HUD NSP Training Disposing of Difficult Properties, 3/19/15

Kent Buhl: Thank you for joining us for today's NSP webinar, Disposing of Difficult Properties. It's a webinar for grantees with disposition concerns or land bank properties. As the NSP expenditure deadline approaches, grantees are deeply involved in questions of disposition of selling houses, but increasingly of disposing of houses that have not sold, as well as land bank properties. In today's event we will review today strategies and options for disposing of difficult properties, walk through live examples, and review past HUD guidance on disposition and demolition.

In addition, HUD staff will walk through HUD's recent guidance on land bank disposition from their November 25th policy alert. So with us today are practitioners from around the country. Please welcome from Lorain County, Ohio, Don Romancak and Mona Almobayyed; from the Greater Rochester Housing Partnership in New York we have Jean Lowe; from Harmony Neighborhood Development in New Orleans, we've got Una Anderson and Charles Cutno; from the city of New Orleans, Lois Colson is with this us; from HUD Headquarters, please welcome back John Laswick and Paul Patterson.

And hello to you all, and today's facilitator, Phillip Bush from the Washington D.C. office of Enterprise Community Partners will get us started.

Hi, Phillip.

Phillip Bush: Hey, Kent. Thank you for the introduction. I appreciate everybody taking the time to present today and for all of you to join us. We are going to go through a few items. We are going to first talk about strategies for the disposition of difficult properties, as Kent just laid out. We have three wonderful local examples that we're going to go through, so we're actually going to talk with folks on the ground who've gotten this done and hear a little bit about how they've come at it and give you all a chance to ask them some questions and raise any other questions you might have.

Then we're going to turn things over to HUD and they're going to give us some background, a little bit of information about the recent guidance they've issued, and again, give you all a chance to ask questions and get additional information. So with that, let's go ahead and get started.

So before I actually hand things over to our local folks about how they've come at disposition of difficult properties, I'd like to just talk for a minute about the approach to thinking about how to deal with difficult properties, and this comes from really from talking to several communities. There's a common thread amongst those communities who were more successful at dealing with difficult properties, and it sounds somewhat like stating the obvious, but it's worth taking a few minutes just to talk about it. And that approach really is that they're spending a lot of time. They're really thinking through understanding why are they having a difficult time selling the property or disposing of property in a way they expected to.

That sounds obvious, but often the reflex reaction when a property isn't disposed of or isn't sold the way we want it to be, the answer is, well, we'll just cut the price or we're obviously -- we're asking too much; it doesn't work in this market; we're just going to reduce the price. And that's been a pretty common and a pretty reflective answer and sometimes that is the right answer, but think as we go through and you hear these local examples you'll see that more careful thought and understanding of why you're having a hard time disposing of property is really helpful in actually addressing those properties.

And there seems to be generally two broad categories when it's difficult to dispose of property those properties fall in. One of them is that there's just a lack of interest. No one's making offers on the property; you're not really getting a lot of foot traffic. That's one group. The other group is you are getting interest in the property. That interest is either ineligible to participate in an NSP program or actually isn't able to access the mortgage financing to close the deal, or they can't consummate the purchase. They can't close.

And laid out here -- a couple of different points that we saw as we talk to the three jurisdictions that are going to be on this presentation, but also other jurisdictions about how they've dealt with situations where there is not enough interest, and then on the following slide, how they've dealt with this situations where there is interest, but that interest really isn't able to close the deal for one reason or the other.

And so I just ask everyone as we go through this to think about these different approaches and be thinking about what the underlying reason is; what is the problem we're trying to address when we're trying to dispose of property. Every property -- each one of these situations is different. It's always contextual to the property. If there was a standard easy one-size-fits-all way to do this, we would not be having a presentation on it today. But I do think there is some patterns and I encourage everyone to look at it from that.

With that in mind, let me hand it over to Lorain County.

Don Romancak: I'm Don Romancak. I'm the director of Lorain County Community Development and I'm with Mona Almobayyed with my staff, and Ashley Scott from the City of Elyria.

Lorain County received approximately $1,600,000 in NSP3. In NSP1, Lorain County received nothing directly where the City of Lorain and Elyria both were direct recipients. So under NSP3, Lorain County was in an interesting place having been in a state subrecipient. So we entered into agreements with Lorain and Elyria to figuring -- they knew how to handle their cities best -- and provided them with funding. They've done proposals that were submitted. And then the county continued to move funds around as necessary, as well as develop its ideas on how to acquire and rehab properties -- the grant went along.

And Mona actually did a lot of the work for us and so I'm going to turn it over to her to let her go into some detail on what it was we had done. Mona?

Mona Almobayyed: With Lorain County, we did three rehabilitations on three different properties so far. And the City of Lorain -- well, the City of Elyria did a couple other rehabilitations as well. So I'm going to focus on Lorain County's three specific properties, and it's kind of difficult to talk about the general problems and solutions because each property presented a unique set of problems and solutions. So I'm going to look at them one by one.

So our first property that we have up here is 1031 West 4th Street. I'm not going to spend a lot of time on this one because I think we just got lucky with it. Our first applicant, she was income eligible; she was creditworthy. So because we're focusing on disposing of difficult properties, I'm going to go ahead and skip over that one and move to 826 Lakewood Beach Drive, which was our second property. So we picked this property because it was in a really good neighborhood; didn't need much rehabilitation work.

And because of the grant time constraints that we had when we were acquiring and rehabbing this property, it was advantageous for us to have a property that didn't need much work to be done. So with this property, the problem wasn't with the lack of interest. We had a lot of people interested in it. The problem was that, as I mentioned, it didn't need much work, so the funds that were invested into the property were significantly less than what the market value was. So I know that's kind of a unique problem with NSP homes. Most of the time you put a lot of money into it and the market value ends up being significantly less than what you put into it. With this property we put in about $83,000 and market value was $123,000.

So because we used a recapture method, we had a lot of people who were disinterested because of the affordability period and the soft second mortgage that went along with this property. A lot of the lenders, they had issues because they didn't like the soft second mortgage for their own specific lending requirements; a lot of the buyers, they didn't want to commit to living in the property for 15 years; and additionally, we had problems with the appraisals because many appraisers instead of actually giving us a true market value, they validated our asking price, which was limited to what we had put into the property.

So some of the things that we did, which worked out because we closed on this property last week, was that we made sure that everyone was on board as far as the real estate agents, the lenders, the appraisers, right from the beginning. So as soon as there was an applicant who was interested in the property, we contacted everyone who was involved and let them know, listen, there's going to be a 15-year affordability period on this. There's going to be a large soft second mortgage. We just want to make sure that you understand that these are the NSP requirements, and really there's no way to circumvent these regulations.

So once we started doing that, if people had a concern about it, we would work with them and working with the buyers to find someone another lending institution that would allow for the NSP. It was helpful to know that upfront. Also it was helpful for the buyers to know that that was going to be what was required of them.

Also we made sure that the appraisers had a clear understanding of what we needed from an appraisal; that it wasn't a justification of the asking price, that the asking price was limited by how much we had put in, and that we needed a true value of the property. So in line with that, we made sure we had good appraisers on board. We got referrals from people and that was helpful as well.

Additionally, we learned that you could review the appraisals, and if you had questions about one of their comparables or why they had credited or de-credited a certain item allot, you could ask them for explanations and a lot of times they would adjust accordingly. Another recommendation is to make sure you're working closely with your HUD rep and make sure you have a good real estate agent, and aggressive real estate agent who is going to do more than the minimum. So those are kind of the problems and solutions that we had with Lakewood Beach Drive.

Moving on to the next property -- which we still haven't sold yet, but it's about to be under contract this week, luckily -- it was 759 Oliver. This one we picked because it was readily available; it was in our target area; and we were able to get it for a substantial discount. In addition, we thought it would serve a niche clientele. It's a smaller home, so we thought that it would be good for a starter family or maybe a retiree who's looking to downsize.

