



Department of Commerce

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Washington State

**2008 CDBG Action Plan
Amendment No. 3**

**Changes to the State
Neighborhood Stabilization
Program**

September 2009

Department of Commerce

906 COLUMBIA STREET SW ◆ PO BOX 42525 ◆ OLYMPIA, WASHINGTON 98504-2525

Washington State Neighborhood Stabilization Program

2008 Action Plan Amendment No. 3

<p>Jurisdiction:</p> <p>State of Washington Department of Commerce Community Development Block Grant Program</p> <p>www.commerce.wa.gov/cdbg</p>	<p>Contact Person:</p> <p>Bill Mandeville, Program Manager 906 Columbia St SW PO Box 42525 Olympia, WA 98504-2525 360.725.3051 FAX 360.664.3123 Bill.mandeville@commerce.wa.gov</p>
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The federal Neighborhood Stabilization Program (NSP) is authorized under Title III of the Housing and Economic Recovery Act of 2008 and administered by the US Department of Housing and Urban Development (HUD). The Washington State Community Development Block Grant (CDBG) program within the state Department of Commerce (Commerce) was awarded \$28,159,293 to implement eligible neighborhood stabilization activities in Washington State.

This document is the third amendment to the state's 2008 CDBG Action Plan and the first amendment to the state's NSP plan. The proposed changes to the state NSP include:

- Allocation plan for initial recaptured funds
- Allocation plan for future recaptured funds
- Updates in NSP requirements adopted by HUD and Commerce since the state NSP plan's approval

Areas of Greatest Need

Commerce is distributing NSP funds to jurisdictions facing the three need categories in the NSP statute: greatest percentage of home foreclosures, highest percentage of homes financed by a subprime mortgage related loan, and most likely to face a significant rise in the rate of home foreclosures. A few jurisdictions initially awarded NSP funds have since withdrawn from the state program, resulting in \$1,335,313 now available for reallocation to areas of greatest unmet need.

To assess which areas in the state have the greatest unmet need based on the statute, Commerce worked with HUD to analyze ZIP code data completed by the Local Initiative Support Corporation (LISC). The LISC data directly correlates with the NSP need categories and is based on the number and percent of sub-prime loans, delinquent loans, foreclosed loans, loans in Real Estate Owned (REO) status, and vacancy rates. The ZIP code data identifies areas of greatest need without distinguishing between CDBG entitlement and non-entitlement jurisdictions. In some cases, the greatest need shown by this Zip code data extends beyond jurisdictional boundaries and requires service area adjustments with the additional funds.

Distribution and Uses of Funds

Commerce proposes to distribute the recaptured funds available as of August 2009, as follows:

Jurisdiction	Original Award	Proposed Additional Funds	Proposed Amended Award	Service Area Adjustments
Bellingham	\$0	\$343,666	\$343,666	Including Whatcom County
Kelso	\$430,326	\$84,146	\$514,472	Including entitlement city of Longview
Kennewick	\$0	\$402,364	\$402,364	
King County	\$2,285,126	\$179,925	\$2,465,051	Including entitlement cities of Auburn & Renton
Kitsap County	\$671,745	\$191,091	\$862,836	Including entitlement city of Bremerton
Richland	\$0	\$134,122	\$134,122	Including Benton County
Total Recaptured Funds		\$1,335,313		

Commerce proposes to distribute any future recaptured funds as follows:

- By February 1, 2010, any funds not yet obligated to specific activities will be assessed by the state for redistribution to areas of greatest need and capacity in the state. Also, the state will assess whether it has met in the aggregate the requirement that 25 percent of the state’s award is committed towards those at or below 50 percent of area median income. The state will also assess whether the average discount for its entire NSP portfolio of properties is at least one percent.
- The state must obligate its NSP funds within 18 months of receipt of HUD’s grant agreement or the unobligated allocation is returned to HUD for reallocation to areas of need nationally.
- CTED must expend at least its NSP allocation within 4 years of receipt. This can include program income.
- Unspent funds will be divided among counties having the greatest, unmet foreclosure needs. Foreclosure needs is defined as the total foreclosure scores for each county determined by HUD using the LISC scores by ZIP code. Unmet foreclosure needs is the difference between the original appropriation of NSP funds in January 2009, and the distribution of NSP funds suggested by HUD in its July 2009 analysis. Cities participating in the NSP program having the greatest, unmet needs will receive a proportional share of the additional funds allocated to their respective county. If unincorporated portions of the county have the greatest unmet needs, then the county government will receive the additional NSP funds allocated to that county. Based on the July 2009 HUD analysis, unspent funds will be disbursed as follows:

