

# CHAPTER 20: THE NSP PROGRAM



## CHAPTER PURPOSE & CONTENTS

This chapter provides a general overview of the Neighborhood Stabilization Program, including a brief synopsis of the history of the program, a summary of the objectives of the program, the rules and requirements of the program and a summary of the process for implementing NSP activities.

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### 20.1 Program History & Primary Objective

✓ This section explains the history of the NSP program and its goals.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ Reason NSP was established</li> <li>✓ NSP primary objective</li> </ul>
Regulatory/Statutory Citations	<p>Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub. L. 110-289)</p> <p>Division A, Title XII of the American Recovery and Reinvestment Act of 2009 – Community Development Fund (Pub. L. 111-5)</p> <p>Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act: Additional Assistance for Neighborhood Stabilization (Pub. L. 111-203)</p>
Other Reference Materials on This Topic	Not applicable



- ✓ The Neighborhood Stabilization Program (NSP) is authorized under three appropriations by Congress.
  - The NSP program was enacted in 2008 under the Housing and Economic Recovery Act or HERA and is referred to as NSP1. This appropriation provided \$3.92 billion to local and state governments hardest hit by the foreclosure crisis nationwide on a formula basis.
  - The second round of funding or NSP2 for \$2 billion was appropriated under the American Recovery and Reinvestment Act (ARRA). NSP2 funding was competitively awarded to qualifying nonprofits and government agencies.
  - The third round of funding or NSP3 was appropriated under the Dodd-Frank Economic Reform and Consumer Protection Act of 2010. Like NSP1, the \$1 billion appropriation was allocated on a formula basis to local and state governments hardest hit by the foreclosure crisis.
- ✓ Each funding round provided as supplemental CDBG appropriation
- ✓ Congress created the Neighborhood Stabilization Program to help cities, counties and states deal with community problems that are the result of the mortgage foreclosure crisis in the nation.
- ✓ Neighborhood revitalization in areas hardest hit by the foreclosure crisis is achieved through NSP by providing funding to communities to buy up and rehabilitate or redevelop abandoned, foreclosed, and vacant properties.
- ✓ The NSP regulations set forth eligible activities and the national objectives that each activity must meet. As recipients of NSP funds, grantees are charged with ensuring that these requirements are met.

## 20.2 NSP Regulations

- ✓ This section provides an overview of the NSP regulations.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ Regulatory basis for NSP</li> <li>✓ Key regulatory requirements</li> </ul>
Regulatory/Statutory Citations	<p>Notice of HUD's Fiscal Year (FY) 2009 Notice of Funding Availability (NOFA); Policy Requirements and General Section to HUD's FY2009 NOFAs for Discretionary Programs – December 29, 2008 (FR-5300-N-01)</p> <p>Notice of Definition Revision to Notice of Fund Availability (NOFA) for Fiscal Year 2009: Neighborhood Stabilization Program 2 (NSP2) under the American Recovery and Reinvestment Act of 2009; Change in Definitions – April 2, 2010 (FR-5321-N-04)</p> <p>Notice of Neighborhood Stabilization Program Reallocation Process Changes – August 23, 2010 (FR-5435-N-01)</p>



	<p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p> <p>Notice of Neighborhood Stabilization Program; Closeout Requirements and Recapture – November 27, 2012 (FR-5660-N-01)</p>
Other Reference Materials on This Topic	Not applicable

- ✓ CDBG forms the regulatory basis for NSP. Except where otherwise stated in NSP statutes and regulations, NSP follows CDBG rules and requirements.
- ✓ The regulations implementing NSP can be found in a number of notices published for each of the three rounds of NSP including:
  - **NSP1:**
    - NSP1 Federal Register Notice – October 6, 2008
    - NSP1 Federal Register Bridge Notice – June 19, 2009
    - Notice of NSP Reallocation Process Changes – August 23, 2010
  - **NSP2:**
    - NSP2 Notice of Funding Availability – May 4, 2009
    - NSP2 Notice of Funding Availability (NOFA) Correction – November 9, 2009
    - NSP2 Notice of Funding Availability (NOFA) Correction – January 21, 2010
    - Notice of Definition Revision to NSP2 NOFA for FY2009 – April 2, 2010
  - **NSP3:** NSP3 Federal Register Notice – October 19, 2010
  - **NSP1, NSP2, and NSP3:**
    - Notice of Change in Definitions and Modification to NSP – April 9, 2010
    - Notice of Neighborhood Stabilization Program; Closeout Requirements and Recapture – November 27, 2012
- ✓ A copy of the NSP regulations and statutes can be found at: <https://www.onecpd.info/resource-library/>



## 20.3 Deadlines

✓ This section goes over the key deadlines for obligating and expending NSP funds.