The problems we've had with selling this property had to do with the actual home. A lot of people thought that the bedrooms were too small and they had some questions about the basemen. And also when purchased the price we initially had thought that we were going to -- after the rehab, the value was going to be much higher than what it actually turned out to be. So some of the strategies we worked on were having references with purchasers to better their credit score and basically follow small suggestions from our real estate agent that wasn't too costly for us, but significantly improved the marketability of the home.

So with that, those were problems specific to those two properties. I'm going to turn it back over to Don who's going to talk about some of the general selling strategies.

Don Romancak: Thank you. For the County, one of the things that we were able to do as well, besides hiring a good real estate agent that was familiar with working with government entities -- we are a little bit different and not all realtors would adjust well to working with a government entity and government program. We partnered with the City of Elyria which was successful in moving product in NSP1 and is continuing in NSP3, but also our Port Authority which has greater flexibility in being able to move property versus us who on our own would've had to have publicly advertised and done it by auction, which would present some real problems when you're trying to sell houses with all of the HUD rules.

In addition, we continued to work with appraisers and make sure that they knew what was being required and we weren't afraid to question them if we felt that they were misunderstanding any of our directions. It wasn't that we were guiding the appraisal, but we wanted to make sure not only for ourselves, but for them that they knew what it was that they were doing and the constraints, and that we were always looking for fair market value one our appraisals.

Many times we had a call of our HUD representative to make sure we were doing some things right with the buyer and make accommodations that ensure the home stayed affordable. And then working with other nonprofits like the Urban League, our local Urban League, LMHA, for not only pools of potential buyers, but then also they were service providers who would assist our buyers in improving their credit score and making them more able to access the credit needed.

And then we were at every place we could think of with our housing flyers, with our realtors' information, and were aggressively marketing using social media, websites, and all of our nonprofit partners, as well.

And so with that, the last thing was when we got the price wrong, a realtor pretty much gave us weekly updates, and when she thought it was time to lower the price, we listened to her and did it and that would increase foot traffic, typically, which ended up landing us some deals.

So that in general is what we've done, and constantly working the deals as well in the housing.

Mona Almobayyed: So with that, we'll open it up if anybody has specific questions regarding some of those strategies of the properties. I think we have a couple of minutes.

Don Romancak: Hello?

Kent Buhl: If you do have questions, go ahead and raise your hand or submit a question in the Q&A box and we'll circle back around to those after we hear from the other practitioners. So thank you very much, Don and Mona.

And now we'll go to Jean Lowe in Rochester New York with another acquisition rehab example. Hi, Jean.

Jean Lowe: Hello. I am the President of the Greater Rochester Housing Partnership and the Housing Partnership is the organization that manages our HOME Rochester program. HOME Rochester has been around since -- been selling houses since 2002 and we were able to take NSP dollars and fold them into the existing program. We had to make some modifications to meet the NSP regulations. In New York State, there were a couple of parts of the state that got NSP funds directly -- 1 and 2 -- but the majority of the NSP dollars in New York State went to the state, to the state's housing finance agency which then had a competitive process to make awards throughout the remainder of the state.

The City of Rochester put together a pretty aggressive application. They were able to get pots of money to do some rental housing, some demolition, but they were also able to obtain funds specifically for HOME Rochester and that took two forms: one in the form of subsidies, write-down development costs; and the second to finance our funding mechanism, which is a pool of financing that's available for acquisition and rehabilitation.

So the math in front of you shows little yellow spots, and each one of those little yellow spots is a HOME Rochester house. When this map was put together in January of 2015, we had acquired 696 properties. We're now at 700 and of those 700 we've sold 657, and then we have a handful that are under rehab and a handful that are under contract and waiting to sell them. So this is a production program that operates just within the City of Rochester.

We acquire vacant properties. Everything we look at is vacant. We do a full renovation and then we sell the properties to first-time homebuyers. We sell to families with income bands ranging from about 50 percent of varying median to 120 percent of varying median income. We have a holding company called the Rochester Housing Development Fund Corporation which is a nonprofit holding company. It ranges for financing and it also takes title to the properties during the rehab process. There are three sort of major players in the RHDFC, the HOME Rochester model. The first is the RHDFC itself, which allows for centralized ownership, financing, project management, legal services, standard specifications, and it identifies a pool of approved contractors.

And then we work with community development corporations as our partners. Those partners are involved in the construction management, and for purposes of this discussion, they're our first line of defense in terms of sales. And then the City of Rochester provides subsidy, provides financing for homebuyer counseling, provides closing cost assistance, and does in-take for purchase offers.

So challenges in finding HOME Rochester buyers is an ongoing process, and as I said, our first line of defense is our community-based nonprofit partners. These are CDCs, which for the most part are neighborhood-based organizations that clearly have presence of the neighborhood. They act as our construction managers, so they're with the property through the whole rehab process and then they are our first sales agents. And that group of organizations already has existing relationships with folks who are living in their neighborhoods, so it's sort of a friends and family way of selling properties -- friends and family of existing residents.

Whether they're homeowners already or whether they're renters, they are on-site and they have signage out during the rehab process, so they're able to generate interest from the folks who are already in the communities. So that's sort of our first line of defense. They act as the sales agents. They can make a fee, so there's a financial incentive to have them involved in selling the properties and selling the properties quickly.

Our second line of defense is realtors. If the property is not sold by the CDC within a 45-day window, we multiple list the properties with a real estate firm that we've entered into an agreement with. Those realtors are developing a pipeline of long lead time buyers, buyers who might have credit issues or who are only interested in a rehabbed house or are in the process of going through homebuyer counseling.

The realtors identify these people and work with them and sort of establish a pipeline of people who might be interested in our end product. We're finding that realtors in Rochester are establishing relationships with new Americans, and the family there on the picture is celebrating their purchase of their new home. They're from Nepal and we're finding that new Americans are interested in our product, interested in a completely rehabbed house, and it's a good match for them.

The third sort of line that we go to, to find appropriate buyers is through home ownership counseling classes. These are city-sponsored. They're held by our local community organizations. The largest counseling organizations in Rochester are the Urban League and the local NeighborWorks affiliate.

So they are running three or four times a year homebuyer counseling programs. We come in and talk about HOME Rochester and the product, and those folks, if they're interested, come to us with a certificate showing that they've completed the homebuyer counseling, and we have the knowledge that they're an informed purchaser, which is always a wonderful thing. They have also had an opportunity during their homeownership counseling classes to talk to lenders, so they've got an understanding of what they need to do to qualify for a mortgage.

Next we have a webpage, which I encourage you to take a look at. It's called homerochester.org and it has lists of the individual properties that are for sale. A map shows interior features, and once a week we update that webpage and we send out an e-mail blast to all of the local community development organizations and realtors. We send it to the police unions and the firemen, and the EMTs, teachers -- whoever we can think of who might have an interest in becoming homeowners or have constituents who would be interested in having homeowners. And we usually have a teaser in that weekly e-mail blast that talks about properties that are coming up, and if there have been any changes in pricing.

And then our final source of buyers is employer-sponsored homeownership programs. Several of our large employers, namely universities and hospitals, have homeownership programs where they provide down payment and closing costs, and we meet with those employers to talk about opportunities that are available through HOME Rochester.

A second challenge has been attracting buyers and mortgages to newly revitalized areas. So when you look at the original map that shows HOME Rochester areas, you'll see that there are clusters of development when we have been asked to have this program operate in communities where there hasn't been a lot of investment in renovated properties or investment in new properties. We had to take sort of a longer-term look.

In the City of Rochester they're called focused investment strategy areas. They tend to been fairly small neighborhoods where the city has made a determination that an intensive amount of labor and money will be invested in a community to stabilize that community and to increase the overall assessments for those communities. So this is a longer-term strategy; starts with a relatively small area that has some assets, maybe an anchor institution, an employer or a particular kind of housing stocks that make sense to invest in it.

The city addresses the physical condition of infrastructure, repairing streets, putting in curbs, putting in lighting, putting in plantings, bus stops, street furniture -- those kinds of things. The city goes through and does a selective demolition. Then it does investment in existing housing, both homeownership housing and landlord-owned housing. Then there's also an infill with well-managed rental, even though it's pretty small scale -- singles and doubles -- and then rehabilitation and sale of vacant properties.

