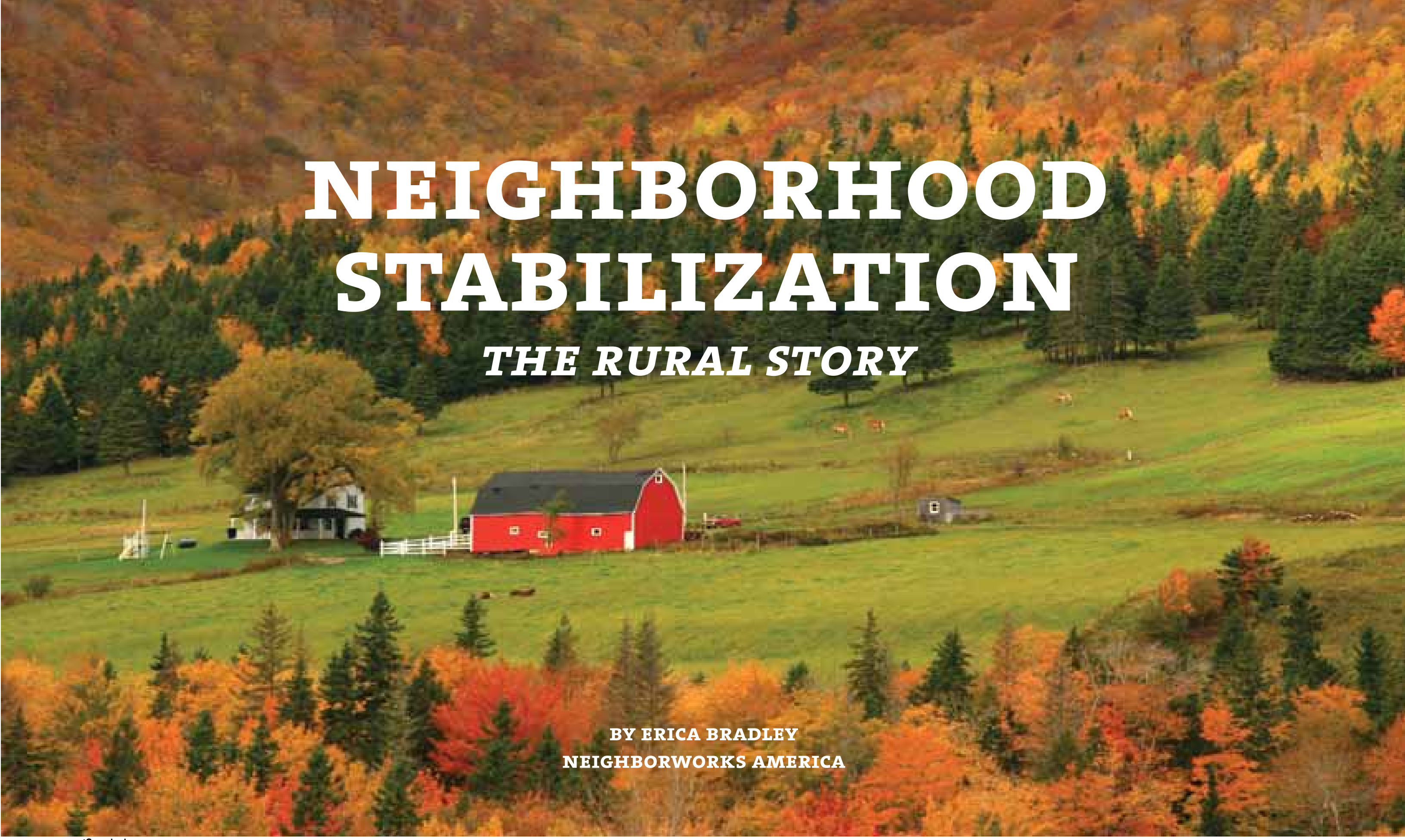

NEIGHBORHOOD STABILIZATION

THE RURAL STORY

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When house prices crashed in 2006-2007, foreclosures increased. The ensuing financial crisis and deep recession exacerbated the impact.

Concerned that foreclosures—and the associated property abandonment and crime—were destructive to communities, the federal government launched the Neighborhood Stabilization Program in 2008. Under the program, $3.92 billion was appropriated in grants to states, municipalities, and tribal governments. The funds could be used for the following:

- To establish financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties;
- To purchase and rehabilitate homes and residential properties abandoned or foreclosed;
- To establish land banks for foreclosed homes;
- To demolish blighted structures; and
- To redevelop demolished or vacant properties.

Administered by the U.S. Department of Housing and Urban Development (HUD), funds were disbursed to states.[1] Each state had the authority to allocate funds to grantees, depending on which communities were classified as high need by the 2008 Housing and Economic Recovery Act's allocation formula.[2] Grantees (municipalities or nonprofits in high-foreclosure areas) used funds to purchase and redevelop foreclosed homes. The homes were then sold—at market value or subsidized by NSP funds—to new homeowners. Most funds went into urban areas, but in northern Maine, Vermont, and New Hampshire (the Northern Tier), funds were also used in troubled suburban and rural areas.

Under the first allocation (NSP I), grantees had 18 months to obligate—and four years to expend—the awards. A subsequent allocation of $2 billion (NSP II) passed under the American Recovery and Reinvestment Act of 2009. This time there was a competitive application process. The Dodd-Frank Act of 2010 authorized another $1 billion (NSP III) using the same formula as NSP I.

The Northern Tier

Northern Vermont, New Hampshire, and Maine put NSP funds to good use. A region in which the timber industry had long been the driving economic force, the Northern Tier had suffered for years from the closing of factories and paper mills. The sparsely populated area became even more sparsely populated, and communities faced increased foreclosures and more absentee-property ownership.

