What Now? Marketing, Disposition and other Strategies to Dispose of NSP Inventory – Marketing and Disposition

Moderator: Marsha Tonkovich
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Operator: Good day and welcome to the marketing and disposition conference. Today's call is being recorded.

At this time, I'd like to turn the conference over to Marsha Tonkovich. Please go ahead.

Marsha Tonkovich: Good afternoon, everybody. This is Marsha Tonkovich with ICF, and it's good to be here with you this afternoon on a new series of Webinars. It's a new way of thinking about Webinars, and I'll give you the agenda for it in just a moment. I know we're pleased to be able to share this with you this afternoon.

So before we jump in and talk a little bit about what we're going to cover today, I wanted to introduce my co-panelists and have them say just a word of introduction about themselves, and then we'll talk about the process and the agenda for the Webinar.

So I just said this is Marsha Tonkovich with ICF. I have met many of you on previous Webinars, and I am the officer in charge for the ICF technical assistance work related to NSP, so I'm happy to be able to be here with all of you. Let me first introduce Stu Hershey who is my co-trainer. And Stu, say a word about yourself.

Stuart Hershey: Well, I'm an affordable housing consultant, been working I guess with ICF for ten years, working with the NSA program since it began. I'm lead technical assistance provider in Gary, Indiana, and Chicago, providing technical assistance in a range of other cities as well.

Marsha Tonkovich: Great. And Dave Boehlke?

Dave Boehlke: Hi. I'm mainly a specialist in the area of neighborhood strategies, how we get neighborhoods better, and particularly I'm helpful with the NSP program. I'm using marketing as a neighborhood tool.

Marsha Tonkovich: Terrific. And so you guys will see that David's going to talk about that a little bit later this Webinar. So Hunter, I know you're on if you could just say a welcome from parts.

Hunter Kurtz: Hi, I'm Hunter Kurtz. I'm with the NSP team and a lot of different ones ((inaudible)) for this new Webinar experience.

Marsha Tonkovich: It sounds like it's a ride at Disney World or something.

Hunter Kurtz: Yes, exactly. We're trying to make it a little more interesting.

Marsha Tonkovich: Absolutely. And I don't know if anybody else from HUD is on. Anybody from HUD, the NSP team, on yet? Okay and they will joining us, so we will be joined by John Laswick, who I know many of you know is policy director of the NSP team and he'll be there. I know we have some questions about some of these types of costs and how they get charged and particularly on some of these disposition issues, so John will be joining us shortly. So with that, let me just quickly recap for those of you who may be new to this how this is going to work.

And then we'll talk about the agenda, and I do want to spend just a moment introducing this new Webinar series so that hopefully you'll be able to attend the other sessions in this area. So again, if you want to ask questions, and we want to encourage questions, and we will certainly ask questions of all of you as we go along, what you want to do is two things in order to ask those questions.

One is to go ahead and change your status, and if you go up and you look in the top right hand corner of your live meeting, you'll see there's a button that says feedback, and it's currently green. And if you want to go ahead and ask a question, turn it to purple. And that will not get you in the queue, but it will let us know that we have ten people that want to take questions, so that we know to stop and take a break and take those questions.

And then we ask that you go ahead and do one of two things. Either press star one on your phone, and that will put you in the audio queue, and then we'll take the questions in the order that we get them. It's better to do it that way because you can always add context and follow up and you can ask, you know, add-on questions. I mean, that's our preference around - you don't have to give your organization if you don't want to.

If you want to stay anonymous, you could just give your first name. That's totally fine. The operator will not be announcing first and last names. If someone else has already asked your question and you feel it's already been answered, then you can press star two and that will take you out of the telephone queue. If for whatever reason you don't want to do it that way, you can also go up under your Q&A button in the middle left hand corner of your live meeting, and you will see there's a place there where you can type in a question as a text question, so you can also do it that way.

And I will periodically come back and look at those text questions, read them out to the assembled trainers, and HUD, and give you answers that way as well. So again we want to

encourage questions. I'm probably going to take a break throughout periodically because this is a tough topic, and make sure that we are covering all of your questions. So we'll take questions in the middle and then we'll take some toward the end. So as I mentioned when we first started, this is a brand new way of thinking about Webinars.

What - you know, in the past, the way that NSP and other parts of HUD have done Webinars is typically that each Webinar stands alone, so you have a separate Webinar on resale recapture, or on program income, and each of those was kind of a discreet topic.

In this case because we know that so many grantees are really struggling with this idea of getting these units back into the community in a productive way and getting them sold or rented appropriately, the thought was that it was too much information for just one Webinar, and so the idea was to string together a series of topics which were all related, and you'll see - we'll talk about how they all fit together as sort of a continuing theory, and so we'll begin this first Webinar with the foundations.

And so we're going to talk about what is going on right now related to the disposition of NSP assisted units, what's happening across the country, and we'll talk about some of those - the sort of the basic, regulatory, eligibility, foundation kinds of topics related to how and when you can do marketing and disposition. The next Webinar in the series which we'll build and you'll see there's a - we'll show you where the connection happens - in the series is related to land banking.

And so in that Webinar they're going to talk only about what's eligible to do as a land bank and those issues of how you eventually get it out of the land bank and the requirements related to that, but they'll also give you a lot more detail and examples of people who are actually doing land banking, and how it has been successful and how they have managed them. So the subsequent Webinars are going to have a lot more grantee case studies and examples and there'll be grantees on the line up so you can ask questions.

Webinars for you will be the same thing, so again we're going to focus on another tactic for getting units effectively used in the community, and that would be on scattered site rentals. So if you're having a hard time moving your NSP units, considering that tactic, when does it work, how can it work, and then some examples of grantees who are doing it, and again they'll be on the line.

So you'll be able to ask questions of those grantees who have used that tactic to address this issue of disposing of NSP units. Finally on the 17th will be the last Webinar in the series, and that one's going to really pull everything together. And so the ideas of our last Webinar is to really have a peer-to-peer discussion.

And so we're going to have a panel of a range of different sizes and types of grantees, and those experts are going to talk about what's been difficult about disposition, where their challenges have been, how they've overcome those challenges, how they've done their marketing, and the various tactics, and so again, we're going to give you a context for those tactics in this introductory Webinar.

So that's kind of the plan, and the idea is that by the end, hopefully you'll attend all four of them, you'll have really gotten sort of the breadth and depth of this issue of what do I do now with these NSP units that I have acquired or rehabilitated or demolished and where do we go from here. So that's our series. Hunter, anything that you would add on the series?

Hunter Kurtz: Well I think that's about it.

Marsha Tonkovich: Okay.

Hunter Kurtz: But you know, when we do have the Survey Monkey at the end of the Webinar, and if you have any other Webinar ideas or even series' that you would like to see, please, you know, include that. But - in that information.

Marsha Tonkovich: Perfect. Thanks. And just so everybody knows, you know, we do these Webinar evaluations at the end of each one, and every single one gets read and sent into HUD, all those ideas, so we are looking for thoughts about that, and if you like the idea of the series as opposed to stand alone, shorter, more discreet Webinars. So let's talk about this first one and what we're going to talk about over the next couple of hours.

So we're going to begin this - so think of this of the foundation level. We're going to hit the basics, and so where some of you - you may have heard some of this before. However there are some - I would say there's some new ground here in terms of some policy that's really been developed over the last couple of weeks.

So some of this may be new to you, and so we're going to talk about when we talk - when we say disposition, what do we mean by that in the old CDBG context, and then how does that play out in NSP? And if you're in that situation where you have properties that you're holding and managing, what are some costs that you're allowed to pay for and how do you pay for those costs depending on whether it's a grantee holding the property or developer or ((inaudible)).

And then we're going to give that context that I mentioned, where I said, you know, we're going to hang all this together and we're going to talk about how these various tactics come together. And so we have a list of sort of from the simplest to the most complex of the activities that one could do to get units out of disposition and get them into the hands of owners or tenants, and what are the different ways that you could do that.

And then as I said, we'll take questions and feedback throughout. So let's begin with a discussion of why is disposition an issue, right? Because I think if you think about NSP and you think about what it was intended to do, the idea behind NSP was to go out, acquire, rehabilitate, demolish, construct, whatever it might be, these units that are in the neighborhoods where we have high levels of foreclosure, abandonment, vacant units, and then turn them around, a turnkey program really, where the idea is to get those units into the hands of whether it's rental property owners or individual home buyers, but not to have the grantee holding those properties or a developer or subrecipient holding those properties, but rather to get them into their, what we would call, end use.

So that's the goal, right? Our goal is always to get those units back into productive use, or an alternate use if housing is no longer to be the use. And that's worked in some places. In a number of markets across the country where those markets have recovered given the current economic status, the disposition has been minimal. We have a number of grantees where as soon as the developer can build the unit they have a waiting list of home buyers to buy those units, or in the case of tenants, or rent out those units, and there really isn't a disposition period other than perhaps the time to simply do the title transfer.

And so for those grantees where the markets have recovered and where there's strong demand for the product they've put together and where there's not a lot of extra steps that have to occur, there really isn't a lot of disposition time or cost because it's a fairly easy transfer over to those partners, or to the end users. That's some of our markets, but we have a lot of markets where that's really not true.

Whether the market has yet to recover or it's recovering slowly or it's saturated with the number of units that are available - so some of the issues that we're seeing out there across the country where they're still struggling, we have some communities where there's been significant

population decline over the last several decades in those communities, and that population decline has not reversed itself.

In fact, it continues, and that result, the result of that population decline, is that there's fewer people who either want to buy or rent units. And so there just isn't the demand there for either land or the units that are in the inventory. We have other markets where they're getting better. We're seeing marginal increases in homeownership and new acquisitions. We're seeing, you know, beginnings of more lending occurring.

But in many of those communities, that data that's beginning to look better citywide isn't true in the neighborhoods that we're focusing on. So many of our NSP target neighborhoods are low income or very low income or have had high levels of distress related to foreclosures or abandonments. And so even though the city overall, or the county, whatever it might be, is doing better and recovering slowly, the target neighborhoods in which we are focusing continue to have ongoing struggles.

And then finally we have some markets where there was simply too many units, and so there was overbuilding. And even though the market itself might be inherently strong and it has an underlay of a strong economic base and a large demand for those units, there's simply too much supply. And so there's not enough people who can get the lending, who can get a mortgage, who can become the buyer of those units.

And so it's a matter of slowly absorbing that supply. And so we have a whole bunch of different market things, and sometimes you have more than one of these that could be occurring. And the result of all of those things - again, bits and pieces across different parts of the country - is that grantees, developers, subrecipients, are having to hold properties that they have acquired or demolished, or even rehabilitated or constructed for longer than they probably anticipated.

They might have thought that it might take them a couple of months to sell the units and it's turning out to take six months or eight months or a year. Or perhaps their original thought that it would - there'd be a line of people wanting to become home buyers isn't working out and they need to think about an alternate strategy.