So HOME Rochester comes in at the end when a lot of other investments have already taken place, and that allows us to get the appraised values that are necessary for the homebuyer to be able to get their mortgage. So the picture that you see is a HOME Rochester house -- a fully renovated HOME Rochester house -- and then the picture below is a new construction that we were able to put in, in one of our focused investment strategy areas after the selective demolition had taken place.

So I wanted to show you what that investment area might look like, and I'm trying to get my laser pointer to work. Let's see if I can get it. So here are the anchored tenants. This one was a church and a school and that has recently been renovated and is now affordable housing that has been developed through the use of low income housing tax credit. This is an urban grocery store which is relatively new; made a huge difference to the overall stability of the neighborhood. The dotted lines are improvements to major thoroughfares, re-asphalting, putting in curbing, putting in lighting.

The purple spots are homes that are either owner occupied or landlord occupied, but have had a façade improvement grant so that they are in terrific shape. And then the HOME Rochester property that I showed you on the previous slide is right here; that's on Strop Street and it was only after all these other investments were made that we were able to rehab that house and sell it. And then our new construction is taking place on this gray square, and that came after the rehabbed. So there's been this steady progression of investment that eventually allows us to sell HOME Rochester properties.

Kent, I think back to you.

Kent Buhl: Very interesting. Thank you, Jean. Quite an effort going on there in Rochester. And let's get Phillip back in here and get this going here. There you go.

Phillip Bush: Can you hear me?

Kent Buhl: Yep.

Phillip Bush: All right. Good. Thank you. Thank you for handing over to Kent. Jean, thanks for going through that. That was very helpful.

We are going to -- the last two examples are really focused on acquisition and rehab programs and we're going to hand things over to our partners down in New Orleans to talk a little bit about how they've dealt with land bank properties and how they've come out of those and actually how they're keeping track of it. And for New Orleans we have an example both from a local nonprofit who's been doing the work, and their government partner who's been supporting them and helping them work through the process. So let me hand that right over --

Una Anderson: Thank you.

Phillip Bush: Yep. Go ahead, Una.

Una Anderson: Great. Thank you very much, Phil. This is Una Anderson in New Orleans and I am Harmony Neighborhood Development's executive director and joined by Charles Cutno. Charles actually does a lot more than construction. He's actually the director of real estate.

So he is going to start us off with really the conversation about this lovely house you see here on the screen. It was one of our NSP2 acquisitions.

Harmony was one of a group of consortium members under the leadership of the New Orleans Redevelopment Authority and the Redevelopment Authority was the grantee. We were all subgrantees. Harmony was able to get slightly over $1 million and with that we acquired 30 properties. This was one of the lovely properties we acquired. Charles?

Charles Cutno: Yeah. So that's the other one I was talking about. This is a property that we acquired and put into land bank. When we acquired this property, we know that it was going to be a great potential to develop it, just didn't know when. We initially invested in an area; built a couple of new constructions -- more new construction units directly in the area, one- or two-block radius of that house. So we knew it was [inaudible] to develop it; just didn't know when and what the funding stream would look like. So we decided to acquire the property and through a partnership with NORA, came up with a development plan.

Our strategy was to use some of the PI, the program income from the other units that we sold, the construction, and then use that to help subsidize the development of that property. It is a historic property so we were required to keep a lot of the elements [inaudible]. But for the most part, we were able to bring it up to code and keep it to the new construction standards.

And that's pretty much the property at the end of the construction. That property has sold. It [inaudible] we were able to pull the last funds on the draw for that property. That's how much of a demand we had. We understood, too, that it was an old structure and at one time, it housed two families. And with the current market and the family size, we knew that it couldn't go back in that format. So we decided to make it into a single and what we call a double traditional [inaudible].

Una Anderson: So on that house and the next one you see, Charles kept the front and basically rebuilt the back. So it's what we call a historic prop up in New Orleans where you keep the front façade and build the modern interior to the house at the back.

Charles Cutno: And the same thing, for the most part, happened with this unit and the unit [inaudible]. We actually closed on that unit a week ago, too. It was the same thing. We worked with the preservation office to make sure that we were putting it in the [inaudible] and they were [inaudible]. So once again, we looked at all properties with that funding source to allow us to develop that. NORA was a great partner [inaudible] of the NSP2 funds, which allows us to take program income like we've been with another construction unit that we built and put it towards this unit here.

Una Anderson: So on both of these houses, one of the things that was most important in marketing that is that we actually have an asset building program that works with potential buyers. You can [inaudible] matter your credit score and we can [inaudible] for pretty much as long as it takes. The buyer of the first house took four years and actually it did take four years for her to get ready, but it met up with us having the house ready for her. And then the buyer for 1621, which you see here, was in approval about two years.

So that is something that really real estate agents can't do, the credit remediation piece and preparing the homebuyers. So we found it in the neighborhood we were working in, it was much more effective to create that capacity and frankly case management of the buyers in-house than to ever list the houses. We had actually tried a real estate agent and it just didn't work at all for us.

So bringing buyers into the Harmony family, keeping them in the program until they're ready to buy, has been very successful for us. And I heard someone mention friends and family and frankly that is the majority of buyers that we get come through a friends and family, word of mouth type of network. So it really does bring a sense of community and a network.

Charles Cutno: And as you can see, that's the finished product, the unit. And once again, we'll have to say we're really excited that a family has chosen the unit and has closed on it now.

So a part of it, we definitely understood that there was some challenges in buying these properties. [Inaudible] land bank, but we understood, too. It was private and public dollars within an area. It kind of [inaudible] leverage and put facts together to get the [inaudible] out there some period of time. We're unclear of when that timeframe is, but the possibility did exist.

This was another unit that we acquired. It was right next door to a new construction that we built, a beautiful Victorian home. Unfortunately, we didn't have any more program income or any other funding by the time we got this unit. But we knew there were other resources out there. And when I say resources, apartments in a sense. So we looked and tapped into one of the apartments that were in a different area within New Orleans [inaudible] more historical homes and renovations. And we started to see a big -- it [inaudible] funding that could kind of cross their area and come in to our area, in a sense, to help develop those units.

So as of now, they agreed to let us develop it. They're going through the process to acquire it. So at the end of the day, we're looking to sell that project -- the unit to them -- so they can develop with the same restrictions that NSP2 has placed upon it, the 120 AMI and below. So we're excited about that to get their units back into [inaudible] through that strategy.

Una Anderson: So we are selling it to them. And then one of the things that has made them most nervous is as the preservation resource center, they are not necessarily focused on affordable housing. They're focused on neighborhood revitalization, even if it is market development. So they were nervous about finding an eventual buyer within the restriction. So we have really offered to not only partner with them to sell the property to them, but find them a buyer for that property that meets the income restrictions.

So what you see here is a map of really the remaining land bank NSP2 properties that we acquired. So we went in search of an experienced low income housing tax credit partner and packaged these properties with their properties that are in the process of applying for low income housing tax credit. They moved the deadline on us. We were completely ready to submit. So we are submitting by the middle of April -- actually it's fairly the beginning of April for the tax credits to do this project. It's 44 units. We are going back with 22 single family units that are three bedroom and then 22 units that are doubles with one bedroom units on each side. Half of the project is veteran focused.

Anything else you want to mention on the [inaudible] project, Charles?

Charles Cutno: [Inaudible] without planning -- they supported us. We have received HUD funds for [inaudible] the project and use that as leverage for the [inaudible]. And just as of the last few years, there are increases for affordable housing in New Orleans. This [inaudible]. You also have some downfalls. Some of the downfalls are affordability.

So our main focus initially was home ownership and still is home ownership, but we also see a demand in increasing need for affordable quality housing in our area. So this is one strategy that we had in mind when acquiring the land bank properties, knowing that in a sense we just hold them [inaudible] because their value is going to change and most likely will go through this type of deal.

Una Anderson: And with this deal, it really creates a ladder for residents to move into home ownership. We often get calls for rentals. We have four rentals under development, but no other rentals that we own. So this will give us a portfolio of rentals where resident families can move into an affordable rental. We can continue to work with them to stabilize their financial -- their family financial situation and their credit and they can move then into a home ownership unit.