Key Topics in This Section	✓ Applicable deadlines for obligating and expending NSP funding
Regulatory/Statutory Citations	<p>Notice of Fund Availability (NOFA) for the Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act, 2009 – May 4, 2009 (FR-5321-N-01)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p>
Other Reference Materials on This Topic	<p>NSP Policy Alert: Guidance for Tracking and Reporting the Use of NSP Funds: Obligations for Specific Activities – April, 23, 2010</p> <p>NSP Policy Alert: Guidance on NSP Loan Loss Reserves – December 7, 2010</p>

✓ Different deadlines apply to NSP1 versus NSP2 and NSP3.

- NSP1 included an 18 month obligation deadline requiring grantees to “use” 100 percent of their funds within 18 months following execution of their grant agreement with HUD. HUD defined “use” to mean that a contract was signed for a project or funds were obligated.
- NSP1 grantees are required to expend 100 percent of their allocation within four years following execution of their grant agreement with HUD.
- Under NSP2 and NSP3, grantees are required to expend 50 percent of their total allocation within two years and 100 percent in three years from the date their grant agreement is signed with HUD.

✓ HUD recovers funds if not committed or expended within these timeframes.

✓ Program income expenditures count towards the overall expenditure goals.

## 20.4 Areas of Greatest Need

Key Topics in This Section	✓ Areas of Greatest Need (Target Areas)
Regulatory/Statutory Citations	<p>Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub, L. 110-289)</p> <p>Notice of Fund Availability (NOFA) for the Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act, 2009 – May 4, 2009 (FR-5321-N-01)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p>
Other Reference Materials on This Topic	Not applicable



- ✓ NSP requires that grantees define areas of greatest need in their NSP Action Plan and invest NSP funding in those areas.
- ✓ Areas of greatest need are also called target areas.
- ✓ The methodology for determining target areas can take into account some local factors and must take into account all of the following:
  - Percentage of home foreclosures
  - Number of homes with sub-prime loans
  - Areas likely to see rise in rate of foreclosures
- ✓ All NSP funded activities must be located in the areas of greatest need defined in each grantee’s HUD approved NSP Action Plan.
- ✓ An eligible non-housing assisted NSP activity undertaken in a target area should establish a connection how the activity supports NSP efforts and neighborhood revitalization in the area.
- ✓ Target areas can be changed if needed through a Substantial Amendment to the Action Plan. NSP 2 Substantial Amendments must be approved by HUD.

## 20.5 Key Definitions

- ✓ This section provides definitions of key NSP topics and terms.
- ✓ The definitions included below are in addition to the Key Definitions found in 1.3.

Key Topics in This Section	✓ Key definitions needed for NSP
Regulatory/Statutory Citations	<p>Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008; Revisions to Neighborhood Stabilization Program (NSP) and Technical Corrections – June 19, 2009 (FR-5255-N-02)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p> <p>24 CFR Part 922 A, C, E, F and 92.254 HOME Investment Partnerships Program Final Rule</p>
Other Reference Materials on This Topic	Not applicable

**Affordability:** The requirements of the NSP Program that relate to the cost of housing both at initial occupancy and over established timeframes, as prescribed in the NSP statute and HOME Final Rule. Affordability requirements vary depending upon the nature of the NSP assisted activity (i.e. homeownership or rental housing).

