the property from the beginning and it emerged from the LIHTC-required 15-year affordability period in serious jeopardy of being foreclosed. Unless the city stepped in, the property would likely be purchased by an investor who would make minimal improvements, depressing property values still further and potentially displacing the low-income tenants who lived there. The city was very concerned about the prospect of this property further destabilizing an already vulnerable community and about the loss of previous public investment.

Implementation

When it was clear that NCS would not be able to refinance the loans on the property at the end of the affordability period, the city of Barberton acquired the deed to Washington Square in lieu of foreclosure. This prevented the project from getting tied up in an expensive and time-consuming foreclosure process. The city of Barberton then sold the property to NDS, which is serving as developer. Once renovations have been completed, ownership will be transferred to the Akron Metropolitan Housing Authority (AMHA).

The total development cost is \$2,377,000, all of which comes from NSP funding. Of that amount, Summit County contributed \$500,000 to cover the initial acquisition and some of the soft costs. The Ohio Housing Finance Agency (OHFA) contributed the remaining \$1.877 million, which will cover renovations and remaining soft costs. This is structured as a 20-year, zero percent interest loan, however, each year, 25 percent of the project cash flow, over and above expenses, must be paid to OHFA. All of the NSP funds used were part of the 25 percent very low-income set-aside, so 100 percent of the project

“The nice thing for Barberton... without all of these inputs and working together there is no way our community could ever have afforded to do this project. And then it would have been just another vacant building bringing down our housing prices.”

will be affordable to households earning below 50 percent of median income. The combination of the rent restrictions imposed by the NSP program and the requirement that all tenants be very low-income will make it challenging to manage the property, but AMHA will be able to place tenants with Section 8 housing choice vouchers in some of the units to help with cash flow. If the project stays in compliance with these terms, the NSP loan will be forgiven at the end of 20 years.



Rear view of the Washington Square apartments, showing the current layout of the concrete pads behind the units.

The Washington Square Redevelopment Team



After a thorough evaluation of the property and a review of its rental history, NDS, the city of Barberton, and AMHA decided to make all of the units two-bedroom, eliminating the small three-bedroom units that were unpopular with tenants. There were plenty of other options in the community for large families, and the reconfiguration would make the remaining units larger and more marketable. The units were all electric and had no air conditioning, so the interior improvements will include running ductwork for a new HVAC system. Units will include energy efficient appliances. New roofs and better insulation are also planned for each building and the

façade will be spruced up and made to look more like townhouses. In the back yards, the concrete pads there will have a privacy fence installed to provide families with more control and use of that space. New landscaping will include a small, onsite playground. Renovations began in late September 2010 and are projected to take about eight months to complete.

Adding to the complexity of the project, the current tenants must be relocated during the extensive renovations, at a cost of about \$140,000. HUD has generally discouraged NSP grantees from selecting

occupied properties for redevelopment due to the time and expense associated with relocation. However, the Washington Square property was about 40 percent vacant at the time of acquisition so only 14 families had to be moved. Only a few required permanent relocation due to their higher incomes. AMHA is coordinating the relocation with the help of a relocations specialist. “If it weren’t for AMHA I don’t know that the deal could have survived,” says Ryan Landi, NDS’ director of development. “They have been a great partner through all of this.”

The Barberton Planning Department reached out to the neighborhood through direct mailings and community meetings to keep residents informed and to solicit their input about the redevelopment. The neighbors are thrilled that the building is being renovated. They have given great suggestions on issues as varied as the playground installation and the location of trash receptacles. Joe Stefan,

Barberton’s assistant planning director, notes: “The nice thing for Barberton is ... [W]ithout all of these inputs and working together there is no way our community could ever have afforded to do this project. And then it would have been just another vacant building bringing down our housing prices.”

As the graphic above shows, this project required the concerted action of six different entities: HUD, NDS, City of Barberton, Summit County, AMHA and the Ohio Housing Finance Agency. Each brought something essential to the project, including financing, development capacity, tenant relocation and ownership. Any one of these partners could have backed out or taken some other action that would have halted the deal.

One of the challenges was the source and requirements of the financing needed to renovate the property. Initially, the Ohio Department of Development



View of the exterior at Washington Square. While the buildings look well kept, it was the interior of the units that posed the rental challenges: small three-bedroom units, no air conditioning, poor insulation and electric heat.

(ODOD), NSP1 grantee for the state, planned to structure the funds as a grant which would have allowed the project to serve households with incomes up to 120 percent of the median income. This would have made it much easier to manage over the long haul. However, ODOD decided to make OHFA a subrecipient of the 25 percent very low-income (VLI) set aside from which they then funded the project. At that point, tighter rent and income restrictions were imposed and OHFA structured it as a deferred loan. The stiffer requirements created more management and cash flow challenges than NDS and AMHA had bargained for and it would have been easy to walk away.

“Really, it was the partners that made this all possible,” noted Ryan Landi. “Everyone involved in this project has had a phenomenal attitude, always keeping the project a high priority. “Every partner has stepped up when they were needed and that has made all the difference in keeping this project moving. Even when we had disagreements—and there were plenty of those—the project was always important enough that we kept it moving forward.”

Lessons Learned

Acting as a development consultant to many jurisdictions rather than limiting services to one community, has enabled NDS to add critical capacity to the region during this difficult period. Local partners, both government and other nonprofit community development corporations (CDCs), help prioritize projects and ground them in the context of broader plans or visions for the area. While the example

cited above is for redevelopment of a multi-family property, NDS has also redeveloped single-family properties both in Barberton and other towns in Northeast Ohio.

Yet NDS’ capacity alone was not enough. The city of Barberton stepped up to acquire the property when it was clear the original owner would not be able to refinance its loans, using NSP funds from Summit County. It then transferred ownership to NDS for the redevelopment process, financed by NSP funds awarded by OHFA. AMHA managed the tenant relocation process and will serve as the permanent owner. Not only did this complicated arrangement or “dance” require that technical and financial capacity be available, but that the partners also share a commitment to seeing it through the inevitably rough periods ahead.

The redevelopment of Washington Square will include improvements that will make building operations more cost-efficient and help keep costs within the income and rent restrictions imposed by the NSP funding. The improvements will also make the buildings more marketable to the tenants they are intended to serve.

Finally, the city of Barberton and NDS reached out to South Barberton neighborhood residents to involve them in the redevelopment project and to keep them informed of its progress. Ultimately, the residents will be the stakeholders—as tenants or as neighbors—who must live with the decisions made by the developers and the funders. Thus, their inclusion in the redevelopment process is vital.

Collaborating to Expand Access to Capital

NEIGHBORHOOD HOUSING SERVICES OF ORANGE COUNTY ANAHEIM, CALIFORNIA

Program Overview

When the foreclosure crisis hit Orange County, California, it was not limited to a particular town or neighborhood. “If you fired a shotgun you’d have dots all over the map, and that’s the way the foreclosures are in Orange County,” says Ron Rohrer, director of real estate development for Neighborhood Housing Services of Orange County (NHSOC). With a land area of almost 800 square miles and more than three million residents, the only way to address the abundance of vacant and foreclosed properties was for the nonprofit housing providers to work together. NHSOC, a NeighborWorks® organization, has worked closely with other community development corporations to access resources that few could reach working independently. Among other activities, NHSOC took the lead in ensuring that Orange County’s first round of Neighborhood Stabilization Program (NSP) funding was obligated by the deadline. NHSOC also created a consortium to apply for NSP2 funding.

As of early November 2010, NHSOC purchased 11 properties with NSP1 funds; four of these have been renovated and are on the market. It purchased seven more through NSP2. All are condos, the primary affordable housing stock in Orange County. NSP2 consortium members are also making headway. The local Habitat affiliate has two condos under contract and another, Community Housing Resources, has a contract to purchase a fourplex building that will serve as housing for individuals with developmental disabilities.

Background

California was among the first states to experience high foreclosure rates. And while the pace of foreclosures in some areas has eased somewhat, overall numbers are still high. In Orange County alone, RealtyTrac reports that in October 2010, one in 284 housing units had received a foreclosure notice and over 20,000 homes were in some phase of the foreclosure process.



A condo purchased by NHSOC, then renovated and resold to an eligible buyer. Improvements include the new kitchen at right.

PROJECT SNAPSHOT

LEAD ORGANIZATION

Neighborhood Housing Services of Orange County

23 staff members

Founded in 1977

PARTNERS

Orange County Community Housing Corporation

Mary Ericson Community Housing Habitat for Humanity of Orange County

Affordable Housing Clearinghouse

Irvine Community Land Trust

Community Housing Resources, Inc.

FUNDING SOURCES

NSP1 and NSP2

Lines of Credit from Clearinghouse CDFI and Community Housing Capital

STRATEGY

Collaborated with Orange County for NSP1, as well as with six other nonprofit housing organizations for NSP2.

OUTCOMES

NSP1: NHSOC has purchased 11 condos; all are renovated and for sale.

NSP2: NHSOC has acquired seven units. Consortium partners are acquiring two condos and a fourplex building.

CONTACT INFORMATION

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NHSOC has worked since 1977 to revitalize neighborhoods in Orange County by improving the housing stock and supporting homeowners' efforts to strengthen their communities. NHSOC has a history of creating partnerships to improve access to resources and expand impact. For example, in 2004 before the foreclosure crisis occurred, Executive Director Glenn Hayes and Chief Operating Officer Ken Mutter worked with corporate and nonprofit partners to establish the Orange County Housing Trust (OCHT). Its purpose was to provide regional solutions to help meet the growing demand for affordable housing options in Orange County. First operating under NHSOC's umbrella, OCHT later obtained its tax-exempt certification and became a separate nonprofit. As of June 2009, the OCHT had provided over \$9 million in low interest second mortgages to 151 first-time homebuyers, leveraging over \$38 million in additional investment.

Most of the foreclosures in Orange County were in condo developments. The big surprise in the NSP1 program was that the census tracts with the highest risk scores were in southern Orange County in more affluent communities where NHSOC did not typically work. Still, foreclosures were not concentrated in particular neighborhoods, thus targeting funds for meaningful impact was a challenge. And with median home prices around \$435,000, single-family programs would require significant subsidy to make units affordable to households below 120 percent of median income. In the NSP1 program, NHSOC served as a contractor to the Orange County, which received \$3,285,926 directly from HUD and an additional \$3,158,042 from the California Department of Housing and Community Development. Under NSP2, NHSOC successfully applied as a consortium member with six other nonprofit organizations and serves as the lead applicant.

Implementation

One of the first orders of business was to gain access to foreclosed properties. Blair Schaeffer, NHSOC transactions manager, says that NHSOC has been able to obtain almost all of its properties through the National Community Stabilization Trust (NCST) First Look program. NHSOC serves as the point of contact for NCST in Orange County and

every day there are up to 10 new foreclosures for them to consider. On a rotating basis, NHS assigns these properties to its nonprofit partners for them to pursue if they are interested.

Under NSP1, the average acquisition cost was about \$250,000, with an additional \$7,000 in renovation costs. The housing stock is newer and the condo associations maintain the exterior and the roofs. Therefore, in most cases it was sufficient to repaint, upgrade to new, energy efficient appliances and, in some instances, improve the kitchen or a bathroom. Typical plumbing improvements have included the installation of low flow toilets, faucets and showerheads. Using NSP2 funds, homebuyers receive downpayment assistance up to \$50,000 as needed. The assistance is structured as a second mortgage, at zero interest, with a 30-year term. There is no forgiveness; the loan becomes payable at resale or at the end of the 30-year term.

When NSP2 became available, NHSOC participated in five different consortium applications and was awarded two. On one, NHSOC was the lead applicant for a group that included Orange County Community Housing Corporation, Mary Ericson Community Housing, Habitat for Humanity of Orange County, Affordable Housing Clearinghouse, Irvine Community Land Trust and Community Housing Resources, Inc. This application was awarded \$7.5 million. NHSOC will use \$2.7 million for property acquisition and downpayment assistance. In the time since NSP1 was first awarded, the market changed somewhat, causing NHSOC to shift its focus. “The need to buy the dogs and do the rehab has kind of gone away,” notes Rohrer. In NSP1 the foreclosures were literally all over the map and, partly due to deadline pressures, NHSOC concentrated on condos that were generally in good shape but needed specific improvements to be marketable. While they were successful, Rohrer notes that working with condos can be tricky. California law places limits on starting judicial foreclosures due to unpaid condo fees. In some cases banks that foreclose on condos are not required to pay overdue fees, which can put projects at risk. It is also important to be sure that projects have a majority of homeowners rather than tenants. “There is tremendous need in condo projects but high risks as well,” Rohrer says.



A newly renovated bathroom in a condo NHSOC acquired with NSP funds.

Now NSHOC is targeting NSP2 funds to specific neighborhoods that need revitalization. Rohrer’s staff looks for single-family homes, particularly on corners where they can change the look of the neighborhood and where they can install a homeowner. As of November 2010 the consortium award was about 60 percent obligated.

Affordable Housing Clearinghouse (AHC) is one of the NSP2 consortium members. It is the primary point of contact for southern Orange County and will assist from eight to 11 properties with their NSP2 allocation. With a staff of three, AHC lacked the capacity to apply for NSP2 funding on its own, so it made sense to join up with NHSOC. Brenda Rodriguez, AHC’s executive director, says Orange County organizations had a history of collaboration even before NSP came along. “When you’re serving the housing needs of the community, groups can come together and identify their niches,” she says. While they all offer the same basic housing services, one group might specialize in housing that serves larger families, or in particular neighborhoods. They try to make the services as seamless as possible. For example, if prospective homebuyers work in one area of the county but plan to buy a home in another area, they can complete the homebuyer education course wherever it is most convenient for them. Rodriguez credits Glenn Hayes of NHSOC for establishing a climate in which nonprofits work together. “We will be more effective and successful if we work together than if we work separately,” she recalls him saying.

The NSP program cannot provide all of the funding NHSOC needs to acquire foreclosed properties. To supplement, NHSOC has sought lines of credit from Clearinghouse CDFI, a for-profit community development financial institution (also the for-profit partner of Affordable Housing Clearinghouse), from Community Housing Capital and other for-profit lenders.

“Credit lines are extremely important,” says Rohrer. “We typically have to pay all cash for properties and right now there’s no bank or mortgage company that will make a loan to a nonprofit on just one single-family home.” A line of credit allows NHSOC to buy properties quickly with cash, as long as they meet the terms of the agreement with the lender. The lines of credit also support NHSOC’s Home Again program, operational since the mid 1980s. Home Again is a purchase-rehab-resale program to renovate and resale or lease single-family properties, but without restrictions imposed by NSP funding. For example, the Clearinghouse CDFI line of credit is for up to \$1.4 million, for a 24-month term. The agreement permitted NHSOC to draw down on only \$700,000 initially, for a maximum of four houses, with the remaining funds available as long as NHSOC’s net assets remained stable or grew. The credit line can only be used for acquiring properties and each separate purchase cannot exceed the lesser of 75 percent of the sales price, 75 percent of the “as is” price based on an appraisal, or \$175,000. Clearinghouse CDFI is in a first lien position on each property.



A condo in Brea acquired by NHSOC with NSP funds.

“Everything is in a world of change,” says Rohrer. “We’re trying to do the right thing.” With the resources available NHSOC is targeting neighborhoods or micro-market areas within the county. It finds properties that are in trouble, improves them and makes sure they get occupied by homebuyers. If a sale is not possible in the short term, units can be leased to low-income tenants until the market improves or, if it is a lease-purchase, until the tenants become mortgage-ready. Rohrer admits, however, that it can be challenging to keep up with changes in NSP regulations, licensing requirements, staff training, and the continually evolving real estate and lending environments.

Despite the difficulties they have faced, NHSOC and its partners are making a difference in the communities where they have acquired, renovated and resold homes. Schaeffer says she is encouraged by the nonprofits’ response to the foreclosure crisis. She thinks the NSP program has given nonprofits a chance to be in the spotlight and develop partnerships that they might not have done otherwise. “NSP really highlights nonprofit capability,” says Schaeffer.