So it creates that continuous ladder that we have always wanted in the neighborhood. So this has been our solution on the remaining land bank properties. And with that, Phil, I think I'll turn it back over to you.

Kent Buhl: Thank you, Una and Charles. Interesting stuff going on down there in New Orleans. We appreciate it. And they are offsite today, so they were not in their normal office environment. Thanks for joining us.

And now, we're going to Lois Colson, also in New Orleans who will tell us about what she does with unrehabbed and land bank properties. Hi, Lois.

Lois Colson: Okay. Thank you. This is always surprising to me how interesting this can be to get out of your bubble and see what everybody else is doing. These are wonderful presentations and especially love to see Harmony on here. I knew they would knock it out of the park with some good stuff.

I'll just say I don't have a whole lot to say. I think I missed the boat a little bit about what you all wanted to hear. I was going to talk mostly about our land banking partners, which include Harmony. The New Orleans Redevelopment Authority received just under $30 million from NSP2 and just a small portion of that is being used on land banking partly because -- and this is sort of an interesting take on what everybody else is talking about -- trying to dispose of properties.

NSP2, for us, was one of our mechanisms for disposing of land bank properties from The Road Home, which was the entity that bought properties after Hurricane Katrina here. So NSP2 was one of our disposition strategies to help get some of those properties back on the market. And we did that. If you include apartments, it's going to be about 460 units that'll be back on market just from using NSP2 funds.

And basically how NORA did that is we partnered with the folks that know what they're doing and know how to sell and rent properties, so like Harmony. So we partnered with 14 developers who all got a certain allocation to do what they do best. I'm not saying at all it went perfect. We're still selling some properties, but we've done very well because we relied on them to do what they do. But with that, let me just -- because I promised you all that organized this that I would talk about these slides, which I think has everybody else's presentation who talked a lot about some good stuff.

I just wanted to mention the partnerships that I see happening and being considered for land bank properties that we'll hopefully get them back out on market, including what Harmony just went over with that beautiful house, which I have a picture of here as well.

Partnering with historic preservation folks. If you're in an area that has a lot of historic properties, then that's a good partner to get with, but they have to be willing to do the affordable housing piece.

Another thing that we're considering but haven't actually implemented yet is -- well, at least not on NSP2 properties. We've done a lot of on our Road Home properties, doing natural infrastructure, such as rain gardens, different ways to facilitate the natural environment around you with vacant properties. So if you're not going to build on it, you might be able to do something else that's productive with it.

Lot next door. We've done a couple of those in NSP2. We've done a lot of those with our Road Home land bank properties. That's finding the adjacent eligible homeowner next door who wants to make their lot bigger. And then also we've experimented a bit with some taxable interest properties. So NORA expects to possibly land bank a few more, add to our larger land bank, add a few more from NSP2 by purchasing some taxable interest properties.

Other thing I wanted to mention when I was talking about things for this -- issues for this webinar is what I've seen from folks that are going to be good at land banking and good at getting rid of those properties in the land bank within that time period that we have 10 years after close out. Obviously, stabilizing the properties that are in the land bank, especially if they have structures, Harmony knows this all too well. You've got historic properties. You can't demolish them, but you've got to figure out a way to stabilize them.

So you've got to be thinking ahead of time about where you're going to get those funds. Sometimes that might be some program income if you're lucky enough to be a partner that is selling properties in your eligible use ERB categories as well. Then you might be able to use some of that program income to help stabilize your land banks.

I'm not sure how many other people set it up like that, but we did have our partners that were doing a little bit of both. And particularly, longevity, and what I mean by that is making sure that you have a strategy that you write down. So there's a lot of staff turnover at a lot of places, but even if there's not a lot of staff turnover, it's easy to forget why you made a choice you made the first time, even if it was the right choice. So making sure you write down what your strategy and why you're doing it a certain way. So you can always go back to it and keep repeating that and then the folks after you can carry on that same policy and guidance.

And also obviously being flexible because things change even -- gosh, they change a lot in the last four years since we started NSP2. So you just have to be willing to hold on to the property longer or be -- maybe be ready to let it go even when you thought you were going to keep it for site control for other uses.

And these are -- I consolidated all my pictures onto one page for you guys. I've got a lot donation -- that big cents at the bottom, that's all that's trying to indicate there. I think these are the same houses that Harmony showed at Saratoga. I'm not sure. They look very similar to those other ones and obviously on the right hand corner, that's a land bank property that is hopefully going to partner with a developer soon to get it up to its former glory and out on the market.

And then on the left -- top left corner is just -- it's a vacant lot, but if it wasn't owned by one of our land bank partners, it would very easily -- we'd be overgrown grass, garbage strewn and not attractive at all. So at least now it's a corner lot; it's a high visibility. At least it's being taken care of and it'll be that way until they figure out what they want to do with it.

So I think that's all I have to say.

Kent Buhl: Thank you, Lois. Also very -- a lot of hard work going on down there. Now, it's time for Q&A, but don't go anywhere, Lois, because we just got a question from Chris saying regarding NSP2 side lot sales. "How did entities develop a sales price for SUD side lot?" That question comes from Ingham County Land Bank in Lansing, Michigan. Do you have any insight on that?

Lois Colson: Is that -- that's to me, I take it.

Kent Buhl: I believe so. Yes.

Lois Colson: Okay. Yeah. I'm trying to recall because it's been a while. The side lot would be appraised value of a vacant lot I think is how it was determined. And then there was -- in a different program that wasn't NSP2, there was a partner program with the lot next door that allowed a discount in the price if you invested in, for a lack of a better term, aesthetic beautification measures. So making sure you got a fence up or planted some trees or some bushes and you would get a discount on the purchase price if you did these things and it was -- an inspector would go out and check and make sure they were done. So that was one way to help reduce the cost.

Kent Buhl: Very good. Thank you. Remind folks that we have two ways to ask questions. If you have an icon next to your name, a phone or headset, you can raise your hand and let us know you want to chime in verbally. You can also submit your questions in writing. And we've got a couple more of those that are stacked up here.

Here's one for our friends in Lorain County, Ohio. And let me find Don's phone and unmute Don and Mona, question from Leslie who asked if you were trying to sell the properties at the appraised price or the total development cost.

Don Romancak: On the one property, it was total development cost because our appraised price was substantially higher. The other ones we were doing essentially at a fair market value because our development costs were substantially higher than the market value. So we had both in play. The biggest one -- the more troublesome one was actually when we invested substantially less than market value and that was trying to get the appraisers and the homeowners to understand what was going on. And that was where Mona and our realtor had to do a lot of work educating.

Kent Buhl: Very good. Thank you, Don. We've got a question from -- where did it go? From Alan [ph] and this one is for Una. Let me get Una unmuted here. And Alan asked, "Did you have any difficulty in New Orleans with adjudication of the properties? And did that add to your difficulties in acquiring or disposing of them?"

Una Anderson: I would say generally adjudication is a difficulty. I don't remember if on the properties we bought -- Charles, do you remember if they were actually adjudication problems?

Charles Cutno: No. All the properties [inaudible].

Una Anderson: Okay. So on the ones that we did acquire with NSP2, we didn't have adjudication problem. And actually, I think it's probably because we steered clear of adjudicated properties. Hello?

Kent Buhl: Thank you, Una. Yep. Let's see what else has come in here.

Let me go to Angelica's question." Can we sell the property for less than we invested and then it appraised? Is there anything we need to worry about with that? And how long could we go?" Let me get John and Paul in here for that question. And if any other panelists care to chime in on that, just go ahead and unmute yourself if you are muted already.

John Laswick: Yeah. Thanks. I was having some thoughts about the vacant lot. So I think it's a little different with a house on the property than with a vacant lot because there are some constraints in the NSP rules. But generally, they are constraints on the upper side of a sales price rather than a lower side of the sales price. So you could actually discount pretty substantially if that's what it takes to sell the house. We're interested in stabilizing the neighborhood and if you get less income on a particular unit, you might still be doing a greater service to the neighborhood.