**Abandoned:** A property is considered abandoned if one of the following is true:

- ✓ Mortgage/tax/tribal leasehold has had no payments within 90 days



- ✓ Code inspection determines not habitable and no corrective action within 90 days
- ✓ Subject to court-ordered receivership/nuisance abatement or state definition of abandoned
  - When property meets both foreclosed & either abandoned or vacant definitions, grantee must treat as foreclosed

**Blighted:** A structure is blighted when it exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare.

**Foreclosed:** A property is considered abandoned if one of the following is true:

- ✓ Property is 60 days delinquent under Mortgage Bankers of America delinquency calculations and the owner has been notified
- ✓ Property owner is 90 days or more delinquent on tax payments
- ✓ Foreclosure proceedings have been initiated or completed
- ✓ Foreclosure proceedings are complete and the title has transferred to an intermediary that is NOT an NSP grantee, sub, contractor, developer, or end user

**Home:** A permanent residential unit.

**Land Bank:** Public or nonprofit entity created for a single purpose: to acquire, manage, maintain, and repurpose foreclosed properties.

**Low, Moderate and Middle Income:** Low, moderate and middle income (also referred to in this manual as LMMI) means a family or household with an annual income less than 120 percent of the area median income based on the Section 8 Low Income Limit as established by HUD.

**Middle-Income Household/Family:** A household/family having an income equal to or less than 120% of area median income.

**Residential Property:** Homes and any vacant residential land and multifamily properties located on the property.

**Substantial Amendment:** A Substantial Amendment to a grantee's annual action plan and/or consolidated plan as described at 24 CFR 91.505. Circumstances under which a Substantial Amendment is required include changes: in scope, location, beneficiaries, or activities.

**Total Development Cost:** The total cost invested by a grantee or partner to acquire and rehabilitate or redevelop a residential property.

**Vacant:** Unoccupied or demolished structures or vacant land that was previously developed.



## 20.6 Eligible Activities

- ✓ This section describes the range of activities that are eligible under NSP.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ Five eligible uses under NSP</li> <li>✓ Types of properties eligible</li> <li>✓ Each activity has a corresponding CDBG</li> <li>✓ Typical methods for undertaking NSP eligible activities</li> </ul>
Regulatory/Statutory Citations	<p>Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub. L. 110-289)</p> <p>Division A, Title XII of the American Recovery and Reinvestment Act of 2009 – Community Development Fund (Pub. L. 111-5)</p> <p>Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act: Additional Assistance for Neighborhood Stabilization (Pub. L. 111-203)</p> <p>Notice of Neighborhood Stabilization Program; Closeout Requirements and Recapture, November 27, 2012 (FR-5660-N-01)</p> <p>24 CFR 570.202 (b)</p> <p>24 CFR 570.205</p> <p>24 CFR 570.201(a)</p> <p>24 CFR 570.201 (b)</p> <p>24 CFR §570.201(d)</p> <p>24 CFR 570.203</p>
Other Reference Materials on This Topic	<p>Guidance on NSP-Eligible Acquisition &amp; Rehabilitation Activities – December 11, 2009</p> <p>Guidance on Property Types Under Each Eligible Use – December 3, 2009</p> <p>Guidance on NSP Disposition and Demolition – March 14, 2013</p>

- ✓ There are five eligible uses under NSP:
  - Eligible Use A: Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties
  - Eligible Use B: Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon
  - Eligible Use C: Establish and operate land banks for homes and residential properties that have been foreclosed upon
  - Eligible Use D: Demolish blighted structures
  - Eligible Use E: Redevelop demolished or vacant properties
- ✓ The regulations and statutes place certain requirements and stipulations on certain eligible uses and not others. For example, the regulations and statutes under NSP2 and NSP3 cap the amount of funds that can be used on demolition. Additionally, the eligible use may dictate



the costs that are eligible, the national objective under which the activity falls, and the rules that are triggered.

- ✓ Only three possible property types can be acquired or rehabbed under NSP:
  - Foreclosed
  - Abandoned
  - Vacant
- ✓ All uses can include direct and related activity delivery costs
- ✓ Under NSP, disposition can be:
  - An allowable expense in an eligible activity, as a Public Facility (NSP1 only) or Special Economic Development Activities
  - Both the eligible activity and end use
  - The eligible activity used to dispose of a property for an ineligible end use that meets a national objective
- ✓ Please refer to the NSP regulations for a more complete description of each of these eligible activities and for an overview of how and when each eligible activity may be undertaken.

