

U.S. Department of Housing and Urban Development
Office of Block Grant Assistance



Neighborhood Stabilization Program

2008 Formula Grants

**Module 3: Post-Acquisition:
From Acquisition to Resale
or Occupancy**



Module 3 Contents

- Grantee Responsibilities
- NSP Possible Outcomes
- Managing NSP Rehab
- Expect the Unexpected

Your Presenters: David Noguera & Jessie Handforth Kome

NSP Grantee Responsibility

- The grantee is responsible for day-to-day management of NSP grant activities
- Comply with NSP, CDBG regulations
- Comply with all applicable OMB circulars
- Comply with HUD-approved Action Plan amendment

Possible NSP Acquisition Outcomes

- Buy–Then Sell “As Is”
- Buy–Rehab–Sell
- Buy–Redevelop–Sell
- Buy–Land Bank–Hold
- Buy–Demolish–Identify Final Eligible Use

Possible NSP Acquisition Outcomes

- Buy–Then Sell “As Is”



Possible NSP Acquisition Outcomes

- Buy–Then Sell “As Is”
- Buy–Rehab–Sell



Possible NSP Acquisition Outcomes

- Buy–Then Sell “As Is”
- Buy–Rehab–Sell
- Buy–Redevelop–Sell



Possible NSP Acquisition Outcomes

- Buy–Then Sell “As Is”
- Buy–Rehab–Sell
- Buy–Redevelop–Sell
- Buy–Land Bank–Hold

Possible NSP Acquisition Outcomes

- Buy–Then Sell “As Is”
- Buy–Rehab–Sell
- Buy–Redevelop–Sell
- Buy–Land Bank–Hold
- Buy–Demolish–Identify Final Eligible Use

Management Options: Requirements & Relationship to NSP Activities

GRANTEE (Admin & Mngt)

- | | |
|---|---|
| <ul style="list-style-type: none"> ➤ Monitor Acquisition, Rehab, Redevelopment, Resale ➤ Recordkeeping ➤ Environmental Reviews ➤ Eligibility Criteria ➤ Affordability Standards ➤ Rehab Standards/Green | <ul style="list-style-type: none"> ➤ Written Agreements ➤ Selects or Procures Subrecipient ➤ Selects Developer ➤ Procures Contractor ➤ Selects Direct Beneficiary ➤ Financing/Subsidies ➤ Homeowner Counseling |
|---|---|

Grantee

- Appraisals/Acquisitions
- Counseling
- Underwriting/Financing
- Rehab Work
- Resell

Subrecipient, Nonprofit or For-profit Developer

- Acquire, Rehab, Redevelop Properties
- Appraisals
- Written Agreements
- Resell/Finance

Contractors

- Appraisals
- Rehab Work
- Homeowner Counseling

Home Buyer (Direct Beneficiary)

- Purchase/Obtain Mortgage
- Rehab Work

Buy–Rehab–Sell

Grantee Manages Entire Process

- Initial Acquisition
- Rehabilitation
- Resale
 - Eligible Purchaser
 - Financial Structure
 - Sales Price
 - Written Agreement
- Monitors and enforces affordability reqs.

Buy–Rehab–Sell (continued)

Grantee and Subrecipient-Managed Process

- Initial acquisition—either grantee/subrecipient
- Subrecipient Agreement
- Manage Rehab—subrecipient
- Resale—subrecipient
 - Agreement with purchaser—either grantee/subrecipient (grantee may standardize)
- Monitor—either grantee/subrecipient
- Program Income—either grantee/subrecipient (grantee decides)



Buy–Rehab–Sell (continued)

Grantee and Private Developer-Managed Process

- Grantee may select developer or use procurement process
- Developer may profit from NSP
- Developer retains revenues (not program income)
- Develop agreement written by grantee, covering:
 - Initial acquisition
 - Grantee-developer relationship
 - Grantee-developer-end user relationship

Buy–Rehab–Sell_(continued)

Grantee and Home Buyer-Managed Process Consumer-Driven Model

- Home buyer agreement with grantee
- Initial acquisition by either homebuyer or grantee
- Manage rehab by either homebuyer or grantee
 - If homebuyer procurement NA
 - Grantee inspects against rehab standard
- Grantee structures financing, sales price
- Grantee monitors affordability requirements
- Revenue paid grantee is program income



Manage NSP Rehab Part 1

Rehab and Redevelopment Issues: Compliance and Improvement Issues 1

- CDBG does not require compliance with any codes or standards, but NSP does.
- Refer to Local Codes reference notice 33 sec R for guidance on compliance
 - Sec 8, HQS, or local rehab codes
- State and local codes resource:
 - The International Code Council at www.iccsafe.org/cs/

Rehab and Redevelopment Issues: Compliance and Improvement Issues 2

24 CFR Part 35—Lead Safe Housing Rule

- Supplement NSP with Lead Hazard Control Grants
- OHHLHC's Web site:
www.hud.gov/offices/lead/enforcement/regulations.cfm.