So the disposition regulation in the CDBG program says that you can dispose of property by sale, lease, donation, or otherwise. So that's pretty covers any other option that you would want in terms of pricing. You're going to have considerations of fairness, of over subsidizing somebody if you go too low on the price depending on the person's income. On the other hand, you might be able to reach somebody that's pretty modest -- that's got a pretty modest income if you can get the price down.

So those are factors that have really more to do with OMBs concerns about not unduly enriching someone or over subsidizing or whatever. I have seen -- as far as side lot sales, pretty deep discounts on those. I think Detroit's got -- they have a million side lots and they're not all HUD purchased, but I believe they're selling theirs for $100 each with restraints in terms of what you could do with them.

Or as Lois was saying, requirements to keep them upgraded or plant trees or other kinds of things. But I think the bottom line is that you have a tremendous amount of flexibility in how you price them and what you require in terms of subsequent uses in order to bring that stability to the neighborhood.

Kent Buhl: Thank you, John. Here's a question that many of you may have a response to. Marga [ph] asks, "What are recommended strategies for rehab properties that have since been vandalized? And do any of you have experience with that?" Go ahead, Una.

Una Anderson: Yeah. This is Una and Charles. Unfortunately, we definitely have experience with that. So for the rehabs that we did, which were fairly historic, Charles went back and got the historical element recreated. We were not able to protect the houses from that and they were, in some cases, in pretty bad shape by the time we were able to get to them.

Phillip Bush: This is Phil. So this is an issue I've run to in a couple markets. I mean, ultimately, one of the big challenges I've seen -- we've had to weigh is how do you do the repairs and when do you do the repairs. I was doing some work in Dallas, unfortunately, where we had properties that would be -- kept getting hit. So we stopped doing the repairs because of the cost of continuing to do some of the repairs was extensive. But it's very difficult to market a property to a homeowner if the property's not in tip top shape. I mean, sales ready is an important requirement.

What we ended up doing in that situation, actually, was selling the property to a non-profit who operated as a rental. So we actually ended up backing away from sales in that situation. But I think it is definitely a situation case by case, but it is a real challenge when you're not able to keep the property secure, which is in some neighborhoods, you just can't easily do.

Jean Lowe: In Rochester, we've developed a strategy with the police. If there's a house that gets hit over and over again, which does seem to happens sometimes, the police, if they're called to the site by a neighbor or whatever, they will often not press charges. And we've set up a system with the police where we identify those problem properties and we ask that the police, rather than be polite and ask people to move on, that they take people into custody immediately and that we will promise to press charges.

And so sometimes that's really harsh, but it breaks up activity and lets people know that we're taking it really seriously and can keep people from coming back to the same property. We haven't actually gone to court, but we have -- the police have agreed to actually take people into custody.

Kent Buhl: Thank you, Jean. Anybody else have anything to do that vexing problem?

Paul Patterson: This is Paul Patterson. The important thing to remember is to make sure that you get insurance on the property because NSP program will only pay for the repairs originally that are put in property and not for additional vandalism, two things have already taken care of.

John Laswick: My experience in looking at properties in Miami is having a really mean dog in the yard seems to be really effective.

Phillip Bush: If there's not another question, I guess I'd love to ask a question of both of the folks in New Orleans and the folks in Rochester. It seems both of you made reference to getting the neighborhood ready or the neighborhoods being ready before you started to rehab or bring new properties online. Jean, I think you talked about plans concentrated development with the city. And Una and Charles, I heard you talking about holding land bank properties and really assessing the situation before you started to do the development of those properties.

Can you talk anymore about how you make that decision about when to start the development process to bring the property to market? Are you watching sales in the area? Are you consulting with other non-profits? What leads you to -- what are some of the triggers that lead you to do decide now is the right time to develop this property that we haven't been moving on previously?

Jean Lowe: So in Rochester, there has been a lot of acknowledgement from the community and a lot of work by the city of Rochester to identify these areas where they're doing focused investment. And the physical changes are pretty remarkable. So when eight of the 10 houses on one short block have received a grant and the exteriors are -- the lead has been remediated and they're in terrific shape, you start to feel more comfortable that you're going to be able to get the appraised value you need from the appraiser when they drive down the street.

So unfortunately, there isn't a perfect formula. But when the investments have been going on for two years and you start to see a change in the neighborhood, then that's when we've felt confident enough that we've gone ahead and acquired or completed the renovation.

Una Anderson: So in Harmony's case, we had done some new construction with NSP2 funds a block away from the two Saratoga houses. So that did help create more of a market. And then in our homebuyer pipeline, we really found at least -- we found one strong buyer who was insistent on that location. So we were able to get a purchase agreement with her even before we began rehab of the house.

So having a pipeline of interested buyers and knowing that they're interested in that location helps tremendously. I know there are some locations where we have really stepped out a little further toward that age than our comfort level, but that's just because we recognize that sometimes we have to create the market in certain neighborhoods. We tried to get a level of scale. So the property surrounding that NSP2 property to create the scale if we are trying to spark the market.

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But that's just because we recognize that sometimes, we have to create the market in certain neighborhoods. We try to get a level of scale, sort of properties surrounding that NSP2 property, to create the scale if we are trying to spark the market.

Charles Cutno: Also, additionally to that, we do monitor appraisals in the area, values. We do monitor that to see what's what and to see what -- we pay close attention to a lot of funding sources that may come out and with the land bank properties in mind saying, "Okay, if we do go in and develop this property and it's in an area that's ripe for transition but not right there at that moment, then what incentives we may need to put in place so this property can sell.

And that could be in the form of a soft second to an individual that 80 percent AMI and below. And then apply for that [inaudible] and understanding what that means to get that property back in [inaudible] and continue to move in the direction that we need that neighborhood or that area to move in. Just kind of thinking about it overall, a large picture and view, and collecting a lot of data. But at the end of the day, it's still all chance.

Kent Buhl: That's helpful. Thank you for talking us through that. We have gotten a couple more questions in here. Destiny asks about, "Any recommendations the panelists or any of the other attendees might have on dealing with problem neighbors. We have had loads of showings and the house is priced right, but as soon as they see the neighbors, there's no interest. Nothing illegal going on. They're just intimidating."

Phillip Bush: It somewhat sounds like this is the other side of the coin from friends and family. Friends and family can certainly be a real asset in selling a property. But it sounds like in this situation, you don't have any friends and family that are pulling people in. I know earlier in NSP, there were several communities I'd worked with where sales had been made, or at least initial sales had been made, and the family actually of those buying the house came to see the new house and saw the neighborhood and really discouraged people from actually closing the transaction.

I think it sounds like one of the things you may want to look at is looking within the community for homeowners. If the immediate neighbors really are just -- if it's the neighborhood as a whole and not just the immediate neighbors that are an issue, then you may need someone who already lives in that community and is comfortable with it. If it really is just the immediate neighbors, it may be about building a relationship with them, which sounds like it could be challenging. I don't know if others have experience with getting people comfortable with certain neighborhoods. I take that as a no.

Kent Buhl: Does that resonate with anybody else on our panel?

Jean Lowe: Well, in that I'm very sympathetic. It's a really tricky problem. I have a property that's been on the market for a while and I don't think it's the neighborhood. I truly think it's the folks next door. And the only thing that we've been able to do -- because they're renters, not owners -- is ask the city's code enforcement people to continually issue notice on the code issues associated with the house. But of course, that affects the owner, not really the residents next door. So trying to change things that way has proven to be difficult. It's a real problem. We don't have a solution for that one.

Kent Buhl: Well, if anyone else has anything -- any other ideas that come to you about that, you can submit those at any time. Thanks for the question, Destiny. We wish you luck with that one.

Angelica's goes back to the vandalized property and really a question about eligible expenses. "Can we make repairs or rehab after we've already done this once and then it's vandalized? If not, what are the options to protect the property? Are there any conditions under which we can rehab it more than once?"

John Laswick: Well, as Paul said, not with HUD funds. So that's why you'd want to have insurance. But if it's too late for that, you're really looking at local sources of funds for that. Or maybe this house is not going to work for you either. So, I mean, I don't want to talk anybody into abandoning a neighborhood. But there could be some properties that are just not going to work.