### **20.6.1 Eligible Use A: Financing Mechanisms**

- ✓ Eligible Use A: Financing Mechanisms, allows grantees to provide financing mechanisms for the purchase and redevelopment of foreclosed upon homes and residential properties.
- ✓ Grantees can provide financial assistance to a household to purchase a property or a developer to buy or redevelop homeowner or rental property.
- ✓ Some examples of financing mechanisms eligible under Eligible Use A include:
  - Soft second loans
  - Loan loss reserve
  - Equity sharing.
  - Housing counseling for households that are purchasing an NSP, CDBG, or HOME funded home
- ✓ Assistance should be provided as a loan, not in the form of a grant.
- ✓ In many cases, eligible activities under Eligible Use A can be done under Eligible Use B or E but there are some cases when Eligible Use A is necessary, for example if a grantee wants to establish a revolving loan fund.

### **20.6.2 Eligible Use B: Acquisition and Rehabilitation**

- ✓ Eligible Use B is for the purchase and rehabilitation of homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties.
- ✓ The property can be owner or rental housing.
- ✓ Eligible activities under Use B include:





- Acquisition
  - Disposition
  - Relocation
  - Direct homeownership assistance
  - Rehabilitation (including related financing e.g. soft second mortgages)
  - Housing counseling for participants
  - Special economic development activities
- ✓ Demolition of a structure on a property as part of reconstruction is Eligible Use B and is not considered under Eligible Use D.

### **20.6.3 Eligible Use C: Land Banking**

- ✓ Eligible Use C is intended for land banking homes and residential properties that have been foreclosed upon.
- ✓ In order to land bank a property, the property must be a specific, defined area.
- ✓ By definition, land banks must be operated by a public or nonprofit agency.
- ✓ The plan for land banked properties should include the reuse of each property for a specific eligible use under NSP and meets a national objective this must at time of closeout.
- ✓ NSP grant closeout agreement date establishes the start of the 10 year period to obligate all property in the land bank.
- ✓ If a property in the land bank isn't obligated within the 10 year period, it reverts to the CDBG program for immediate use.
- ✓ If a property is purchased and placed in the land bank after the closeout agreement date, it must be obligated by the end of the same 10 year period.

### **20.6.4 Eligible Use D: Demolition**

- ✓ Under Eligible Use D: Demolition the demolition of blighted structures is an eligible activity.
- ✓ Prior to demolition, the property can be any type of property including residential, commercial, or industrial.
- ✓ Demolition can include:
  - Demolition of buildings and improvements
  - Removal of demolition products (rubble) and other debris
  - Physical removal of environmental contaminants or treatment of such contaminants to render them harmless
  - Movement of structures to other sites
  - Leveling and seeding the site and/or stake surveys where local codes require it
- ✓ Under NSP2 and NSP3, only 10 percent of the grantee's total funding allocation can be used on Eligible Use D unless otherwise authorized by HUD.



- ✓ Demolition may be an end use and therefore qualify as an activity under Eligible Use D or when involving acquisition of the property, it may be done in coordination with Eligible Use B or E and qualify under that activity as described in the table below:

<b>Demolition: Meeting eligibility requirements and national objectives</b>			
		<b>Eligibility</b>	<b>National Objective</b>
<b>Demolition as End Use</b>	Blighted property	D - Demolish <u>blighted</u> properties	LMMA
	Concentrated neighborhood demolition strategy or plan	D - Demolish <u>blighted</u> properties	LMMA
<b>Demolition as Preliminary Use</b>	Land banked Properties	D - Demolish <u>blighted</u> properties	LMMA
	Reconstruction (Rehabilitate housing)	B - Purchase and rehabilitate homes and residential properties that have been <u>abandoned or foreclosed upon</u> in order to sell, rent, or redevelop such homes and properties	LMMH
	Redevelopment (New construction of housing)	E - Redevelop <u>demolished or vacant</u> properties as housing	LMMH
<b>Demolition for Subsequent Uses</b>	Public Facilities (community gardens, parks, etc...)	NSP1 Eligible under E - Redevelop <u>demolished or vacant</u> properties D – Demolish <u>blighted</u> properties	LMMA
	Side Lots (Give to LMMI neighbor or an easement if not LMMI)	D – Demolish <u>blighted</u> properties	LMMA

- ✓ If a blighted structure is demolished, the lot can be made available to any adjacent residential property