So what we've seen over the last I would say six months and maybe a little bit longer than that is an uptick in interest in NSP grantees to thinking about how do I effectively manage these properties, my holding costs, prior to when I'm able to dispose of it, and what are some ways that I can get some of these units out of my inventory that are different from what I had originally planned to do? So there's a demand right now for a discussion about disposition. So what are some of the challenges?

So we talked earlier about the idea that there's this inventory of for sale properties, right, that we have all these properties that whether we've bought or somebody else held, and there's too many of them and not enough people to buy. And in many of those communities what's happened is demand has shifted from home ownership to rentals, and so we have low rental vacancy rates, and yet no demand or little demand for homeownership.

Similarly with the tightening of the credit issues in the market, we might have lots of people who want to buy, maybe even interest in our neighborhoods, but are having a difficult time getting loans in order to be able to do that. And then as I mentioned in many of these places we have ongoing market distress from things like increasing foreclosures.

Some of these examples are not done - they're not done for the foreclosures, and because so many units are available on the market the prices have come down, and so while that might make them more affordable for people, it also means that there's less program income coming back to the grantee. It makes it - you know, you're trying to prop up those market prices and it's difficult. So all of those are kind of feeding to this problem of disposition.

So before we move on, I think we want to talk a little bit about when HUD uses the word disposition, and you - if you want to read more about it, you'll see that there's more information about it in the CDBG regulations and a little bit about it in the NSP notices.

But I will say that because I think when the NSP notices were originally written, you know, anywhere between two to three years ago, there wasn't the sense that this was going to become the significant issue that it has become, so there isn't as much context in there as you might currently want. But if you look in the CDBG rule, and then I would also suggest if you are looking at disposition class that there's also a guide that HUD has put together called the guide to eligible activities and national objectives, and that's about the CDBG program.

There's one for states and there's one for entitlements, and that's available on the HUD Web site, so if you go to hud.gov and go to the CDBG program, I believe it's on the right hand side of the Web site there. You can look and you'll see there's a section on eligible disposition class, and it'll give you more context for what we're going to talk about here. So when we say disposition, what we're talking about is the process of holding units prior to when they are sold, and that process of doing that sale.

So it's all the tasks that the owner of the property, whether that's a developer, a subrecipient, or a grantee, have to undertake after we've acquired and constructed or rehabilitated if that's appropriate, or demolished, if that's what we've done - so after the activity, but prior to getting it into the hands of the end user, be that a tenant or a home buyer. So it's the idea of what are my - what can I pay for? What can I do?

What are my obligations for that property management holding process, and then the sales process of getting it out of the inventory of the developer, the grantee, or the subrecipient, and into the hands of someone else? So a couple of overarching points about disposition, and then

we're going to dive a little more deeply into what kind of class you can pay for. So obviously as is true for everything on NSP, at the end of the day, the units, the land, whichever you have, must eventually meet a national objective.

So the overarching concept on that is that usually - and we can talk about some examples of where it's not entirely true, but usually we're going to look at that national objective based upon the end use of it - of the land or the units. So if it's occupied by a home buyer, that that home buyer is low income. If it's occupied by a tenant, it's a low income tenant. If it's going to be demolished and turned into a park that park is in areas benefited, benefits the neighborhood of low, mod, middle incomes households.

So we're going to be looking in general as an overarching philosophy at when I dispose of this property, what - you know, what is the end use. And so disposition itself, just the process and the cost of holding the property, don't need a national objective by themselves. Think of them as sort of an interim expense. The way the unique - the disposition costs eligible is by eventually associating it with an activity which meets the national objective, again, at that end use.

So all unto itself, disposition class don't meet a national objective, but they do when they're tied together with that end use. As I said, for the most part, when we look at national objective, it's going to be that end use to household, so low, mod, middle income housing, will eventually be that end use. There are some examples though where it might be based upon the areas, so the land bank perhaps, sometimes the demolition, perhaps the public facility.

So just know that there are some exceptions, but generally we're looking at the end use of the unit, whether the end use is a rental use or a home ownership use. So what kind of properties are we talking about when we say it's in our inventory and we have to manage those properties? And there are a number of different properties we could be talking about. So I could have acquired that property, but I haven't yet sold it to a developer to be constructed or rehabilitated.

So I'm a city; I've used NSP funds to acquire a vacant abandoned, foreclosed unit or property, and I can't find a developer to buy it, or my process is slow and I haven't yet chosen a developer. And so I'm holding that property pending turning it over to the developer, who will in turn construct, rehabilitate, whatever they're going to do, and then they in turn will turn it over to an eligible end user.

So I could have that use for disposition. It could be, and this is the common one we're seeing a lot of across the country, but I've already done all that. So I've bought the building; I've hired the developer, or they bought the building and they're done rehabilitation or they've done new construction and the unit is complete, but we can't find any buyers. There's - you know, we can't find any qualified people. We're having a hard time selling it off.

And so it's complete, but it's not in the final hands of the end user. And then finally it could be that I never intended, at least not in the short term, to turn over the property to an end user, and instead what I meant to do was hold it in a land bank for some period of time - and we'll talk about that time frame in a moment - pending in a longer term disposition off to other people. So any one of those situations could be true where you've got a disposition activity that the grantee or the subrecipients have to undertake.

And what we're not talking about here are the things you've already finished, so if you've already acquired the property, you've rehabilitated the property and you've sold it off to Mrs. Jones, or you've acquired the property, you've rehabilitated it, and it's become a rental unit with eligible tenants in those units, that's not disposition. So that is - you're in the end state, and we're not talking about paying for the costs of those.

So this category that we're going to talk about of eligible costs that you can pay for doesn't cover that ongoing operations where you've already got it in the end use. So for example if you use

your NSP funds to - you know, acquire and construct rental housing and you're already - you've got the tenants in there, you can't use the disposition category to pay the operating costs or the maintenance or any of those sorts of things for that existing rental project that you have created.

This is purely in that interim stage before you have gotten it occupied and sold it off to the developer or the property owner. So let's talk about what kinds of costs you can pay for, and this is the CDBG regulatory site here, 57201B. And so again if you go to that flag eligible activities and national objectives, you'll see that it gives much more detail than what I'm able to cover in this time frame.

So kinds of costs, before we move on and talk about line items, in general, when we say disposition costs and we put it under the eligibility heading of quote "disposition", it's only eligible, those kinds of costs can only be paid for properties that are owned by the grantee itself or a subrecipient, and that would include lending, because lenders are subrecipients.

So in order to count it as a disposition cost - and then you'll see that we have a way around this in a moment, but in order to counter to the disposition costs, it has to be a cost incurred and seen charged by the grantee or a subrecipient. And so we'll come back and talk about developers in a minute. So the kinds of costs that we're talking about are things while the developer - I'm sorry, while the grantee or subrecipient are holding the property where it seems like ongoing site security, right?

So the grantee is holding this property, and they have to board it up so that the appliances don't get stolen and whatever else might happen, and so they have those costs of kind of maintaining it in a secure state, or they put in a security system so that they're alerted when there's any issues at that site, or they have periodic patrols that you know, patrol that neighborhood where you've got to have the security.

Those kinds of costs related to keeping the units safe, secure, not vandalized, prior to when you're able to sell it off or rent it out. Same thing about maintenance, so there's general maintenance, if you think about the units, particularly the ones that we've already rehabilitated or constructed where we just have to keep them up in order to be able to go ahead and sell them or rent them.

So we have to mow the grass, and you know, if the shutter falls off, we have to reattach it. You know, we have to keep it looking tidy and presentable while we're holding that property, so that kind of grounds keeping that might occur around those neighborhoods and those units where you've got these units that you're holding, again, for the grantee or a subrecipient are okay, again, for NSP units.

And remember we're talking here about NSP units, not just disposition costs for other kinds of units. We get paid for insurance. So this is an important one. If you've gone through the process of constructing or rehabilitating units and you are holding those units pending a sale and you've put a lot of money and effort into getting those units constructed or rehabilitated, you do want to keep insurance on those properties, because one of the heads up I will give you is that if those units do get vandalized and the windows get stolen and whatever else is - you know, the appliances are taken out of the unit, if you don't have insurance, you may find yourself in a difficult situation of having to pay twice for the same thing, you know, pay for another stove at that house.

And it's likely to be an issue, and I think the HUD auditors would have a problem with paying twice for that stove. So what you want to do to avoid that problem is pay for the insurance instead. I think the deductible on the insurance would probably be an eligible cost, although I'll let the HUD folks jump in on that, but you want to pay for that insurance in the disposition costs so that should something happen at the site, you can tap the insurance to bring it back up to a

condition that you can sell it. So HUD folks, would you guys agree that paying for the deductible on the insurance would be okay?

John Laswick: Yes, this is John. I believe I'll add that one other point I wanted to make, Marsha, before we go on to the next slide is that while I think this information is right on the money as far as how you maintain and manage properties, people may not realize that there is a little more breadth in terms of how you dispose of properties, because what the CDBG regulations say is disposition through sale, lease - well, those we know about - but they also say donation or otherwise.

So I mean, you could have a lot of range from what I can tell, and suck off some of that power ball money to your neighborhoods. But so you know, there - it's not - we're not just talking about sale, and it can include retention by - for public purposes. So there's a little broader range I think than maybe most people - you know, you think of disposition and you think of selling, and you have some more flexibility there sort of.

Marsha Tonkovich: Absolutely, and we're going to actually - when we get those ((inaudible)) guides, or we're going to give you that menu of different things you could do, and John is absolutely right that you may decide that you know what, nobody wants to buy this vacant land and I've demolished and I've got vacant land, and perhaps it's NSP1, and you say you know what? I can't sell it to anybody. Nobody wants to redevelop this, so let's turn it into green space. And so there are options.

It isn't just turning it over for sale, and there is the option of rental of course, as well. Or maybe you're going to hold onto it and manage it as the grantee. So there are a lot - there's a breadth of options here. In terms of other disposition costs, again if you have property taxes on those units while you're holding them - again, this is not post-transfer to the property owner or to the rental owner. This is during the point at which the subrecipient or the grantee is holding the property pending the sale, or pending that end use.

You can use this disposition category to pay for those ongoing property taxes and then one that we think is really, really important and people haven't - I'm not sure have totally tapped is you can use this category to pay for those costs, to market the properties you're trying to dispose of. So you could have two different kinds of marketing campaigns. You could have a marketing campaign around a specific unit where you're trying to market number two Main Street and talk about its attributes and why someone might want to come buy that property.

But you can also have a marketing campaign that's attracting people to your targeted neighborhood where you have all these properties pending disposition. So if you have ten - you know, ten units in a neighborhood and you wanted people to come on down and look at these ten units, you can also market that neighborhood as an attractive place to live. Again, this is something you've got to tie back to those NSP units in that neighborhood.

So you can have, you know, open houses and literature and other kinds of things that you put out there with the idea being its purpose is to dispose of these units, whether again through rental or ownership or some other use. So those are the general types of eligible costs. John, anything you want to add about sort of eligible disposition costs?