Lois Colson: Kent, I don't know if you can see it but I have a question in my box.

Kent Buhl: Yes, so the one from Jennifer that asks --

Lois Colson: Yes, I didn't mean to jump ahead. I just didn't know if that was visible to you.

Kent Buhl: No, no, that's good. Thank you. We were -- that's very timely. "Can you expand more on any unique issues related to tax sale purchases with NSP?"

Lois Colson: Yes, I can say a little bit more about that and it is a tricky wicket to deal with. One thing that I would say is you have to be sure if you are going into a transaction like this that you are very careful with the wording because we didn't actually acquire -- and that's the key word -- any of these properties yet.

The way it works -- and I don't know if every jurisdiction is similar. This is a tax sale interest purchase. So we purchase the interest in the taxes due. The owner has three years to redeem the property and pay the taxes. And that did happen with some of the properties that we did this with, and that return of the funds plus interest was program income. And that was sort of the intention of the original person who thought of this plan. It's like the idea is just we'll earn some program income to use elsewhere in our NSP2 if all of these were redeemed.

Now, all of them weren't and the three year threshold has passed. So we now have the option to go -- I think it's called file a quitclaim but that would require getting clear title and going through all the noticing. So that will take a while. That's why these are thankfully eligible as land bank properties, because it could take a long time to get to that point.

The other thing I would say tricky with them -- and we haven't carried this all the way through yet because we haven't acquired any yet -- is the URA and the -- oh, gosh, why am I blanking on the -- the environmental review. Because you want to make sure to get those done before you actually acquire the property and before you got to a point where you couldn't turn back. So those are the three things I would mention are unique issues, to make sure you have kind of a strategy for if you were going to go down that route.

Kent Buhl: Thank you, Lois. Kwai Chang [ph] asks, "Do you normally have an alternative plan of action, especially in terms of funding the rehab properties when the market and secondary funding sources are unfavorable or delayed? Anybody have a plan B going into it?"

John Laswick: Kent, this is John. I mean, we're going to talk about this a little bit more. But I think that maintaining the properties in reasonably nice-looking condition is sort of the safety valve. It buys you some time. Now, from what we're hearing, of course not all properties are going to stay in good shape. But if it's a land bank or if it's a sort of longer term hold -- and we'll talk about this more in the next presentation -- it's in your interest to keep them in good shape because that maintains their eligibility and could save you money in the long run, regardless of what you do.

Phillip Bush: And in terms of -- I don't know, Una and Charles, if you want to talk about it, but it sounded like for a lot of -- some of the properties you had acquired, that you had a plan potentially of selling them and are now looking at a rental plan. So that kind of is the plan B, as there's not NSP program income to fund their development. Was the intention to always develop them as rental or is that something you fell back into?

Charles Cutno: We knew that some of these properties we were looking to acquire -- some of the properties that we were looking to acquire, that there was a strong possibility that they would be going [inaudible] units. We knew it was very important to get them into commerce though. So we did have a plan B. Okay, worst case scenario, if this doesn't pan out -- and there are certain locations that work better sometimes for rentals -- that we would go after and put them into some type of rental properties. Practically a [inaudible] deal. So yes. So initially when acquiring those properties, we kind of asked that.

We kind of -- we view every property we acquire and had a discussion over what's the plan A for? What's the plan -- and then at that point, what's plan B? And even sometimes plan C and D, to be honest with you. And then we kind of worked on those strategies. We worked on those strategies. But of course for the community that's we're working in, it's constantly changing and our strategies have to be flexible enough to those change with those changes. So it's a possibility that it wouldn't work on this round [inaudible] though we might [inaudible].

So then we would go back. I would look at it and approve filing development portions of those properties, depending on additional public and private investment that it needs to [inaudible] including the two or three [inaudible] approach at that point. But it would require us also pooling additional funding from some local sources, most likely outside of NSP2 to get that done.

Una Anderson: And when Charles talks of some of the rehab properties that are -- or property structures that are in the lifetime deal, they were originally in our first thought was to demolish them and build new construction homes on those lots. The [inaudible] preservation office changed our minds. They basically told us no. So I would say on two of the structures we're rehabbing through the tax credit deal, that we're already on plan B.

Kent Buhl: Thank you, Una. There are a couple more questions lined up but we have more time at the end and we'll get to those questions. But now, I'm going to turn it back over to John Laswick to go over the March 14th guidance that was released. Go ahead, John.

John Laswick: Okay. Yes, so I don't know. I kind of came to this webinar thinking that this is the -- it really is the difficult property. So whether they are being vandalized, in the process or in many cases, you can't -- you have run out of money to deal with them in the short run. Or the market in the neighborhood has just gotten worse since you went in there. So these are sort of last resort kind of strategies and I'm not going to go into all the different angles of demolition, for example. But you can demolish properties, obviously, under eligible use D. And you can do it under -- as redevelopment under eligible use E for vacant properties, or as part of reconstruction under eligible use B, which is really-- reconstruction is really rehab, extensive rehab.

So this is something that you might need to think about. And I thought it was interesting to hear the new Harmony folks talk about how they really -- sounded like kind of demolished everything but the façade of the house and rebuilt it because that stuff was probably obsolete, functionally obsolete in the back while the street view is gorgeous.

So I guess, as we've thought about this more over the years, we've thought about disposition being both the eligible activity and the end use. Or as the eligible activity that leads to an activity, a different activity that meets a national objective. So if you, for example, demolish a property for housing. So you've got demolition under eligible use B, for example, and you come in -- or eligible use E -- tear down a structure that's vacant and then rebuild another structure, that the disposition really is just a weigh station toward the eligible use of redevelopment and the national objective of providing low, moderate, or middle income housing.

On the other hand, it can be its own end use. You demolish a house that is severely blighted, dangerous, a very bad influence on the neighborhood. Just taking that out, typically, will meet the national objective of area benefit if you've properly documented the condition that it's in. And the same thing is true with properties that you don't acquire but that you demolish. And I think that's more the standard in this program. And so you can look at demolition as an end in itself or as a means to a different end. So what we've tried to just encourage people to think of you know, how to -- what you're trying to get. And the problem is that what you're trying to get sometimes shifts on you, as we've heard. You need a plan B or a plan C sometimes.

But sometimes demolition is really maybe not something you thought of when you bought that house and now that you've -- now that it's been vandalized and now that the neighbors are scary, you realize, "Um, you know, maybe this isn't going to go." So you can demolish it and then come back a few years later and build a new structure on there. And the demolition is just – sort of buys you time to wait for the neighborhood to come around.

I mean, I think that's what Rochester was saying. And I thought that was very interesting, that you've really got to kind of grow with -- your properties have to kind of grow with and move in sync with the dynamics of that micro-market. And you can't really drive it alone. You can affect it but you can't guarantee an outcome. So I would just suggest that you think about demolition as a flexible tool, not one that we want to consider first off. But sometimes you can get so fixated on doing this rehab despite the 5,000 things that have gone wrong that you don't consider the fact that you could just take it down and wait for a few years and then come back and try again. And that's easier said than done because in a few years, you might not have the money. But if the house continues to be damaged by vandals and so forth, you're just losing ground.

So if you see here, the demolition or disposition have to meet the national objectives of housing, low income housing, area benefit, jobs or limited clientele. And we'll get into a little more detail on those. Could we go to the next one? Am I doing this?

Kent Buhl: You've got the ball. There you go.

John Laswick: Thanks. All right. So we kind of covered some of this. I noticed there's a little typo down here in the lower right hand corner. It's really 10 years of close-out, not 20 years of close-out. But demolition of land bank properties -- again, this is what we were just talking about -- is something that you might want to consider. Certainly not -- for historic properties, I mean, that would be a last, last, last resort but if it's a kind of average structure, if maybe you just don't need to keep it standing. And then you've got to deal with sort of an interim use or maybe you've got a community use, community garden or side lot or something like that that you could use. I think when we get a little bit further in here, you're going to see that it's possible to get out of any property in this program. The only question is how much it hurts. So all right.