### 20.6.5 Eligible Use E: Redevelopment

- ✓ Under Eligible Use E, grantees can redevelop demolished or vacant properties.
- ✓ Prior to redevelopment, the property can be any type of property including residential, commercial, or industrial.
- ✓ Redevelopment may include:
  - Acquisition



- Disposition
  - Public facilities
  - Public services for housing counseling for prospective tenants/owners
  - Relocation
  - Direct homeownership
  - New housing construction
  - Rehabilitation
  - Special economic development activities
- ✓ Under NSP1, redevelopment activities can include public facilities but under NSP2 and NSP3, all redevelopment activities must relate to housing.
- ✓ Demolition of a structure on a property as an integral part of a redevelopment activity is Eligible Use E and is not considered under Eligible Use D.

### 20.6.6 Eligible Uses by Property Type

Eligible Uses	Foreclosed Homes and Residential Properties	Abandoned Homes and Residential Properties	Blighted Structures	Demolished Properties	Other Vacant Properties
<b>A Financing Mechanisms</b>	Yes	No	Only if Foreclosed	N/A	Only if Foreclosed
<b>B Acquisition and Rehabilitation</b>	Yes	Yes	If Foreclosed or Abandoned	N/A	No
<b>C Land banks</b>	Yes (Homes only)	No (Foreclosed only)	Foreclosed home or residential property	No	No
<b>D Demolition</b>	Only if Blighted	Only if Blighted	Yes	N/A	Only if Blighted
<b>E Redevelopment</b>	Only if Vacant	Only if Vacant	Only if Vacant	Yes	Yes

### 20.6.7 Planning and Administration

- ✓ NSP funds may be used for planning activities (§ 570.205). Such activities might include
- Community development plans (including the Consolidated Plan);
  - Functional plans (for housing; land use and urban environmental design; economic development; open space and recreation; energy use and conservation; floodplain and wetlands management; transportation; utilities; historic preservation; etc.);



- Other plans and studies (e.g., small area and neighborhood plans; capital improvements program plans; individual project plans; general environmental; urban environmental design; historic preservation studies; etc.); and
- Policy planning, management, and capacity building activities.
- ✓ Grantees may also use NSP funds for program administration activities (§ 570.206). Such activities may include:
  - General management, oversight and coordination;
  - Public information;
  - Fair Housing activities;
  - Indirect costs;
  - Submission of applications for Federal programs; and
  - Costs to pursue Section 17 of the United States Housing Act of 1937.
- ✓ Planning and administration activities are capped at 10 percent of the grantee’s total funding allocation plus program income.

## 20.7 Ineligible Activities

- ✓ This section describes activities that are not eligible under NSP.

Key Topics in This Section	✓ Ineligible activities under NSP
Regulatory/Statutory Citations	Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub. L. 110-289) Division A, Title XII of the American Recovery and Reinvestment Act of 2009 – Community Development Fund (Pub. L. 111-5) Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act: Additional Assistance for Neighborhood Stabilization (Pub. L 111-203) 24 CFR Part 570.207
Other Reference Materials on This Topic	Not applicable

- ✓ The general rule is that any activity not specifically authorized under the CDBG program or NSP regulations and statutes is ineligible to be assisted with NSP funds.
- ✓ Unless specifically cited as an eligible activity in the NSP regulations, if an activity is ineligible under the CDBG program, the activity is also ineligible under NSP.
- ✓ The eligibility differences between NSP and CDBG are covered in detail in this and the three subsequent NSP sections.
- ✓ Some examples of activities that are ineligible under NSP:
  - Foreclosure prevention



- Demolition of non-blighted structures;
- Acquisition of property or structures that are not abandoned, foreclosed or vacant
- ✓ The Housing and Community Development Act states that no more than 50 percent of the down payment required by the private lender can be provided as down payment assistance to a homebuyer. Closing cost assistance and other financial assistance such as soft second loans are not capped.

