

**Proposed Amendment To  
Flint Fiscal Year 2008  
CDBG Annual Action Plan  
Neighborhood Stabilization Program (NSP)**



DONALD J. WILLIAMSON  
Mayor

<b>THE NSP SUBSTANTIAL AMENDMENT</b>	
<p><b><u>Jurisdiction:</u></b>      City of Flint, Michigan</p> <p><b><u>Jurisdiction Web Address:</u></b> <a href="http://www.cityofflint.com/DCED/Amendment_Narrative.pdf">http://www.cityofflint.com/DCED/Amendment_Narrative.pdf</a> <i>(URL where NSP Substantial Amendment materials are posted)</i></p>	<p><b>NSP Contact Person(s):</b> <b>Suzanne Wilcox/ Karen Morris</b> <b>Address: 1101 S. Saginaw St. Flint, MI 48502</b></p> <p><b>Telephone: (810) 766-7426</b> <b>Fax: (810) 766-7351</b> <b>Email:</b> <a href="mailto:swilcox@cityofflint.com">swilcox@cityofflint.com</a> <a href="mailto:kmorris@cityofflint.com">kmorris@cityofflint.com</a></p>

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## **Program Background**

The Housing and Economic Recovery Act (HERA) of 2008 was approved by Congress on July 30, 2008 with regulations for the program issued on September 29, 2009. The program is being administered by the U.S. Department of Housing and Urban Development (HUD). The overall purpose of the program is to assist in the redevelopment of abandoned or foreclosed homes under the portion of HERA entitled *Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes*. The program has been titled the *Neighborhood Stabilization Program (NSP)*. On the national level, the bill appropriates \$3.92 billion for the program.

In order to be able to distribute the funds as quickly as possible to meet identified needs, HUD has, in the regulations for the program, determined that an amendment to the CDBG Annual Action Plan for Fiscal Year 2008 will be the most efficient method. The \$3.92 billion has been allocated to CDBG recipients on a formula basis contained in the HERA. For a CDBG recipient to receive a direct allocation of funds, the application of the formula had to result in the recipient being allocated a minimum of \$2,000,000.

Flint has received an allocation of \$4,224,621. The NSP regulations require that an application describing the use of the funds be submitted to HUD no later than December 1, 2008. After review and approval of the application by HUD, Flint will have 18 months to commit the funds to program purposes described in the application with all funds expended within four years.

## **Income Eligibility**

Similar to the CDBG program, the use of NSP funds must benefit households or areas which meet specified income limits. However, whereas the CDBG defines eligible households as those earning less than 80% of median income, households earning less than 120% of median income are eligible to benefit under the NSP. There is a second requirement that 25% of the NSP funds benefit households earning less than 50% of median income. The applicable incomes for Flint are as follows:

### **FY 2008 Income Limits for 50% of HUD Area Median Income**

1 person household	2 person household	3 person household	4 person household	5 person household	6 person household	7 person household	8 person household
20,250	23,100	26,000	28,900	31,200	33,500	35,850	38,150

### **FY 2008 Income Limits for 120% of HUD Area Median Income**

1 person household	2 person household	3 person household	4 person household	5 person household	6 person household	7 person household	8 person household
48,600	55,440	62,400	69,360	74,880	80,400	86,040	91,560

The specific benefit to these income groups can be achieved if the NSP assisted activity accomplishes one of the following:

- Provides or improves permanent residential structures that will be occupied by a household whose income is at or below 120 percent of area median income (abbreviated as LMMH);
- Serves an area in which at least 51 percent of the residents have incomes at or below 120 percent of area median income (LMMH);
- Creates or retains jobs for persons whose household incomes are at or below 120 percent of median income (JMMJ); or
- Serves a limited clientele whose incomes are at or below 120 percent of area median income (LMMC).

### **Areas of Greatest Need**

HERA requires that NSP funds be distributed to the areas of greatest need. The law and regulations define such areas as follows:

- Areas with the greatest percentage of home foreclosures
- Areas with the highest percentage of homes financed by a subprime mortgage related loan
- Areas identified as likely to face a significant rise in the rate of home foreclosures.

In order to provide guidance to communities and counties, HUD has calculated levels of distress on a Census Block Group basis. One calculation has resulted in an Abandonment Rate Score on a scale of 1 to 10 with 10 being the most distressed. The second calculation is the Predicted 18-Month Problem Foreclosure Rate which is represented as a percentage of all mortgages. HUD does not provide any guidance as to the relative seriousness of levels within these rates. This decision is left to the grant recipient to determine within the overall requirement of distribution of NSP funds to the areas of greatest need.

In order to identify the areas of greatest need in Flint, several sources of data were utilized. This included the HUD supplied calculations as well as other sources. These sources and the results of analysis of the data are as follows:

Abandonment Rate – Unlike many other communities throughout the country, Flint has been experiencing housing and property abandonment for many years prior to the current foreclosure crisis. Whereas most communities have a range of abandonment on the 1 to 10 scale, all Block Groups in Flint with the exception of a portion of the downtown have a score of 10. Therefore, this calculation is not appropriate for defining the most distressed areas of the community.