Vermont

In Vermont, NSP funds were awarded to the Vermont Department of Housing and Community Affairs and were then distributed to grantees. The state partnered with the Vermont Housing Finance Authority and five NeighborWorks America homeownership centers to distribute funds quickly. According to Ann Karlene Kroll, director of grants management at Vermont's agency of Commerce and Community Development, the homeownership centers' "ears on the ground" helped the agency make good decisions on where grant money would have the biggest impact.

NSP Funds went into two programs: the Homeownership Acquisition and Rehabilitation Program (HARP) and the multifamily home program. HARP was used for single-family home development. After a grantee developed the homes, they were sold either at market rate or subsidized, depending on the family's area median income.

HARP's ability to use the money wisely and quickly, says Kroll, lay in being able to partner with organizations throughout the state and get their help reviewing homes. "That is truly the secret of our success," she says. More than 400 homes were reviewed under NSP I. However, finding homes that met the requirements did present challenges. Many homes were deemed unfit because they were rundown, lacked a good foundation, or were overpriced. And even after the purchase, some of the homes were found to have surprises calling for rehab work.

HUD requirements, such as the timeline to move funds out the door, sometimes meant that the purchasing and redevelopment of homes took place faster than the homes could be resold. Says Kroll, under NSP I, 41 homes were purchased by NSP grantees, but as of this writing, only 16 have been sold to homeowners. The others are either in development or are ready to be sold.

Despite the challenges, Kroll sees HARP as a success because it enabled Vermont to move funds to grantees and to get redevelopment going. It allowed single-family homes to be developed in Vermont's rural north, where single-family homes are the home of choice. Funds not used for HARP were disbursed for the redevelopment of multifamily homes. Kroll notes, for example, that the City of Rutland is currently turning an old school into a multifamily home at an estimated cost of $1.3 million.

New Hampshire

New Hampshire also was awarded funds through NSP I, but the state focused more on multifamily projects in cities. Awardees included the cities of Manchester, Nashua, Rochester, Berlin—and Harbor Homes Inc. (Harbor Homes funds actually meant that Nashua got the benefit of a second grant.)

In Berlin, years of changing economic conditions, including the closing of a paper mill, made NSP funds especially welcome. Says Kevin Flynn, communications director for the Community Development Finance Authority, "We think Berlin is remarkably suited for a program like NSP. It faces a unique set of economic challenges, with an aging housing market playing a key role in the overall health of the city."

Once a thriving mill town, the city saw population plummet between 1950 and 2000. Decreases in employment and population led to high rates of property abandonment and absentee ownership. For NSP purposes, Berlin was listed as a Tier 1 municipality—meaning it had "high needs" and 100 or more foreclosures between January 2006 and August 2008. The city was granted $4.3 million to redevelop foreclosed or vacant properties. Having identified the Notre Dame High School, Granite Street properties, and Lower East Side neighborhoods as most at risk of dilapidation, the city partnered with New England Family Housing to acquire and rehab 39 multifamily units.

Flynn says the city is already seeing signs that NSP is working. "Since NSP began, home values in the program area have gone up 17 percent, homeownership is up 2 percent, and 911 calls to those neighborhoods are down 4.5 percent. … What we hear from people in the neighborhoods is the program is having its intended effect. Residents who live across the street from these rehabbed homes have been cleaning up their yards, planting flowers, and taking pride in their own property. NSP helped stop the bleeding. Now residents are breathing life back into their community."

A region in which the timber industry had long been the driving economic force, the Northern Tier suffered for years from the closing of factories and paper mills.

Maine

Maine was awarded $19.6 million in NSP I funds. Allocation recipients included the cities of Auburn, Bangor, Bath, Biddeford, Lewiston, and Portland. Cumberland County, the Town of Sanford, MaineHousing, Maine State Housing Authority, Kennebec Valley Community Action Program, and the State of Maine (for general administration) also received money.

No funds were provided to the northern part of the state. According to Tammy Knight, development program manager for the Maine Office of Community Development, there were too few foreclosures per population density for Maine's Northern Tier to be included. Knight indicates it was hard to choose where to focus funding. "We had to do our due diligence on this. The whole purpose was to stabilize neighborhoods. It was a daunting task."

The factors for determining NSP eligibility in Maine included the number of foreclosures that occurred in 2008, the geographic density of foreclosures, and the likelihood that foreclosures would increase in 2009. Fifteen municipalities, representing six percent of all communities in the state, were put into the Tier I category. There were six communities in the Tier II category, but they were not ultimately funded, because all Tier I communities found projects to fund within the required time frame.

More Help Needed

On the national level, NSP was widely considered a much needed shot in the arm. The regulations gave states flexibility in disbursing funds, which then went to urban, suburban, or rural areas depending on the greatest need.

In the Northern Tier, each state reported different reasons for satisfaction with the program. Vermont saw success with building single-family homes, although there were challenges selling the homes as quickly as they got redeveloped. The small city where New Hampshire distributed NSP funds, Berlin, has seen signs of the desired stabilization. Maine chose not distribute funds to its sparsely populated northern counties but reported success with NSP in its cities.

Rural and urban areas experience community stabilization differently. Rural regions see foreclosures spread across wide swaths, not in blocks or neighborhoods as in a large urban city. Wherever rural areas did not fit the criteria set by HUD for greatest need, as in northern Maine, funds were allocated elsewhere. In the end, there were not enough NSP funds to help all the communities that could have benefited.

As of this writing, NSP III had been awarded, and Vermont, New Hampshire, and Maine were reviewing applications from municipalities and other potential grantees.

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Endnotes

[1] See http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg.

[2] See http://portal.hud.gov/hudportal/documents/huddoc?id=DOC_14172.pdf.

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