Lessons Learned

Collaborations can be important at any time to facilitate access to new markets, skills and resources. They are even more critical when combating a crisis such as the one presented by foreclosures in Orange County. It would be almost impossible for a single nonprofit to have a footprint that covered a county of nearly three million people, especially when foreclosures were scattered across that landscape. The NSP2 consortium ensured that NSP resources could be channeled to effective nonprofit organizations countywide.

The nonprofit partners bring varied strengths to the table, which also improve the group’s ability to respond to the housing crisis. NHSOC was able to serve as the lead applicant for NSP2, concentrating back office financial and administrative tasks in one organization for greater efficiency. Other nonprofits might specialize in serving particular geographic areas or language groups. All three staff members of AHC are Spanish-speaking, for example. “The communities trust us to guide them in times of need,” points out AHC’s Rodriguez. Because they already have connections in certain communities, they can serve them more effectively and efficiently.

One-Stop Service Center for NSP

NEIGHBORHOOD HOUSING SERVICES OF KANSAS CITY, INC.
KANSAS CITY, MISSOURI

Program Overview

Kansas City's foreclosure crisis began in the lower income neighborhoods of its urban core, but extended out into adjacent suburbs and more affluent areas as the recession deepened. Ultimately, Kansas City identified 78 census tracts as the target area in its Neighborhood Stabilization Program Action Plan. It contracted with six different nonprofit housing organizations and one for-profit developer to carry out the work.

One was Neighborhood Housing Services of Kansas City (NHSKC), a NeighborWorks® affiliate with 36 years of community development experience. Already an approved FHA buyer, NHSKC became the city's contact for the National Community Stabilization Trust (NCST) and quickly took the lead on acquiring, renovating and reselling single-family homes that had been foreclosed and abandoned. Mark Stalworth, NHSKC's executive director, says NHSKC initially encouraged buyers to approach them with properties they wanted to purchase, but later moved to purchase, renovate and resell single-family homes themselves. As of early November 2010 NHSKC had closed on 13 properties and has 13 more under construction, at a total cost of \$3.3 million.

Background

In 2006, Kansas City had about 3,000 foreclosures, roughly 1.5 percent of its 201,000 housing units. Within three years this number had quadrupled to an estimated 12,000 single-family and investor-owned properties. Initially concentrated in predominantly minority neighborhoods in the city's urban core, the crisis spread to more affluent areas and to inner-ring suburbs as the recession deepened. The first



Before and after photos of one of the properties NHS of Kansas City acquired, renovated and resold using NSP funding.

PROJECT SNAPSHOT

LEAD ORGANIZATION

Neighborhood Housing Services of Kansas City, Inc.

11 staff members

Founded in 1974

PARTNERS

City of Kansas City

Economic Development Corporation of Kansas City, Missouri

FUNDING SOURCES

NSP1

STRATEGY

To become a one-stop shop for NSP buyers: identifying the property, providing the first mortgage loan, developing scopes of work, managing construction, helping buyers obtain down payment assistance and with closing the loan.

OUTCOMES

In Kansas City, 13 units renovated and sold, 13 more under construction, 4 more homes about to begin construction in Independence.

CONTACT INFORMATION

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foreclosures resulted from homeowners defaulting on high-interest predatory loans. Later, however, an increasing number of investors defaulted on loans involving large blocks of houses; some were out-of-state buyers who were themselves victims of fraudulent real estate deals.

Kansas City, Missouri, received \$7.37 million in Neighborhood Stabilization Program (NSP) funding directly from the Department of Housing and Urban Development (HUD), as well as \$1.08 million from the State of Missouri from its NSP award. Due to the short implementation timeframe mandated by NSP1, the city contracted with the Economic Development Corporation of Kansas City (EDC), a nonprofit organization that staffs several statutory agencies on behalf of the city, to serve as administrator. The city also issued a separate RFP for developers, ultimately selecting seven. One was NHS of Kansas City.

NHSCC was established in 1974 and is one of Kansas City's largest and most successful nonprofit housing organizations. It is a community development corporation, a certified community housing development organization (CHDO) and a registered mortgage lender under the state of Missouri. It became a NeighborWorks® affiliate in 1994.

In addition to homebuyer education and community-building services to strengthen neighborhoods, NHSCC offers a wide range of real estate development and lending services, including:

- ▶ Loans for single-family home purchase, home improvement, home purchase/improvement and refinance with improvements
- ▶ Multi-family real estate development
- ▶ Multi-family asset management

Implementation

It took some time to sort out the NSP regulations and to align them with Kansas City's housing redevelopment requirements. Initially NSP1 required them to have a buyer ready to purchase before the developers bought the property, which slowed down the process. The pace picked up once HUD authorized use of a conditional contract or an option agreement.

NHSCC quickly became the top producer in Kansas City's NSP program and has helped other nonprofits achieve their targets as well. As the Kansas City representative for NCST and an FHA-approved buyer, NHSCC can facilitate access to foreclosed properties. When properties become available, NHSCC staff inspects them to see whether they are suitable for the NSP program. "We're looking to see how much work it needs, how many bedrooms it has, and whether it will be marketable when we finish the rehab," says Stalsworth. "The program goal is that the rehab costs be no more than 20 percent greater than the after-rehab appraisal." From the outset, they recognized that some houses would be beyond the scope of the program, as they simply required too much work due to vandalism or previous owners who "left angry," as Stalsworth puts it. With the NSP1 deadline fast approaching, they had to focus on homes they could renovate relatively quickly. More serious problem properties would be addressed with program income later.

Buyers receive a downpayment loan of 20 percent of the appraised value, structured as a zero percent mortgage that is forgiven over its 15-year term. This model was already in place before the NSP program. NSP allows NHSCC and other developers

to fully renovate the properties over and above their current appraised value. This is less costly than it might be in other real estate markets since Kansas City has relatively modest home prices. A typical pro forma is as follows:

SAMPLE SINGLE-FAMILY PRO FORMA	
Total Acquisition Cost	\$11,800
Purchase Price, Appraisal, Closing/Legal	
Rehabilitation	\$61,128
Construction, Contingency	
Soft Costs	\$2,035
Environmental Testing, Security System, Marketing	
EDC Soft Costs	\$6,531
Home Warranty, Taxes, Insurance, Legal, Closing/Title, Realtor Commission (6 Percent)	
Project Costs Before Developer Fee	\$81,494
Developer Fee	\$11,698
Total Development Cost	\$93,192
Sale Price to Buyer (After-Rehab Appraised Value)	\$69,000
Total Project Subsidy	\$24,200



With an initial acquisition cost of just \$11,800, it is possible to do extensive renovations that update the important systems and attend to cosmetics, both helping to shore up the property values of surrounding homes.

EDC negotiates the purchase price and holds title to the property until the renovations are complete and the property is sold to the buyer. NNSKC and the other developers handle the rehab process, including writing specifications, bidding and draws. Marketing is a joint responsibility of EDC and the developers. The developers are paid a portion of the developer fee at the time the property is acquired, an additional portion when construction is completed and the final payment when the property is sold.

In its NSP Action Plan, Kansas City identified 78 census tracts in which NSP dollars could be spent. This was both an advantage and a challenge.

EDC signed a Redevelopment Agreement with each of the seven developers that specifies roles and responsibilities; a separate Funding Agreement covers the rehabilitation of each individual property.

Catherine Singleton, the EDC program manager, says that NNSKC has played a critical role in implementing the NSP program. One big asset was their extensive experience operating single-family housing programs, thus giving them the staff and expertise they needed to handle NSP. “They have a steady stream of buyers due to their homebuyer education and counseling program and because of their other lending,” says Singleton. Several of the other developers had only done home improvement with existing homeowners, so they were less experienced with buying and selling real estate. As a result, they have struggled to acquire properties and to sell them once they are renovated. Singleton also recognizes that NNSKC’s diverse business lines have helped it continue operating and retain professional staff in a very tough economy, when many other nonprofits have been hit with budget cuts. In the end, NNSKC helped obligate 45 percent of Kansas City’s NSP1

award and will play a lead role in utilizing program income going forward.

In its NSP Action Plan, Kansas City identified 78 census tracts in which NSP dollars could be spent. This was both an advantage and a challenge. On the one hand, it provided a large pool of properties and submarkets from which to choose. On the other hand, the large area made it difficult to know where to target funds for greatest impact and made it hard to get to know the neighborhoods. Early on, NNSKC trained realtors to look for foreclosed houses that met the program guidelines and ones where they could receive a commission on the sale. Realtor Helen Bryant helps identify houses for NNSKC and finds buyers for them once they are renovated. She is enthusiastic about how the program is working to stabilize neighborhoods, especially those with only one or two problem properties.

One example of this is the home purchased by Johnathon Bish and his partner. They were the first buyers to use the NSP program in Kansas City. They had been looking to purchase for several years, but had found the overheated market hard to buy into. Every time they made an offer they would lose out to a speculator who could pay cash instead of waiting for financing to be approved. Bish had his eye on a house in Squire Park, which had been vacant for some time. His mother lived nearby and everyone knew it was in foreclosure. As soon as the key box went up she alerted Bish and they called their realtor. Eighteen months later, they moved in.

The house was built in 1880, one of the first in the neighborhood, and needed a lot of upgrades. “This house had so much wrong with it,” laughs Bish. “Plumbing, electrical, HVAC. Right before we closed they found there was a water main that needed to be fixed... Our portion was supposed to be ‘pick out your paint colors,’ but there were so many things wrong we had to do some work too.” It took about a year for renovations to be completed and there were delays resulting from being the first buyers through the NSP program. Despite the lengthy process, Bish has only good things to say about the help he received from NNSKC and EDC, and is thrilled with his new home. “We literally bought our dream home,” says Bish. “My mom and my aunt live



Bish's house during the renovation process.

nearby and all of the neighbors are great. Everyone values us and, thanks to all this work, the house is an asset to the neighborhood, too.”

Due to time and resource constraints, much of the initial NSP1 funds were not used in Kansas City's hardest hit neighborhoods. Stalsworth argues that it will be possible to go back and work in more devastated blocks that might have three or four abandoned properties. Still, Bish's example demonstrates the value of using NSP to strengthen neighborhoods that are on the cusp of change and could go either way. A large and visible house such as Bish's, had it been purchased by an investor who made only minimal improvements, could have continued to deteriorate and drag down adjacent property values. Instead, it is the pride of the neighborhood. Bish was amused that even before he and his partner had closed on the house, the community organized a home tour and put Bish's house on it!

Stalsworth compares houses like Bish's to a “broken tooth,” meaning “it's a tough house, and it's going

“We literally bought our dream home,” says Bish. “My mom and my aunt live nearby, and all of the neighbors are great. Everyone values us and, thanks to all this work, the house is an asset to the neighborhood, too.”

to cost a ton of money to rehab it, but it's in a good neighborhood and you have to do it to protect neighborhood property values.”

Lessons Learned

The NSP program got off to a late start in Kansas City, which limited the options NHSKC and other developers had for using the funds. In order to fully obligate the funds by the September 2010 deadline, they could not take the time to develop the type of comprehensive redevelopment plans required by harder hit neighborhoods. Instead, they chose to use the initial funds to protect and strengthen neighborhoods with fewer foreclosures by addressing one or two problem properties. Program income might be used to tackle more difficult houses in tougher



Bish's house fully remodeled and ready for occupancy.

neighborhoods, where there will be an opportunity to concentrate funds for greater impact.

Despite its late start and several obstacles encountered along the way, Kansas City did manage to fully obligate its funds by the deadline. Stalsworth was impressed by how everyone moved in concert once it was clear that a team effort was required to make it work. “When there’s a big crisis, people will step up and work together to make the problem go away.” Kansas City turned around the required environmental reviews in three days, even for older properties. Lenders and realtors quickly grasped the program requirements and worked hard to get deals through the pipeline.

Stalsworth notes, “NHS helped to design the tools needed to fix the problem.” Right from the start, he recognized the potential for the program and that the only way to make it work was to approach it as

a business. One thing he needed was more staff; when he advertised, he received 500 applications and was fortunate to hire someone with construction experience who could “walk through a house twice and be within \$1,500 of what the rehab would cost.” That expertise was an enormous asset when deciding which houses to buy. Being a registered mortgage lender, an FHA-approved buyer and becoming the local agent for the NCST program were also critical to NHSKC’s success with NSP.

Going forward, Realtor Helen Bryant hopes that lenders and Kansas City will require new buyers to complete a HUD-approved homebuyer education workshop. She concentrates her business in Kansas City’s urban core, where the predatory lending was most prevalent, and thinks that homebuyer education is critical to protecting homebuyers and owners from bad loans. “Education before application” is her mantra now.

Nonprofit-Driven Collaboration

NEIGHBORHOOD HOUSING SERVICES OF SOUTH FLORIDA FORT LAUDERDALE, FLORIDA

Program Overview

In 2009, Florida had 400,000 foreclosures—133,000 (33 percent) were in the Miami-Dade and Broward County areas where Neighborhood Housing Services of South Florida (NHSSF) operates. To improve the efficiency and effectiveness of the Neighborhood Stabilization Program (NSP), NHSSF, a NeighborWorks® organization, strengthened existing collaborations and created new partnerships. As of December 2010 the Broward Alliance for Neighborhood Development (BAND) had acquired 90 homes and sold 20 to homeowners, with 13 others ready for sale.

BAND was established in 2002 by NHSSF and other Broward County nonprofit housing organizations to improve coordination and affordable housing advocacy. Rather than apply individually, each organization opted for BAND to apply for NSP1 funds and contract with the member organizations to utilize them. BAND received \$6.5 million from Broward County in NSP1. Of this amount, \$1.5 million was allocated to the BHP Community Land Trust. BAND was awarded an additional \$7.5 million from four Broward County cities that received their own NSP1 allocations. When NSP2 became available, NHSSF led a consortium of five nonprofits and the city of North Miami to secure funding for Miami-Dade County. NHSSF Executive Director Arden Shank notes they received just under \$90 million in NSP2 funds, projected to assist a total of 1,255 units.

Background

NHSSF was founded in 1978, in the West Little River Neighborhood of Miami-Dade County. From its modest beginnings it has steadily expanded its



Before and after photos of a house acquired and renovated with NSP assistance in Broward County.

reach and focus, becoming certified as a Community Housing Development Organization (CHDO), a licensed mortgage lender for the state of Florida,

PROJECT SNAPSHOT

ORGANIZATION

**Neighborhood Housing Services
of South Florida**
48 staff members
Founded in 1978

PARTNERS

BAND

Broward County
Cities of Sunrise, Hollywood and Plantation
City of North Miami
Carrfour Supportive Housing
Little Haiti Housing Association
**Opa-locka Community Development
Corporation**
**St. John Community Development
Corporation**
Urban League of Greater Miami

FUNDING SOURCES

NSP1
NSP2
SHIP

STRATEGY

**Collaborate with nonprofits to apply for
and implement NSP1 funding from city and
county governments and to obtain NSP2
funding through a consortium application.**

OUTCOMES

**BAND has acquired 90 homes using NSP1
funds; 20 have been sold.**

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a NeighborWorks® HomeOwnership Center and a Community Development Financial Institution (CDFI). It expanded throughout all of Miami-Dade County in 1994 and to Broward County in 2008.

Broward County covers 1,205 square miles and has a population of roughly 1.77 million. Miami-Dade covers 1,979 square miles and has just less than 2.5 million residents; it is the eighth most populated county in the United States.

When foreclosures began flooding the Florida housing market in 2007, Broward and Miami-Dade Counties were among the hardest hit and the region continues to struggle. In October 2010 RealtyTrac reported that 7,324 homes entered the foreclosure process in Broward County; in Miami-Dade County, immediately to the south, the number was 5,786.

With so many homes on the market and such a vast geographic area to cover, it was critical that local nonprofit developers join forces to increase their capacity and operate on a higher scale. Fortunately, South Florida has a history of collaboration that made this process easier.