Predicted 18-Month Problem Foreclosure Rate – This measurement of distress provided by HUD at the Block Group level uses data on housing price changes over the last 8 years; percent of total

home loans that are high cost (sub-prime) and percent unemployed in June 2008 to project a foreclosure rate by Block Group. For purposes of analysis to identify relative levels of distress in Flint, a quartile distribution was used. *Map 1 Predicted 18-Month Problem Foreclosure Rate* displays the results of this analysis. The four categories range from the lowest quartile (3.27% to 11.90%) to the highest quartile (15.23% to 18.1%).

Land Bank Holdings - As referenced earlier, Flint has been experiencing property abandonment for many years prior to the current foreclosure crisis. This abandonment has been directly tied to economic declines and increasing rates of unemployment in the auto and related industries. To address this issue of abandonment and neighborhood distress, one of the first land banks in the country was established in Flint. The Genesee County Land Bank has become a model for land banks throughout the country. The Land Bank not only acquires properties for its inventory, but also has as its mission the redevelopment of property. Currently, the Land Bank owns 2,197 vacant parcels and 328 parcels with vacant buildings in Flint. *Map 2 Land Bank Holdings* displays the location of these properties for each of the categories.

Recent Foreclosures Resulting In REO Properties – While the HUD supplied data provides overall numbers and percentages of foreclosed properties, the specific location of properties has not been provided; nor is there specific information provided as to when a property was foreclosed. Since Flint has experienced high levels of abandonment and foreclosures for a number of years, the identification of recent trends is of particular interest for the design of a program for use of NSP funds. For the purposes of such identification, various data resources were researched. Two such sources are Realtytrac.com and Foreclosures.com. Also, the Local Initiative Support Corporation (LISC) through the Foreclosure Response project has provided overall estimates of the number of loans in REO. Lastly, Flint has consulted FannieMae as to how many properties are owned by that organization in Flint. Not unexpectedly, there are differences among the specific numbers due to different time periods covered and variations in methodology. For example, the LISC data reports 1,487 loans in REO and Realtytrac reports 1,991 bank owned properties.

In order to provide for an address specific analysis, it was decided to use the FannieMae and Foreclosure.com data. FannieMae has a current list of properties and the Foreclosure.com data is for properties foreclosed upon from May 1, 2008 to the present. These properties were then mapped for analysis purposes. *Maps 3 and 4* display this information.

### **Eligible Uses of NSP Funds**

The NSP regulations list the eligible uses of NSP funds within overall categories. These categories of uses are further correlated with the uses eligible under the CDBG program. These categories of eligible uses are as follows:

- Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-second, loan loss reserves, and shared-equity loans for low- and moderate-income homebuyers.

- Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties.
- Establish land banks for homes that have been foreclosed upon.
- Demolish blighted structures.
- Redevelop demolished or vacant properties.

## **Use of Funds and Distribution**

### **Geographic Concentration**

The Flint Consolidated Plan for CDBG, HOME and other funds contains a Strategic Plan for addressing neighborhood revitalization needs. In addition, Flint is a Renewal Community participant which places a further focus on revitalization. Within this framework of the Consolidated Plan and the Renewal Community, numerous studies and strategies have been prepared and are in varying stages of implementation. These include renewal areas designated and approved under state law, State of Michigan Renaissance Zones, and a federal Homeownership Zone (HOZ). In addition, the City of Flint was designated by Governor Jennifer Granholm as one of eight communities in Michigan to participate in the Cities of Promise (COP) program. Cities of Promise is an initiative that aims to re-develop communities and reduce poverty in cities like Flint that are experiencing devastating conditions due to declining population, extreme poverty, loss of industry and jobs, crumbling infrastructure and blighted neighborhoods. Also, the City of Flint Renewal Community was recently selected as one-of-seven partners for HUD's Resurgent Neighborhoods Partnership, which is a pilot program to support local efforts to prevent mortgage foreclosure; promote housing redevelopment; and generally encourage economic prosperity in Renewal Communities (RC) and Empowerment Zones (EZs). The strategies outlined above were developed with the participation of institutions, for-profit, and not-for-profit organizations. Many of the same neighborhoods are targeted for redevelopment.

Since NSP is an amendment to the Fiscal Year 2008 CDBG Annual Action Plan which is part of the City's Consolidated Plan, the use of NSP funds consistent with established strategies is the logical approach. The Consolidated Plan contains specific housing objectives for Flint under various programs. This material establishes both numerical goals for housing production as well as a geographic concentration of programs in the Smith Village and Third Avenue Corridor / Carriage Town area. This strategy has been followed in the recent allocation of housing and other resources in the CDBG, HOME and other programs. For example, the RFP process used for allocation of CDBG and HOME housing funds specifies that activities must be located in one of the following areas:

- Near downtown in Homeownership Zone
- Flint River District
- Carriage Town

These funds are made available to both non-profit and for-profit housing organizations. The process for the FY2008-2009 period made available approximately \$2 million from these two funding sources.