John Laswick: No, I think you covered it. I think we're going to get through here. I would just say that based on the last comment in terms of marketing assistance and so forth, I mean that obviously laps over into land banks too, because acquisition and disposition are the two eligible activities under land banks, and you know, virtually all the sales and marketing, you know, expenses are part of the program. So I mean, you know, if you have the money, so...

Marsha Tonkovich: Absolutely. So I have two written in questions here, so maybe I'll just take a break before we jump into sort of these things we want you to think about as you think about disposition for property management. So let me jump into my two questions and just see if I have one. Okay,

so one point from Walter from Enterprise, just to note there's been a switch in the Webinars. Enterprise will be teaching the last two Webinars.

The date I had - they just changed the dates. The dates of the scattered site Webinar will be the 5th and the landing will be the 10th. So they were - those two dates were switched. Thanks, Walter. And then a question from Marilee, what is the distinction between maintenance that is not allowed in NSP and the maintenance discussed with the CDBG regulations? Okay, good. So the maintenance that's not allowed in NSP is, think of it as sort of ongoing operations, right?

So you funded a rental development, and you've turned it over to a property owner, non-profit, for-profit, whoever they are, and they are operating that property. And you've got tenants in there, and you know, you met the national objective, and you're during the affordability period. Those kinds of costs, maintenance, you know, the cost of maintaining those units that are in that final end stage where they're occupied and during the affordability period, that kind of maintenance which we would typically call an operating expense of that property, that's not eligible, because you've met the national objective.

You've transferred title. You're not in a disposition state, whereas if you contrast that with what we just talked about with what CDBG allows, what CDBG allows is your before that point. You haven't turned over the property to a rental owner who's going - you know, who's got tenants in there and is going to operate it. You haven't met the national objective on that end use yet, probably, and so what you're doing is you're holding that property pending that sort of end state, whatever it is, homeownership or rental or you know, whatever it is.

You're holding that property. Those kinds of maintenance costs, sort of the upkeep or property management while you're pending that sale or pending that end use, that's what we're talking about here as being eligible. So it's that sort of interim cost prior to the end use of the property. So hopefully that makes sense. John, anything you'd add to that?

John Laswick: No, I think that was accurate. You know, I guess you could think of it as a holding cost while you have it in public ownership or you know, while it's still in the program as opposed to, you know, being in this end state as you put it where it's in - it's basically out of the program and the maintenance cost of ongoing operations as opposed to the maintenance of the property prior to the sale.

Marsha Tonkovich: So Marilee, if that didn't answer your question, please feel free to raise your hand or call back in and then you know, do the star one and we can do further illumination on that. So things to think about - so many of us have properties that are in this state, where we haven't yet disposed of them. And so the question is, okay, so if I'm thinking about managing this function of having to do disposition, key questions to ask yourself.

So I think the big one from my perspective on disposition, in addition to the marketing that we'll talk about later, is this property management function that you have, because many subrecipients and grantees, this is a new activity for them, you know, under CDBG, under HOME, under other federal programs, we're used to the idea that we give money out to other entities who develop units and then sell or rehab or whatever those units.

We're not used to this idea that we might have an inventory of units that we the city or our subrecipients have acquired, and they have to keep them, maintain them, prior to that disposition. And so one of the key questions is how are you going to do that? You know, are you going to contract out for that service so that you have a property manager who's under contract with the grantee to do it?

Do you want to look at others in the community who might have capacity to do this under a contract with you, like your housing authority who does this all the time, or perhaps a ((inaudible))

or other non-profit groups who manage property all the time? So think about, you know, the most effective way to do that, and you don't have to pay for this and do it directly as the grantee.

You could as the grantee owner of a property or a subrecipient owner of a property contact out for this property management service. One of the things that we've talked about and we'll come back to more when we talk about marketing and it's a key aspect of the property management is what are you going to do with these units that you have already constructed, so you've put all the money into the painting, and you've put all the money into the interior fix-up and whatever else you're going to do.

Do you now want to board that unit up? And there are trade-offs, right? So one trade-off is the security/vandalism issue, and the boarding up may be helpful with that, but the trade-off with that is that now you've got a rehab unit which was supposed to be raising up the neighborhood and making the neighborhood look more attractive, and yet it's boarded up. And so you have to think about how you want to sort of do that trade-off, and is there other ways of ensuring security without the boarding up which might affect the neighbors and the community.

So tricky question to work through; there's no right answer and it'll probably depend on the neighborhoods that you're working in. That's on the security and vandalism; it's been a big issue, and we've heard it over and over again, and there was a separate Webinar, and if you are interested in it, there's a recording and power point that you can access to get more ideas about how to do this.

But you need to figure out how you're going to deal with this issue, because we've had a number of places where lots of the interior fittings and fixtures and whatnot have been stolen. This issue of how we're going to pay for it and these - having to keep the insurance and so forth.

So you want to take a look at how you can do that, and one of the techniques, and I'll ask my colleagues to jump in here, is to think about burglar alarms, you know, security alarms, and how do you - you know, it's not enough just to put it in the unit, right? How are they monitored, so that anybody knows if it actually goes off? So a few of you guys I know have had a bit of - I think maybe it was in Gary, where you guys have had to deal with this issue?

Stuart Hershey: Yes, people were coming into units and cutting the electrical cord - electrical lines, and so the alarm was shutting off, and you can get alarms with a battery backup, and we're urging them to do that. Monitoring, what I mean is a call goes out automatically to the police department, and these things cost money, but if it saves the hot water heater, or worse, the copper piping, it can be worth it.

Marsha Tonkovich: Absolutely. So it's not simply a matter of putting you know, one of those little things on the door that you could buy at Home Depot. It - there's more to it than that, and thinking about it, because again, you don't want to be in this position of having to continually re-rehab these units. So we've talked about all these costs of being eligible in the context of ownership by a grantee or ownership by a subrecipient, but we know we have a lot of properties where the developer, private developer, be they non-profit or for-profit, is actually the owner of the property.

And so perhaps they did a subdivision. Perhaps they did individual scattered sites, but you gave NSP money to that developer. The developer went out, acquired properties, constructed those properties or rehabilitated those properties, and they can't sell them. So they're holding in the developer's inventory. And the question is, so what do we do about that, because we just said the disposition costs are really ineligible costs for grantees and subrecipients.

And so the grantee has an option, and it would be a policy or procedure of the grantee to decide whether it wants to allow the developer to charge its holding costs, the same kind of costs we just talked about, as a rehabilitation expense. In other words, just like you have a rehab development

budget that covers, you know, rehabbing the roof and putting in new windows and removing the lead paint or whatever it might be, as a rehab soft cost, just as you have other rehab soft costs, you know, paying for fees and licenses and what not, you could have a rehab line item which is disposition costs, holding costs, pending sale.

And as a project cost, it wouldn't be an activity delivery. It wouldn't be a disposition, but as a project cost, the grantee could decide to pay for those costs for a grantee - for a developer to hold these properties pending sale.

Now there's trade-offs in that, because obviously this could be expensive, and there are some grantees who have decided that the way the normal market works outside of the public program is that when a developer builds a unit it's their risk and it's their money, and that developer covers the cost, bears the burden of those disposition costs, and it incentivizes them to get the unit sold quickly.

So there are some grantees under NSP who have decided that they're not willing to pay for disposition costs for developers, and that's a perfectly reasonable policy that a grantee could decide, and they could choose not to pay for those costs, and they're not obligated to do so. On the flip side, however, we are trying to incentivize developers to take on units in difficult neighborhoods and take the risk, when we know that it might be hard to sell some of these units and it might be hard to you know, get them out there quickly.

So in those kinds of situations, some grantees have chosen to again as a rehabilitation expense, pay for that line item for that developer. And again it's going to vary by your market. It's going to vary by your program goals, how much money you have left and have available. All those things are up to the grantee to decide, and then I would recommend that they get that into a policy and a procedure so that there's some consistency about when you're paying for it and when you're not. If you don't want to pay for that, how are you going to enforce the developer, right?

Because you want the developer to keep these units up and keep them attractive so that they can be sold or can be rented, and you know, get them back out there. So you want to create incentives in your program to get the developers to do that. You don't want to sort of be a safety net which enables them not to do their end of the bargain. But with all good intentions, it is possible and it's happened in a number of places where the developers try. You know, they built these units in a tough neighborhood.

They had incentives from the grantee to work in that neighborhood. They took a shot at it and nobody is buying or nobody is renting and they don't know - you know, they're at the point where they've held this property for a certain period of time and they're not willing to hold it anymore. They want to walk away. So the question is, what does the grantee do in that instance? You know, should they buy the unit back from the developer, the grantee or subrecipient buy the unit back?

Could be done, you know, if you feel worried about the unit, you've put all this investment in the unit, nobody lives there and you're worried about it, you know, deteriorating and no longer getting your investment out of it, you could decide to buy the unit back from the developer. The question is what source funds would you use for that acquisition. I don't think that that would be an eligible NSP expense, because you've already - you know, you'd sort of be double dipping. You've already invested NSP money in that unit.

So I think you'd have to find an alternate source of funds in order to do that buy back and obviously for most of us that's tough to do. John, anything you'd add about that? Would you guys let people invest NSP funds in that buy back?

John Laswick: No, it's hard to see how that would be eligible. I mean, you've already acquired it so - yes, and I guess just listening to this, two things come to mind. I mean, one is that if it's in a tough

neighborhood and you're having trouble selling it, you can perhaps include the cost of additional disposition for the developers as a development cost, but you're going to be limited by the market value or the total development cost, whichever's lower, so I'm going to guess that, you know, a large percentage of that money's going to end up, you know, coming out of your budget, and you're not going to get that back, so...

Marsha Tonkovich: Right.

John Laswick: I mean, I'm not saying you shouldn't do it for that reason, but be aware of that. The other - and then the correlation of that is that you're not allowed according to NSP notices to charge to include - as a public agency you're not allowed to include these carrying costs in the purchase price, in the development costs, although you are allowed to charge them as dispositions. So you know, one way or another, I think the grantee ends up bearing the majority of the burden of costs on this stuff, so...

Marsha Tonkovich: Yes, it's tough on the development subsidies is really what John is saying, guys...

John Laswick: Right.

Marsha Tonkovich: ...is that, you know, often in the areas where we're working the construction cost is already higher than what the value of the unit is at the end of the day, so you've already got a development subsidy, and what you're really doing when you pay these disposition costs for the development rehab line item is that you're really making that development subsidy bigger, and that's okay. You can do that, but what it means is you're not going to get - you're typically not going to get repaid for it as - you know, as program income.

John Laswick: I mean, you could get into a - you know, big discussion about this, and you know, I think there's plenty of justification for, you know, trying to sort of you know, put a plug in the dike in

some of these neighborhoods, and these - particularly these early properties are going to be pretty expensive, so you know, that shouldn't - you know, in theory shouldn't deter you, but you know, you need to really understand that.