Four years after BAND was established as a 501c3 nonprofit and began working to improve coordination and communication, Pat Stephenson was hired as executive director. Stephenson helped strengthen BAND's ability to create housing and advocate for more affordable housing resources. Prior to the foreclosure crisis, BAND had completed only one housing development, a 14-lot subdivision of new, affordable homes. When it became clear that the housing market was collapsing, its members quickly realized that BAND presented an ideal structure for streamlining access to NSP funds awarded to South Florida.

"The members had several brainstorming meetings to develop the model," Stephenson recalls. "They eventually decided on the acquisition-renovation-resale of single family homes, accompanied by homebuyer education to prepare new homeowners." The group also worked to bring in as many new members as possible. When the NSP1 request for proposals was published, BAND members reviewed them carefully and selected the ones that fit their model best. "We weren't interested in just down pay-

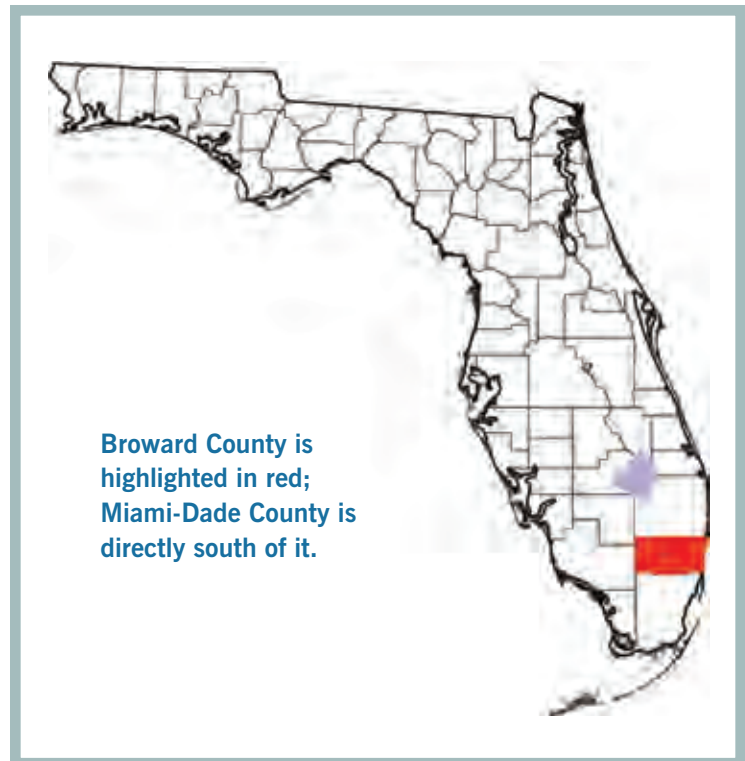
ment assistance,” says Stephenson. “We wanted to develop buyers, as well as houses.” BAND pursued and was awarded funding from Broward County and three other entitlement cities: Sunrise, Hollywood and Plantation.

When NSP2 became available NHSSF took the lead in a seven-member consortium. Other consortium members included the city of North Miami, Carrfour Supportive Housing (Carrfour), Little Haiti Housing Association (LHHA), Opa-locka Community Development Corporation (OLCDC), St. John Community Development Corporation (SJCDC) and the Urban League of Greater Miami (ULGM). The consortium plans to assist a total of 1,255 housing units (965 rental; 290 for-sale) in Broward and Miami Dade Counties.

Implementation

Broward Alliance for Neighborhood Development (BAND)

Broward Alliance for Neighborhood Development executed developer contracts with Broward County and the three entitlement cities. “We were careful to avoid becoming subrecipients under NSP,” says Stephenson, as that would have carried additional requirements. In this way, only BAND has to interact contractually with the municipalities, which Stephenson thinks has been more effective and efficient. BAND, in turn, has memorandums of understanding (MOUs) with its members that describe their roles in implementing the program. BAND divided up the work according to function, not unit, focusing on what each member does best. For example, NHSSF is a licensed real estate company and has a real estate broker on staff. NHSSF’s broker, along with a rehab specialist, inspects all foreclosed units prior to acquisition and determines whether a purchase offer should be made. Upon the broker’s recommendation, NHSSF or another BAND member proceeds with the purchase. The BAND members involved with the NSP1 award meet weekly to track their progress on acquisitions, renovations, sales and the homebuyer pipeline. Some BAND members focus almost entirely on homebuyer education. NSP can pay for counseling, which has helped these organizations financially during this period of economic turmoil.



BAND’s relationship with the National Community Stabilization Trust (NCST) has been instrumental in getting access to foreclosed units. Stephenson estimates that 65 percent of the 90 units BAND acquired have come through NCST.

BAND has organized NSP workshops that have attracted about 1,000 people altogether. This might explain why, even with a glut of foreclosures on the market, BAND members are selling houses as fast as they get them ready.

Marketing is an often-overlooked aspect of NSP efforts, but BAND has been able to facilitate this for its members. BAND has organized NSP workshops that have attracted about 1,000 people altogether. This might explain why, even with a glut of foreclosures on the market, BAND members are selling houses as fast as they get them ready. “We have had to hold lottery drawings for almost every house because each one had multiple eligible buyers,” says Stephenson.



A home newly renovated with NSP assistance.

Units are purchased for somewhere between \$40,000 and \$125,000, depending on their size, condition and location, and receive an average of \$65,000 in renovation. The high rehab costs are due in part to the need for strong roofs and windows that can withstand hurricanes. A new roof alone can cost \$12,000, Stephenson points out. Their goal is to make sure that every major system will last at least five years. They are also doing extensive landscaping, including irrigation systems, to ensure that the homes are an asset to the neighborhood and to



A new kitchen in a home renovated with NSP assistance.

improve their marketability. Irrigation systems are required by some communities and make lawns and shrubs easier to maintain over the long term. Ralph Stone, Broward County housing director, agrees that BAND members are doing a remarkable job on the homes they are assisting. “They have been fabulous partners,” he says. “They know what they’re doing, they’re smart, and they have great hearts.”

The Broward County model requires NSP developers to acquire properties using their own funds. They are then reimbursed 30 percent when they submit their building plans and specifications, 10 percent when these are approved, 20 percent when they are about two-thirds complete on the project and the remainder at closing. The 15 percent developer fee and the realtor commissions are also paid at closing.

Homebuyers are provided with up to \$40,000 in NSP downpayment assistance, which is structured as a zero percent interest second mortgage that is due upon sale. When the program began, Stone estimated they would see a return of only about 50 cents on the dollar, but it has been closer to a 1-to-1 ratio. As a result, Broward County has added about \$3 million in program income to BAND’s developer contract.

“We’ve learned that we can really get it done,” says Stephenson proudly, though BAND members joke that the penalty for having done so well was that they had to do 10 more houses with their NSP1 funding than they had originally contracted for. BAND is already looking ahead to NSP3. Stephenson says they plan to do some things differently, such as hire an in-house project supervisor and improve security at the homes during the rehab process, otherwise the basic model will stay intact.

Armando Fana, HUD field office director, praises Broward County and BAND members for being nimble and changing course when their early efforts to use NSP1 funds did not appear to be working. A big issue early on was that private investors were outbidding them for foreclosed properties. NHSSF got connected to NCST and other REO aggregators who allowed NHSSF and other BAND members to look at properties before private investors saw them, and put them under contract. Fana is also pleased

that BAND and its members have marketed their NSP1 properties so aggressively. “They don’t wait for homeowners themselves to find the properties,” he notes. “They put people on buses and take them around to see all the properties.” Bringing a large number of buyers to the newly renovated homes has helped generate interest and spur sales.

NSP2: NHS of South Florida-led Consortium

The NHSSF consortium is focusing NSP2 work in both Broward and Miami-Dade counties. With over 100,000 foreclosures in 2009 alone, deciding where to use funds was a bit of a challenge, says Arden Shank, NHSSF executive director. “We have a lot of work to do,” he says. “We got a lot of money, but it’s still tiny in comparison to the work that has to be done.”

The housing stock of such large and densely populated counties includes everything from modest single-family units to expensive high-rise condos on the beach. Increasingly, Shank is seeing foreclosures clustered in condominiums, a threat to entire condo projects with fewer owners able to pay the fees required to maintain the units’ exterior and common areas.

About three-quarters of the units qualified under NSP2 are multi-family. One member, St. John CDC, used NSP1 funds to acquire an apartment building and is using NSP2 funds to renovate it. Both NHSSF and Opa-Locka CDC are using NSP2 to acquire single-family homes, renovate them and sell them to eligible buyers. Consortium members will work with NCST and some other aggregators of bank real estate-owned (foreclosed) inventory such as REO Clearinghouse to identify and acquire eligible units. “Some consortium members are neighborhood focused and others aren’t,” says Shank. “Some are looking at neighborhood impact and using NSP to make that happen, others are more production focused.” Since NHSSF is one of the members concerned about the effect on the neighborhood, Shank decided to hire an urban planner to help identify properties that might have spin-off benefits. This has been very effective, helping to identify properties that might be purchased, particularly in the town of Brownsville where the second phase of the NSP2

consortium’s efforts will be focused. The next challenge will be to see if NHSSF can negotiate with the lenders and servicers to acquire the identified properties. Shank and his staff have dealt primarily with NCST and the REO Clearinghouse, which concentrate on properties owned by national banking institutions. The lenders working in Brownsville are smaller and more local, thus acquiring properties will require an individual, unit-by-unit approach.

Lessons Learned

Dealing with foreclosures—and with the NSP program—is hard work. But working with the right partners can make it easier. It may not be necessary to create new partnerships, either. Existing partnerships, even if development experience is lacking, just might be the right vehicle for administering NSP contracts on behalf of several member organizations. In Broward County, when nonprofit housing organizations came together to form BAND in 2002, they never dreamed that six years later it would be serving as a developer under the NSP program. However, BAND has played several key roles in helping implement NSP1; serving as the developer under the NSP contract for Broward County, helps



A kitchen awaits a new owner in an NSP assisted property.

minimize the administrative burden on the organizations responsible for actually producing the housing. The County also benefits from only having to manage a single contract with BAND, rather than having to execute and manage agreements with each nonprofit member individually.

“We weren’t interested in just downpayment assistance... We wanted to develop buyers as well as houses.”

The fact that BAND has no direct responsibility for housing development has allowed its staff to focus on energetic marketing of NSP-assisted units, something that busy NSP grantees and developers often overlook as they scramble to obligate funding within the NSP deadlines. The 1,000 or more prospective

buyers that have participated in NSP workshops have spurred interest in available properties, requiring BAND to resort to lotteries as a fair way to choose from among multiple eligible buyers. This reduces carrying costs, since properties do not linger on the market and frees BAND and its members to move on to other units.

The BAND model in Broward County relied on the strengths of each team member to support the overall production goals, rather than making each member responsible for a specific number of units. Thus, some members conduct homebuyer education only. NHSSF does initial inspections and has a broker to help handle acquisitions and sales. In this way, the strengths of each member are utilized to the fullest, and their lack of capacity in other areas does not slow down the process. This strategy has allowed BAND members to acquire and renovate more units than might have been the case otherwise.

Creating Foreclosure-Resistant Communities

NEIGHBORWORKS® SALT LAKE
SALT LAKE CITY, UTAH

Program Overview

As the foreclosure crisis swept the rest of the country, veteran NeighborWorks® Salt Lake (NWSL) Executive Director Maria Garciaz feared that 700-800 homeowners in her target neighborhoods would lose their homes. As of October 2010 however, there were only about 200 foreclosures, still very serious, but nowhere near the crisis levels predicted. Instead, the bulk of foreclosures occurred in fast-growing areas such as Salt Lake County where there was rapid growth in real estate values, construction of large single-family homes and lax lending practices that allowed families to borrow more than they could afford.

Rather than asking, ‘What went wrong?’ Garciaz and her colleagues are in the enviable position of pointing to “what went right” in their low- to moderate-income, ethnically diverse neighborhoods. A key factor is the longtime presence of NWSL, a NeighborWorks organization that has helped improve community resistance to predatory lending and speculation with its pre- and post-purchase education, leadership development and advocacy. NWSL also actively supported the efforts of Zions Bank and other partners to launch the Utah Center for Affordable Housing (UCAH), an innovative approach to distributing NSP funds throughout Utah’s high foreclosure areas.



NeighborWorks Salt Lake acquired, renovated and resold the first house in Utah assisted with NSP1 funds. The Utah Center for Affordable Housing (UCAH) facilitated the purchase.

PROJECT SNAPSHOT

LEAD ORGANIZATION

NeighborWorks Salt Lake
15 staff members
Founded in 1977

PARTNERS

Utah Center for Affordable Housing
Salt Lake City Housing & Neighborhood
Development

FUNDING SOURCES

NSP1

STRATEGY

Strengthen neighborhood resistance to predatory lending through homeownership education, leadership development and other community building strategies.

OUTCOMES

NWSL target neighborhoods experienced far fewer foreclosures than projected due, in part, to lower incidences of predatory lending.

CONTACT INFORMATION

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Background

NWSL has served neighborhoods on Salt Lake City's west side since 1982. It now has seven target neighborhoods, including all or parts of Glendale, Poplar Grove, Fair Park, Rose Park, Jordan Meadows, Westpointe and West Capital Hill, home to about 54,000 people, roughly a third minorities. Its housing stock is among the city's oldest, mostly single-family homes that are modest in size and price. Since 1995, NWSL has made its focus creating neighborhoods of choice, emphasizing not just home purchase and rehabilitation, but resident leadership development, community building and advocacy.

NWSL's housing strategy includes a combination of new construction and the acquisition, renovation and resale of scattered-site, single-family homes. Potential homebuyers must complete an eight-hour homeownership workshop and can receive housing counseling to help them become mortgage-ready. When they are ready to purchase, NWSL can offer downpayment and closing cost assistance loans and home improvement financing from its own \$3 million revolving loan fund. NWSL also develops multi-family housing.

But the assistance does not stop there. NWSL recognized from the beginning that its target neighborhoods needed more than just new homeowners to restore them to vitality. High poverty, lack of opportunities for youth and poor community cohesion would continue to weaken the neighborhoods unless these issues were addressed directly. As a result, NWSL has undertaken a number of other initiatives. Some are described below.

- ▶ YouthWorks, created in 1986, provides pre-employment and life skills training to youth, ages 14-18. The program builds resistance to gang involvement and other anti-social activities and provides participants with hands-on work experiences that help beautify and revitalize the communities in which they live. YouthWorks has an 80 percent success rate in helping youth stay and succeed in school, thus ending court involvement (where applicable) and building life skills.
- ▶ Community clean-ups, fairs, fundraisers and festivals that bring residents together to address community needs and to celebrate successes.

- The Westside Leadership Institute (WLI), launched in 2004 as a leadership development course, teaches Salt Lake City's west side residents the skills they need to help make positive changes in the community. The program now has 130 graduates who are involved in various ways in their neighborhoods.
- Advocacy efforts—organized and supported—in response to development proposals that would threaten the community. For example, NWSL worked with one neighborhood to successfully combat the Salt Lake City's plans to build a new bridge into the community that would have increased traffic significantly. When NWSL helped bring in engineers and planners to demonstrate how disruptive it would be to the neighborhood, the city opted instead to tear down and rebuild an existing bridge.

By demonstrating its commitment to the residents of the west side neighborhoods, NWSL became a well-known and trusted ally. Maria Garciaz, who joined NWSL in 1986 and has served as the executive director since 1990, is widely recognized as a

tough and energetic protector of the neighborhoods she serves. “The best defense is a good offense,” says Garciaz. “The ideal neighborhood is one where you don’t need a nonprofit in there to buy problem properties,” but it requires staying alert and tackling potential problems before they get out of hand. One

Garciaz estimates that her housing counselors have been able to convince 80 percent of the families they counseled not to refinance by showing them what the new mortgage would actually cost them in interest and fees.

strategy Garciaz has employed is to keep a close watch on owners of rental properties, especially those who have a poor track record of property management. She has worked closely with Salt Lake City, and with community leaders who have graduated from the Westside Leadership Institute,



Press conference at first UCAH home where Utah Governor Gary Herbert handed over the keys to NWSL Board President Veronica Montoya.



