

**HOUSING AND COMMUNITY DEVELOPMENT ACT OF 2008
TITLE III DIVISION B -- NEIGHBORHOOD STABILIZATION PROGRAM (NSP)**

NSP SUBSTANTIAL AMENDMENT TO THE CONSOLIDATED PLAN AND 2008 ACTION PLAN

November 6, 2008

The purpose of the NSP program is to assist in the redevelopment of abandoned and foreclosed homes. Metro Louisville has been designated to receive \$6,973,721 under this program, for which a formal application must be submitted to the U.S. Department of Housing and Urban Development no later than December 1. Following is an outline of the program, for which public comment is welcomed.

A. AREAS OF GREATEST NEED

To determine the areas of greatest need, Metro Louisville analyzed data from a number of sources:

The HUD USER website assessed need using a variety of factors including home value decline, incidence of high cost loans, and Post Office data on residential vacancies. We will consider areas of greatest stress to be those Census Tracts which received the designation of "8", "9" and "10" on a scale of 1 to 10 (with 10 indicating the greatest degree of distress). Our primary emphasis will be on those rated "10" by US HUD;

The Metro Department of Inspections, Permits and Licenses (IPL) provided information regarding the length of vacancy and citations for Code violations for vacant structures;

The Master Commissioner of Jefferson Circuit Court, provided information on foreclosures throughout Metro Louisville.

Based on this information, we identified neighborhoods under foreclosure stress which will be included in our strategy. Data provided by US HUD is based on Census Tract boundaries which do not always correspond with commonly recognized neighborhood boundaries.

Neighborhoods we have designated to receive benefits under the NSP program are:

Areas immediately adjacent Park DuValle, including parts of Census Tracts 10, 127.01 and 128.01;

Shawnee Neighborhood, including parts of Census Tracts 4 and 7;

Newburg Neighborhood, including parts of Census Tracts 113.01, 114.04, 114.05 and 114.06;

Portland Neighborhood, including parts of Census Tracts 3, 21 and 23;

Smoketown / Shelby Park Neighborhood, including parts of Census Tracts 64 and 65.

Using information provided by local governmental sources, all vacant properties in these areas will be mapped and determination will be made whether individual properties meet eligibility requirements of the NSP. Strategies for acquisition, demolition, rehabilitation, redevelopment, and other strategies will be determined on a neighborhood-by-neighborhood basis in collaboration with neighborhood leaders and

Metro Council representatives.

In each selected neighborhood, small geographic areas will be selected for concentrated effort. Specific areas will be chosen based on:

- Existing Neighborhood Plan or infrastructure plan;
- Existing neighborhood involvement, e.g. Block Watches, Weed and Seed;
- Potential economic development corridors, which create or could create jobs;
- Neighborhood assets and amenities, e.g. parks, playgrounds, schools;
- Information from Metro Call, e.g. police and fire activity;
- Owner-occupancy rate and trends; assisted rental information, e.g. housing tax credit units;
- Vacancy rate, from the Department of Inspections, Permits and Licenses;
- Foreclosure information from the Metro 211 program;
- Housing value trends from the Property Valuation Administrator.
- Proximity of public transportation.

For structures for which foreclosure actions are completed, if owned by a lending institution, we will attempt to purchase the property at below-market prices as outlined in the NSP. If structures were purchased at the foreclosure sale by a purchaser who intends to rehabilitate the property, IPL will continue to monitor the property to ensure that all Code violations are corrected within a reasonable period of time.

For structures for which mortgage foreclosure actions have been initiated by another party, and the structures are blighted and abandoned, we will attempt to locate the current owner and pursue a deed in lieu of foreclosure. If the property goes to foreclosure sale, representatives of the City will attend the sale and determine if it is in the best interest of the City to pursue acquisition from the Buyer.

For structures which are abandoned and blighted, have not had any other foreclosure action initiated, and have delinquent taxes, the City will initiate property tax foreclosure. The City will make an attempt to locate the owner, and if the property is a candidate for rehabilitation, and if the City makes a reasonable determination that it is unlikely that the owner will rehabilitate the property, the City will attempt to purchase the property at a below-market price. If the property is a candidate for demolition, the City will initiate demolition proceedings.