## 20.8 LMMI National Objective and Beneficiary Requirements

- ✓ This section describes the national objective requirements all NSP funded activities must meet and the requirement to ensure that a certain percentage of funds serve low income households.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ LMMI National Objective</li> <li>✓ 25% Low Income Set Aside</li> </ul>
Regulatory/Statutory Citations	<p>Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub. L. 110-289)</p> <p>Division A, Title XII of the American Recovery and Reinvestment Act of 2009 – Community Development Fund (Pub. L. 111-5)</p> <p>Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act: Additional Assistance for Neighborhood Stabilization (Pub. L 111-203)</p> <p>Notice of Fund Availability (NOFA) for the Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act, 2009 – May 4, 2009 (FR-5321-N-01)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p> <p>Notice of Neighborhood Stabilization Program; Closeout Requirement and Recapture – November 27, 2012 (FR-5660-N-01)</p>
Other Reference Materials on This Topic	Chapter 3: National Objectives

### 20.8.1 LMMI National Objective

- ✓ 100% of NSP funds must meet the low/moderate/middle income (LMMI) National Objective as defined under NSP
  - LMMI is a person or household with an annual income less than 120 percent of the area median income based on the Section 8 Low Income Limit as established by HUD.
  - The LMMI National Objective requires NSP grantees to expend 100% of NSP funds on activities that benefit LMMI persons.
- ✓ The LMMI National Objective follows the same rules and requirements as the LMI National Objective under CDBG.



- ✓ “Slum/blight” and “urgent need” National Objectives are not applicable or allowed
- ✓ There are three categories that can be used to meet the LMMI national objective:
  - Housing activities (LMMH)
  - Area benefit activities (LMMA); or
  - Limited clientele activities (LMMC);
  - Job creation or retention activities are eligible under NSP (LMMJ)
- ✓ The housing category of LMMI benefit national objective (LMMH) qualifies activities that are undertaken for the purpose of providing or improving permanent residential structures which, upon completion, will be occupied by LMMI households. LMMH is the most common national objective under NSP.
- ✓ The area benefit category (LMMA) is one that benefits all residents in a particular area, where at least 51 percent of the residents are LMMI persons. Under NSP 1 the activity must serve all the residents in a primarily residential area and may include public facilities and improvements. Acquisition and Demolition meet the LMMA National Objective.
- ✓ Under the limited clientele category (LMMC), 51 percent of the beneficiaries of an activity have to be LMMI persons. This category is used for special needs project and shelters and does not count toward the 25% low income targeting requirement described in the next section.
- ✓ The jobs category (LMMJ) as a redevelopment activity is only eligible in NSP under Use B and E and NSP 2 & 3 can only be used for housing so it can only be done as Use B. This category was added to NSP via the Closeout Notice issued on November 27, 2012 (FR-5660-N-01).
- ✓ Further information regarding how to document compliance with the LMMI national objective can be found in Chapter 3: National Objectives.

### **20.8.2 25 Percent Low Income Set Aside**

- ✓ NSP statute requires that no less than 25 percent of each grantees total NSP allocation be used for the purchase and redevelopment of abandoned, foreclosed upon, vacant or demolished properties to house individuals or families whose incomes do not exceed 50 percent of area median income.
- ✓ In order to qualify for the 25 percent low income set aside, the activity:
  - Must be a housing activity, as defined by CDBG; and
  - Occupants must be at or below 50 percent area median income.
- ✓ The following Eligible Uses may count toward the 25 percent set aside requirement provided that the end use is housing and the occupant beneficiary is low income:
  - *Eligible Use A: Financing Mechanisms*
  - *Eligible Use B: Purchase and Rehabilitation*
  - *Eligible Use E: Redevelopment*



- ✓ Non-residential property may be used towards the 25 percent set aside if the project is completed under Eligible Use E: Redevelopment and is turned into affordable housing.
- ✓ The 25 percent set aside applies to the overall grant amount plus program income, not to the number of units created.
- ✓ Program income resulting from NSP1 and NSP3 activities is subject to the 25 percent set aside.