Two members of NWSL’s YouthWorks crew remodeling the first UCAH home. Among other improvements, the crew added a third bedroom and a new garage.

to create procedures for monitoring and reporting problem properties or tenants. This has discouraged “slum landlords” from buying properties in NWSL target neighborhoods, because “they know we’re going to be here serving as a watchdog,” says Garciaz. The same is true for predatory lenders.

Another strategy is to require homeowners to whom NWSL loaned money for downpayment, closing costs or home improvement, to meet with a housing

counselor when they wish to refinance or pay off the loan. This has helped prevent many homeowners from refinancing into loans they could not afford or which had provisions, such as adjustable interest rates or balloon payments that would cause them trouble later on. Garciaz estimates that her staff has been able to convince 80 percent of the families they counseled not to refinance by showing them what the new mortgage would actually cost them in interest and fees. Sometimes NWSL can offer rehab loans or help in accessing conventional financing as an alternative to the high-cost loans homeowners initially considered. Combating predatory lending in this way helped protect the NWSL neighborhoods from the crises that other areas experienced when the interest rates on high cost adjustable rate mortgages reset and large numbers of homeowners were thrown into default.

“Ten years ago we would have lost properties at foreclosure auctions to investors. But recently we have twice been outbid by young families wanting to buy into the neighborhoods. That’s a good thing.”

LuAnn Clark, director of housing and neighborhood development for Salt Lake City, agrees with Garciaz that counseling people *before* they buy their first home is really critical. “A lot of people refused to participate in it,” she notes. They were in a hurry to buy and did not want to be held back. These days, she says, “People are more receptive to the message. People used to think that their equity would grow forever and now they know it won’t.” In the future, Clark thinks that more people will participate in homebuyer education and that the training has been improved because there are real world examples from which to draw.

Foreclosure-resistant Communities

NeighborWorks organizations have long understood the value of homebuyer education and counseling in creating successful homeowners, a concept sup-

ported by national studies.¹ The national foreclosure crisis has now demonstrated how critical homebuyer education and counseling are to the long-term health of entire communities. NWSL's target neighborhoods have many of the same characteristics that attracted predatory lenders to other communities: its residents are low- and moderate-income, many have substantial equity in their homes due to long-term homeownership and about a third are minority. Yet predatory lending never got a toehold there and much of the credit can go to NWSL's multi-faceted efforts to educate homebuyers, build community and create systems that protect the neighborhoods from that threat.

There are limits, of course. In the recession that followed the initial foreclosure crisis, many residents of NWSL target neighborhoods have lost their jobs and as a result, some have lost their homes. Yet the market has remained pretty stable, says Garcia, and she thinks it is in large part due to NWSL's success in creating neighborhoods of choice. "Ten years ago we would have lost properties at foreclosure auctions to investors. But recently we have twice been outbid by young families wanting to buy into the neighborhoods. That's a good thing." NWSL simply congratulated the new owners and offered them home improvement assistance if they needed it.

The experience has been far different in fast-growing areas such as Salt Lake County, where real estate speculation reached a fever pitch before the bubble burst. There, up until 2007, developers raced to build new houses that were appreciating at up to 25 percent annually. Buyers raced just as fast to take advantage of 100 percent financing, in many cases misrepresenting their incomes in so-called "liar loans," in order to qualify for higher mortgages than they could actually afford. They planned to sell the property in a year or two and cash in on the real estate boom—until it ended. They were then stuck with loans they could not repay, on houses they could not sell that were suddenly worth much less than what they owed on them. These are the homes that ended up in foreclosure and that the

¹ Steven P. Hornburg, "Strengthening the Case for Homeownership Counseling: Moving Beyond 'A Little Bit of Knowledge,'" Joint Center for Housing Studies, Harvard University, December 2004.

Utah Center for Affordable Housing was created to address.

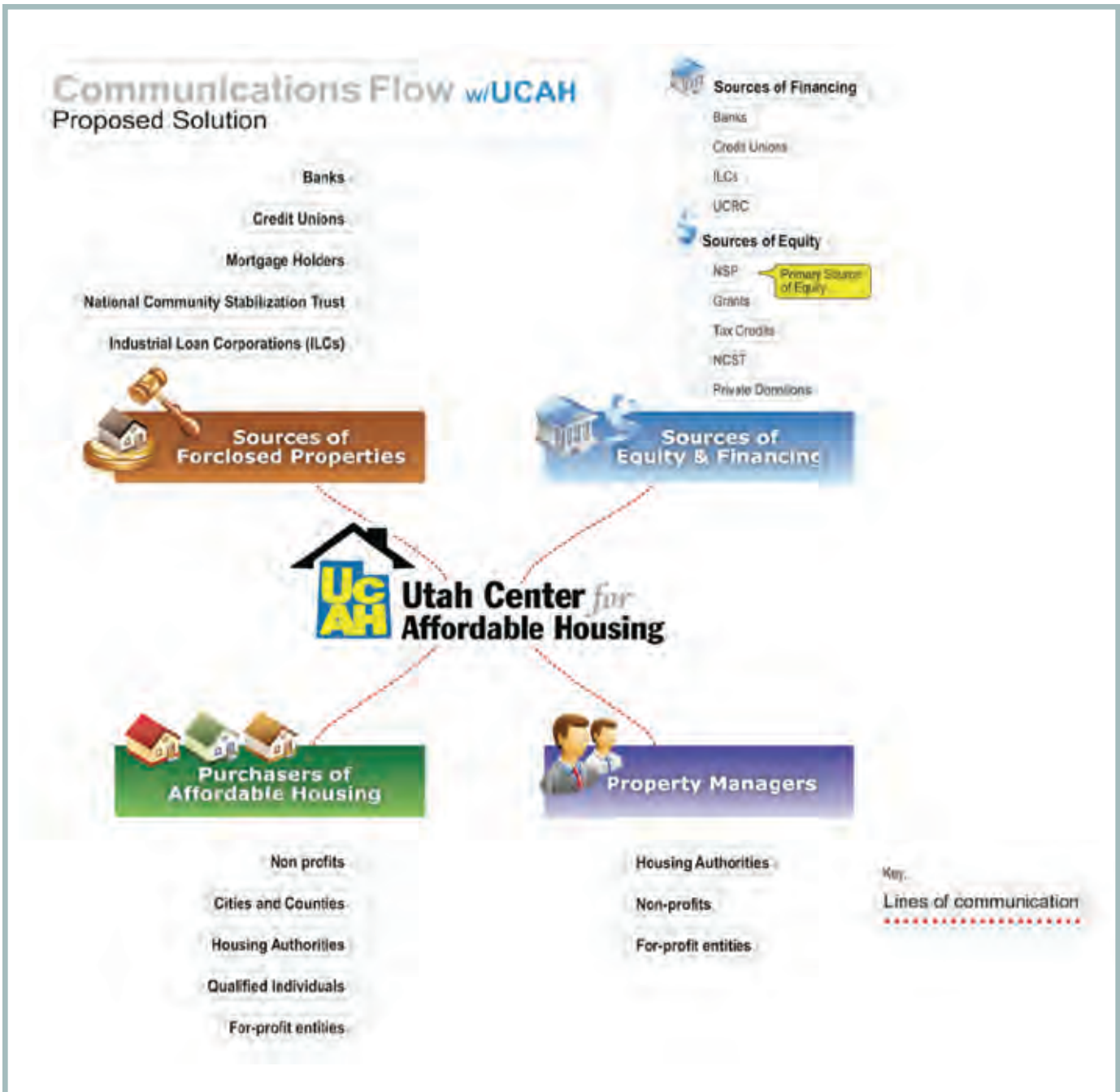
Utah Center for Affordable Housing

In the first round of the NSP program, the Department of Housing and Urban Development (HUD) awarded the state of Utah \$19.6 million, the minimum amount of funding. The Utah Division of Housing and Community Development (UHCD) planned to administer the funds directly for multi-family development, demolition and landbanking. It did not plan to subgrant the funds to other entities and initially resisted calls to distribute the funds more broadly.

The new nonprofit would use a unique model that benefited no one stakeholder in particular and that kept the community's interests in focus at all times.

Garcia was part of a group of housing advocates who thought there was a better way to allocate the funds. With the help of one of her board members, she persuaded the CEO of Zions Bank to help create a new 501c3 nonprofit that could serve as a clearinghouse for foreclosed properties. The new nonprofit would use a unique model that benefited no one stakeholder in particular, and that kept the community's interests in focus at all times. With a board that included several large lenders and servicers, the Utah Center for Affordable Housing was formed. It could get access to foreclosures much faster and more easily than the typical nonprofit housing developer. Zions Bank offered to pay the salary of the executive director and provide office space at no cost, which would significantly reduce administrative expenses.

In late August 2009, UHCD agreed to subgrant \$3 million of its NSP1 award to UCAH, expanding it to \$13 million three months later when UCAH demonstrated early successes. UHCD eventually turned over the entire NSP1 award to UCAH. Since



the funds had to be fully obligated by September 2010 or risk recapture by HUD, UCAH had to move quickly to learn the regulations and find the right properties. NWSL was the first nonprofit developer to acquire a foreclosed property through UCAH.

The above graphic illustrates the UCAH model, to serve as a clearinghouse for foreclosed properties and to facilitate access to sources of financing. On behalf of its community partners, UCAH negoti-

ates the acquisition of properties from lenders at a discounted price. A First Look program allows community-based buyers to inspect the properties beforehand to assess their condition and marketability. UCAH loans NSP funds at zero percent interest to community-based buyers to acquire the property and can help arrange access to construction and permanent financing. UCAH also serves as the statewide contact for the National Community Stabilization Trust.

When the community-based organization sells the property, the loan to UCAH is repaid and the funds can be lent to another project. Being able to purchase properties with a no-interest loan and at substantial discounts helps create equity for the buyer and means that NSP funds do not have to be left in the deal to make it affordable. As a result, virtually the full amount of the NSP award will continue to be available for affordable housing. As of October 2010 only about \$150,000 had been expended for administrative expenses.

The first house NWSL bought with UCAH assistance was appraised at \$113,000. Chase Bank, which owned the home, sold it to NWSL for \$81,808, a 27 percent discount. NWSL is using its YouthWorks crew to renovate it, adding a third bedroom and a new garage. When renovations are complete it will be sold to an income-qualified buyer.

Dan Peterson, UCAH executive director, notes that the model works well for everyone. The financial institution holding the foreclosed property benefits by its ability to unload it quickly, saving the holding costs of capital, realtor expenses and carrying costs such as taxes, insurance and maintenance. This, in part, is what justifies the discounted sale price. Community-based organizations benefit by being able to acquire foreclosures quickly, before more costly deterioration occurs with the accompanying negative effects on surrounding properties. Buying properties at a discount, with zero interest financing, reduces costs and reduces or eliminates the subsidy required to make the property affordable to the end buyer.

UHCD had allocated \$9.6 million of its NSP award for landbanking, which has allowed UCAH to take advantage of very low prices in what had been high-priced communities. Mike Plaizier is managing director of community relations at Zions Bank and a NWSL board member who was instrumental in creating UCAH. He is very pleased with the land UCAH has been able to acquire. Because of the NSP landbanking allocation, he says, "UCAH has picked up some good pieces of property that will allow us to create a lot of units of affordable housing, at a cost basis as low as hundreds of dollars per unit."

Lessons Learned

NWSL has demonstrated that it is possible to create not only foreclosure resistant buyers, but neighborhoods as well. Despite having many characteristics of communities that were targeted by predatory lenders, property owners in NWSL target neighborhoods were able to resist the appeal of repeatedly drawing equity from their homes as values appreciated. Key elements in this were:

- ▶ Educated homeowners who were alerted to unscrupulous loan offers
- ▶ NWSL's insistence on reviewing refinancing or home improvement loan offers with homeowners before providing the loan pay-off amount, or agreeing to subordinate, so homeowners would receive a second opinion
- ▶ Leadership development which empowered resident leaders to spot, and organize to address, negative trends

"UCAH has picked up some good pieces of property that will allow us to create a lot of units of affordable housing- at a cost basis as low as hundreds of dollars per unit."

The UCAH model has been an effective strategy for dealing with the wave of foreclosures in the fast-growing cities and counties of the state that did not have the benefit of an organization like NWSL. From the outset UCAH had wide acceptance in the banking community, in large part because of the involvement of Zions Bank, one of Utah's largest lenders. Other lenders are represented on UCAH's board as well. This facilitates the rapid transfer of foreclosed properties to community-based buyers, an issue plaguing many other communities around the country. Participating banks must also discount their properties to reflect the real costs they would incur if they continued to carry them as real estate-owned (REO) inventory. Again, this removes a huge barrier to their redevelopment. In other areas of the country, significant delays result when lenders want

much higher prices for properties than the local housing market can support.

Lending NSP funds to developers at zero percent helps reduce the total development cost and the amount of subsidy that must remain in the housing to make it affordable to end buyers. This means that in the years to come Utah will be able to reuse a significant percentage of its NSP award, as funds are recycled.

Finally, UCAH has been very effective at landbanking, especially in what had been high-cost housing areas. Locking in low land costs today will allow UCAH to create affordable units as the market recovers, thus providing affordable housing for low- and moderate-income homeowners and tenants for years to come.

Midtown Renaissance

NEW DIRECTIONS HOUSING CORPORATION
LOUISVILLE, KENTUCKY

Program Overview

“Something really special is going on in New Albany,” says Lisa Thompson, assistant director, New Directions Housing Corporation (New Directions). Thompson is referring to the Midtown neighborhood, which boasts distinctive architecture, is within walking distance of downtown New Albany, and just a 10-minute commute into Louisville. The phrase “a perfect storm” usually refers to trends or events that come together to wreak havoc on a community. In the case of Midtown, the outcomes will restore the health and vitality of a neighborhood that had slipped into decline.

New Directions, a NeighborWorks® organization, is working with the city of New Albany and the state of Indiana to use funds from the first round of the Neighborhood Stabilization Program (NSP1) to acquire, renovate and resell 31 single-family homes in Midtown. An additional 19 homes will be redeveloped using program income from NSP. All 31 homes have been purchased and renovation is underway. All were foreclosures or vacant and abandoned and their dilapidated condition was creating downward pressure on surrounding real estate values. The goal is to complete substantial renovations, including new systems, windows, appliances and roofing that transform these neighborhood eyesores into model homes. New Directions has reached out to involve local realtors in marketing the NSP-assisted homes and the Midtown neighborhood as well.

Background

New Albany blossomed in the mid to late 19th century. Built on the banks of the Ohio River, the city enjoyed a bustling trade with New Orleans and other cities to its south. It was the largest city in



New Directions acquired this property on East 11th Street, demolished it and is rebuilding in a style in keeping with the neighborhood.

PROJECT SNAPSHOT

LEAD ORGANIZATION

New Directions Housing Corporation
83 staff members
Founded in 1968

PARTNERS

City of New Albany
**Indiana Housing and Community
Development Authority**

FUNDING SOURCES

NSP1
HOME

STRATEGY

NSP1 funds will acquire and renovate foreclosed and abandoned single-family homes. The sale of these homes will jumpstart the Midtown Renaissance. New Directions will support other organizing efforts to build community among new and existing residents.

OUTCOMES

31 homes acquired and one additional building that will be used as a community center.

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Indiana by 1850, and remained one of the largest in the Midwest until the early 1900s. As the county seat, it boasted an impressive courthouse and many other stately downtown buildings. Midtown was one of New Albany's residential neighborhoods that grew with the city. It included a mix of housing stock from red brick and limestone Queen Anne mansions to more modest bungalows and shotgun houses.