FHA foreclosed properties in selected areas are eligible for NSP acquisition and redevelopment, and the purchase of such properties will be sought where appropriate.

All properties will be acquired to be sold with clear title through the Land Bank Authority. NSP regulations require that individual properties be purchased at a price no greater than 95% of current appraised value, and that the average purchase price for all properties purchased with NSP funds be no greater than 85% of current appraised value.

We believe it is very important to involve both the for-profit and non-profit sectors in the redevelopment of distressed properties. Through non-NSP funds, the City is taking steps to capitalize and strengthen neighborhood-based groups and Community Housing Development Organizations (CHDOs). We will invite capable non-profits to participate as builder/developers in the NSP program.

After houses suitable for rehab are acquired, they will be re-sold to builder/developers who will agree to rehabilitate the properties within a reasonable period and offer the properties for sale to low-, moderate- and middle-income owner-occupant households. The houses must be sold at a price no higher than the actual costs incurred including a reasonable development fee which can be made by the builder/developer. As houses are acquired by the Land Bank, where possible, properties in close proximity will be bundled, Requests for Proposals will be prepared, and properties sold to the "highest and best" bidder. In addition to the purchase price offered, other factors such as builder capacity and experience, and the amount of development fee specified in the proposal, will be evaluated. The builder/developer will carry the entire risk of rehabilitation and resale.

The City will attempt to recover as much of its acquisition cost as possible, but will offer the houses for sale to builder/developers through the competitive process. Builder/developers will be encouraged to determine the purchase price offered by estimating a market price for the rehabilitated house, deducting rehabilitation cost (including a development fee), deducting the cost of real estate agents, and thereby determining the highest responsible purchase price which they could offer. The sale price after rehabilitation must be the lower of the after-rehab appraised value or actual cost the builder/developer has in the house. Prior to the ultimate sale to an owner/occupant, a financial summary prepared by the builder/developer will be submitted to the City to ensure the sale price conforms to program requirements.

Builder/developers will agree to bring the house into compliance with all applicable codes within a mutually agreed-to time, to keep the property attractive during the marketing period, and to sell the house to income-eligible owner-occupants.

The City will provide financial incentives to encourage builder/developers to participate in the program, including Down Payment Assistance Program funds restricted to qualifying purchasers of the houses assisted through the NSP, in the form of forgivable soft second mortgage loans to ensure that the amortizing mortgage loan to be undertaken by the purchaser is affordable. If a completed house does not attract eligible purchasers within a reasonable period of time and after appropriate marketing by the builder/developer, the City may increase the amount of soft second financing available to help ensure the house is sold and occupied.

To assist builders obtain construction financing, the City will: a) provide the amount of the forgivable loan to be offered to the ultimate buyer, to be used by the builder/developer as construction financing, subordinate to the primary construction loan secured by the builder/developer -- these funds will be provided by the builder/developer at the closing to the owner/occupant, to be used as the forgivable loan; and b) the City will attempt to form a loan pool with local lenders, for the benefit of builder/developers whose access to conventional construction financing may be restricted. The City may explore using NSP funds as credit enhancements to increase the availability of private sector loans as may be needed.

B. DISTRIBUTION AND USES OF FUNDS

All NSP funds will be used exclusively in selected distressed areas. In addition, the proposed FY2009 budget will direct certain CDBG and HOME funds to be used in these same areas. Programs which in recent years have been City-wide (e.g. Down Payment Assistance) may be redirected to these strategy areas. It is the intent of the program to eliminate vacant and blighted structures in the strategy areas through demolition of unsalvageable properties, Code enforcement by IPL, and acquisition and rehabilitation and re-sale to owner-occupants of salvageable single-family properties. Vacant multi-family properties will also be addressed as needed, using the same strategies as used for single-family structures, with re-sale to developers who agree to bring properties into compliance with applicable Codes and maintain long-term affordability.