Jurisdiction	Percentage of Unspent Funds
City of Tacoma	39%
City of Seattle	37%
Snohomish County	8%
City of Spokane	6%
Kitsap County	6%
City of Vancouver	2%
City of Pasco	2%

- Reallocation of NSP funds necessary to meet the 25% set-aside requirement will be distributed to NSP participants having the greatest capacity to meet this requirement. A notice of available, additional funds will be sent to participating jurisdictions having met the 25% set-aside requirement or on-schedule to meet this requirement. These jurisdictions will be invited to demonstrate their capacity to surpass their 25% set-aside targets. Respondent jurisdictions with the greatest capacity to surpass their 25% set-aside targets will receive all or a proportional amount of the reallocated NSP funds.

Updated Requirements: Acquisition, Relocation, Homeowner Assistance and Removal of Blight

Any purchase of a foreclosed upon home or residential property must be at a discount from the current, market appraised value of the home or property. Each foreclosed-upon home or residential property must be purchased at a discount of at least one percent (1%) from the current market-appraised value of the home or property. Within 60 days prior to an offer on the property, an appraisal must be conducted that conforms to the requirements of URA at 49 CFR 29.103, “Criteria for Appraisals”. Unless otherwise adjusted by HUD, each NSP-assisted homebuyer must receive and complete at least eight (8) hours of homebuyer counseling from a HUD-approved housing counseling agency before obtaining a mortgage and/or real estate loan.

Redevelopment and/or rehabilitation activities of foreclosed or abandoned property must meet applicable laws, codes and other requirements relating to housing safety, quality and habitability. Redevelopment and/or rehabilitation activities may include improvements to increase the energy efficiency or conservation of such homes or property or provide a renewable energy source for such homes or property.

Down-payment assistance may only be used to finance the acquisition by low, moderate or middle income households of housing that they will occupy. Down-payment assistance may be used to pay reasonable closing costs that may be associated with the purchase of the property. In no event should NSP funds be used to pay for closing costs that exceed more than three percent (3%) of the property's gross purchase price.

Down-payment assistance may not exceed twenty percent (20%) of the total purchase price of the property. The calculation of the total purchase price may include subsidizing interest rates (points), subsidizing mortgage principal amounts (balloon payments), mortgage insurance, closing costs, and financing the cost of acquiring property already occupied by the household at terms needed to make the new purchase affordable.

When removing unfit structures from blighted properties, beneficiaries will need to comply with the definitions and requirements of Washington Statute RCW 35.80 – Unfit Dwellings, Buildings and Structures. Washington State RCW 35.80.030 states jurisdictions must adopt an ordinance regarding its determination and removal of unfit dwellings, buildings and structures. RCW 35.80.030 (1)(h) states the cost of removal or demolition of unfit structures must be assessed against the real property upon which such cost was incurred. The assessment will constitute a lien against the property. Jurisdictions are required to make the necessary arrangements to levy the assessment and begin collection procedures within the year the blight and unfit structure(s) was removed.

Any NSP funded acquisition, demolition or rehabilitation activity must be conducted in compliance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA) before funding for that activity is committed. Given the URA's extensive documentation requirements, the limited NSP funds, and the funding obligation timeframe, CTED discourages the use of NSP funds for acquisition, demolition or rehabilitation activities for occupied or commercial properties. If a property is acquired, rehabilitated or demolished, CTED discourages mixing NSP with other federal funds for this activity since this can undo NSP's alternative requirements.

Public Comment

On August 17, 2009, Commerce sent this proposed amendment to an email distribution list including local governments, HUD, the Washington Low Income Housing Alliance, and other interested stakeholders. This proposal also was posted on the Commerce/CDBG website. The proposal was made and the final amendment is made available in hard copy or an alternative format by contacting Bill Mandeville at (360) 725-3051.

Commerce encouraged comments on the proposed NSP amendment during the 15-day public comment period from August 17, 2009 through August 31, 2009. Written comments were accepted through August 31, 2009, by Bill Mandeville by email at bill.mandeville@commerce.wa.gov or mail at:

Community Development Programs
Department of Commerce
906 Columbia Street Southwest
Post Office Box 42525
Olympia, WA 98504-2525

Summary of Comments Received in Writing During the 15-Day Comment Period

August 25, 2009, from Gregory D. Provenzano, Columbia Legal Services:

Mr. Provenzano contends the State of Washington is not making the best use of its NSP funds. He urges the Department of Commerce to use NSP funds to house the homeless, extremely low-income renters and people with special needs.