New Albany's fortunes declined during the 20th century as employers relocated and residents left for other opportunities. Even as its historic buildings were deteriorating, city officials rejected the urban renewal of the 1960s, leaving the downtown buildings virtually unchanged from their appearance when the city was in its prime. The Midtown neighborhood, which includes almost 800 properties, remains similarly untouched. Today preserving the historic architecture is at the core of the effort to transform New Albany into a thriving city once again.

Midtown... included a mix of housing stock from red brick and limestone Queen Anne mansions to more modest bungalows and "shotgun" houses.

In addition to its attractive housing stock, the Midtown neighborhood has other assets. New Albany is 10 minutes away from Louisville, making it attractive to buyers who commute there to work. Just adjacent to the neighborhood school is a lovely park which the city built in the 1990s. This helped inspire the school district to invest funds to upgrade the aging school building. In 2002, New Directions bought a large and historic building, on the verge of demolition, that formerly served as a hospital and nursing home. New Directions restored and redeveloped it into 56 units of affordable rental housing sending an important signal that preservation of historic buildings was both feasible and desirable.

Yet Midtown still faces significant challenges. In early 2010, "out of 800 properties, 37 foreclosures were in process and 110 houses were vacant,"

says Ted Fulmore, a New Directions community coordinator who lives in the neighborhood. “In April 2010 the average sale price was \$44,000, but by September 30th it had dropped to \$37,000.” The owner-occupancy rate had dropped to 40 percent and investors and homeowners alike were struggling with mortgage delinquencies. “There are a lot more places that are vacant and boarded up than we’ve ever seen,” says John Rosenbarger, director of public facilities for New Albany.

Implementation

The turning point came in late 2009 when New Albany was awarded \$6.7 million under NSP1 through the Indiana Housing & Community Development Authority (IHCDA). Carl Malysz, New Albany’s director of community development who prepared the grant proposal with his small staff, recalls the dilemma that he and the New Albany department faced. “Good news/bad news: we were awarded the grant but we had less than half the time other grantees had to commit funding. Fortunately, we have a good working relationship with NeighborWorks America certified organizations like New Directions.” NSP regulations required the city to complete a bidding process for a developer and by the time New Directions was awarded the contract the NSP1 obligation deadline was just six months away. Within that time frame New Directions had to identify and acquire properties and sign a contract for completion of the required renovations.

The turning point came when New Albany was awarded \$6.7 million under the first round of the Neighborhood Stabilization Program (NSP1).

“We created a bidder’s list,” recalls Fulmore. “As soon as we bought a property we’d fire off an RFP to the list and get that process started.” It was a struggle, but by the time the obligation deadline arrived, New Directions had acquired 31 single-family homes and the Cardinal Ritter Birthplace. The latter will serve as a museum honoring Cardinal Joseph El-



New Directions acquired this shotgun house with NSP funds. Due to extensive deterioration it was demolished and is being rebuilt using a similar footprint.

mer Ritter, a Catholic clergyman who desegregated the Saint Louis, Missouri, Archdiocesan schools during the late 1940s. The Cardinal Ritter Birthplace Foundation, a nonprofit formed in 2004 to save this important structure, is working in partnership with New Directions to complete this project and will administer the facility that will include a new community center in the back of the museum.

Fighting against time, New Directions made an effort to acquire properties strategically, choosing sites that would have a big impact on the surrounding area. Another example of this includes properties near the community school. “The children, in their playground, are looking right across at vacant and abandoned housing,” says New Directions Assistant Director Lisa Thompson. “We were able to buy three homes in that row and will be renovating and selling them to homeowners.” By restoring these homes New Directions hopes to stimulate similar activity in that block. This will help to maintain and strengthen parents’ confidence in the school, which is essential to drawing new buyers to the community.

According to Fulmore, the average acquisition cost was \$30,000 and the renovated costs will be roughly \$50,000 to \$80,000 per home, which he believes will be very affordable within the metro



Two houses on Culbertson that New Directions acquired and is renovating with NSP funds. New Directions is adding a one-room addition to the one on the left to enlarge it and improve its marketability.

market. The city of New Albany can offer buyers up to \$3,000 in closing cost assistance. New Directions is developing strong relationships with local lenders and some are prepared to offer products that waive origination fees. Long-term affordability will be preserved through a resale restriction that will expire after the owner has lived in the home 15 years.

Realtors will help market the NSP1-assisted homes and also “sell the sizzle” of neighborhood change.

Fulmore says that about a third of the properties New Directions bought are beyond saving and will be demolished, while others are so small they will need additions. “For the new homes our contractor RFP process was more of a design-build,” says Fulmore. “We have a lot of different house plans which will be in keeping with the neighborhood.”

The first phase of the NSP1 project is now underway. This includes the renovation and resale of 13 single-family homes, starting with lead hazard

abatement. From the outset, New Directions recognized that “re-branding” Midtown would require a broad-based approach that included, among other things, the active involvement of local realtors. Realtors will help market the NSP1-assisted homes and “sell the sizzle” of neighborhood change. One of the realtors to whom they reached out was Paul Kiger of RE/MAX Realty, who has lived and worked in the neighborhood since 2007.

“We needed to educate other realtors so they could be part of the sales force, too” says Kiger. Sometimes realtors are leery of working with government programs, which add confusing regulations and paperwork burdens that complicate sales. Kiger knew they needed to be persuaded of the value of the NSP1 program—to them. “I talked to the realtors, who were all trying to sell Midtown properties to buyers in this price range,” Kiger recalls. “Then I asked them: ‘What happens when the property gets inspected?’” The realtors groaned in response. Too often, promising sales are derailed when the home inspection turns up evidence of lead paint, obsolete systems or structural problems that either exceed buyers’ affordability or just would not pass muster with lenders and insurers. “So they’re excited that these NSP homes are almost guaranteed to pass inspection,” says Kiger with satisfaction.

He is also concerned about putting the eight hours of homebuyer education that NSP requires in the proper context, for both realtors and buyers. The Housing Partnership, a HUD-approved housing counseling agency and NeighborWorks organization based in Louisville, is one of the partners that will market and teach the workshops. New Hope Services, Inc. from Jeffersonville, Indiana is another partner that will help deliver training. New Directions and its partners have a more ambitious goal of requiring Midtown buyers to complete 24 hours of pre-purchase and post-purchase education. Kiger compares it to a driver’s license: going to driver’s education is a pain, but we are all better off when everyone understands and obeys the rules of the road. “If we just drop these buyers into the homes and don’t give them all these other resources, it could be bad,” he points out. “People need to know how to budget for repairs, work with contractors, get financing, and so on. You want this for yourself *and*



for your neighbor, because if your neighbor ends up in trouble, things can go negative for your property, too.” New Directions has not yet decided on the mix of incentives that will be used to encourage buyers to take the additional 16 hours of instruction.

New Directions’ target buyers are the so-called “Millennials,” who followed Generation X. Many are now in their late 20s and early 30s and are of prime home-buying age. Unlike many of their parents, who pushed out of the cities and into the suburbs, New Directions and its partners believe Millennials are looking for distinctive and “walkable” neighborhoods, which describes Midtown perfectly. “When the economy recovers gas will be higher and people will reexamine their lifestyles,” notes Rosenbarger. “We think the fact that Midtown residents can walk to work downtown, or have a short drive to Louisville, will be a real selling point with young buyers.”

Millennials have grown up with technology and are comfortable with it, so one of Kiger’s marketing strategies was to create a Facebook page for Midtown, “I Love Midtown New Albany.” Once the first round of NSP1 homes are within 30 days of completion he plans to upload “before” and “work in progress” photos that illustrate the dramatic change they have undergone, sparking further interest among potential buyers.

While focusing on the real estate, New Directions is also paying attention to repairing the social fabric of the community that decades of decline had shredded. “These social ties that we’ve all allowed ourselves to neglect are still important,” argues Thompson. “People need to know that it matters if

they work together as a block.” To help support local leadership development, New Directions has sent residents to NeighborWorks Community Leadership Institutes three years in a row, including the one held in Louisville in the fall of 2010.

Existing homeowners will be invited to participate in the financial literacy and post-purchase workshops so they can benefit from that information as well. “High risk lending is still present in the community,” Thompson points out. People need to know how to identify predatory lending and how to protect and preserve their home investment. Workshops will be held at the new community center, which Thompson hopes will become the focal point for other community-building activities as well.

The city of New Albany recognizes that New Directions is critical to the success of the Midtown Renaissance. “When we ask who can pull off this stuff, it’s either nonprofit developers or government,” reflects John Rosenbarger. “A lot of people have a distrust of government, so having the buffer is helpful. Government can’t decree revitalization, people have to want it. We have a role in helping set the table, but we’re not going to cook and serve the meal all by ourselves.” New Directions has helped establish the vision and bring other entities to the table to make change happen.

“These social ties that we’ve all allowed ourselves to neglect are still important,” argues Thompson.

“People need to know that it matters if they work together...”

Kiger also praises New Directions for the team approach it is using to revitalize Midtown. New Directions, he says, is “keeping the positive energy, harnessing the skills and energy of the local professionals.” Working in partnership with others, towards a common vision, helps them feel that there is some structure and oversight to guide the work they do. “We’re not feeling that we’re restricted, but we’re supported.”



October 2010 kickoff event for Midtown Renaissance: NeighborWorks® America Assistant Director of Training John McCloskey, speaking, with New Albany Mayor Douglas B. England, left, and New Directions Executive Director Joseph E. Gliessner, right.

Lessons Learned

The Midtown neighborhood enjoys distinct advantages, but it has enormous challenges as well. From the outset, it was vital to develop a common vision for the community in order to harness and maximize the effectiveness of available resources. New Directions seems to have done this extremely well. Indeed, the consistency of the message across all of the interviews conducted for this case study was impressive. Each person recited an almost identical list of architecture, with locations and had a sense of excitement and momentum that made the success of this effort seem inevitable.

This unusual agreement resulted from New Directions's strategy of building a multi-level team approach to revitalization. From an early stage New Directions recognized the importance of the different roles played by residents, realtors, builders, lenders, and city officials. New Directions brought them together to use their expertise to plan and guide the change process. As Kiger points out, being clear about the overarching vision and how the pieces fit together provided the necessary structure within which each group can operate with maximum effectiveness.

Despite the initial difficulties New Directions experienced getting up to speed with the NSP1 program, it is clear that their concentrated use in the Midtown neighborhood will greatly accelerate the revitalization process. Lisa Thompson guesses that without the NSP program it would take New Directions another decade to get to the same place. NSP1 program income will be used to acquire, renovate, and re-sell additional single-family homes, so the long-term impact of the program will extend beyond the initial 32 properties.

Organizing Helps Stabilize Communities

NUUESTRA COMUNIDAD DEVELOPMENT CORPORATION BOSTON, MASSACHUSETTS

Program Overview

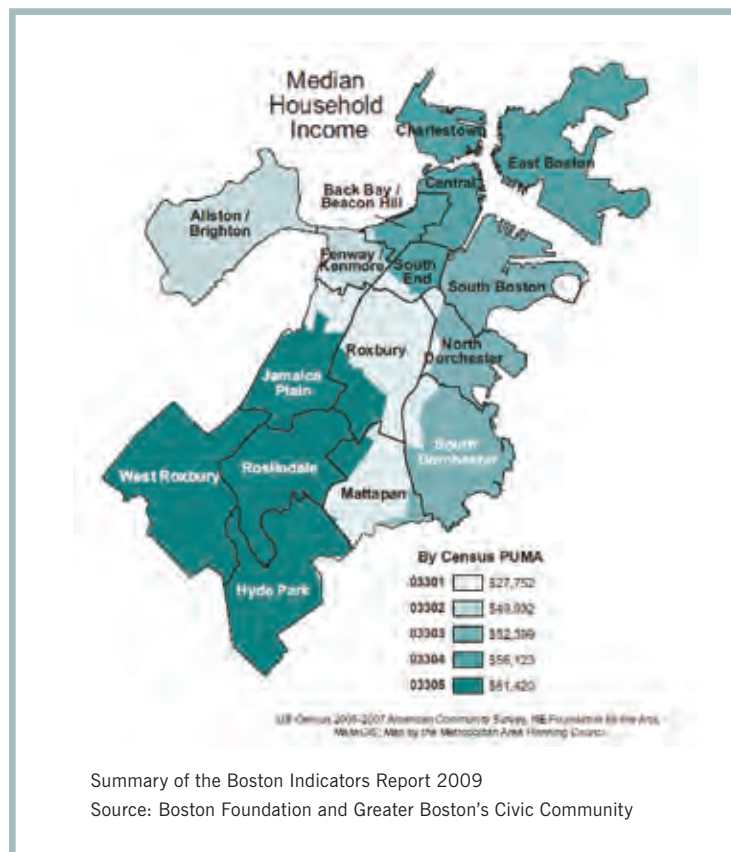
The nonprofit community developer and NeighborWorks® organization Nuestra Comunidad Development Corporation (Nuestra) combines an active community organizing focus with sophisticated real estate development capacity. By engaging community residents in taking control of their neighborhoods, it improves social cohesion, helps reduce crime and strengthens access to municipal resources. These activities have supported the success of its real estate development.

Nuestra works closely with several city departments to allocate NSP and other resources to neighborhoods hard hit by foreclosures. It also provides assistance to local nonprofit partners to help them achieve their missions. Over the years Nuestra has developed and continues to manage a large portfolio of properties to help sustain its non-revenue-generating programs. Nuestra's ability to adhere to its organizing roots, while becoming a skilled real estate developer and manager, illustrates a balanced approach to neighborhood stabilization.

Background

Nuestra's community stabilization project focuses on the Dacia Foreclosure Intervention Target area (FIT), which lies along the Blue Hill Avenue corridor in the Boston communities of Roxbury and North Dorchester. Although the community is only a couple miles outside of the Boston central business district, its socioeconomic characteristics are drastically different from those of neighboring communities.

In addition to the broad income disparities displayed in the map at the right, Nuestra's demographic research highlights the many challenges the Dacia FIT



area population faces. More than a third (34.6 percent) of family households make less than \$25,000 annually; 18.3 percent of families with poverty status have females as the head-of-household; two-thirds (66.5 percent) of housing units are renter occupied; and 34 percent of adults never graduated high school. Unemployment is high and increasing, with significant numbers of men returning from the correctional system.

The Dacia FIT area is one of three areas identified by the city of Boston as the hardest hit by the foreclosure crisis. These areas have been the focus

PROJECT SNAPSHOT

LEAD ORGANIZATION

Nuestra Comunidad
15 staff members
Founded in 1981

PARTNERS

**Boston Department of Neighborhood
Development**
Boston Police Department
Boston Department of Inspection Services
Youth Build Boston
Teen Empowerment
This Old House

FUNDING SOURCES

LISC
Low Income Housing Tax Credits
TCAP Funds
Bank of America Equity

STRATEGY

To organize the community around crime prevention and neighborhood revitalization.

OUTCOMES

A reduction in crime within the targeted Dacia Foreclosure Intervention Target area.

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of intensive, coordinated outreach and intervention among local nonprofits and city departments, including code enforcement, public works, public safety intervention, foreclosure counseling and tenant education and outreach.

“Community organizing was always part of it because unless you put pressure on the representatives you won’t get the resources. But it’s not enough to be an organizer, you need to be able to implement projects.”

Nelson Merced, Co-Founder,
Nuestra Comunidad

Implementation

As the wave of foreclosures began to rise in Boston, the local city government noticed that three areas in particular—Dorchester’s Hendry Street, Roxbury’s Dacia and Quincy Street—accounted for more than 70 percent of foreclosures in the metro area. Mayor Thomas Menino responded by creating a Foreclosure Intervention Team (FIT) and establishing these neighborhoods as FIT areas in which to concentrate city resources. To help implement the community stabilization plan, the city reached out to Nuestra, a prominent community developer with a continuous presence in the Dacia neighborhood since it was founded in 1981. In addition to being a NeighborWorks affiliate, Nuestra operates a HomeOwnership Center, a one-stop shop for acquiring affordable housing, and is certified as a community development financial institution (CDFI). Nuestra was designated as the local Foreclosure Prevention Counseling agency, working with the city to create a collaborative task force that included representatives from the police department, building inspection services and residents. Nuestra also began focusing its organizational resources on the area. Its real estate department began to look at strategic properties to acquire and the community-organizing department dedicated an organizer to

address high crime areas. Staff members walked the streets with police officers and the Department of Inspection Services representatives to identify “hot spot” properties for additional patrols. They also identified buildings where code enforcement laws could be used to encourage property owners, including the large number of absentee investors, to make improvements. Several property owners were forced to secure vacant buildings and clean up their properties, including boarding up windows, removing trash and scouring off graffiti.