Estimated use of funds for houses to be acquired, rehabilitated and re-sold to owner-occupants:

| | |
|--|----|
| Units sold to households up to 50% median income: | 27 |
| Units sold to households above 50% up to 80% median income: | 29 |
| Units sold to households above 80% up to 120% median income: | 40 |
| | 96 |

Estimated number of units to be demolished 80

Funds budgeted by activity:

| | |
|--|-----------------|
| Acquisition and rehab, net cost to program | \$ 2,880,000.00 |
| Purchase subsidies to owner-occupants | 2,880,000.00 |
| Demolition | 476,000.00 |
| Counseling | 40,349.00 |
| Program administration | 697,372.00 |
| | \$ 6,973,721.00 |

If it is determined that new residential construction is appropriate on parcels otherwise eligible for NSP funds, similar financial incentives will be made available for such use.

C. DEFINITIONS AND DESCRIPTIONS

1) A "blighted property" is defined by local ordinance as any vacant structure or vacant or unimproved lot or parcel of ground in a predominantly built-up neighborhood:

- (a) Which because of physical condition or use is regarded as a public nuisance at common law or has been declared a public nuisance in accordance with the housing, building, plumbing, fire, or related codes;
- (b) Which because of physical condition, use, or occupancy is considered an attractive nuisance to children, including but not limited to abandoned wells, shafts, basements, excavations, and unsafe fences or structures;
- (c) Which because it is dilapidated, unsanitary, unsafe, vermin-infested, or lacking in the facilities and equipment required by the local housing code, has been designated by the department responsible for enforcement of the code as unfit for human habitation;

- (d) Which is a fire hazard, or is otherwise dangerous to the safety of persons or property;
- (e) From which the utilities, plumbing, heating, sewerage, or other facilities have been disconnected, destroyed, removed, or rendered ineffective so that the property is unfit for its intended use;
- (f) Which by reason of neglect or lack of maintenance has become a place for accumulation of trash and debris, or a haven for rodents or other vermin;
- (g) Which has been tax delinquent for a period of at least three years; or
- (h) Which has not been rehabilitated within the time constraints placed upon the owner by the appropriate code enforcement agency.

2) Affordable monthly gross rent is defined as a rent which does not exceed 30% of the monthly income of a household whose income is at 120% of the area median.

3) We will ensure continued affordability for NSP-assisted housing by requiring that purchasers of properties to be owner-occupied, at the time of purchase, will have a debt burden within the range acceptable to FHA, and that all primary loans are fixed-rate with no prepayment penalty. Forgivable loans of up to \$30,000 will be provided to eligible purchasers of houses rehabilitation or developed in NSP concentrated areas. These loans will be fully repayable if the home is sold before the end of the sixth full year after purchase; thereafter, 20% of the loan will be forgiven at the end of the sixth year, and 20% each year thereafter until the loan is fully forgiven at the end of the 10th year. As the program progresses, the amount and structure of financial assistance may be adjusted to respond to market conditions.

4) Rehabilitation standards will be consistent with standards set forth in the Metro Property Maintenance Code (chapter 156 of the Metro Codes of Ordinances). Special emphasis will be place on energy-efficiency, with NSP program standards developed to exceed Code requirements.

D. LOW-INCOME TARGETING

We estimate that no less than 25% of NSP funds will be used in properties which will be occupied by households whose income does not exceed 50% of median income, adjusted for household size. This will be accomplished by working closely with the Section 8 Homeownership Program administered by the Louisville Metro Housing Authority, and by working closely with the homeownership counseling programs of the Louisville Urban League, Housing Partnership, Inc., and other HUD-certified counseling agencies, to identify potential low-income qualified purchasers of modest and affordable homes. The City will also work with Habitat for Humanity to identify potential low-income purchasers, and attempt to involve Habitat volunteers in the rehabilitation process.

As the NSP program will also address eligible residential properties other than single-family homes, funds used for such properties which benefit households with incomes up to 50% median will be counted toward the requirement that 25% of awarded funds benefit such low-income households.

E. ACQUISITIONS AND RELOCATION

We expect that some houses eligible for assistance will not be feasible candidates for rehabilitation. In such cases, we will first determine that the cost to rehabilitate and re-sell will greatly exceed the market value, especially in houses whose size and structure exhibit functional obsolescence and would therefore be less marketable to purchasers. These properties will be referred to IPL as demolition candidates.

As we will be dealing exclusively with vacant structures, no relocation will be required.