



February 17, 2010

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Assistant Secretary Marquez:

The Council of State Community Development Agencies (COSCDA) represents state housing and community development agencies responsible for administering several HUD programs, including the Neighborhood Stabilization Program (NSP). COSCDA has been working in conjunction with the Federal Reserve Board as it conducts a study of the NSP, particularly of the NSP authorized in HERA in 2008 (NSP 1). More specifically, the Federal Reserve Banks of Richmond and Cleveland, in partnership with the National Vacant Properties Campaign (NVPC) and the Metropolitan Institute at Virginia Tech, are currently examining the implementation of the NSP in small towns, suburban neighborhoods, and rural counties.

The Federal Reserve Board hosted a meeting last month to get states' insights into NSP implementation at the state and local level. At that meeting, attended by several Federal Reserve Banks, COSCDA staff and HUD NSP staff, states expressed their appreciation for these NSP funds specifically targeted to stop the decline of certain neighborhoods due to recent foreclosures. However, they also discussed some concerns about meeting the 18-month NSP obligation deadline, which for most states will be this fall. Many of the concerns focused on HUD's definition of "obligation", and the firm requirement to have orders placed, contracts awarded, or services received before funds can be considered "obligated".

HUD NSP staff heard these concerns, and agreed to consider suggestions, within the current statutory requirements, that HUD could provide to NSP grantees to assist them in meeting their deadline. As a result of the discussion and additional suggestions from state NSP grantees, COSCDA and the Federal Reserve meeting participants compiled the following list of HUD actions that, if agreed to by HUD, would result in a quicker obligation of NSP funds. HUD could:

- allow states to obligate the cost of rehabilitation at the time of property acquisition
- allow states to obligate funds by entering into a contractual agreement with a developer/general contractor that spells out the amount of funds awarded, the target area in lieu of specific addresses and the timeframe for expenditure of funds

- allow states to obligate funds by allowing a grantee to enter into a third party contractual agreement with a developer/general contractor that spells out the amount of funds awarded, the target area in lieu of specific addresses and the timeframe for expenditure of funds
- allow states to obligate funds by establishing an escrow account with the construction lender who will be responsible for the disbursement of all construction funds
- change the definition of “abandoned” to include vacant properties which will allow these properties to meet the 25%/50% rule
- change the recapture provision diverting funds from NSP to the National Disaster Relief Account
- provide procedural relief to allow a single amendment to the Action Plan at the conclusion of the 18- month obligation period
- allow landbanks to acquire properties that are not foreclosed
- streamline the environmental review process
- make DRGR easier to use

Two recommendations were offered by the HUD NSP staff at the meeting:

- Use a large portion of the NSP grant award for acquisition, commit those funds, and use program income to complete the rehabilitation. (HUD did acknowledge that for stalled markets, this may not be feasible).
- Tie up all the rehabilitation funds in a lump sum drawdown or other financial arrangement requiring their obligation.

In fact, HUD recently agreed to streamline the environmental review process by allowing conditional purchase agreements. These types of allowances can be extremely effective in helping states to obligate funds. Rather than meet the obligation deadline by simply acquiring foreclosed homes that are the easiest and quickest to purchase and rehabilitate, states would prefer to continue to meet the intent of the statute by using NSP funds in strategically-targeted neighborhoods that provide the best opportunity for true neighborhood stabilization.

COSCOA asks HUD to follow-through on its agreement to assist state NSP grantees to obligate funds by adopting some of the recommendations above. Please contact me if you have any questions or would like to discuss these recommendations further. I look forward to your response.

Sincerely



Dianne Taylor
Executive Director

cc: Secretary Shaun Donovan