And I was just on a call with some folks from Detroit, and they were saying, well, NSP1, you know, they bought properties in different places, and there's no way for them to kind of leverage the synergy among them, because they're too spread out, so just one more reason to have, you know, targeted efforts so that you know, when you spend a fair amount of money on a property, even if you know, maybe on the next one which is down the street you'll spend less, but rather than the next one's over on the other side of town and you're going to spend just as much because there's no connection to the first one that you did.

So you know, most of you are into pretty well into these strategies, I realize, but you know, and there still may be time to think about how you - you know, how you focus your efforts and which ones you do decide to put more money into, and which ones you say are, you know, maybe so free-standing that you might be putting money into them for 20 years and it's still not going to sell, so just...

Marsha Tonkovich: Yes, and it does point up the idea of neighborhood marketing, that if you're able to renovate a number of the units in the neighborhood it makes it easier to market that neighborhood than it might otherwise be. And we'll talk about tactics for that. So in terms of time line, obviously you want to think about how long have I been holding these properties for.

You know, if I've already been holding them for several months, think about the impact of that on the neighborhoods and the neighborhood and the neighbors in terms of having whether it's boarded up or simply a vacant property or several vacant properties on the block and in the area, and there comes a point at which it's time to stop holding the property and think about an alternate solution, and we'll talk about those alternate solutions in just a minute.

But you know, I think if you're one of the grantees that's been holding property, not in a land bank but just pending disposition for several months, we're going to give you some tactics. I think it's worthy of a strategic conversation among the key people of the grantee and the subrecipients about you know, we've been holding this for a long time. We really wanted to sell them as homeowner units but we're at the point where that's not working.

So you know, you want to have that conversation about, you know, rather than waiting around hoping that it's going to change, let's take an action to take an alternate path, and so we'll give you some of that alternate path in a moment. So with that, I'm going to ask (Anthony) whether - do we have any calls on the phone?

Operator: Right now, we do not have any questions in the queue, but as a reminder, participants can press star one today to ask question.

Marsha Tonkovich: Okay, great. So with that I'm going to then turn it over to my colleague David who will talk about disposition strategy and marketing.

Dave Boehlke: Hi. Thanks for that. I feel like I'm doing a little bit of a bait and a switch, because I know most of you want to figure out ways out of this problem, but I'm going to ask you first to think through where you are today. When we think about a disposition strategy, you really need to understand what you have to market. Recently I've gone with a number of different grantees, and asked to review the buildings in their neighborhoods.

And I was surprised that they were not as up to date on those buildings as they should be. A couple had been broken into recently. A couple were on blocks where abandonment had spread very quickly, literally in the last few weeks around them. So the first thing you need to do is evaluate what you have to market, and I'm asking you to take that extra time, because putting

together a strategy and not understanding exactly what it's about really isn't a good idea. You really need to define what your market looks like.

You need to think whether you're going to sell it, rent it, whether you're going to give it away. By that I mean sale per dollar to a non-profit or some other special use, but you have to really know about the houses and their neighborhoods. The next thing you really have to be serious about is being upfront about the length of your plan, particularly for those of you that are in an NSP1 status.

You know that there's sort of date certain that you need to have disposition occur within, and sometimes that feels like it's a long way in the distance. When we originally started talking about this from the direction of HUD and ICF, it was last November, and so we felt like we had a number of months. Now it feels like we have only a number of months and there's a big difference.

We've lost this winter for planning, so you're going to be looking at having to do your planning and your aggressive marketing literally for some of you in the next six to eight months. The third thing you have to do, and I'd like your marketing teams to think about this, is to clarify your neighborhood goals. I believe that Marsha, my co presenter here, just about walks on water when it comes to HUD. But she said that HUD's goal here was to get properties redeveloped and reused, and I think that was half of it, but the other half of it was called a neighborhood stabilization program.

So it wasn't just to get them reused, and I think she'll agree with this. It was to get them reused in a way that rebuilt neighborhood stability. So it wasn't just getting the houses on the market. It's getting the houses on the market in a way that you as a community decide we'll help that neighborhood be better. So you really need to clarify what that goal is. For some place, adding

additional rental may work contrary to your goal. In other places, adding additional rental will be just fine.

But you have to determine what the neighborhood goal is, and to come up with a new strategy without doing that will probably be ill-advised. Next I think you need to be really sensible to your resource issues. I'm happy to see that slide in there that told you about how you can use NSP monies for marketing. So many programs I've met with seem to feel that well, we can't use that. That's government money, and you're talking about fluffy things.

You're talking about putting together brochures. You're talking about holding media events. You're talking about having a neighborhood ice cream social at which you market the houses. We can't pay for those things. Well, in fact you can. You really need to look at what resources you need, be up front about them, and recognize that every month a property sits empty it's going to cost you thousands.

And going ahead and spending literally hundreds to get a property sold may be your best investment. Next, around the issue of maintenance and vandalism, I know most of us look at it from the direction of how do we stop this, how can we deal with this expense. You need to also look at it from the direction of marketing. What do our customers see when they go to the building?

If they see a building that has had vandalism, if they see a building that is poorly maintained, they're going to not want to take a risk on the building. I recently visited one where the developer was a very good developer, but at the last minute in frustration didn't finish off the backyard. Not a big deal, you say, but there were big piles of concrete.

Nobody's going to look at a house and want to take on those additional burdens, so you need to have a plan that talks about maintenance and vandalism that partners with you and developer so

that the property shows buyer ready at all times. And finally, the one I think you're most concerned about for many of you is what are the other ways out. If we've already tried to market the property, what are our alternative options?

So what we're going to be going over today is basically six different activities, and Stu, would you like to pull up the next slide? So we're going to be talking about changing your marketing approach, changing the structure of the sale, looking at lease purchase approaches, talking about scattered site rentals, talking about land bank, and talking about the use of this as green space or sale to a neighbor if you're not under an NSP1 use.

Now in each of these, we have some good examples around the country of people that are doing different ways to resolve each of these issues. For example, on change of marketing, I worked with programs that will swear the best way to get their houses sold is to work with the realtor community. I work with other programs that tell me that working with the realtor community in no way gets problem markets working.

What you need to do is look at what's going to work for you and not necessarily be totally along one path without questioning what's the right marketing approach in this market, or accepting the fact you may need multiple approaches. Next, we need to look at changing the financial structure of the sale. Marsha mentioned earlier that even though we were fairly optimistic at the beginning, we all knew that there would be a difficult time qualifying lower income households.

But did any of us expect three to five years ago that the lending markets would be as tight as they are today? No one would have expected the higher amounts of down payments, the more rigid underwriting requirements, the problems with previous credit issues. So the bottom line is what was the original financial structure that we were thinking about may not be the right one today.

You need to go back and look at it from the direction of your customers and say, do they in fact need to have a first mortgage with a lender, or do we have to think about another way that we become the first mortgage lender. Do we want to look at having the lender be a first mortgage and us be a second but performing mortgage? Do we have a plan for us to become a second non-performing or soft second mortgage? All of these things can help structure the sale differently, and they can be a critical part of marketing.

They are very complicated, and at the end of the day, what you always need to be saying to yourself is regardless of how we structure it, what we really sell to the customer is a monthly payment. What the customer needs to know is the monthly cost of owning this property, their PITI, is always what drives the sale. It's not the various ways that we have to internally structure it to make those figures work.

The third thing is if we're really going to be dealing with marketing in these slow markets, we need to look at the option for people to do lease purchase. Many of us are rolling our eyes right now, saying, oh my God, we're going back to these plans that failed 10 or 15 years ago, and that could easily happen.

But a good lease purchase program basically means you'll be looking at the same customers that might already be attempting to buy your properties but not quite qualifying, and you'll be raising the question if we lease this property to this household and we set up a very clear performance plan, for example, they have six months during the lease period to clean up their credit, another six months to be able to show they've got enough savings to pull off the sale, and they can close within the next six months, well then you have a true lease option plan as compared to just a lease plan that could offer potential sales.

So it depends on how you structure it, but I do know there are places around the country where a number of households have not been able to buy for problems - because of problems that were

probably solvable in a six to 12 month period. Those households should not have been lost as buyers. They should probably have been in a lease option approach. This is a qualified sale of a property. It's a qualified disposition of a property. Next of course we could look at the idea of making these into rentals.

Now most of your places, even those cities that were good at having them concentrated in one neighborhood, they're still essentially scattered site rentals. Again, we know from national experience, many of you out there have been through this before, scattered site rental is very difficult to manage. Further, they have high costs. Fortunately, the NSP program really doesn't require you to sell the property for its appraised value, or even its development value.

You're allowed to sell it below that. So you could literally donate it to a non-profit that is used to doing scattered site rental. For example, if there's a non-profit that owns properties where women and their families coming out of battered women's shelters want - are seeking permanent housing, you could work with that non-profit to take possession of some of these properties, and they could in fact become long-term quality rental units for a special needs population.

So you want to look at rental very broadly, not just rental to your standard market, but rental across the board. Now if you do have rental for your standard market, and we're going to speak later about the issue of how you might want to link this to possible issues around relocation, but we'll get to that at the end. First we'll be talking about land banking and this is a complicated field.

There'll be another seminar on it, but we'll give you some general guidelines during this one, and first we'll look at the issue of demolition. Remember, we're really talking here about demolition where you haven't made any significant investment. It would be very hard to rationalize having acquired the property and done more than the most modest clean-out or board up, and still go ahead and do demolition.

So these are six ways you want to start thinking about properties. Stu? The easiest one for us to look at right now because it's the one that most of you are following is the idea of looking at your marketing approach. First, the idea is we need to be looking at again as I stated earlier, how are you going to target to the marketing of the unit in the neighborhood. The targeted marketing for houses should be sold to end buyers in ways that actually make them want the house.

You need to be able to think about the features of each house and each property, the strengths of the local real estate market, and by that I mean the competition, the profiles of your likely buyers, the extent or lack of extent of recovery of your local economy, and the terms of your loan product. So I'm going to look at each of these quickly as we go through now. Stu? First of all regarding good marketing, knowing the product, growing the pool of your buyers, making deals work, making neighborhoods attractive - let's talk about those a little bit.

First, you need to know your property. I would really challenge each of you if you haven't gone out to review the property that your developers are holding, you need to do that periodically, and you need to look at those properties to figure out what advantages you're trying to market on those units. Remember, you don't market your disadvantages. You're looking for what are the assets that property has that makes the customer want to have it.

In past times we were focused on people that had few choices. Many of us were limited to programs that served people under 50% of median. But in this case we're talking about households in many cases up to 120% of median. These people have choices about where they live, and if we want to attract strong buyers, we have to know a lot about the product and figure out how we market the strengths of that product. The next thing we do is we need to grow the pool of potential buyers.

Many programs have told me through time, well, that you know, they were only doing a dozen houses. They already had 12 people signed up for the program. They looked like they all

qualified, and sure enough one or two sold right away. Well, the reality is, the selling of the first couple houses is probably the easiest sales you're going to do. Those are the cream houses to the strongest buyers, but the reality is that pool cannot be a one to one pool. When we've looked around the country, successful programs often have to have seven households for every property.