Response: The Neighborhood Stabilization Program authorized by Congress is emergency assistance for the redevelopment of abandoned and foreclosed homes. The overall purpose of the program is to stabilize neighborhoods and communities that are severely impacted by larger than average numbers of foreclosed homes. Eligible uses of NSP funds do not include public services such as emergency shelters or transitional housing for the homeless.

Mr. Provenzano contends the State of Washington is spreading its NSP funds too thinly. He points out that the State of Washington found it necessary to lower its purchase discount to one percent. He also points out that few grantees have achieved significant discounts with the use of their NSP funds.

Response: The reduction in the purchase discount was at the direction of the Department of Housing and Urban Development (HUD), not the State of Washington. The purchase discount was reduced because the median price of homes has already fallen nearly fifteen percent since 2007. HUD was concerned that the original fifteen percent discount would exasperate the problems caused by declining home prices. The deflation of home values makes it more difficult to sell homes. It also creates situations where the market price of homes fall below the mortgage amounts. All of these factors contribute to a raise in foreclosures. HUD changed the purchase discount to one percent so as not to inadvertently contribute to forces causing a decrease in home prices and an increase in foreclosure rates.

Mr. Provenzano is concerned that the State of Washington's distribution of NSP funds will not result in at least twenty-five percent of the funds being used to house people who earn less than fifty percent of the area median income. He urges the Department of Commerce to solicit proposals from non-profit agencies that target this specific population group.

Response: Washington's Neighborhood Stabilization Program will recover approximately 500 foreclosed homes. Jurisdictions participating in the program plan to use 185 of these homes, or approximately 37% of the total number of NSP homes, to house people who earn less than fifty percent of the area median income. These plans surpass the program's twenty-five percent set-aside requirements. In addition, the majority of the participating jurisdictions plan to hire non-profit agencies to implement their programs. In fact, twenty-four out of twenty-seven jurisdictions are working with one or more of their local non-profit agencies. Approximately forty percent of the homes will be recovered by various non-profit agencies, twenty percent by housing authorities and fifteen percent by Habitat for Humanity. The remainder of the homes will be recovered by community action councils, community based organizations and a community land trust.

August 28, 2009, from Paul Schissler, Kulshan Community Land Trust:

Mr. Schissler expressed his support of the proposed amendment to distribute NSP funds to jurisdictions that did not initially receive NSP funding. He expressed concerns regarding the future re-distribution of recovered NSP funds. He suggested the funds go to jurisdictions that are doing a good job putting NSP funds to good use. He recommends preference should be given to jurisdictions that are using the funds quickly and appropriately. He suggested the funds go to jurisdictions that have allocated an above average amount of their NSP funds. Mr. Schissler thinks the State would be in a good position to receive portions of a national re-distribution of NSP funds if it follows his advice.

Response: The Department generally concurs with Mr. Schissler's comments and suggestions. The proposed amendment implements his suggestion, at least in part. The reallocation of NSP funds to meet the 25% percent set-aside requirements will be distributed to participants that have the greatest capacity to meet this requirement. A notice of available, additional funds will be sent to participating jurisdictions having met the twenty-five percent requirement or on-schedule to meet this requirement. Respondent jurisdictions with the greatest capacity to surpass their 25% set-aside requirements will receive all or a proportional amount of the reallocated NSP funds.

The reallocation of other NSP funds – more precisely, NSP funds not related to the 25% set-aside requirement -- will go to jurisdictions that have the greatest need, as required by the legislation that created NSP. All of the jurisdictions identified in the amendment to receive these re-allocated NSP funds are CDBG entitlement communities. They all have successfully demonstrated the capacity to meet the national objectives of the CDBG program. However, if they fall behind in their schedules to implement their programs, then their allocation of NSP funds will be reduced and re-distributed as well. In the end, jurisdictions with both the greatest need and greatest capacity will receive the re-allocated NSP funds.

August 28, 2009, from David Cahill, City of Bellingham:

Mr. Cahill expressed the City of Bellingham's support for the distribution of recaptured funds to Bellingham (including Whatcom County) and to the other jurisdictions shown in the proposed amendment. He said that they find the proposed amendment reasonable.

Response: Comment noted.

August 31, 2009, from Cindy Teixeira, City of Yelm:

Ms. Teixeira, City of Yelm Community and Government Relations Coordinator, noted the difficulty to comply with the HUD rules and regulations, particularly the requirement to get an appraisal before an offer to recover property is made.

Response: Comment noted and technical assistance provided.