There was also a bar in the Dacia FIT area that was a source of constant illegal activity, including fights, gunfire and prostitution. The community worked with police and Nuestra to push the liquor license board to limit the bar’s alcohol sales after midnight. This measure, along with adding a police walking patrol from midnight to 7 a.m. and requiring the owners to hire security staff and install cameras on their buildings, helped to significantly improve the safety in this part of the neighborhood. Nuestra proved effective at leveraging the resources of the city in a collaborative effort aimed at a targeted area. David Price, Nuestra’s executive director, says the key to working with the city is “finding the right person at the city that can get the different groups to work together, whether that is the police captain or the head of inspection services.” For example, the Inspection Services department oversees three different city activities: graffiti removal, trash removal and building enforcement.

Community Organizing

Nuestra grew out of a grassroots activism movement started in Boston by Mel King that later evolved into community development. Nuestra still maintains a Community Organizing & Resident Support division to complement projects developed by its Real Estate Development department. One of Nuestra’s founding members, Nelson Merced, describes this balance of strategies: “Community organizing was always part of it because unless you put pressure on the representatives you won’t get the resources. But it’s not enough to just be an organizer, you need to be able to implement projects.” Some CDCs focus on real estate development exclusively but Marcia Thornhill, Nuestra’s director of real estate development, says Nuestra continues to emphasize com-



A home renovated by Nuestra in collaboration with the TV program, “This Old House.”

munity organizing. “We can build all the buildings we want, but after the ribbon-cutting ceremony is done, people have to live there and the buildings need to be maintained,” she says. “If we don’t engage the community, then we will be back at the same property in 10 years because it will need to be renovated again.”

When Nuestra was first brought in to create a revitalization strategy for the Dacia FIT area, staff immediately noticed a lack of community cohesion. “Neighborhood associations often didn’t exist, and many longtime residents didn’t know their next door neighbor’s names,” recalls Monica Dean, direc-



Residents participated in the Cleanest Streets Contest that attracted over 300 people.

tor of Nuestra's Resident Services & Community Organizing division. This observation echoes the findings of broader studies of social capital in Boston's neighborhoods. According to a 2008 Boston Public Health Commission survey, the percentage of Bostonians who felt that residents were willing to help their neighbors was lowest in the Roxbury, North Dorchester and Mattapan neighborhoods. Dean's team responded first by convening a series

“Neighborhood associations often didn't exist and many longtime residents didn't know their next door neighbor's names.”

of dinner parties in residents' homes based on the NeighborCircle model developed by Lawrence CommunityWorks, another NeighborWorks organization. NeighborCircles brings families together to discuss their hopes and concerns for the neighborhood, agree on one or two goals and design an action plan to achieve them. Gradually, this process helped to create the resident-led Howard-Dacia Community Association, which is independent of Nuestra but draws support from it as needed. As a result of this renewed civic participation, the community became actively involved in the neighborhood watch and the coordinated crime prevention initiatives of the Dacia FIT area. Nuestra has also worked with residents to organize a Cleanest Streets Contest to generate

community pride and to improve the appearance of the neighborhood. Their last contest covered 30 streets, brought out more than 300 residents and culminated in a celebratory cookout.

Youth Development

In 2009, Nuestra began partnering with YouthBuild Boston (YBB), a nonprofit that provides on-the-job training for disadvantaged 18 to 24-year olds. Students who have not yet earned their high school diploma or GED can also receive classroom instruction leading to that goal. YBB crews have helped Nuestra renovate several foreclosed homes. They have also joined forces to establish the Partnership for Greening of Blue Hill Avenue, which aims to weatherize over 1,000 housing units while training young adults for jobs in the green building trades. This effort will save local residents money on utility bills while building the employment skills of at-risk youth. The initiative demonstrates the ripple effect a CDC can have by working with a mission-oriented nonprofit for services that have multiple community benefits.

Nuestra also partners with Teen Empowerment, a local nonprofit that hires youth from 14 to 21 years of age to work on community issues. In the process, the teens build leadership skills and strengthen relationships among their peers. Nuestra had vacant community center space in the Dacia FIT area and in 2009 offered its use to Teen Empowerment for the cost of utilities only. Since establishing itself in the center, Teen Empowerment has held a variety

of community events, including collaborating with other youth groups to organize a march to the State Building to advocate for continued funding for youth jobs programs. In addition, the young people in the program actively participate in Nuestra's neighborhood initiatives. For example, several served as team captains in the Cleanest Streets Contest and organized neighbors to come. They participated in Nuestra's crime prevention initiatives by walking the streets with police officers to identify crime hot spots and helped plan strategies to engage residents in crime prevention. Again, Nuestra's partnership with a complementary nonprofit helps further the missions of both organizations while providing opportunities for youth development. Teen Empowerment Associate Coordinator Marquis Tucker explains why this collaboration works so well. "Our main goal is to improve the community, and by the nature of that we are going to develop the skills and future of the youth that participate."



Source: Boston Globe

Students from Teen Empowerment and other youth groups organize to maintain government funding for youth employment programs.



A rendering and progress photo of the Kasanof Bakery site. Nuestra renovated the building, vacant for 25 years, into 48 units of affordable housing along with retail and community space.

Property Development and Asset Management

While strengthening its community organizing and youth development partnerships, Nuestra has steadily developed a portfolio of affordable housing, now encompassing 15 different properties and more than 650 units. The revenue and tenant services fees from these properties help support the community organizing activities, which are harder to fund. Executive Director Price notes that strong real estate development and asset management staff are critical to Nuestra's success. "You need to analyze every property and create plans for each one based on its budget, market position, and financial structure," explains Price. Nuestra sorts each property into one of three strategies: core mission, restructure, and sell. Properties that do not fit within its area of expertise and core mission are sold to another nonprofit so Nuestra can focus on what it does well.

Nuestra has demonstrated considerable creativity in accomplishing quality development within the Dacia FIT area. In 2008, Nuestra partnered with YouthBuild Boston and the television program "This Old House," which wanted to renovate a foreclosed home as part of its 30th anniversary season. This project leveraged a creative source of capital while generating excitement and publicity around neighborhood stabilization efforts. Another example is the redevelopment of the former Kasanof Bakery into 48 rental units, 3,500 square feet of ground floor

retail space and a 2,500 square foot community center. The property had been vacant for 25 years and its redevelopment turned a neighborhood eyesore into an enormous asset. The building, renamed the Thomas I. Atkins Apartments after a pioneering community leader, meets the Enterprise Green Communities building standards by utilizing sustainable development features such as solar panels, smart air intake locations and non-carpeted floor coverings. Use of these green building features will improve tenants' health and quality of life and protect the environment. The project had its grand opening in December 2010.

Lessons Learned

Nuestra demonstrates that the original organizing purpose behind community development is still critical to effective community stabilization and revitalization. Ultimately, strong neighborhoods require active resident engagement, and where social ties have been broken, a concerted effort is needed to rebuild them. Joining forces with groups that have compatible missions and building coalitions of key

stakeholders helps Nuestra accomplish much more than it could have working on its own.

At the same time, neighborhoods experiencing the challenges found in the Dacia FIT area require more than community organizing to restore them to health. Healthy, vital communities provide their residents with high quality affordable housing and access to needed goods and services. Nuestra's skilled real estate development and asset management practices help support community objectives and ensure that residents benefit from renovation and new construction projects. This is true throughout the development process; local at-risk youth can benefit from on-the-job training in construction projects and residents can live in the housing once it is completed.

Nuestra combines community organizing and real estate development under one corporate "roof," as it has from its inception. In other communities, these functions may be handled by two separate organizations that work together to achieve their goals for housing and neighborhood revitalization.

Using Integrated Strategies to Promote Recovery

PRIMAVERA FOUNDATION
TUCSON, ARIZONA

Program Overview

High poverty areas require a holistic approach to promote recovery and revitalization. Standing alone, no one strategy will be effective. The Primavera Foundation (Primavera), a NeighborWorks® organization, is integrating stabilization, revitalization, and community engagement activities to create a neighborhood of choice within the city of South Tucson. An important feature of this approach is building partnerships with government, multi-sector community-based organizations, schools, health organizations, businesses and residents. “These collaborative partnerships create enormous synergy,” says Primavera’s Chief Executive Officer Peggy Hutchison. “That helps to support significant resource development and when we combine that with recent successes we see a renewed sense of energy, passion and commitment to engage community residents.” The result has been concrete changes in community conditions in a city that was struggling economically long before the foreclosure crisis swept the rest of the country into recession.

The Neighborhood Stabilization Program (NSP) is just one among several tools Primavera uses to effect neighborhood change. It was a subrecipient in the NSP1 funding through Pima County and participated in a successful NSP2 consortium application led by Pima County that received over \$39.5 million. Primavera also obtains funding from a broad range of public and private sources to support its work, often collaborating with other local groups.

Background

South Tucson is an incorporated city about 1.2 square miles in size, surrounded by the much larger



Primavera replaced this deteriorated house on West 38th Street with a new, attractive energy-efficient unit.

PROJECT SNAPSHOT

LEAD ORGANIZATION

Primavera Foundation
75 staff members
Founded in 1983

COMMUNITY REVITALIZATION PARTNERS

City of Tucson
Pima County
South Tucson Prevention Coalition
Arizona Children's Association
Pro Neighborhoods
John Valenzuela Youth Center
House of Neighborly Services
ASU School of Social Work
University of Arizona
Casa María Catholic Worker
Other faith-based organizations

FUNDING SOURCES

NSP1; NSP2; HOME
Corporation for Enterprise Development
NeighborWorks® America
Federal Home Loan Bank
National Foreclosure Mitigation Counseling
Financial Institutions
Community Financial Services Association

STRATEGY

To promote recovery in a high-poverty city through integration of revitalization, stabilization and community engagement activities.

OUTCOMES

NSP1- Purchased 5 properties and will create six units of affordable housing through renovation and new construction.

CONTACT INFORMATION

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Primavera Foundation
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Tucson, AZ 85701
520.623.5111

metropolitan city of Tucson. Some 81 percent of its 5,500 residents are Hispanic. Roughly 9 percent are Native Americans, 2 percent African-American and the remaining 8 percent of other races and ethnicities. The unemployment rate is more than twice the national average and almost half (46.5 percent) of those with incomes fall below the poverty level. About 30 percent of the homes are distressed and need substantial rehabilitation or should be demolished and replaced.

Despite these and other challenges, South Tucson has many assets, including a strong sense of community with a distinct identity and cultural pride and strong youth involvement among multi-generational families who have chosen to live in South Tucson for many generations. Latin and Native American cultures are celebrated through local architecture, events and vibrant murals and mosaics that mark different blocks of the city.

“Whatever we want to accomplish as a city, Primavera wants to do as a nonprofit... Some nonprofits have wonderful ideas, but they don't think things through or take the time to understand the community.”

Joel Gastelum

Primavera Foundation was founded in 1983 in response to the growing numbers of homeless people in Tucson. While it continues to support and provide housing for the homeless, Primavera has expanded its mission to include single- and multi-family housing development, workforce development and asset building programs combined with financial education, homebuyer education and foreclosure prevention. From 2008 to 2010 Primavera assisted more than 925 families experiencing delinquency and default and succeeded in helping 396 families keep their homes.

With the 2000 median income just \$17,600, Primavera recognized that people need jobs in order

to afford better housing. Thus it offers job training and placement and temporary employment services, as well as support for former prisoners to re-enter the community. Finally, Primavera offers a range of community-building activities such as creating community gardens, organizing neighborhood clean-ups, training in civic engagement and leadership and civil rights restoration. Its mission statement, to “provide pathways out of poverty through safe, affordable housing, workforce development and neighborhood revitalization,” reflects this comprehensive approach.

In addition to NSP1 and NSP2, Primavera recently used funding from the National Foreclosure Mitigation Counseling Program (NFMC) and the Homeless Prevention and Rapid Re-Housing Program (HPRP) to support its foreclosure-related and long-term rental assistance activities. Funds for community engagement have come from a variety of philanthropic sources, including the most recent grant from the Community Foundation of Southern Arizona.

Implementation

Stabilization

Pima County and city of South Tucson officials approached Primavera for help with issues surrounding distressed housing and foreclosed properties. Joel Gastelum, assistant planning manager for the city of South Tucson, comments on the alignment of interests between Primavera and the city. “Whatever we want to accomplish as a city, Primavera wants to do as a nonprofit,” he says. “Some nonprofits have wonderful ideas, but they don’t think things through or take the time to understand the community.” He appreciates that Primavera does its homework, including reaching out to neighborhood residents to find out what they want.

When Primavera began evaluating the foreclosure situation in South Tucson, the large gap between household incomes and the needs of the housing stock immediately became apparent. “We began to see that a lot of these homes had to be replaced, or needed over \$25,000 in renovations,” says Hutchison. “How can families afford to buy those if they only make \$10,000 a year?” One option was to use manufactured housing as replacements, which could help lower the per unit production costs. Primavera



A family wearing big smiles poses in front of a new home it purchased with assistance from Primavera and NSP1.

worked with a housing manufacturer to design a model with stucco siding that blended in well with surrounding homes. They brought the model to the neighborhood and held several open house events. The response was very positive, so Primavera set about finding the subsidy needed to fill the gap between the cost of the housing and what people could afford.

One of the sources was NSP1. Under a contract with Pima County, Primavera received \$485,000, which it used to purchase five properties with seven units. Primavera demolished two of the homes and replaced them with the manufactured homes described above. Two others were renovated and sold to eligible families and the remaining property, a duplex, was recently rehabbed and will be rented and added to Primavera’s rental property portfolio. NSP1 was combined with Federal Home Loan Bank (FHLB) funds to fill the gap between the housing costs and what the family could afford using no more than 30 percent of its income.

The existing homes average \$55,000 to acquire with renovation costs averaging \$46,000. Buyers obtained mortgages from \$30,500 for families with incomes at or below 50 percent of area median income (AMI) to \$74,000 for families at or below 80 percent of AMI. The gap is provided by NSP1 and FHLB downpayment assistance, which is



Before and after photos of house on West 27th Street. Primavera demolished and replaced using NSP1 funds.

structured as a second mortgage. The replacement Energy Star homes cost approximately \$80,000 and include 1,280 square feet with a complete HUD ground set foundation and landscaping. Added to the initial demolition costs, the total development cost averaged \$86,000. The buyers may receive NSP1 funds, a forgivable second mortgage through FHLB and third mortgage (if necessary) from the Primavera Foundation Revolving Loan Funds. All buyers were required to complete an eight-hour homebuyer education workshop offered by Primavera or another HUD-approved counseling agency.

Using funds from NSP2, Primavera plans to acquire and either renovate or demolish and replace 10

single-family homes. All of the homes will be sold to eligible buyers or added to Primavera's rental housing portfolio. In addition, Primavera plans to build a new multi-family rental property for kinship families. Kinship care refers to people raising another family member's child, such as grandparents who raise their grandchildren when the parents cannot. The rental will be built on a vacant lot. It will provide greater stability for the kinship families and at the same time restore the lot to productive use.