There are some that have ten households, and one that's up to 14 households. And by that I mean they have trained 14 households that are ready and able buyers to get one sold. And you say, well, why would that have to be? In certain markets, training a household, helping them go through financial training, learning about budgeting, going through this whole drill, means that a certain number of them well self-select themselves out. They'll say they're not ready.

Another group will in fact select themselves forward. They'll decide that they're able to buy in much stronger neighborhoods than yours. Still others will become impatient, not wanting to wait for these houses, and perhaps buy in your same neighborhood, but from another standard sale of a property. So you need to have a much larger pool than you ever thought you needed before. Third, you need to have a mindset around making the deals work. Recently I was at a program where there was a property that was somewhat ill-located, near too many other abandons.

But there's no question it was a wonderful house, five-bedroom, two-bath, beautiful home. Just a stunner. And the person from the city said I wonder why no one's looked at the house, and the realtor said, but three different families have put in bids to buy it, and have actually gone through bank financing issues. She says three have failed? Yes, well there was this problem; there was that problem; there was another problem.

What that led me to believe is that somewhere along the line, no one had called to figure out how do we get over those obstacles. So there needs to be a mindset around making deals work. And finally, the reality is people don't buy houses alone. They buy houses in neighborhoods. So if the

neighborhoods don't look attractive, it's going to be very difficult to get people feeling that buying that house at that risky site is worth the final decision.

So let me talk through some of the case - excuse me. The next one, please. Here's a question that you'll want to think through when you're looking at your house, and they're pretty straightforward. You want to get your marketing team together, be that the developer and the city staff, be that the non-profit involved, be that even the neighborhood organization, but whoever is the team that wants to get this property marketed.

You have to ask who wants this kind of house. Does the specific property look good? Does it have curb appeal? Is it priced right? And is the amount of subsidy right? In other words, can it break through the clutter of other sales, and does the subsidy make it possible for your target population? Do the neighborhood standards look good? I know there was a lot of intent originally to tear down abandons near our houses or to do other houses near our houses, but not all of those could come through.

And even where lots were cleared, no effort's been made to keep those lots clean. So you have to look at the neighborhood standards. Are they positive? What's been done to address the negatives in the neighborhood and on the property? If there are similar sales happening, are they nearby? Are they in better locations? What's happening to your competitor properties, and is your loan product better than the competition?

If your customer is going to the same banks, getting the same product they're getting - could have gotten on another house, you may not have that extra incentive to make the deals work. You want to go to the next - there we go. To develop qualified buyers, you need to ask questions like these. Now this is what's focusing on the customer. Do you have a plan to really create a large pool? Do you engage the neighbors and other stakeholders?

There's a reason for including the people near the house and for local businesses and churches. They want the neighborhood to get better, and they need to be participants in this. Are you marketing to buyers from all income groups? How many times have you seen programs advertise a low income housing program, when in fact it's not really a low income housing program? Frankly, 120% of median is a very strong housing program, people with good incomes.

So you really want to ask the question, is it saying do you qualify, are you poor enough, or does it say these are great houses; we think you're the right person for them? Next, are you really outreaching to where the customers are? I'm sorry, Stu, I said that poorly. Go back one. My next word - are you really going out to - do the standards encourage, what has been done to it, address negatives, similar sales, is the loan product better than the competition - I'm sorry, keep going.

Next. One more. Yes. Page 19, ah there you are. I wanted to know are you doing the outreach where buyers actually are. In other words, if these people are in nearby rental projects, is that where they live? Are they participating in community based programs? Are your buyers working in that nearby hospital? Are your potential buyers involved with a citizens' group in the neighborhood of which there are a number of renters as well as homeowners? Do you reach out to where they actually are?

And next too, are buyers informed about the quality and value of the NSP houses? It's very easy for customers to be overwhelmed by the regular real estate community when it markets houses that have been quickly rehabbed, done up for show, and aggressively marketed. Your property is undoubtedly at a higher quality level and a better value, but it's sometimes difficult to get through that cloud of information to get to the buyer. And it's your job to figure out a way to better inform them.

And finally, when you have actually done successful sales, have you used those sales to bring in more buyers? Every time a house sales as part of its marketing and as an allowable expense, you can host an event in that house in which the home buyer can invite their peers, fellow workers, church members, whatever, to see their house. And at that time you can do a marketing event. This is talking about using recent sales to expand the pool of buyers, and there are dozens of ways to do it.

These are the key questions that need to go through. Stu? Example strategies for home buyer programs - as I stated, we will do a little bit more on building the pool in a moment and engaging the neighbors and on getting trained realtors, but I'd like to speak to three of the others. In terms of broadening the message, the - some cities have found that if you use NSP language it tends to focus too much on the restrictions, so they have instead made a point of talking about this in terms of great house, great neighborhood, great price. So none of that speaks to city program.

In fact, if you saw the signs, you wouldn't even know it was necessarily an NSP house. You would just know that it's a great house for sale in the neighborhood. That's broadening the message so it's not thought of as a program house in which people would then assume they have to be income qualified. Although they do, we know the income qualifications are quite broad in most these cases.

The next one about planning for applications, I've worked with program after program where good marketing programs have gone out, offered people information about the properties, encouraged them to apply, handed them a piece of paper, and expected them to go home, read it, get on the phone and make an appointment. The reality is in good marketing what you do is hand them the piece of paper.

If they show interest, you point out a nearby table where you have another person sitting, taking their information and doing some initial counseling with them. That's the way you get a sale to

happen. You treat them as customers who are valuable, not as potential leads that may or may not follow up for you. Then as I said you need to follow up by leveraging sales. Recently in a very soft market city, a very difficult property sold, and it was made sure that when that happened a celebration took place in front of it.

It was on television. The family was profiled. What people saw was a hard-working family buying a quality house and the TV pictures were such that it created the image of this being a place of choice. That's properly leveraging this sale. And finally, we have places that have looked at adding to their market capacity, and by this I mean it is a perfectly allowable expense to use your NSP monies as part of development, part of disposition, I'm sorry - to have maybe a part-time staff person or a contract person to add to the capacity of either your developers or to your program directly to market the properties.

These are all acceptable expenses. In order to further illustrate this, Stu, would you go to the next one? I'd like to think through with you three short case examples. The first was building a buyer pool. Now Broward County, Florida, is the typical over-built boom-bust place where there were literally thousands of properties selling at say $.40 on the dollar.

Before they rehabbed the first house, the developers, both for-profit and non-profit, were convened and they discussed where were the buyers going to come from. The decision was that before they would start construction, they would convene all the local housing agencies to discuss who their current customers were and who they could add.

So they started off from the direction, before we rehab, how are we going to have a pool of buyers. When that was done, they had those housing agencies work with the developers to come up with better defining the product and how it could speak to that pool of buyers. Now in that county about 1400 people have gone through the various homeownership counseling programs in the county.

About 100 houses have sold through NSP and 50 more are ready to go under construction, and they all have buyer-ready households waiting. The interesting thing about this program is the house is basically brought up to a decent level of rehab, but not finished until the family's identified. That's usually done literally within a week or two. And then the finish work is done, and two weeks after the house is closed.

Their vandalism and maintenance costs are remarkably low because they have coordinated development based upon sales, not based upon just developing a property. So, next. There's also the example of broadening the range of buyers, and in Baltimore I was particularly impressed where they used neighborhood house tours. This is a common tool used around the country. Baltimore's taken it to some sort of gold-plated level.

They actually have these trolley cars that go all over. They have lots of exciting events and music playing and activities in each neighborhood, but they also go ahead and make it clear that in their case the families can identify these REO properties that are listed for them, and if they're interested they get a $25,000 cash toward the purchase and renovations.

Now there are other programs assisting them in down payment and walk to work monies, so it's very possible for someone to buy a quality real house through one of these tours and be able to get $50,000 in support. But the critical thing is when they do the advertising, they are incredibly professional in the way they present it. They have nice Web sites. There's lots of energy to it. They use sort of very modern graphics.

But importantly, they talk about these houses being available for single people earning as much as $71,000, for families of three at $92,000. These are basically the 120% figures, but you can see from someone who thinks of themselves as a blue collar or middle income potential customer, seeing these figures says to them that this program is aimed at households with

capacity to own, and maintain. That's a very reinforcing concept, and it makes your market group much larger than if it's announced only as an affordable housing effort. Stu?

The last one I wanted to talk about is working effectively with realtors. Now I know that I can go around the country and find many of you telling me that working with realtors is totally ineffective. It's not something that's worked for your program. They have no particular interest in doing difficult cases, and I've worked with places where they say the only rational way in their real estate market is to have realtors involved in the deals.

If you decide you want one or the other, that's great, or if you decide you want some mixed case where some properties are listed with realtors and some are directly marketed, that's great. But I do find in Chicago's model what has made their work with realtors more successful is that their developers all list with specific trained real estate firms that the NSP program has helped train those real estate firms.

The agents don't really have time to deal with these very complex cases in such a low volume period of their business life. They need assistance, and what the non-profit has done, in this case Mercy Housing, is they provide a deal-maker that works between the realtor, the lender, the programs, and the household, to make the deals work.

And having that person, who also has a real estate background, make deals work means that somebody in the deal's job is to problem solve, and that's one way to expand how a realtor investment can function. Now I'm using these three examples as just that: examples. Some of you are in markets where you wouldn't need any of these.

Some of you are in markets where you will need all of these. The important thing is to recognize that you need to rethink your marketing approach if you want to stay in sales. Now, Stu? Next. If you do, you really want to ask that question I raised earlier. Is this sale going to stabilize the

market? Is your marketing leading to - marketing in the neighborhood leading to effective selling? When people are buying the house, are you working to help them engage with the neighborhood? And are you really communicating in your literature that this neighborhood can be a community of choice?

Even if it currently is, quote unquote "second choice neighborhood", the reality is you want to say for each household this is the place you're choosing to be, and we think it can be successful. Next? Now if you want to market a neighborhood, if you want to help that neighborhood create a more positive image, you want to highlight their assets, you want to partner with local groups, you want to engage neighbors in the promotions, you want to set standards of curb appeal, you want to coordinate with various self-help plot projects.

And these are not just things being said in a, you know, a typical Webinar where there's too much information. I really want you to think these through. There are places that have done this that have done it with fairly small budgets. Milwaukee with its Latent Boulevard neighborhood has just done some wonderful things in changing the image of this neighborhood through small group-based activities and lots of marketing with the press.

Baltimore Highland neighborhood has literally spent the time to find out what the community assets were in the neighborhood and Highland town determined that its ethnic racial age lifestyle diversity was its strength, and it became its marketing asset. In a small town in Covington, Louisiana, the West Thirties neighborhood decided that they were so financially and human resource limited that what they had to do was reach out to the county and find all those local groups that would partner in bringing about this marketing the neighborhood.

In other places like Rochester, New York, they've done in the pocket neighborhood in North Wilton Manor some outstanding work in doing resident promotions, where the residents are driving a whole marketing campaign for the neighborhood.

