



## Notice of Formula Allocations and Program Requirements for the Neighborhood Stabilization Program Formula Grants (NSP1 and NSP3)

### Summary and Overview

On October 19, 2010, HUD published the Notice of Formula Allocations and Program Requirements for the Neighborhood Stabilization Program (NSP) Formula Grants. The Notice is intended to be a unified Notice for both the first and third round of NSP funding (NSP1 and NSP3). For NSP1 grantees, this Notice provides consolidated program requirements, combining the original NSP Notice (October 6, 2008), the Bridge Notice (June 19, 2009), and other program modifications over the past two years.

For NSP 3 grantees, the October 19 Notice outlines the allocation formula amounts, alternative requirements, and the waivers of regulations that are specific to the third round of funding. NSP3 received \$1 billion in the Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank,” signed into law July 21, 2010). Of that amount, \$970 million was allocated to NSP grantees, \$20 million will be used for technical assistance (to be awarded through a separate, not yet released NOFA), and \$10 million will be retained by HUD for program administration.

Below is a summary of program requirements unique to the NSP3 program as outlined in the Notice. Note that the list below represents notable changes from the NSP1 program – it is not a comprehensive list of all NSP3 program requirements. Please refer to the full Notice for more details:

[http://hudnsphelp.info/media/resources/NSP3FederalRegisterNotice\\_October192010.pdf](http://hudnsphelp.info/media/resources/NSP3FederalRegisterNotice_October192010.pdf)

1. **Objectives and Outcomes:** NSP3 grantees must strive to achieve measurable outcomes in neighborhoods that are in decline due to the negative effects of foreclosures. In the short term, grantees should arrest decline in home values based on average sales price and reduce or eliminate vacant and abandoned residential property in targeted neighborhoods. In the long term, grantees should increase sales of residential properties and increase median market values of real estate in targeted neighborhoods.
2. **Allocation Formula and Amounts:** On September 8, 2010, HUD released the allocation amounts for NSP3. The October 19 Notice outlines the specific formula methodology used to determine the allocation.
3. **Application Deadline and Type:** To receive NSP3 funding, grantees must submit an action plan substantial amendment or abbreviated plan to HUD by March 1, 2011. HUD is treating state and entitlement grantees’ use of its NSP3 grant as a substantial amendment to the grantees’ current consolidated plan and 2010 annual action plan. Non-entitlement NSP3 grantees that are not required to submit a consolidated plan to HUD under the CDBG program will prepare an abbreviated plan.
4. **Citizen comment period:** HUD shortened the minimum time for citizen comments to 15 days and is requiring that the substantial amendment or abbreviated plan be posted on the grantee’s official website as the materials are developed, published, and submitted to HUD.
5. **Self-Assessment Tool:** HUD will provide each grantee a self-assessment tool to better understand capacity. For most grantees, this tool will be optional, but HUD will require some grantees to complete and submit a self-assessment as a special condition of receiving funding.
6. **Targeting Requirements:** HUD is requiring that grantees strictly target their NSP3 resources. To determine target areas, grantees must use the HUD Foreclosure Need website ([www.huduser.org/NSP/NSP3.html](http://www.huduser.org/NSP/NSP3.html)) to submit areas of greatest need. On this site, HUD provides estimates of foreclosure need at the Census Tract level, ranked from 1 to 20, with 20 being the greatest need. The neighborhoods identified by the NSP3 grantees

must have an individual or average combined index score for the identified target geography that is not less than the lesser of 17 or the twentieth percentile most needy score in an individual state.

7. **Waivers to Permit Joint Applications:** HUD is providing waivers to permit joint applications between two or more contiguous jurisdictions that are eligible to receive NSP3 funds and are located in the same metropolitan area. Also, any jurisdiction that is eligible to receive an NSP allocation may enter into a joint agreement with its state.
8. **Preference for Affordable Rental Housing:** The Dodd-Frank Act included statutory language requiring grantees to “establish procedures to create preferences for the development of affordable rental housing for properties assisted with NSP3 funds.” HUD is requiring grantees to describe such procedures as part of their substantial amendment or abbreviated plan.
9. **Local Hiring:** The Dodd-Frank Act also required that grantees “shall, to the maximum extent feasible, provide for the hiring of employees who reside in the vicinity, as such term is defined by the Secretary, of projects funded under this section or contract with small businesses that are owned and operated by persons residing in the vicinity of such projects.” HUD is defining “vicinity” as each NSP3 target area and is requiring that grantees describe how they will meet this requirement in their substantial amendment or abbreviated plan.
10. **Ability to incur pre-award costs:** Grantees may incur pre-award costs as if each was a new grantee preparing to receive its first allocation of CDBG funds.
11. **Expenditure Timeline:** Recipients must expend 50 percent of allocated funds within 2 years of the date funds are available to the recipient, and 100 percent of the funds must be expended within 3 years. The Notice includes a revision to the NSP2 NOFA that states that grantees must expend an amount equal to or greater than 50 percent of the initial allocation within 2 years and 100 percent within 3 years.
12. **New Definitions:** The October 19 Notice includes some new definitions, including “blighted structure, date of notice of foreclosure, and vicinity.”
13. **Redevelopment as Housing Only:** Redevelopment activities financed with NSP3 funds (Eligible Use E) are restricted to housing. NSP1 funds may still be used for non-residential purposes.
14. **10 Percent Cap on Demolition:** Grantees may not use more than 10 percent of NSP3 funds for demolition, unless the Secretary determines that such use represents an appropriate response to local market conditions. NSP3 grantees seeking to spend more than 10 percent of funds on demolition may request a waiver from HUD.
15. **25 Percent Low-Income Set Aside Property Type Expansion:** The Dodd-Frank Act struck language that specified that funds meeting the 25 percent requirement must be used specifically for the purchase and redevelopment of abandoned and foreclosed homes or residential properties. This means that, as of the effective date of the Dodd-Frank Act, any NSP eligible activity used to house individuals or families at or below 50 percent area medium income may be used to satisfy this requirement. However, NSP1 and NSP2 funds already obligated or expended prior July 21, 2010 do not retroactively satisfy this requirement.
16. **Mandatory Green Rehabilitation and Construction Standards:** For NSP3, all gut rehabilitation or new construction up to three stories must be designed to meet the standards for Energy Star Qualified New Homes. All gut rehabilitation or new construction of mid- or high-rise multifamily housing must be designed to meet American Society of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE) Standard 90.1-2004, Appendix G plus 20 percent. Water-efficient fixtures must be installed and where relevant, the housing should be improved to mitigate the impact of disasters. Appendix C of the Notice includes a more detailed description of recommended energy efficient and environmentally-friendly green elements.

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