So here again, we are looking at the idea that disposition can be an end in itself or it can be a means to an end. So when you acquire property, you have to meet a national objective for the acquisition and you have to meet a national objective for the disposition. And a lot of folks don't really see that because if you buy a house to fix it up and sell it, it's kind of -- it seems to happen all at once. But in reality, for some of these difficult properties, you're holding on to them for a while. So the first question you have to ask yourself really is, "What's the eligible activity for the acquisition?" And in many cases, that's going to be an area benefit national objective. And as I was saying earlier, you are -- in order to kind of keep up your eligibility for disposition to be an eligible activity and meet a national objective, you'd have to continue to maintain that property. So that's a long term commitment and it may or may not really work for you. But we'll talk a little bit later about what your options are if you can't dispose of it as an allowable expense and an eligible activity.

But for example, you can sell a property to -- as a public facility or an improvement for low, moderate or middle income area and that would be something like the Rain Parks [ph] that Lois mentioned, or a lot of the great stuff that Cleveland and Cayoga County area are doing with small pubic scale -- small scale public improvements: walkways, pathways, that kind of stuff. Those actually keep your options open too because you have not only created an eligible end use, but then you have a property that may, in some cases, have the ability to be reused. So that's one.

Disposition is, for special economic development, this is going to be kind of limited in terms of where -- in terms of eligible use B for NSP2 and 3 or eligible use E for NSP1. But there are places where you could do, for example, under eligible use B in the NSP2 program, you could acquire a house and have it turned into a neighborhood daycare center, for example. So there would be jobs there. It would serve the neighborhood and it would potentially meet the LMMI national objective and you could satisfy it that way. Those, I think, are pretty few and far between.

So the next category is disposition as both an eligible activity and the end use. And here, you've got disposition for a side lot. And we've talked about this already. You're disposing of it and we have actually quite a bit of -- sort of development of this thought. And what I would point out here is that we have decided that disposition of properties as side lot meets an area benefit activity because it doesn't just benefit the household that acquires the real estate, but if they're maintaining it, it benefits the entire neighborhood.

And that kind of flows from the assumption in many cases that there was a house there that was demolished and that was an area of benefit and then that area of benefit sort of flows through to the next use. And there's been some anguish over the years about do you have to sell it to a low and moderate income person or things like that. And this interpretation solves that problem for you because we consider it to be an area benefit activity, as long as the area obviously is low, moderate or middle income.

And then you can dispose of a property for an illegible activity that meets the national objective that you would, for example, use other funds for. And so this would be a community garden or something like that. In NSP2 and 3, it's not eligible to build that garden but you could sell it to a neighborhood association or donate it to a neighborhood association and they could build a garden themselves and that's going to be typically an area benefit kind of activity.

All right. So this is our latest thinking on this and thanks to Detroit and all the interesting things they're doing these days. And hello, Marjorie Winter [ph] by the way; saw your name there, former Detroiter. So this kind of breaks down the thought process a little bit more and it gets you thinking about this idea of meeting a national objective for both the acquisition and the disposition. And a lot of what you do will meet both of those. You acquire a property, tear it down, fix it up or whatever, and sell it to an income-eligible person. And you have met an area benefit for the acquisition and then a housing benefit for the disposition.

Now, if you're a land bank or if you're a city that is holding properties acting as a land bank, you have to continue to meet the national objective that you got for the acquisition. So if you acquired a property, whether it's got a structure on it or not, and you are improving the neighborhood by maintaining the property. You are fixing the broken windows, boarding it up, cutting the grass, shoveling the snow and whatnot -- as long as you continue to do those, you maintain the eligibility of that acquisition. And in fact, all those maintenance activities are considered to be part of disposition. So you're buying yourself some time on the disposition. You're creating the ability to move to a final disposition and meet a national objective. But in the interim, you have this temporary use.

So this is why I was saying before about how it's in your best interest to continue to maintain that property because once you stop, you threaten to undermine the eligibility of the acquisition as well as the disposition. And so in those cases you would be required to return all the funds that you spent on the property, both to acquire it, do any repairs and do any maintenance. And you don't want to do that, in most cases. So that's why we talk about acquisition and delayed disposition. So you continue to own the property and you can't meet a national objective until you actually dispose of it in a final way but you keep your options open as you go through that.

So if you want to retain the potential to meet this national objective, you have to demonstrate that the property's disposition will contribute to stabilizing the neighborhood, complete the environmental review process that was started when the property was acquired because you didn't know what was going to happen. So you keep that open. And then retain it until achievement of a national objective enables it to be considered for a completed NFP activity.

So a lot of times, this is just a matter of time. We heard about these properties today. They were acquired two years ago. They're sort of mothballed and it may be another two years before you can really get in there and undertake those improvements. And so you want to keep maintaining it. It's better for -- it's obviously healthy for the neighborhood but it's also healthier for the economics of your program.

So on the other hand, I mean, there's going to be properties where you just can't meet a national objective for the disposition, or you don't want to. So I don't know if Marjorie remembers this but we had a house in the -- there was a house in the Boston Edison area of Detroit, beautiful neighborhood. But tough neighborhood in a lot of ways. And the land bank, Detroit land bank was in there fixing up the houses, doing a beautiful job. And they called me one day and they said, "Well, we've got this guy that wants to buy a house but he's over income." And I thought, well, damn, this is great. This is what we've been waiting for, people that actually want to live in here that aren't poor people.

So, that's a higher purpose and you can take the property out of the program for some reason like that and sell it. And then you have to reimburse the program for the property's current market value because you've already met one national objective. And so here again, if you've maintained that first national objective by maintaining the property, then this gets you to -- this buys you the ability to sell it at current market value as opposed to all the money that you put into it. So that's usually an advantage.

And then for properties on which the land bank or the grantee expended less than $25,000 for acquisition and improvements, not counting the maintenance, then you can take the property out of the program with no reimbursement to the NSP account. The only requirement there is that you work -- you show your costs to the local HUD field office so they can verify that they were in fact less than $25,000. That number is an OMB sort of de minimus number. So it's the kind of thing that -- I don't know what a lot of your neighborhoods are like but we've seen plenty of neighborhoods where there is less than $25,000 in these things and you know, maybe somebody's going to build a new house. So that's an option for you. You don't have to be stuck with it.

Now, for the worst case scenario, and again, maybe it's not too bad, is that it doesn't meet the national objective for either acquisition or disposition, in which case you have to reimburse using local funds the full amount of acquisition, improvements and any maintenance, not counting administration.

So you may get to this point with some of these properties and this -- hopefully it's not going to be all that expensive to you. I know that in the case of Detroit land bank, they had a lot of properties that -- I think most of the 100-some NSP properties that they had had a value of less than $25,000. So they're auctioning those off now on the Internet. So there's a lot of variations there. So these are sort of complicated technical policy areas and I've kind of rushed through them. But I'm hoping that there's questions or if there is clarification that's needed, I'd be happy to take some questions.

Kent Buhl: John, we do have one related to the $25,000 limit there. Jeff says that they've purchased lots in bulk. In one case, it looks like 29 lots and in another case 15 lots, all of which are under $25,000 on average. But is the average cost used or the --

John Laswick: For those, you should get a broker's price opinion. We don't require appraisals unless it's over $25,000. But you need to have somebody tell you what an individual lot is worth. It's -- you can't extrapolate from a bulk purchase, I don't think. But a broker's price opinion is fairly quick and not hideously expensive.

Kent Buhl: Cathy says that they land banked lots for approximately $40,000 per property acquisition and demo. Private developers want to acquire them for little or nothing and there's no NSP money in construction. We're told deed restrictions will deter potential buyers. So we can ensure affordability via FDL to the end buyers?

John Laswick: I'm not sure what that means.

Kent Buhl: I'm not sure what FDL is either.

John Laswick: Well, yes, maybe she could write back in and clarify. If you've got $40,000 in a property though, your options are more limited than this entire list. You can take the property out of the program by reimbursing NSP at the current market value. So if you've got vacant lots that you've got $40,000 into, and the vacant lot is currently worth $19,000 and you can get that confirmed via an appraisal or broker price opinion, and the other people who are interested in it are willing to pay that price, then you can sell it to them. Or you can make up the difference with local funds, if that's something that you would want to consider.