## 20.9 Long Term Affordability

- ✓ This section describes the rules and requirements to ensure long term affordability for NSP funded homeowner and rental projects if NSP grantees adopt the HOME long term affordability rules.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ Long term affordability requirements for NSP rental and homebuyer projects</li> <li>✓ HOME program rules for ensuring long term affordability</li> </ul>
Regulatory/Statutory Citations	<p>Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub. L. 110-289)</p> <p>Division A, Title XII of the American Recovery and Reinvestment Act of 2009 – Community Development Fund (Pub. L. 111-5)</p> <p>Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act: Additional Assistance for Neighborhood Stabilization (Pub. L 111-203)</p> <p>Notice of Fund Availability (NOFA) for the Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act, 2009 – May 4, 2009 (FR-5321-N-01)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p> <p>Notice of Neighborhood Stabilization; Closeout Requirements and Recapture – November 27, 2013 (FR-5660-N-01)</p>
Other Reference Materials on This Topic	<p>Basically HOME: Chapter 2: General Program Rules</p> <p>NSP Homebuyer Programs: Financing and Long Term Affordability</p>

- ✓ Under NSP, grantees are required to define how they will ensure long term affordability for all NSP funded housing projects.
- ✓ NSP grantees may adopt the HOME program long term affordability rules as a safe harbor or, the NSP grantee may impose more stringent standards. Most NSP grantees have elected to adopt the HOME rules for determining and tracking long-term affordability.
- ✓ If an NSP grantee adopts the HOME rules for long term affordability, the length of the affordability period is dictated by the amount of NSP investment per unit as described in the table below:



NSP Investment per Unit	Length of the Affordability Period
Less than \$15,000	5 years
\$15,000 to \$40,000	10 years
More than \$40,000 or rehabilitation involving refinancing	15 years
New construction of rental housing	20 years

- ✓ The amount of investment per unit and therefore the length of the affordability period under the HOME rules depend on whether the project is a rental or a homebuyer project.
- ✓ NSP grantees annually update HUD-provided online registry of covered NSP properties throughout the affordability period.

### **20.9.1 Rental Projects**

- ✓ Under NSP, grantees are required to define ‘affordable rents’ in their NSP Action Plan. Rents must continue to remain “affordable” as defined by the NSP grantee in their NSP Action Plan for the entire affordability period.
- ✓ NSP assisted rental units must be occupied by LMMI households. Income eligibility is determined when the rental household occupies the property and must be verified again if and when an LMMI household leaves the unit and it is during the affordability period.
- ✓ If a unit is counted toward the 25% low income set aside, the unit must remain available to households  $\leq$  50% AMI

### **20.9.2 Homebuyer Projects**

- ✓ For NSP grantees that adopt the HOME long term affordability requirements, the grantee must select whether the homebuyer program is subject to resale or recapture requirements.
- ✓ Under the resale approach, the affordability period is based on the total HOME investment in the property and must include the total amount of NSP assistance to the homebuyer as well as the total amount of NSP funds provided to the developer.
- ✓ Under the recapture approach, the affordability period is based on the total amount of NSP assistance to the homebuyer. This is also known as the ‘direct subsidy’ and may include down payment assistance, mortgage assistance, homeowner or title insurance, closing cost assistance, or assistance that reduces the purchase price for the homebuyer below market value.
- ✓ If there is no “direct subsidy” to the homebuyer than the grantee must select the resale requirement.





## 20.10 Other Requirements under NSP

- ✓ This section describes some other requirements under NSP including property standards; property purchase discounts, caps on the sales price for homebuyer units and tenant protection requirements.

Key Topics in This Section	<ul style="list-style-type: none"> <li>✓ Property standards under NSP</li> <li>✓ Property purchase discount under NSP</li> <li>✓ Caps on the sales price of homebuyer units</li> <li>✓ Tenant protection requirements</li> </ul>
Regulatory/Statutory Citations	<p>Title III of Division B of the Housing and Economic Recovery Act, 2008 (Pub. L. 110-289)</p> <p>Division A, Title XII of the American Recovery and Reinvestment Act of 2009 – Community Development Fund (Pub. L. 111-5)</p> <p>Section 1497 of the Dodd-Frank Wall Street Reform and Consumer Protection Act: Additional Assistance for Neighborhood Stabilization (Pub. L 111-203)</p> <p>Notice of Formula Allocations and Program Requirements for Neighborhood Stabilization Program Formula Grants – October 19, 2010 (FR-5447-N-01)</p>
Other Reference Materials on This Topic	<p>Guidance on NSP Tenant Protection Requirements Under the Recovery Act – Updated August 12, 2010</p> <p>Guidance on Allocating Real Estate Development Costs in NSP, January 13, 2011</p>