And for those of you that have had a chance to hear about it, because it is nationally out there, Youngstown, Ohio, is doing a spectacular job on curb appeal, self-help block projects. If you have a chance, check out the Web for the Idora neighborhood in Youngstown. It will show you some of the excellent but relatively low cost ways to do block projects and to set higher curb appeal standards. Next?

Stuart Hershey: I wonder if Dave, or Marsha, this might be a good place to stop for a second and see if we have any questions in the queue.

Marsha Tonkovich: We do. We have two questions in the queue, so Dave, would you like me to read those to you?

Dave Boehlke: Sure, yes.

Marsha Tonkovich: Okay, so the first one comes from Joplin, and her question is, if you acquired a property in a neighborhood that has declined significantly and there is no market for the unit, the property has not been rehabbed - so you've used NSP to buy it but you've not rehabilitated, is it permissible to sell the property for NSP investment to date and replace it with a new acquisition?

So in other words, I don't think it would meet an end use. It wouldn't meet a national objective, but rather get some money back from it and then use that money for something different.

Dave Boehlke: Hello?

John Laswick: Yes, you're asking me?

Marsha Tonkovich: Yes, John. I was putting that over to you.

Dave Boehlke: I might comment in a minute, but go ahead. Give the official first.

John Laswick: Repeat that please?

Marsha Tonkovich: Sure. So you use NSP money to buy the property. You haven't rehabbed it so it's just an acquisition. Now the market has fallen apart. Could you sell that property essentially for an ineligible use, take the investment that you've got - you know, and repay the NSP investment to date and use that money for an eligible activity? Would that be okay?

John Laswick: Yes, I mean, we have in the CDBG regulations a way to deal with changes of use, and I know it's something that Marsha was thinking about a long time ago, but it does allow you to take a property out of the program, change the use into something that would not be eligible for, in this case NSP, and sell it for the current market value and then reimburse the program, and that would be program income.

You would have to go through essentially kind of an amendment process to notify the neighborhood - you know, the community of what you're doing and you know, get approval for that, but it is possible.

Marsha Tonkovich: And another thing I would caution you guys on here is that this - it sounds like it never met a national objective in the first place, because it - you know, they just acquired it and didn't do anything with it yet, so I would be - I would give you a caution that you might find yourself getting a finding from your field office that you spent money in an activity that never met a national objective.

But in essence what you would do is sort of declare it a wash. You'd repay the funds, and you know, as John said, the change of using might require you to actually repay it at current market

value if that has gone up. I would imagine the field office, if that's gone down, they might want you to repay the full amount that you invested in because you never met the national objective, but just forewarning - you know, fair warning about that. John, do you think that's a fair statement?

John Laswick: It is. I mean, I think that with NSP you get into these situations that you would probably not have gotten into with CDBG where with CDBG you had a clear project and a clear national objective, and you know, this kind of situation, this rule was designed for, you know, a neighborhood center that was operated by a non-profit and they'd operate it for 10 years and then they just can't keep it up anymore and they sell that property off. I mean, as Marsha said, doing something eligible, and then you want to change that, here you're in sort of, you know, more sketchy territory.

But I mean, I think the reality is there's - you know, there's a lot of projects. There's a lot of properties out there that people acquired with good intentions and you know, thought that they could redevelop, and then they weren't able to do that, so you know, I think we're just going to have to look at those on a case-by-case basis, and it could end up costing you some money.

Dave Boehlke: Okay and here would be my suggestion. If this is an NSP1 property, and most of these really troubled ones were bought early on, and the neighborhoods have changed that radically, then one of the best end uses in that neighborhood would be demolition with the space becoming green space. And that's an eligible use, and I don't believe you have to make any changes to simply move it from the rehab category to the open space category under NSP1.

Marsha Tonkovich: Well you'd have to make sure that you action plan included public facilities, because green space would be a public facility.

Dave Boehlke: Right.

Marsha Tonkovich: But it's not a - that's not a huge...

Dave Boehlke: Right.

Marsha Tonkovich: ...action, you know, task that you have to do. But you could certainly do that. I would caution - and in this case, they hadn't done any rehab.

Dave Boehlke: Right.

Marsha Tonkovich: So that would be an option they could do. If you have done rehab, be cautious about that.

Dave Boehlke: Yes, right. If it's - but you're saying it was - the question was it was a distressed neighborhood. It's gotten more distressed.

Marsha Tonkovich: Right.

Dave Boehlke: They plan to rehab it. They haven't. In these cases, I also would suggest in the first place you probably should have been doing other demolition nearby. If you hadn't been doing that, it was probably not well-thought-out originally, but if you had been doing it, this simply can become another demolition site. Don't feel the need to pour $100,000 into a property that's a $6000 demolition.

Marsha Tonkovich: Yes, absolutely.

Dave Boehlke: Rethink that and make it a good open space. Make it another lot in the neighborhood, and take that resource and use it to effectively upgrade another block in another neighborhood where

it would still qualify but would actually create neighborhood change instead of just leaving a property isolated.

John Laswick: Yes, and we're looking at ways to allow what you just said through NSP by allowing a subsequent use that's not NSP eligible but that is CDBG eligible through - for NSP2 and 3. You couldn't pay for - you could pay for the demolition, but you couldn't pay for the, you know, say it's a community garden or a park or something like that.

Dave Boehlke: Right, right.

John Laswick: But you would at least have, you know, an end use that is benefiting the community. You know, I think realistically there's going to be any number of sort of orphaned properties. I mean, if you'd bought a property under eligible use E, and it wasn't foreclosed upon, technically you can't put that in your land bank.

So you know, I think we're going to end up with any number of you know, both land bank properties and then other properties that are even less kind of stable territory, you know, from an administrative standpoint. So we're going to have to come up - we're trying to come up with ways to find good uses for all these properties.

Marsha Tonkovich: Guys, we've got a couple more questions backed up, so let me put a couple more out there to you. So the next one is from Ron, and this question is, what is the national success rate of selling NSP homes individuals and families at or above 50% AMI limits? Dave or...?

John Laswick: I don't know. I - we haven't seen much. I would say that at least anecdotally, and that was through a fair number of anecdotes - I mean, I think that there's been a pretty significant shift to rental, not only for the below 50% of median folks, but even for higher income groups through the program just because of the difficulties in selling these days.

So I mean, I know there are still some out there. Habitat has a model that works for a very low income family, but you know, as we all know, that's a pretty unique approach. It requires a - you know, a significant commitment on the family's part in exchange for you know, the value that they're receiving.

So you know, I mean, the other option is you can say, well, I can always lower the prices as far as I need to sell it, and that's true, but you still can't, you know, prepare a family for ownership and for the costs that come along with ownership, just by lowering the sales price.

Dave Boehlke: And I think the point here - the original point John made is a very important one. Again, this is anecdotal, but around the country, I'm finding it's not just the issue of those households under 50%. I'm finding that households under 80% mainly do not want to participate in a purchase program right now. They're too anxious about their employment.

They're too anxious about their credit issues and many under 80% because of recent unemployment or other problems do have credit issues, so they can't get through the bank. So I think we are finding nationally in all but a few markets that there is a very difficult story under 50%, and a somewhat difficult story under 80%.

Marsha Tonkovich: So let me keep us going. The questions - we have a bunch piled up, and then we have a few more slides yet to go. We have a question from Cardigan which says I want to know how NSP funds could be used to spruce up a vacant or possibly distressed homeowner next door to help with curb appeal of a targeted block. So I can - I think I can answer this one.

So you know, if it's vacant, then if you have eligible use E in your action plan, you could do rehabilitation on - you know, assuming this is a vacant building, you could do rehabilitation to

spruce up that vacant property next door. That would be fine, and obviously you would use whatever rehab standards the grantee has put in place.

The problem would be the properties next door where it's an occupied property and there's a home next door that isn't foreclosed, isn't abandoned, and isn't vacant, and yet is in bad shape and is bringing down the condition of the neighborhood. That kind of unit you could not use NSP for, because in order to use NSP, the unit has to be abandoned, vacant, or foreclosed, and in that case if it's occupied, it wouldn't count.

But that doesn't mean you couldn't look for other funds. So this is a perfect example of where leveraging NSP funds with CDBG funds or HOME funds or if there are these state funds, maybe what you want to do is think about a targeted leverage of your NSP program with those other programs and maybe even, if you're doing CDBG, look at whether this neighborhood might qualify as a neighborhood strategy area that you could do some focusing. So it wouldn't be an NSP use if it's occupied neighbor next door, but there are other programs you could use.

Stuart Hershey: Marsha, what about just the sidewalk next door? Let's say we're using NSP money to rehab a house and we're using NSP money to repair the sidewalk. How about splitting that rehab over to the neighbors...

Marsha Tonkovich: On the sidewalk, not the house itself, right, Stu?

Stuart Hershey: Correct, correct.

Marsha Tonkovich: Yes, well, if you're on - yes, so if you're under NSP1, that would be fine, because you can - remember, you can do public facilities, and a sidewalk - I'm going to assume the sidewalk is publicly owned, and it is in most places. You can do the sidewalk, and again, and assuming it's a publicly owned, you know, right of way kind of sidewalk, under NSP1 in that targeted

neighborhood where you're focusing your other NSP investments and it's part of bringing up that whole neighborhood.

You wouldn't be able to do that under NSP2 or 3. You'd have to look for CDBG or other sources of funds. So let me keep going. So Ebony has a - or unless John, is there anything to add on that?

John Laswick: No.

Dave Boehlke: Can I throw in one more thing? I agree with the point that under NSP1 you can do some of the public improvements, and I really strongly encourage the use of other NSP and - excuse me, other CDBG and HOME monies on nearby properties, and I do think it's worth reaching out to non-profit groups that do volunteer work around the city and on people's homes to see if one or more of those properties could be treated, particularly if it's the home of an elderly.

And four, even though this sounds very, very superficial, when you hold the first big sales day on that house, I would line up 20 chrysanthemums leading up the steps into the house, and at the end of the day, I would go up and down the block and give them to each of the neighbors, big pots of them to put on their front porch. They'll last for a month or two. What does this do? It says that the neighbors are engaged in this neighborhood.

And I really think you want to think about the big changes like sidewalks and house repairs and demolitions, but you should also think about the little changes. When people come to buy a house, two weeks later, three weeks later, what they're going to see is that the neighbors have done little things to their properties. We know they were done as part of the clean-up, fix-up for that day. They think it's just standard in that community.

Marsha Tonkovich: Okay great. And we're going to keep going, because we do have some questions and then I want to do this and kind of finish up the slides. So Ebony has a question. Under marketing, is paying to list an NSP property on an MLS or multiple listing service, an eligible expense?

How about listing the property with a particular real estate broker to aid in disposition of that property? Is an RFP required to select a real estate broker to work with? So a couple questions - can you pay for the MLS listings as an eligible expense, and can you pay to work with a broker, and if yes, do you have to do an RFP for that broker?

Dave Boehlke: As far as I know, first of all, you can always pay for the listing. These are costs that...