Revitalization

One of the issues confronting South Tucson is absentee landlords who just sit waiting for the rent checks to come in, while doing very little to maintain and improve their properties. To combat this, in 2008 South Tucson city officials decided they needed to strengthen their code enforcement ordinance. The result was Chapter 7 of the South Tucson City Code, which is titled Neighborhood Preservation.¹ Among other things, Chapter 7 addresses how the exteriors of properties should be maintained, defines vacant and dilapidated structures and describes how the city will handle. It also requires owners of residential rental property to register as a business with the city and state. If they reside out of state, they are required to designate a person in-state to serve as their representative. The ordinance specifically defines "slum" properties and sets forth the remedies available to the city once properties receive this designation. These include assessing penalties, appointing a temporary receiver, conducting annual inspections and charging the landlord the cost of inspections. Such provisions added teeth to the ordinance and made it a more effective tool for pressuring landlords to maintain their buildings properly.

Before adopting the ordinance, South Tucson city officials met with Primavera staff members to review the new provisions and solicit their input. It was adopted in early 2009 and the city and Primavera continue to stay in close communication regarding properties that are targeted for code enforcement. Primavera alerts the city of problem properties where the owner has been unresponsive to the com-

¹ Chapter 7, of the City of South Tucson can be viewed online: <http://www.southtucson.org/user/departments.php?choice=subdepartment&page=t&subdeptid=1>

One of the issues confronting South Tucson is absentee landlords who just sit waiting for the rent checks to come in, while doing very little to maintain and improve their properties.

community's efforts to encourage repairs. The city keeps Primavera informed of progress on properties in active code enforcement status. Gastelum says that this partnership has been vital to persuading landlords to be more accountable for their properties.

Community Engagement

Primavera and its partners have learned that community engagement must begin at the grassroots level, which means that residents and stakeholders must be involved in all phases of community change, including planning, design, implementation and evaluation. To that end, Primavera and its partners are using Success Measures™ Data System Community Stabilization tools to gather baseline data from more than 500 residents in preparation for measuring community level outcomes. Youth residents from the John Valenzuela Youth Center have been trained and hired to carry out resident confidence surveys. The city of South Tucson code enforcement and planning staff are helping to carry out observation surveys of every single lot and parcel within the city. Once the primary and secondary baseline data are collected, residents will assist with analyzing the data. A variety of other projects will involve residents as key participants; examples include creating and sustaining a network of community gardens, neighborhood clean-ups, quarterly night out events and creation of bike/walking paths. The work of all residents, community groups and organizations and government will be honored and valued, which will sustain their involvement and help to build trust throughout the process. All this takes time but is critical for achieving desired recovery and revitalization outcomes.

Primavera has had some recent experience in partnering with residents in developing a community



garden and is hoping to apply the lessons learned to similar projects in the city of South Tucson. In Tucson, Primavera owned a vacant lot next to one of its Transitional Housing Programs and Primavera partnered with neighborhood residents to develop a community garden there. After meeting for several months to develop a vision and a plan for the garden, funding was secured to pay for replacing the irrigation equipment and enriching the soil. By August 2009, residents were able to rent plots and begin planting. The garden, christened “Tierra Anita,” soon produced the organic fruits and vegetables residents had desired, but it has had other positive effects as well. It has become a community meeting place where more experienced gardeners can mentor those just starting out, and where everyone can learn about topics such as composting and nutrition at community workshops. There are

The garden, christened “Tierra Anita,” soon produced the organic fruits and vegetables residents had desired, but it has had other positive effects as well.

still many challenges, such as figuring out how to pay for the increasing cost of water. Nevertheless, such projects are an important strategy that work at many levels to engage residents and to create positive, visible change in a neighborhood. Once they are drawn into a project they care about, residents become better acquainted and take better care of each other. They may also feel empowered to take on new challenges in their communities. Photos, videos and blogs about Tierra Anita can be found online at www.tierraanitacommunity.blogspot.com.

Lessons Learned

While any community can benefit from a holistic approach to addressing its problems, solving very serious problems such as South Tucson's wrenching

"If we all bring our strengths and assets together we can really make a difference," says Hutchison.

poverty and deteriorated housing stock require a multi-faceted approach of stabilization, revitalization and engagement. Primavera searches for the tools and programs that can *stabilize* housing and the families that live in the units. NSP1 and NSP2 have been effective programs for addressing this, by supporting the substantial renovation or replacement of deteriorated units and their sale to income-qualified buyers. Primavera also reached out to residents to solicit their views on the design of the manufactured homes it proposed to replace demolished units.

Community *revitalization* cannot be successful if it relies on government to do it all. Private owners have to do their part, a primary reason Primavera is collaborating with the city of South Tucson on a code enforcement initiative aimed, in part, at pressuring

absentee landlords to maintain their properties. Ultimately, healthy neighborhoods rely on their residents to watch out for each other and work together to solve problems, celebrate achievements and figure out ways to meet emerging needs. Primavera and its community partners work with residents to identify projects that will *engage* more residents and grassroots partners who are committed to making their neighborhoods healthier and more vibrant places in which to live.

A common theme throughout all three—stabilization, revitalization and engagement—is multi-sector partnerships. However, Hutchison notes that they can be slow and time-consuming to form. "And sometimes you have to be willing to give up some things," she says. "It is important to be clear about what your guiding principles are and really follow those." Collaborations work when their members recognize they need each other in order to achieve a common vision, that they cannot do it alone. "If we all bring our strengths and assets together we can really make a difference," says Hutchison.

Nick Jones, the executive director of Old Pueblo Community Services, contends another key to success is to start at the top. "If you establish a relationship first with the CEO or the executive director," he explains, "then if problems occur later on it is easier to solve them." He cites as an example a grant that both his organization and Primavera were interested in pursuing, a Prisoner Re-Entry grant offered by the U.S. Department of Labor. Because Jones and Hutchison had a prior and good working relationship, it was easy to decide to apply jointly. They used Old Pueblo's mentoring expertise and Primavera's workforce development capacity as strengths and held joint meetings to design the program. Primavera became the lead applicant and administered the grant once it was awarded; Old Pueblo provided critical mentoring services for the program as a contractor.

Stabilizing Rural Communities Through Housing Partnerships

SOUTHWEST MINNESOTA HOUSING PARTNERSHIP
SLAYTON, MINNESOTA

Program Overview

When municipalities in 30 southwest and south-central Minnesota counties have housing needs, they turn to Southwest Minnesota Housing Partnership (SWMHP), a multi-service nonprofit and NeighborWorks® organization. SWMHP helps municipalities analyze their community development needs and helps prioritize and determine the feasibility of projects in order to decide which to pursue. Once determined, SWMHP can help apply for required resources, implement the project and, if a rental property, manage it going forward. Towns can access a broad range of skilled services from SWMHP on an as-needed basis, which would be cost-prohibitive if they tried to maintain the skilled staff in-house.

The city of Worthington began working with SWMHP in 1998. In the last 12 years it has contracted with SWMHP to preserve affordable rental housing, administer Community Development Block Grant (CDBG) funding, to develop, acquire, renovate and resell single-family housing and to provide homebuyer education, mortgage counseling and programming for diverse populations moving into the community. SWMHP has also developed loan funding for commercial building rehabilitation and to support micro-lending for small businesses within Worthington's central business district. It has implemented the city's rental housing ordinance, served in the capacity of building officials and conducted a number of feasibility studies for adaptive reuse of a school building, YMCA facility and an abandoned industrial plant. More recently, SWMHP began working on a 30-unit workforce housing project using Low Income Housing Tax Credits (LIHTC) to address a shortage of rental housing.



The Viking Terrace Apartments in Worthington before SWMHP purchased and renovated.



The Viking Terrace Apartments after renovation. SWMHP improvements included new roofs and siding.

PROJECT SNAPSHOT

LEAD ORGANIZATION

Southwest Minnesota Housing Partnership
22 staff members
Founded in 1992

PARTNERS

City of Worthington
Worthington School District
Integration Collaborative
Worthington Chamber of Commerce
Worthington Regional Economic Development Corporation
JBS Swift Company (Local Employer)
Southwest Initiative Foundation

FUNDING SOURCES

CDBG
LIHTC
Federal Home Loan Bank
NeighborWorks® America
Minnesota Housing Finance Agency
Greater Minnesota Housing Fund
JBS Swift Company
Wells Fargo Bank
City of Worthington
Lead Hazard Control

STRATEGY

Partners with small cities to help identify single- and multi-family housing needs and plan and implement projects.

OUTCOMES

Community planning
Acquired and renovated 60-unit rental property to green standards
Housing rehab assistance to existing homeowners
Homebuyer education and counseling
Housing Careers Camp

CONTACT INFORMATION

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Background

Southwest Minnesota has been relatively unaffected by the foreclosure crisis sweeping the rest of the country. The region had seen little predatory lending and housing prices remained relatively stable from 2000 to 2010. The rate of foreclosures is beginning to increase, more often the result of economic displacement than abusive lending. However, the overall numbers remain relatively low. Sherriff's sale data show, as of August 2010 some counties served by SWMHP had no foreclosures; many had fewer than 50 and about a third had more than 100 foreclosures.¹ Only two cities in SWMHP's service area qualified for Neighborhood Stabilization Program (NSP) funding and at such small levels they opted to not accept the funds.

The region still has housing needs, however. Older housing must be upgraded, new homebuyers prepared for purchase and affordable rental housing preserved or developed. A growing number of distressed homeowners need counseling to prevent foreclosure or to find a graceful exit from their mortgage commitments.

SWMHP was established in 1992 to be the region's housing partner. SWMHP offers a wide range of services, depending on a community's needs. Such services include:

- ▶ Planning and technical assistance
- ▶ Homeownership education and finance
- ▶ Land development and redevelopment
- ▶ Single-family housing development
- ▶ Multi-family housing development
- ▶ Housing preservation and rehabilitation
- ▶ Downtown revitalization

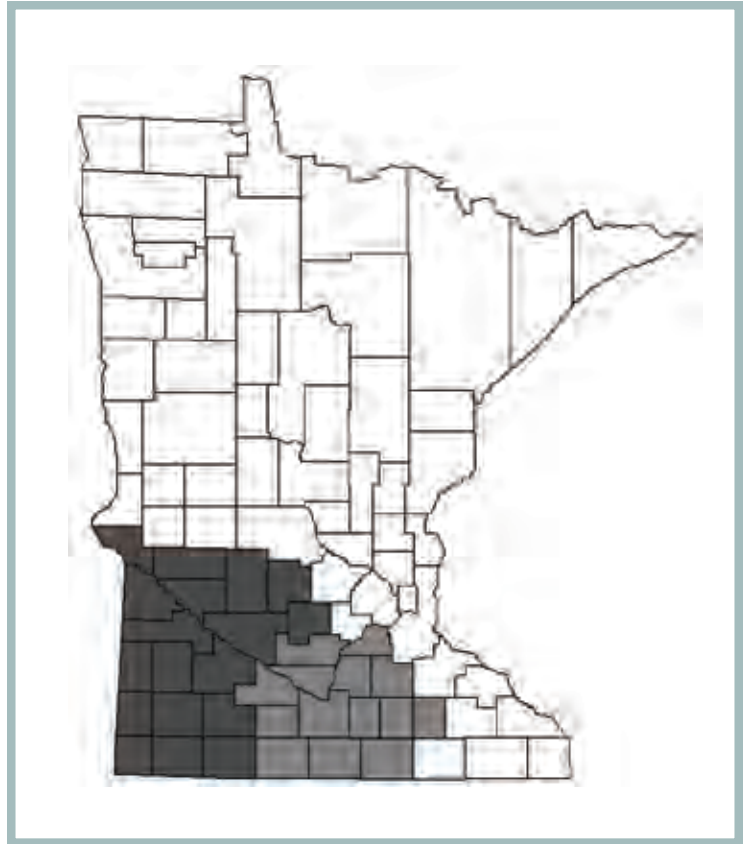
From the beginning, SWMHP has emphasized a broad-based planning approach: analyze local housing market conditions, bring together stakeholders to review the data and set vision and goals, and use this information to determine the housing

¹ HousingLink, "2010 Semi-Annual Foreclosures in Minnesota: A Report Based on County Sheriff's Sale Data." Minneapolis, MN, August 9, 2010.

priorities and strategies. To preserve objectivity, the market analysis is always completed by a third party. Depending on the community's needs and location, SWMHP uses a variety of funding sources, such as the Community Development Block Grant (CDBG), HOME Investment Partnerships (HOME), Low Income Housing Tax Credit (LIHTC) and Rural Development (RD). At any given time SWMHP might administer CDBG Small Cities Grants in some communities. SWMHP helped secure this funding for seven municipalities in 2010. It might build a LIHTC project in other communities, acquire and renovate single-family homes for resale in yet others and offer homebuyer education and counseling throughout the service area. The organization's budget is based almost entirely on these fee-for-service arrangements.

Implementation

Since 1998 SWMHP has worked with the city of Worthington, located in Nobles County in the southwest corner of Minnesota. Worthington has over 11,000 residents; increasingly, these include minority and refugee groups drawn to the city's many retail and manufacturing job opportunities. With refugees coming from so many different countries in Africa, Asia and Central and South America, more than 56 languages are spoken in Nobles County homes today. Because of the influx of new residents, as well as the expansion of several major employers, Worthington is experiencing a severe housing shortage, with vacancy rates of less than 1 percent. SWMHP Executive Director Rick Goodemann describes relationship building with communities as an "organic process" that can take several years. "We become very effective at working together and then things really start to happen," says Goodemann. That was true in Worthington as well. SWMHP started out by administering Worthington's CDBG Small Cities Program, focusing on rehabilitation of single-family, small multi-family and commercial properties. A few years later SWMHP acquired and renovated the Viking Terrace Apartments, a three-building, 60-unit property built in 1978 using the Department of Housing and Urban Development's (HUD) 236 program.² The project was terribly inefficient, thus the renovations included improved insulation, installation of a high-efficiency geo-thermal heating and cooling system, upgraded Energy



Star appliances and low flow water fixtures. The \$4.7 million project was financed with 10 different sources of funding, including the LIHTC, a Minnesota Green Communities grant, NeighborWorks® America, Minnesota Housing Finance Agency and the Greater Minnesota Housing Fund. The project also involved a major health impact study facilitated through the National Center for Healthy Homes and funded through the Blue Cross/Blue Shield Foundation and the U.S. Environmental Protection Agency.

“We become very effective at working together and then things really start to happen,” says Goodemann.

² The Section 236 program, enacted in 1968, provided a subsidy to reduce mortgage interest payments resulting in lower rents for eligible tenants. This is no longer an active HUD program. Many of the buildings are being acquired by nonprofit developers to preserve their affordability and to provide needed upgrades.



Students engaged in a landscaping activity as part of a service-learning project during the June 2010 Housing Careers Camp.

By the time the Viking Terrace project was successfully completed the city and SWMHP had developed a close working relationship. Today, the partners continue to look for ways to meet Worthington's housing and community development needs. SWMHP now offers homebuyer educating and counseling, foreclosure intervention, development of new single-family homes on infill lots and training for community groups, realtors and lenders. In response to Worthington's very low vacancy rates, SWMHP began conducting a feasibility analysis in 2008 for a 30-unit, workforce housing project that would be funded in part by the LIHTC program. The project is under construction and will be placed in service during the summer of 2011.

The role SWMHP plays has been "a blessing," says Brad Chapulis, director of community and economic development for the city of Worthington. "They bring a lot of expertise to the table." Chapulis is respectful of SWMHP's willingness to serve as a consultant and developer as well. He knows the difference between the two roles and which is appropriate at any given time. In the beginning, Chapulis acknowledges, there was some hesitancy, especially when

"They want the community they're working in to be successful. Without them we would have a much greater housing problem." Brad Chapulis, City of Worthington speaks about SWMHP.

there were other agencies that could have played a role. This subsided, however, after their first big project was underway. "They want the community they're working in to be successful," says Chapulis of SWMHP. "Without them we would have a much greater housing problem."

The leadership within the city is now solidly behind SWMHP, according to Chapulis, in part because they appreciate that it would not be economically feasible to have in-house staff with SWMHP's vast expertise. While SWMHP's major focus is on housing, it also partners with other organizations to meet broader community needs.