Rehab and Redevelopment Issues: Compliance and Improvement Issues 3

NSP Green Development

Additions to New Construction and Rehab Codes to:

- Reduce energy use
- Conserve water
- Use recycled materials
- Improve indoor environments
- Healthy Homes initiatives





Manage NSP Rehab Part 2

Manage NSP Rehab: Procuring a Contractor

Start from the Inspection Report

- Non-competitive from select pool
- Open competition
- Home buyer selects contractor
- Subrecipient chooses contractor
 - Note: Local, CDBG, & OMB rules may apply

Manage NSP Rehab: How Much Rehab?

- Must meet local & CDBG standards
- Balance rehab cost with affordability
- Issue detailed bid packages

How Much Rehab? Suitability for Rehab

- Minimum and maximum project cost
- Inspections
- Project management

Manage NSP Rehab: The Housing Market

- Know & pay attention to market conditions in your target neighborhoods



Manage NSP Rehab: Housing Inspections

- Key component of rehab management
- Managed by staff, subrecipient, or developer
- Conditions apply to developer-managed



Manage NSP Rehab: The Initial Housing Inspection

- Determines the scope of work
- Provides basis for cost estimate
- Checklist based on grantee's rehab standards
- Inspection provides:
 - Property status
 - Improvements required

Manage NSP Rehab: Final Inspections

- Verifies completion
- Project meets all codes
- Grantee staff leads inspection
- Building Department inspection
- Tied to payments to contractor



Property Sales: Sell the Property

Property Sales: Understanding the Market

- Know your local housing markets, especially target neighborhoods
- Note changes in market over time



Property Sales: Understanding the Market 2

- Supply currently outstripping demand
- Banks are not lending
- NSP designed to help new home buyers in distressed neighborhoods

HUD Office of Policy Development & Research

- Comprehensive Housing Market Analysis



Building a Pipeline of Qualified Buyers 1

Homebuyer Qualifications

- Income-eligible
- Received 8 hours of ownership counseling
- Credit-worthy



Building a Pipeline 2: Partners

Grantee partners include:

- Mortgage lenders
- Housing developers
- Housing counselors
- Government agencies



Building a Pipeline 3: Rental Projects

Matching Developers & Suitable Properties

- Nonprofit developers of rental housing



Sales Process: Partners

Resale of properties acquired and rehabilitated requires partners:

- Real estate brokers
 - Pricing
 - Marketing
- Lenders
 - Non-traditional mortgages

Structuring Transaction: Sale Price

Pricing the Rehabilitated Property

- Sale price cannot exceed acquisition cost, plus rehabilitation or redevelopment cost, plus a reasonable developer's fee
- Also includes other incidental costs
- No minimum sales price

Sales Price: Sales to Home Buyer 2

Affordable price for a property is the top priority for sales under the NSP.

Some ways to achieve affordability:

- Issuance of second mortgage
- Assist with downpayment
- Pay closing costs & mortgage insurance



Rental



Rental 1

- Mandate that owners & managers of rental properties develop effective outreach to eligible tenants
- Offer lease-to-own option



Tenant Outreach and Marketing

- Challenge to find credit-worthy eligible tenants
- Marketing & tenant-selection plans face compliance
- Good property management key to long-term success



URA Issues 1: Lease-to-Own

- Lease-to-own might trigger URA relocation regulations
- Strict eligibility screening procedures essential to avoid eviction woes
- Participant failure may trigger URA



URA Issues 2: Occupied Properties

- Foreclosed property might be occupied, possibly by owner
- Tenant agreements remain
- Relocation assistance possible



Ensure Continued Affordability

- Grantees must monitor affordability over the long-term



Rehab Issues: Continued Affordability 1

- Minimum period of affordability established by HOME program
- See **24 CFR 92.252 (e), and 92.254(a)(4)**
- Enforcement via lien, deed restriction, or covenant



Rehab Issues:

Continued Affordability 2

- Affordability requirements must be in contract with buyer
- Resale may result in repayment of NSP



Rehab Issues:

Continued Affordability 3

- Owners must agree with period of affordability and
 - to lease only to NSP-eligible tenants
 - to comply with established rent limits
- Grantee permitted to exceed HOME requirements

Expect the Unexpected

- Ineligible Purchases
- Market Issues and Resale
- Structural Property Problems



Expect the Unexpected 1: Ineligible Purchases

- Not foreclosed at the time of acquisition
- Do not meet the definition of abandoned and vacant
- Non-residential properties
 - exception any blighted structure may be demolished
- Properties owned by the grantee or subgrantee
- Purchase/resale of tax foreclosed properties through third parties. **NO DOUBLE DIPPING**

Expect the Unexpected 2: Market Problems

- Acquire with intent to rehab but the market does not support resale
- Establish a land bank



Expect the Unexpected 3: Structural Problems

- Trouble is discovered when the walls begin coming down
- Demolition is an option



Expect the Unexpected 4: Modify the NSP Amendment

- NSP agreements may be modified but public notice is required and HUD will need to be informed



Concluding Remarks

Thank you!