John Laswick: ...property, right? It depends who's the developer.

Dave Boehlke: But that's the next question. Who owns the property?

Marsha Tonkovich: Right. So the answer is you can pay for it either way. You can pay for it whether as the developer owner or a grantee non-profit subrecipient owner. The question is what you call it. So if it's owned by a grantee or subrecipient you're going to call it a disposition expense.

If it's owned by a developer, you're going to call it part of the cost of the development, as I said a rehab, or a construction line item. But those are eligible expenses. In terms of the real estate broker, it would depend on who is engaging the real estate broker.

Dave Boehlke: Correct.

Marsha Tonkovich: If there's going to be - if the grantee is going to pay the real estate broker or if the recipient is going to pay the real estate broker, then yes, you would have to do some sort of

procurement. It might not be a full RFP depending on how much you're going to pay them and how big the contract is. You'd have to follow part 85, the procurement rules, because you are buying a service and therefore you as the grantee would have to procure.

If a developer is doing it, you would - and they were going to engage this broker, you would not necessarily have to. So let me keep going just in the interest of time. We're a Habitat affiliate who has - this is from Phil - who has sold to homeowners 16 of the 18 properties we have been working on. We have three houses in a more distressed neighborhood. We've had a difficult time marketing.

Habitat has a brush with kindness program under which we go into a neighborhood and do things to improve the curb appeal to other than NSP houses, painting, repairing siding, and so forth. We have talked about implementing this program in this neighborhood. Would the costs associated with the program be reimbursable under NSP?

So I'd ask John to jump in here, but Phil, I think to the extent that you're working on non-NSP houses where you're doing the siding and the mailboxes and what not, no I don't think so, because you can't pay for that kind of cost related to that neighborhood. I think you'd have to use Habitat's own resources or CDBG or some other resource. That doesn't mean you can't market this neighborhood.

So once you guys have done that brush with kindness and you've, you know, improved the neighborhood with your other resources, you could use NSP to market the neighborhood, you know, to get those three houses sold. But I don't think you could pay for the work on houses that are not NSP houses. John, would you agree?

John Laswick: Yes, and I've heard of that program as well, and I was going to mention that in Phoenix, I was just there last week. Their - I believe it's Wells Fargo that has a $500 grant program to fix up neighbors' houses. So while you're knocking on doors don't forget the private sector.

Dave Boehlke: And the same thing with VOA, volunteers of America, on programs throughout Louisiana doing the same thing.

Marsha Tonkovich: One last question for you, David, and then we'll - I think we should get in and finish up the slides here.

Dave Boehlke: All right.

Marsha Tonkovich: The question was please repeat the names and locations of the successful NSP neighborhoods you mentioned.

Dave Boehlke: I was mentioning names of places that had specific activities that I thought were very good, and the three that I focused on, the case studies, one was the excellent program that Mercy Housing is doing in Chicago, and they are particularly strong in working with realtors. Compared to other places I've seen, they really lead the pack on that.

If you want to find out more about what's happening in Broward County, Florida, it's the organization is the Broward Area Neighborhood Developers, BAND, and they can be you know, pulled up on a Web site. Pat Stevenson is the director at that program, and she's put together that pool matched with property approach.

And the third one is the work happening in Baltimore. There's a number of different neighborhoods that are doing in Baltimore. The lead group right now would be the health neighborhoods incorporated, and that would be speaking to...

(Crosstalk)

Dave Boehlke: Pardon?

John Laswick: ((inaudible))?

Dave Boehlke: Yes, to ((inaudible)).

John Laswick: It's an NSP to grantee, and so you could get their name and contact information on the NSP help Web site.

Dave Boehlke: But it's also just under Healthy Neighborhoods, Inc., Baltimore.

Marsha Tonkovich: So David, let's finish up the slides, and about another ten minutes would leave time for questions at the end.

Dave Boehlke: Sure. Great. Well, my ((inaudible)) now to just look at the other ways you might be able to move marketing along. One is to just step back and look at changing the financial structure of the deal. In many of the cases, the original plan had been for a bank loan to do the loan perhaps a small second mortgage or a down payment assistant effort, and that all would be fine.

But we have found that household after household has failed at the banks, that very few households even get as far as to go to the banks, and so we need to be looking at the financial structures of the deal. One of the first ones is just to face the fact that you need to change the selling price of the property, and here you're caught between a rock and a hard place.

If you set the price too low, what you're doing is creating a situation where you're telling all the other nearby property owners that a fully rehabbed house, probably in better shape than theirs, is worth less than what they thought their house was worth. This is distressing. If you set the house priced too high, they end up looking at a property on the market for sale in good condition that is unsellable.

So you're always having to try to find what is the point that doesn't dishearten other people in the neighborhood from maintaining their homes, but at the same time encourages people to buy. And one of the best ways of course to do that is to keep the price pretty much at the high end of the middle market, and to go ahead and look at building other things into making the deals work. You're all used to soft seconds. You're used to interest subsidies.

You're used to low-cost financing. Many of you do not have programs though that actually could collect on second mortgages. You don't have programs that have worked out in the past on interest subsidies. You need to be investigating how to do those in your market. It may have to be that you leave money at the table when you sell the property. This is an allowable NSP expense. You are still selling the property.

You're still disposing of it, and what you have is a piece of paper at the end that's - it's worth say $20,000. That will be paid back as program income over the next 15 years. That is a way to structure a deal so that the bank is willing to make the loan because they've got the protection of a performing second mortgage. Another thing you could do is just look at the small incentives that help people get past the hump.

If the problem is in your community that you've got some qualified buyers because you have modest priced properties, these are people that probably have the ability to be long-term owners, but they're having trouble raising that $5000, $4000, whatever, for closing costs and down payment, you need to be looking at how you've incentivized this deal.

If you've got the right household, but they don't have the right savings, we for years have worried about the possibility of putting people in properties where they're not able to maintain it, but if you've got first rate homeownership counseling, and this family is coming into the property not at 40%, not even at 35%, but at 25% income towards housing, you know that they're able to pay for this, if the issue is simply an obstacle about down payment, you need to be thinking creatively about using your NSP resources.

And finally, just the old fashioned way of looking at the subsidy on the property - remember, you can say to the developer, we're going to do a deed for subsidy so you can talk to households at this income level or that income level and still sell the property at the same amount. So one of the things that I think you have to do is look at financials. The next, you have to consider doing a lease purchase option.

If you've got the house as I explained before, it's in good shape, you've got the right buyer, you can't quite figure out how to make the deal work, then you need to look at the possibility of renting it until a family can buy it. And that's all that really a lease purchase is, but at the beginning of the lease, you will change the DRGR to rental, but in reality you're setting it up as a one-year, two-year lease with option to buy, and during this period, the people will be making payments demonstrating their capacity to buy.

If you choose to not go ahead with that household, you probably should have signed an original agreement with them that says if they don't proceed in that time period, that they are willing to leave without expecting relocation costs. Is that fair, Marsha?

Marsha Tonkovich: Yes, absolutely. You - it's called a move-in notice, and you certainly would want to do something like that so you don't have a relocation liability down the road.

Dave Boehlke: Right, and that's basically planning forward, and then if you either sell it or you may decide to make it a long-term rental. But I do think for many of your customers that can't quite make it, creating the lease option system is just a wonderful opportunity for them, and a good way for you to get these properties off the market. Next. Now you can just go to plain old everyday scattered site rental, difficult to do.

You'll probably want to look at selling or renting them to an organization that knows how to do this. Most city governments don't feel this is a field they want to be in. They can work with their housing agency. They can work with a community-based non-profit. They can work with a special needs housing group, but the reality is you would be recognizing that this is a good quality rental property.

You'll probably work with that organization and set the sale - the rental price at something that meets or exceeds what is normal for that neighborhood so that you're keeping rents up, so we're part of the - solving the problem, not increasing it. But you also want to look at the possibility of those tenants, perhaps down the line, becoming possible homeowners if either they stabilize or the neighborhood stabilizes or better yet both happen.

Then you might want to set up the system so that those people could buy. And again, you'd want to build in the proviso at the beginning that if at some point the non-profit or for-profit agency that owned this property wishes to sell, there should have been a notification upon rental that they could be asked to leave if they're not qualified to be potential buyers.

Marsha Tonkovich: And you guys, just a note on the bottom - remember, this is the dates to switch, so this is now the 5th. The follow-up is on the 10th, yes.

Dave Boehlke: Yes. And then we get to the issue of land banks. Some of you were set up originally to have land bank capacities. Others, this has never been part of your plan. It could well be that it

will be in your self-interest to look at these buildings and say the market in our part of the country is very volatile right now, but we see it getting better.

We would rather land bank these properties for a couple years, three, four, five years, rather than have to do demolition, or rather than having to do some prior sale pricing right now. And the issue would be to look at having a ten-year plan for disposition, looking at having some kind of appropriate entity manage and - or own and manage the properties.

And again, this will meet the disposition requirement, but it does put you under the responsibility to make sure within ten years there is a final disposition. Is that fair?

Marsha Tonkovich: Absolutely, and again this is the Webinar that's now on the 10th, so there'll be a lot more...

Dave Boehlke: I'm not reading the bottom line. I'm sorry.

Marsha Tonkovich: No, no, that's okay. I thought I'd be letting folks know that there's much more information to come on the next Webinar.

Dave Boehlke: I'm sorry.

John Laswick: And that ten years will start at the date of close out, so...

Dave Boehlke: Yes.

John Laswick: ...but my sense is that most of the land bank property is vacant land. I don't know. Have you guys seen differently?

Dave Boehlke: No. No, but we were saying if you have got a property and it is rehabbed and you - or it was acquired and stabilized, and you don't feel that you're able to move it right now, you may consider this possibility, and it's worth listening to that next seminar, Webinar, in order to figure out if this is an appropriate way to use yours.

John Laswick: Right. No, I mean, I agree with that. I just wanted to - I'm just hoping there's not a whole lot of structures out there, so...

Dave Boehlke: Yes ((inaudible)). And finally on - you could as we mentioned earlier, if nothing's been invested in a property and if you set up the original, rules particularly in an NSP1 correctly, then you should be able to tear the property down, follow the useful action. We would prefer probably that the site be cleared and allocated to the neighbors, but at least that there be some proper end use for the property.

Marsha Tonkovich: And before we leave this, John, do you just want to say a word about the policy discussions you guys are having on this topic?

John Laswick: Yes, what - I guess I need to tell you that we're not as comfortable as we were on the Webinar last year about allowing properties in which $25,000 or less has been invested just to pass out of the program, and the reason is that there seemed to be quite a lot of properties, and maybe on a percentage basis it's not a lot, but - so we're reworking that, but my sense from talking to people is that they have land and land banks, or vacant land that they need to do something with, is that you know, they're just looking for a way to, you know, some options for disposing of it eligibly and appropriately.