- ✓ *Tenant Protection Requirements:* Tenant protection requirements instated under ARRA require that all NSP grantees ensure that “bona fide” tenants in occupancy when property is acquired by initial successor in interest through foreclosure (usually lender) receive proper notification. The lender must provide 90 day notice to vacate to “bona fide” tenant occupants.
- ✓ *Appraisals:* Appraisals are required for purchases of foreclosed homes and properties and must be conducted within 60 days of final offer. HUD allows an updated appraisal for another 60 days thereafter a new appraisal is required.
- ✓ *Purchase Discount:* Foreclosed properties acquired with NSP funding must be purchased at a 1% discount below the current appraised value of the property. The appraisal must be conducted within 60 days of the purchase of the property.
- ✓ *Property Standards:* NSP grantees must define the property standards that it will apply in its NSP Action Plan. NSP2 and NSP3 grantees are required to incorporate green building and energy efficiency improvements in their rehabilitation standards.
- ✓ *Homebuyer Counseling:* NSP-assisted homebuyers must complete at least 8 hours from HUD-approved counseling agency



- ✓ *Sales Price Cap*: The sales price of NSP assisted properties sold to eligible LMMI households cannot exceed the lesser of the total development cost or the appraised value.

## 20.11 NSP Closeout

- ✓ This section describes the NSP Closeout requirements and includes the criteria for closeout, the submission requirements, the close out agreements and the requirement for all activities to meet a National Objective.

	<ul style="list-style-type: none"> <li>✓ Closeout Process</li> <li>✓ Closeout Agreement</li> </ul>
Regulatory/Statutory Citations	Notice of Neighborhood Stabilization Program; Closeout Requirements and Recapture – November 27, 2013 (FR-5660-N-01)
Other Reference Materials on This Topic	Chapter 3: National Objectives

- ✓ An NSP Grant will be closed out when HUD determines, in consultation with the Grantee, that the following criteria have been met:
  - All costs to be paid have been incurred.
  - All activities have been completed
  - 25% set aside has been expended, including 25% of all Program Income
  - All other grant responsibilities and regulations have been carried out.
- ✓ Once the determination that the closeout criteria have been met, the grantee will submit the final QPR in DRGR and the local HUD office will draw up the closeout agreement.
- ✓ Once the closeout agreement has been signed, HUD will cancel any unused portion of the NSP award. HUD will work with the grantee to minimize the amount remaining.
- ✓ The closeout agreement will address:
  - Any lingering costs to be paid after closeout agreement signed
  - Any unused grant funds to be cancelled
  - All program assets, including:
    - program income held,
    - list of real property subject to continuing affordability requirements
    - real property in NSP-assisted land banks;
  - Any land banked property (disposition plan)
  - NSP continuing affordability plan and responsible organizations
- ✓ All NSP activities MUST meet a national objective.

## 20.12 NSP Resources

The OneCPD website is located at <https://www.onecpd.info/> and provides the following types of resources to help grantees and their partners implement NSP:

- ✓ Laws and Notices
- ✓ Policy Alerts and Guidance from HUD
- ✓ Frequently Asked Questions



- ✓ Toolkits including templates, sample forms and procedures, and guidebooks on designing NSP programs
- ✓ Ability to ask questions and submit requests for technical assistance
- ✓ Webinars including presentation, transcript, and recording
- ✓ Problem Solving Clinic presentations and handouts

## Acronyms

NSP	Neighborhood Stabilization Program
NSP1	Round 1 of Neighborhood Stabilization Program Funding Authorized under Housing and Economic Recovery Act (HERA)
NSP2	Round 2 of Neighborhood Stabilization Program Funding Authorized under American Recovery and Reinvestment Act (ARRA)
NSP3	Round 3 of Neighborhood Stabilization Program Funding Authorized under Dodd-Frank Wall Street Reform and Consumer Protection Act
LMMI	Low Moderate Middle Income
LMMH	Low Moderate Middle Income – Housing National Objective
LMMA	Low Moderate Middle Income - Area Benefit National Objective
LMMC	Low Moderate Middle Income – Limited Clientele National Objective
LMMJ	Low Moderate Middle Income – Jobs National Objective