I mean, it might be worth it, just to get out of the hassle of worrying about it all the time. So that's probably sort of your most attractive option, especially if they're not interested in deed restrictions because without some sort of commitment to affordable housing, for example, there's no way you're going to meet that second national objective.

Kent Buhl: She did clarify. FDL, forgivable deferred loan.

John Laswick: Oh, okay. So could you read that sentence again, please, Kevin?

Kent Buhl: Yes. "We're told that deed restrictions will deter potential buyers. So can we ensure affordability via a forgivable deferred loan to end buyers?"

John Laswick: Well, that might work. I mean, if you're going to get an income eligible end buyer and the developer is willing to work with you on that type of a restriction, I can imagine that that could work.

Kent Buhl: Andrea asks, "If a non-profit finds a buyer, including a religious organization, if we paid an incentive, is the incentive eligible for federal fund reimbursement?"

John Laswick: I'm not sure what they want to use the property for. So maybe she could clarify. That sort of matters. Are you just selling it outright and they're going to do anything they want with it? Or it's going to be used for religious purposes? Or is it just housing and it just happens to be owned by a religious organization? Those things kind of matter to figuring this out.

Kent Buhl: If you could write back in, Andrea. Here is something that John, you, and/or the other panelists may have something to say about. Can you talk some about using lease purchase for a property that does not sell or do you just go directly to rental?

John Laswick: Oh, yeah, that's a good point. I think that's a good option. It's not everybody's cup of tea but you know, you have a little more flexibility in NFP than you do under the HOME program, for example, which requires you to sell that unit after leasing it for 36 months or 39 months or something. So that seems to be the big program with lease purchases. The people can't get to the income level they want to get to in the period of time that is necessary but NSP would allow you to set your own limits on that.

And so you've got to have the right buyers for that though because it's got to be somebody that's going to be bankable within a couple of years and I think that's the hardest part is really getting the right family in there. But it certainly is an option. I don't know -- I mean, there's been quite a bit of talk about it in NSP and I'm not sure how much was actually used. I'm sure there was some out there but I don't think it was really as widespread as people might have thought it would be earlier in the program. But it's perfectly legitimate.

Kent Buhl: Destiny is wondering if anyone has experience with properties acquired through the national community stabilization trust that initially thought rehab was going to be possible but due to circumstances, demo ends up being a better option. She says, "It's my understanding that this is not an option, but we could certainly have the need."

John Laswick: Well, yeah, I think people should write in or call in. I mean, I don't know what the NCST's rules are. As far as NSP goes, I don't think it's prohibited but I can imagine that the trusts might prohibit that. I just don't know.

Phillip Bush: John, my understanding is the trust position on that has evolved over time as the financial institutions that are transferring properties through the have tightened up their requirements. They have basically been applying greater requirements. Because the trust is not a market listing transaction, they want to make sure that they're getting a mission impact.

To the person who has the question, I think it's certainly worth talking to the trust about why demolition is the appropriate outcome and making the case that that actually is the positive outcome for the community.

If there is a restriction here, it's not originating from the NSP regs, as John pointed out. It's really most likely originating because the financial institution wants to make sure something good is happening with the community. And I assume the person asking the questions has the best interest of the community in mind. They just are limited by what's financially practical. So I really would suggest a conversation with the trust. I think that's something you can probably work out, if you can explain why you're taking that appropriate approach.

John Laswick: Yes. They're reasonable folks and I mean, I think they might consider on an exception basis. They're not going to obviously want it to happen a lot but there's those situations where that really is the best option.

Kent Buhl: Edith asks, "When neighborhoods are cleared for redevelopment, what percentage of the new development must be low or moderate income?"

John Laswick: Well, I guess it depends mainly on the source of the funds for the -- for the clearance and the redevelopment. So let's say you've got one of those nice looking blocks in Rochester with maybe 12 lots on either block face. And for whatever reason, you come in and tear those all down and you use a combination of NSP money for 25 percent of it and local funds for the other 75 percent. Then you would really only be -- assuming local funds are flexible -- you'd be required to ensure that 25 percent of the buildings, or 3 of the 12, would be low, moderate or middle income based on the source of the funds through NSP.

We have seen combinations with HOME funds and NSP. HOME has somewhat tighter income restrictions. So not only do they have income restrictions but there's are 80 percent median like CDBG instead of 120 like NSP. So you really have look at where your money is coming from and who is paying for the reconstruction and do some sort of a pro rata basis.

Kent Buhl: Stefanie says that they purchased a house to rehab but had to tear it down. The vacant lot is in a low mod area and is now in a land bank. Does this qualify as disposition?

John Laswick: Well, so I don't know. It doesn't sound like it's been disposed of to me. It sounds like it's still in this sort of land bank limbo. And until you actually give it to the next door neighbor or sell it to somebody or whatever, you are still waiting for the other shoe to drop as far as NSP goes. So if you've acquired it and demolished it with NSP funds, you've probably met an area benefit national objective. If you continue to maintain the property, mow the grass and so forth, you could probably keep your hand in.

And then sort of your best option would be to sell it to somebody who wants to build a new unit but that might not happen. So then you need to look at other end uses, such as community gardens and that sort of thing. It needs to be in use, and so a vacant lot really isn't use. It's just in transition.

Kent Buhl: "How far the local government and non-profits are successful in promoting lease purchase options for land banking projects." I'm not quite getting that question. Does that make sense to you, John?

John Laswick: Well, it sounds like they're asking about whether lease purchase has been a significant tool. I don't believe it has been but that's just kind of anecdotal though. There's been a lot of communities that thought about it and some have tried it. Some have made it work. I think you need a probably reasonably healthy economy, at least for people to continue to raise their incomes, clean up credit problems. So you need people who fit the right sort of model for that, which is that they are not ready to be bankable but you can see that they would be bankable in a year or two through taking classes, through cleaning up their credit, possibly by increasing their income so that they're more bankable as far as the lenders go. And so it's kind of a sort of a special mix that you need.

But I think it's possible and I think it's a good thing. It keeps the house occupied. You don't want the house to be sitting there. You don't necessarily want it to be a long term rental because you don't have the ability to manage it. But you're still going to be managing it as a rental for two, three, four years. So you have got to ask yourself if you have the resources for that too.

Kent Buhl: Looks like we're winding down here. Phillip or any of the other panelists, or John, any final words? Any bolts of wisdom that have come to you since you last spoke?

Phillip Bush: I don't know about bolts of wisdom. I certainly appreciate everybody taking the time to get on the call and appreciate the questions. I think there were a lot of good questions. And of course, I appreciate all the folks from Rochester and New Orleans, Lorain County coming on and sharing what they're working on. NSP has been going on for a long time. It's amazing to see that's still going on and the good things that have been accomplished.

John Laswick: Yes. And I would just say, there's a way out of every property. So when people say, "Oh, you can't land bank for more than 10 years," well, that 10 years doesn't even start till your closing the agreement. And so you have time. I mean, you might not have great options but you have some options for every property. And some of those options may be better than you realize if you think about your short term holding costs and so forth versus selling it to somebody that's not low and moderate, middle income.

So don't give up. Contact your field office. Write into headquarters and we'll see if we can help you through this. But I think as we've evolved, a lot of this stuff has evolved over the years. I think we've tried to make it as easy as possible to manage and dispose of properties while still stabilizing neighborhoods as we possibly can. So I think there's a lot of fear and confusion early in the program about how we were going to get out of this and at least from my perspective, I think there's pathways forward. Thanks.

Kent Buhl: Thanks to all of the panelists today. We appreciate your time and especially the efforts that you're making locally to make your communities better and do the best you can with the NSP funds that you're working with. Thank you for being here and to all the attendees too.

Just a quick reminder that when you leave today, you'll be automatically redirected to a SurveyMonkey form. We'd appreciate any feedback you would give us and written comments are especially helpful.

So thanks to all of you and we look forward to seeing you again soon in another NSP webinar. Take care, everyone.