So as you say, we'll focus on the end use. It is likely that we will allow property to be used for something that's not NSP eligible. If a - it meets a national objective in NSP, and see, it's CDBG eligible. You couldn't pay for it with NSP, but you could do something with it. So if you wanted to

turn it into a water retention area or something like that or a park or a community garden you could do it. In NSP1, you could pay for that with NSP1 funds.

In NSP2 or 3, we're - we think we can see a way to allow you to do that with other funds and still make that eligible, because for example you can do things to prepare for the construction of new housing in CDBG program, even though you can't do the new housing itself so - but you know, so as I've talked to people, particularly the ((inaudible)) and Tyler County in Cleveland who's been really helpful in helping me understand this, you know, some of these - you know, you can always, you know, sell it or donate it to an income eligible neighbor.

Sometimes there aren't any neighbors left, so that's a problem, but as we've mentioned here, you can - if the neighbors then become eligible you could sell it or even give it to them. If they're not income eligible, you could lease it to them or you could give it to them on an easement so that you still have somebody taking care of that property. You can use it for - and these are I think most of the uses that are under consideration for some sort of public improvement.

You could retain it for some kind of public use, and this is an area that we're not 100% clear on what that is, but so - you know, (Bill) has told me, well, neighbors and you know, sort of immediate garden needs and that sort of thing may account for 20% or 25% of the next uses, and so it still leaves you with a fair amount of property that you have to dispose of. So if you can't do it through any of these other means such as a subsequent CDBG eligible use, we're hoping to come up with some language that would allow for some flexibility at the end of the process.

And I think this is really only going to apply in the upper Midwest and in particularly in sort of larger communities, so I don't think this is going to be a big issue in Florida or Arizona where property's land banked, but you know, the market's coming back. I think it's going to be something of a regional phenomenon, and we're sympathetic to the problem.

We have some constraints and we're trying to come up with something that makes sense and that works for people and that doesn't penalize them. We don't want people keeping properties out of the program just because they're not sure what's going to happen in ten years. So - but it's an interesting discussion to say the least.

Marsha Tonkovich: Okay, we have a couple questions that I kept on the written in, so I'd like to just quick go to the group, and then I think we want to open up the phone lines if there's any following phone questions. So Chris asks the question, could you talk more about developing a green area? After demolition does it have to be turned into a public facility of some kind, or can it be maintained as vacant land with the intent to sell?

So John, you know, I think on the answer to this one, I think you do have to look at what the end use is, and it depends on what the purpose of the green area is. If you wanted to sell it off or donate it to the next door neighbors as sort of an adjacent side lot, that you could do as just green space, because it would be part of sort of an end housing use if you will with those neighbors.

If however you're just going to - it's just a field and you're just going to hold that field, you know, you won't have typically met a national objective by just having, you know, held that vacant land, though, so I don't - yes, but...

John Laswick: I mean, you may be meeting a national objective for the demolitions, but you've still got to meet a national objective for the acquisition, assuming you acquired it. Now this doesn't apply to properties that you've just demolished without acquiring them.

You've met a national objective we hope with the demolition as an area of benefit, but if you do hold it, this is the category that I'm starting to call orphaned properties, because for example, you know, you bought a property that you thought you could rehab under eligible use E. It was a vacant house. Now you're finding you can't do that.

You tore it down. It is ineligible for a land bank because it's not foreclosed, but it's not - it doesn't meet the criteria that we've been talking about for redevelopment, which is that you were going to redevelop it within a couple of years.

So you've kind of got this property that doesn't really - that's in this sort of limbo condition, and I mean - so I don't really know. I mean, I don't think there's any - you know, we don't have any intention of sort of penalizing people for holding property that didn't turn out the way they expected. But at the same time we want to see, you know, the funds going to uses that are eligible and meet national objectives and not those properties that aren't doing that either.

So that is really one of the hardest questions that we're facing right now. I'm hoping that it's not as - you know, hoping there's not thousands of those kind of properties out there, but I'm sure there's hundreds, and we're just - that's what we're working on now, and it's kind of holding up the close-out guidance because in the close-out guidance we have to tell you what we think we're going to do in ten years, and we're still not sure what we're doing right now, so...

Marsha Tonkovich: Okay, guys, we have two more written in questions. I think it's Edie asked the question in most cases with least successful and a lease purchase project and the home needs additional rehab when the household moves out. So you've had a lease purchase; the tenant cannot become the owner. How do you pay for that additional rehab so that you can again market the house?

So that would not be an eligible NSP use, because the home is no longer abandoned, foreclosed, or vacant. So you'd have to look to other resources like CDBG or homes, and if you use those of course, that - you know, you'd have to make sure you met the rules of those programs.

John Laswick: Yes, or you could - you know, if you had a decent enough property that didn't take so much work you might just be able to borrow some money and repay it with the sale proceeds, but yes. I agree with you on the other part, Marsha.

Dave Boehlke: And this is what I think is so important, though, when you think of doing lease option, that you set up a lease amount that is significant for the household, at least at or above what their cost of ownership's going to be, and that money would be set aside, obviously, the six, eight, $900 a month or whatever the rents would be in that area, so that if after six months or a year, the family's failed, you still have held in your accounts $8000 or $9000 that aren't program income yet because this is going - you know, the property's not owned by a non-profit, but they should be responsible to take that income and put it back into repairing the property.

John Laswick: That's a good point. You could call it reserves for replacement, I think.

Dave Boehlke: Right.

Marsha Tonkovich: Yes, that's a good suggestion. Okay, there's one more from Annie. Her question is can use of a property donated to a non-profit agency count towards your 25% set-aside, that's the loan set-aside, if the units will be used 50% and below of rental housing?

So the answer is, it depends on what the donated property is, right, so if this is a property you acquired with NSP funds because it was vacant, abandoned, or foreclosed, and you're then going to turn that donated property, or maybe you're rehabbed it and then you've donated it and you've got NSP in this field, and then you turn it over to this non-profit, absolutely.

There's no reason why that could not count towards 25%, as long as you've got, you know, use restrictions about the units being rented to people at 50% of AMI. You just want to make sure

there's an NSP component to it, that NSP has somehow been invested in this property so that you can count that NSP expenditure.

John Laswick: Right. Montgomery County, Maryland, spent all of its NSP1 grant on acquiring a garage site of single family homes, rehabbing them, and then turned them over to the housing authority at no cost so that the housing authority can hopefully generate enough rent to maintain them and they don't have any debt service to account for.

Dave Boehlke: And I think that model is outstanding, and we can retrofit some programs to do that now.

Marsha Tonkovich: Okay, so let's go to the phones. So Anthony, we have anybody on the phone?

Operator: Yes, we do have one question over the telephone. That will come from Linda.

Marsha Tonkovich: Hi, Linda.

Linda: Yes, hi. I was going to see anybody else, any other recipients or grantees pre-sell sometimes, since they are - the cities - the non-profit is the one who has returned the rehab to original contractor, and we were thinking of how we would resell and eliminate ((inaudible)) if we did that, and it's basically maybe because we have - we are training our clients right now, and we do not want to - it to look like we are giving to our own clients that we already have in the queue. Hello?

Dave Boehlke: Are you asking about pre-sales of the homes?

Linda: Yes. Yes.

Stuart Hershey: Well, I don't know about pre-sales exactly, but I think good programs tend to - you know, try to be developing the homes at the same time that they're developing their pipeline of buyers,

and I know that at least early in the NSP1 program, I think it was Gwynette County, Georgia, was doing that pretty successfully.

You know, if the people are eligible and the houses are eligible, you know, there's no problem with that. I think people want to have some choice in the house, though, and so you know, it's just how you manage the timing of it, you know. People pick the house, you know, do you qualify them first and you know, you just have to kind of get the sequence right.

I would just suggest that you don't want to have - you know, sort of open the door to different homes that you're working on before people have been qualified for a mortgage. Otherwise you've just got a lot of disappointed folks on your hands.

So I think you want to be working them through the system, and then you know, exposing them to the properties that are available so that they have the smallest time period between the completion of the rehab and the sale of a home.

Linda: But the second part of the question was what's - do we still comply - are we still compliant with that as marketing?

Stuart Hershey: Compliant with what?

Linda: Affirmative marketing, because we don't want it to look like - I don't know. It seems that - yes.

Stuart Hershey: Well I mean, I think you have to do your affirmative marketing whenever you're doing your marketing, so...

Linda: Okay.

Stuart Hershey: ...no I don't think that - I mean, I don't think that a pre-sale kind of program necessarily undercuts that. You just want to be non-discriminatory and affirmative as you - you know, as you reach out to the community and look for buyers.

Linda: Okay, thank you.

Operator: And we have no further questions over the telephone.

Marsha Tonkovich: Okay, we have one more written in, then we'll call it good. So it's from Sondra, and Sondra's question is, if the developer is negotiating the acquisition of a short sale, can the property be acquired and offered back to the current mortgage ower as a lease to avoid destabilization? So I think the idea is, we're going to buy it as a short sale.

We have an existing owner in the property. Can we lease back to that existing owner? And the answer is yes. There's nothing that says you can't do that. Obviously you'd want to be careful because you know, making sure they can afford to stay and that you're not going to get them back in the same situation again. But I don't believe there's anything in NSP that prohibits leasing back as a tenant to that existing owner.

John Laswick: No.

Marsha Tonkovich: John, would you agree?

John Laswick: Yes, the thing that you can't do is sell it back, because then that becomes foreclosure prevention, which is specifically prohibited, but we have allowed a house to be acquired and then leased back. You know, you may - you also need to make sure you've got your timing right on this one. You know, that it has your - has your environmental review been done before the offer's made and all those sort of normal considerations? But you know...

Marsha Tonkovich: Okay.

John Laswick: ...it's fine.

Marsha Tonkovich: Okay, great. So we've gotten through all the written-in questions, and Anthony, is there no more questions on the line?

Operator: No further questions.

Marsha Tonkovich: Okay, terrific. Well there's a Survey Monkey survey again, as Hunter mentioned at the beginning. We'd like to hear from you, what you thought worked and what you didn't and any other additional Webinars that you'd like to hear. So we appreciate your comments...

Dave Boehlke: Marsha?

Marsha Tonkovich: ...and I think - yes? Yes?

Dave Boehlke: Before we lose it, I hope I'm speaking for Stuart, too. I think you and John have done a spectacular job with this. You know, I know we divided this into two parts and one part was dealing with the complexities of disposition, which I think are about as clear now as I've ever heard them said, and thanks to HUD. Thanks to your work, Marsha.

But also I know that we were asking them to make a huge shift halfway through this presentation to yes, think in terms of the rules of disposition, but then to think about the issues of customers, neighborhoods, marketing, and how they can aggressively work on the sale or appropriate rental of properties, and I think this was a good balance, and I applaud you for including it.

Marsha Tonkovich: Thank you very much, and thanks, everybody for attending. All right, any - thanks, everybody, and thanks very much, Dave, for the kind comments, and we appreciate everybody's feedback and again, please join us on the subsequent Webinars as part of this series.

John Laswick: Bye, everybody.

Dave Boehlke: Bye.

Marsha Tonkovich: Thanks, guys. Bye-bye.

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