In 2009, SWMHP began working with the Nobles County Integration Collaborative (NCIC), a nonprofit founded in 1999 to promote cultural integration and school success in Nobles County, the second most diverse region in Minnesota, after Twin Cities. Among other activities, NCIC administers a small grant program and SWMHP applied for funding to support a three-day Housing Careers Camp, later held in June during National NeighborWorks® Week. The day camp was designed to introduce high school students to the wide range of careers in the housing field, including landscaping, architecture, surveying, construction and mortgage lending. SWMHP staff coordinated the camp and brought in speakers from the University of Minnesota Cooperative Extension Service to teach students about financial management. City of Worthington Surveyor Doug Nau, of Nau Construction, spoke to the students about the construction business; representatives from First State Bank Southwest spoke on banking and home loans. Students toured Minnesota State University and Minnesota West Community & Technical College to learn about the University's academic programs,

campus life and scholarship opportunities. The camp includes a service-learning landscaping project at a property owned by SWMHP. In 2010, the camp's second year, it brought together 34 youth from four area school districts.

Sharon Johnson, NCIC coordinator, appreciates that the camp promotes cultural integration, gives youth a positive vision for the future and allows them to experience civic engagement through a service-learning project. "It has been particularly helpful for the students because it's so hands-on," she says.

Lessons Learned

Rural areas are a challenge to serve because they experience all the housing needs of their more densely populated urban counterparts, but at a much smaller scale. Neither a small city or a nonprofit working in a small target area can afford to have on staff all the expertise required to improve and expand the housing stock.



Students participating in SWMHP's Housing Careers Camp in June, 2010.

By serving as the housing partner for a large region, SWMHP can offer a full range of services from planning and needs assessments to CDBG program administration and single- and multi-family housing development. Working over many years with cities such as Worthington allows SWMHP to build trust with city officials and develop solid relationships that can support a larger scope and vision for community projects.

Projects with other partners such as NCIC and creating the Housing Careers Camp demonstrate SWMHP's commitment to the larger goal of community building, not merely extracting fees from housing development. Assisting communities with a needs assessment and planning process is an integral part of SWMHP's services. "We use a patient, community-building approach," says Goodemann. "We recognize that we can't do everything at once, and the planning process gives us blueprints to guide our work." SWMHP repeats the planning process every 3-5 years to ensure their community development activities continue to address current market needs.

“No Risk” Single-Family Purchase-Rehab-Resale

TAMPA BAY COMMUNITY DEVELOPMENT CORPORATION
CLEARWATER, FLORIDA

Program Overview

Pasco County, Florida, received \$19.5 million in the first round of the Neighborhood Stabilization Program (NSP), the 17th largest allocation nationally. With a tight timeframe for obligating a substantial amount of new funding, Pasco County Community Development Director George Romagnoli turned for help to trusted community partners like Tampa Bay

Community Development Corporation (Tampa Bay CDC), a NeighborWorks® affiliate. Rather than spend time inventing an entirely new program, they built on an existing framework, adjusting where needed to meet NSP requirements.

The program is a purchase-rehab-resale model where Pasco County assumes the real estate risk, writes the work specifications and performs the draw



Before and after photos of house renovated by Tampa Bay CDC and Pasco County Community Development Corporation with NSP funds.

PROJECT SNAPSHOT

LEAD ORGANIZATION

Tampa Bay CDC
11 staff members
Founded in 1982

PARTNERS

Pasco County Community Development
RE/MAX Realtors

FUNDING SOURCES

NSP1
NSP2

STRATEGY

Pasco County assumes the risk in a single-family purchase-rehab-resale program; Tampa Bay is guaranteed a \$7,500 developer fee for a prescribed set of duties.

OUTCOMES

Tampa Bay CDC has acquired 135 properties, sold 56, has eight under contract to sell and dozens more in the pipeline.

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inspections. Tampa Bay CDC is guaranteed a \$7,500 developer fee for every property it purchases, based on a fixed set of tasks that includes locating and purchasing homes, paying construction draws and managing the property until it is sold. NSP funds cover the difference between the sale price and total development costs. As of October 2010 Tampa Bay CDC had acquired 135 single-family homes and sold 56, about 20 of them to very low-income homebuyers; dozens more are in the pipeline. In the process, abandoned and foreclosed homes are being renovated to high standards and returned to owner occupancy, stabilizing the neighborhoods in which they are located.

BACKGROUND

Pasco County is located north of Tampa on the Gulf of Mexico. It grew quickly in the last decade, climbing to 471,709 people, a 37 percent increase from its population in 2000. The rapid growth was fueled in part by real estate speculation, but also by buyers pushing northward in search of more affordable property than southern Florida could offer.

Most Pasco County homes are modest, single-family bungalows, roughly 1,100-1,900 square feet on 5,000 square foot lots. Housing prices doubled in value between 2000 and 2007 and soon after buyers were using interest-only loans and other exotic financing to buy into the market. High prices were

compounded by rapidly increasing property taxes and higher property insurance prices driven by the damage caused by hurricanes in the Gulf. Many borrowers were caught unprepared when their adjustable rate loans reset, and when the housing bubble burst around 2007 they were unable to refinance. Since then, close to 20,000 homes have gone into foreclosure. In late October 2010 RealtyTrac reported there were 6,500 foreclosed homes, with an average price of \$99,200.

Pasco County became an Entitlement Community around 1985. In the mid 1990s it began working with nonprofits to take advantage of set-asides under the Department of Housing and Urban Development's HOME program and to access additional resources for revitalizing housing in target areas. At the time, the available nonprofits were a faith-based organization and a farm workers group; neither had housing as its primary focus. Instead, both were strong advocates and organizers, skills the county decided to harness early on. They could handle the marketing and application process, while Pasco County managed the housing inspections, specification writing and construction management in-house. The nonprofits would earn fees for their activity. "We recognized this wasn't their primary work," recalls Romagnoli. "If we didn't pay them a fee, they wouldn't do it." This program became the basis for the NSP program many years later.

By the time NSP was created, the county had developed relationships with other nonprofits, including Tampa Bay CDC. Formed in 1989 to redevelop problem properties, Tampa Bay CDC expanded into other activities as community needs changed and new opportunities became available: first, homebuyer education and counseling; later, foreclosure prevention. When the housing market crashed, Tampa Bay CDC was well positioned to help pick up the pieces.

Implementation

Pasco County put almost \$9 million of its \$19.5 million NSP1 allocation into the Pasco Opportunity Program to acquire, renovate and resell or rent single-family homes that had been foreclosed and abandoned. An additional \$6.5 million would be used for homebuyer assistance. Tampa Bay CDC

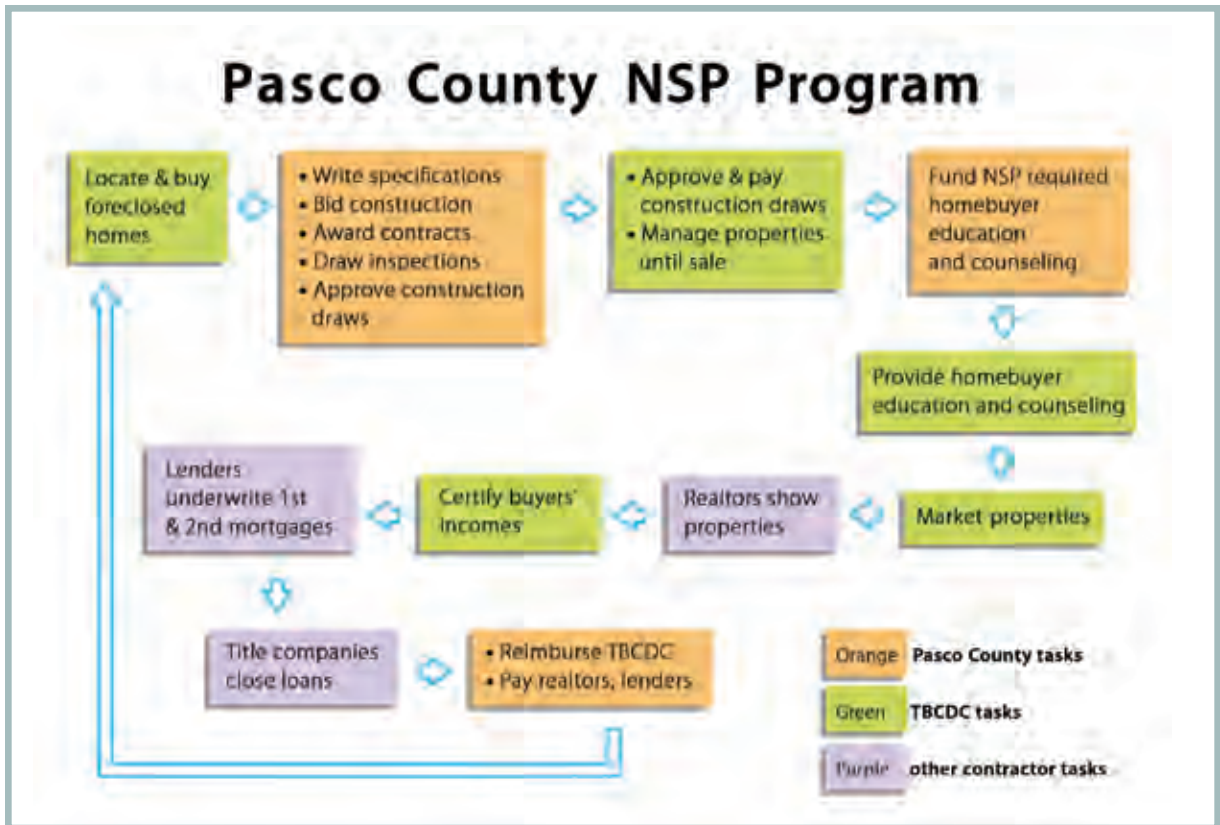


was one of six nonprofit housing organizations the county contracted to search for and buy foreclosed properties. Each signed a 40-page developer agreement with Pasco County detailing its roles and responsibilities. Pasco County also contracted with Tampa Bay CDC to provide the homebuyer education and counseling required by NSP.

They are looking for properties that are selling in the \$35,000-\$40,000 range that can be fully renovated for an additional \$40,000.

Tampa Bay CDC Executive Director Gregg Schwartz and Re-Max Realtor Matthew Brashear comb foreclosure listings daily to identify properties that meet the program parameters. "We're in our cars more than our offices," says Schwartz. They are looking for foreclosed and abandoned properties that are selling in the \$35,000 - \$40,000 range and that can be fully renovated for an additional \$40,000. Brashear notes that even with the thousands of units on the market it can be hard work to find houses that are not too deteriorated or that are not priced too high.

Typical improvements include new kitchens and baths, new roofs, new windows, air conditioning and replacement of whatever might be an imminent problem. Schwartz says they even install blinds, in



case new, cash-strapped owners are tempted to use sheets as curtains. Initially, total development costs could not exceed 120 percent of loan-to-value (LTV), including seller and realtor costs and the developer fee. In October 2010 the county reduced this amount to 105 percent LTV to reduce the amount of money they were leaving in the deal.

When the house is sold, the subsidy structure is tied to the buyers' incomes. For those earning below 50 percent of area median income (AMI), Pasco County will take back up to 50 percent of the cost of the house in a soft second mortgage. For five years the mortgage is interest-free with no payments. At the end of the fifth year it converts to a 15-year amortizing mortgage if the buyer can afford it. If not, the buyer can get a one-year extension before the repayment begins.

Buyers between 50 percent and 120 percent of AMI can receive up to \$20,000 in a zero-interest, soft second mortgage, although "essential employees," such as teachers and emergency responders can receive up to \$30,000. Those at the higher end of

the income spectrum must begin repayment after only six months. Private lenders package both the first and the second mortgages. "A couple of years ago these houses were selling for \$150,000," says Schwartz. "Through this program many buyers have first mortgage payments of only \$450 a month. You can't even rent for that."

Romagnoli has nothing but praise for the part Tampa Bay CDC plays in the NSP program. "They are our biggest producer," says Romagnoli. "They've been around for a long time, they have relationships with lenders and realtors and they know the process. If there's an issue, we can work together to fix it."

Tampa Bay CDC and the five other nonprofits meet bi-monthly with Pasco County to stay abreast of changing conditions and program requirements. One of the issues they had to figure out initially was how to avoid bidding against each other for the same properties. Since there was no way of knowing whether they were bidding against a fellow NSP buyer or some out-of-state investor, they created an electronic bulletin board where they could register properties they were targeting.

Today, Romagnoli acknowledges, it is harder for homebuyers to get financing than it was a few years ago. As a result, Pasco County observers are seeing a trend of young single people in their 20s buying the homes NSP dollars are renovating. “They were too young to get into the housing market when it was hot,” explains Romagnoli. “They either have no credit history, or the little they do have is good.” This is changing the face of neighborhoods that were once havens for retirees, dropping the median age of some communities by 10 years or more. While in the short term the new owner-occupants help to stabilize the neighborhoods, Romagnoli wonders about the inevitable mismatch between the small, two-bedroom housing stock and the space needs of growing families. Perhaps by then the market will have stabilized and retirees will move back in.

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Another concern is that many of the foreclosed homes are in the flood zone near the Gulf. Schwartz and the other developers try to avoid houses near the Gulf, since they require more expensive improvements, such as wind-loaded roofs to withstand hurricanes. Also, the hazard insurance is often too costly for low-income property owners to afford. For now, it makes more sense to look inland and stretch the NSP funds to help as many properties as they can. But Romagnoli worries that stiff building permit requirements in those communities cause problems for existing low-income homeowners, who cannot afford the expense of elevating their properties or completely rebuilding them when major renovations are needed.

Finally, Tampa Bay CDC and the five other non-profits are not the only groups taking advantage

of low housing prices. Investors are also buying up thousands of homes and doing minor cosmetic improvements. Many provide little oversight of their tenants, creating frictions among neighbors. Crime is increasing and there are new pressures on community schools. These realities threaten the gains in market stability that have been made with NSP investment and point to the need for more community building to support the successful affordable housing work being done in Pasco County.

Still, Schwartz insists that the NSP program is having its intended effect. Using this model, Pasco County fully obligated its NSP1 allocation well in advance of the deadline and has continued to use this model in NSP2. As of October 2010 it is halfway through the \$28 million it was awarded for NSP2 (as part of a consortium with Pinellas County), having completed 200 homes. Hundreds of low- and moderate-income families will benefit from being able to buy affordable homes in move-in condition. In the process, the program has employed a vast team of realtors, appraisers, lenders, carpenters, plumbers, electricians, property managers and skilled workers in other trades, achieving the stimulus-funding goal of creating jobs.

Lessons Learned

Building on successful relationships and programs allowed Pasco County to fully obligate all of its NSP1 allocation well within the deadline and apply successfully as a consortium with Pinellas County to obtain an additional \$28 million in NSP2. Tampa Bay CDC has been a key player in this effort, acquiring 135 foreclosed properties to date.

One of the chief benefits realized by Tampa Bay CDC is that while it acquires the properties, Pasco County assumes the real estate risk that the total development costs may exceed the appraised value of the property. As long as Schwartz buys properties within set price parameters, NSP can capture any overages in a second mortgage. That allows Schwartz to focus on acquisitions, while his staff prepares prospective buyers and markets the real estate. One concern is that the Pasco County staff is experiencing a bit of a backlog; it can take several months between the time Schwartz buys a property

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and the county staff completes the work write-up and specifications. Still, during that time NSP can cover the cost of securing the properties, mowing the lawns and taking steps to ensure they do not deteriorate further.

Contractors also appreciate working with county staff and using a single predictable set of work specifications and processes, rather than having to accommodate program differences among the six nonprofit developers. Centralizing the housing inspection, specification writing and contractor bidding in the Pasco County Community Development office has helped the program to achieve higher levels of production.

This model is particularly well adapted to a market that features a large supply of small, moderately priced homes that can be fully renovated for \$40,000. Markets with larger and much older homes require more costly renovations that would also take longer to complete, making it harder to achieve the same volume that was possible to achieve in Pasco County.



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