

## **Changes to the Neighborhood Stabilization Program (NSP) in the HUD NSP1 Federal Register Bridge Notice**

### **Summary and Overview**

On June 15, 2009 HUD released the NSP1 Federal Register Bridge Notice, which details how changes in the American Recovery and Reinvestment Act (ARRA) will apply retroactively to NSP1 (the original NSP1 Notice was released by HUD on October 6, 2008).

Below is a summary of regulatory changes to the NSP1 program as established in the Bridge Notice. Note the changes outlined below are a summary – it is not a comprehensive list of all changes to the program. Please refer to the full Bridge Notice for more details:

[http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/pdf/nsp1\\_bridgenotice.pdf](http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/pdf/nsp1_bridgenotice.pdf).

1. **Expansion of the land bank eligible use:** Eligible Use C, Land Banking, has been amended to read “establish *and operate* land banks for homes *and residential properties* that have been foreclosed upon.” In the original HERA bill, operation expenses were not included, and only “homes” were eligible, not all residential properties.
2. **Land banks as eligible subrecipients:** The Bridge Notice specifically states that land banks are eligible subrecipients for NSP funds.
3. **Rehabilitation eligible under Eligible Use E (Redevelopment):** Eligible Use E, Redevelopment, now permits NSP funds to be used for rehabilitation activities on vacant properties.
4. **Change in Discount Requirement:** The original HERA statute mandates that NSP-eligible properties be purchased at a discount, but it is HUD’s responsibility to determine exactly what that discount will be. The original NSP Notice released in October of 2008 required that each individual property be purchased at a minimum 5% discount below appraised market value, and that grantees establish an average portfolio discount of 10%-15% (depending on the accounting methodology used). However, in the Bridge Notice, HUD reduced this discount both in response to grantee concerns, and out of concern that deeper discounts may further depress neighborhood home values.  
  
Therefore a minimum purchase discount of 1% (below the appraised value) must be achieved for each residential property purchased with NSP funds. There is no longer an average minimum discount. This change has also been extended to NSP2 through an amendment to the NSP2 NOFA that was issued on June 11, 2009. The Bridge Notice does, however, encourage grantees to “negotiate with lenders to obtain price reductions commensurate with the avoided costs of holding, marketing and selling the homes.”
5. **CDBG program income rules:** ARRA repealed the program income section of HERA. As a result, regular CDBG rules governing program income will now apply to both NSP1 and NSP2. Revenue (i.e. gross income) received by an NSP grantee or subrecipient that is directly generated from NSP activities constitutes program income. Substantially all program income must be disbursed for NSP eligible activities before additional cash withdrawals can be made.
6. **Appraisals waived for properties valued at less than \$25,000:** From the Bridge Notice, “if the anticipated value of the proposed acquisition is estimated at \$25,000 or less, the current market appraised value of the property may be established by a valuation of the property that is based on a review of available data and made by a person the grantee determines is qualified to make the valuation.”
7. **Requirement that all loans adhere to sound lending practices:** The NSP grantee must ensure that homebuyers obtain mortgages from lenders that agree to comply with the bank regulators’ guidance for non-

traditional mortgages (guidance available through FDIC: <http://www.fdic.gov/regulations/laws/rules/5000-5160.html> ). HUD cautions grantees against permitting homebuyers to obtain subprime mortgages.

8. **Waiver for non-HUD approved counselors:** If there are no HUD-approved housing counseling agencies in the grantee's jurisdiction, or there is other good cause as to why a grantee cannot meet the HUD-approved counseling requirement, the grantee may submit a request to its HUD field office for an exception to this requirement.
9. **Prohibition to refuse to lease to Section 8 voucher-holders:** Grantees may not refuse to lease a unit to a participant under Section 8 because of the status of the prospective tenant.
10. **Tenant Protections:** Grantees must adhere to several provisions to protect rental tenants in properties whose landlords have been foreclosed upon. This includes the requirement that tenants with *bona fide* leases, signed before foreclosure, be permitted to remain in the unit until the end of the term of the lease, and that tenants without leases be granted a 90-day notice to vacate.
11. **Citizen comment period for substantially changed action plans:** Grantees that make substantial changes to their NSP action plans (Substantial Amendments to the CDBG Consolidated Plan), must post the changed document on their websites and undergo a 15-day citizen comment period.
12. **Removal of job creation national objective:** The original NSP Notice stated that an activity may meet the HERA low- and moderate-income national objective if it "creates or retains jobs for persons whose household incomes are at or below 120 percent." According to the Bridge Notice, this activity will no longer meet the national objective.
13. **Change in "middle-income" terminology:** To avoid confusion with other low- and moderate-income CDBG terminology, HUD will now use the term "middle income" to refer to families and individuals between 80% AMI and 120% AMI.
14. **Counseling as an eligible activity delivery cost:** The Bridge Notice specifically states that counseling is an eligible activity delivery cost.

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