Based upon an analysis and mapping of the various distress factors presented earlier, this strategy of concentration of resources is still sound. To address the purposes of NSP, the areas of concentration have been expanded into other highly distressed Block Groups. *Map 5* shows the areas within which the use of NSP funds will be targeted. These areas have been selected based on the following:

- High levels of Predicted 18-Month Problem Foreclosure Rate
- Significant number of Land Bank owned properties
- Significant number of recent foreclosures resulting in REO properties
- The presence of major corridors which offer the opportunity for non-residential redevelopment to support neighborhood stabilization.

The areas proposed for an investment of NSP funds represent two different types of distress. There are three areas designated for investment of NSP funds to leverage other funds to create sites for housing rehabilitation and development which combine foreclosed properties with properties previously acquired through foreclosures and now held by the Genesee Land Bank. There are three such areas all located within the boundaries of the Renewal Community. These areas shown on *Map No. 5* are as follows:

**Area 1** consists of Census Tracts 14 and 15 and contains the Smith Village Urban Renewal Project and a portion of the Flint Homeownership Zone. The area also contains the Carriage Town and River District revitalization area. Hurly Medical Center is a major land use in the area providing significant employment and the opportunity to attract residents wishing to live near their place of employment.

**Area 2** consists of Census Tracts 8 and 20. The area is bisected by N. Saginaw Street which is the major commercial and institutional corridor within the Renewal Community. The area is adjacent to the site of the former Buick City assembly plant. The plant has been demolished by General Motors and is available for future economic development activities.

**Area 3** is comprised of Census Tract 2 and is located in the northern most portion of the Renewal Community. This area is bounded by N. Saginaw on the east and Mount Morris Township on the north.

All three of these areas have high predicted 18-month foreclosure rates as provided by HUD as well as high concentrations of Land Bank properties.

The fourth area proposed for investment of NSP funds are Block Groups adjacent to the areas proposed for rehabilitation and new housing construction. These areas have high levels of foreclosures resulting in concentrations of REO properties. Unlike the areas described above and shown on *Map No. 5*, these areas contain very few Land Bank properties. In fact, there are 21

Block Groups with 125 REO properties which contain no Land Bank properties. Map No. 6 shows the location and concentrations of Land Bank and REO properties. There are 554 properties shown which include properties foreclosed upon since May 1, 2008. It is vital that these neighborhoods be stabilized through the purchase and resale of these REO properties before abandonment and deterioration reach the levels of distress found in the core area of the City. These levels of distress are evidenced by the 2,525 plus properties primarily in the core already owned by the Land Bank.

### **General Program Activities / Use of Funds**

Flint proposes to use NSP funds for eligible activities in targeted areas for an expansion of housing and neighborhood revitalization activities consistent with its Consolidated Plan Strategy. There are two aspects to this expansion. There is the geographic expansion to areas with high levels of REO properties. Of equal importance is the increase in the number of households who can benefit due to the raising of the income limits for participation in the program to 120% of median from the current 80% of median in effect for the CDBG and HOME programs. This increase in income eligibility will support several positives for neighborhood stabilization:

- Households previously not eligible for programs can be attracted into Flint to purchase homes.
- A larger percentage of employees at the medical and educational institutions which are major employers in Flint will be eligible to participate.
- The costs of building new housing can be better supported by people within the 120% of median-income limit which could attract larger housing development organization to Flint.
- Economic development activities resulting from the redevelopment of foreclosed and/or abandoned properties can pay higher wages to their employees and still qualify for re-use of properties.

### **Specific Activities**

The proposed use of NSP funds as an amendment to the FY2008 CDBG Annual Action Plan are as follows:

#### **Housing Development Financing**

The City, through the Department of Community and Economic Development, will extend the RFP process used for the CDBG and HOME programs to NSP funds. This process will encourage a mix of homeownership and rental units with households earning 120% of median-income as well as those earning less than 50% of median-income. It is anticipated households earning less than 50% of median income will benefit primarily from the provision of rental units. However, with the severely depressed housing prices in Flint, there is a possibility that ownership opportunities will be possible for these households. Priority within the program will be given to development proposals where foreclosed and abandoned properties can be combined with Land Bank properties to maximize neighborhood stabilization benefits. This program

component will be focused on the three target areas shown on *Map No. 5*. NSP funds will be used as a financing mechanism to leverage other funds. Opportunities for housing development will be provided for both for-profit and not-for-profit organizations in a public/private partnership.

#### Acquisition and Demolition of Abandoned, Blighted Properties

It is anticipated that there will be situations where foreclosed / abandoned properties are creating a blighting influence on surrounding properties with a destabilizing impact on the neighborhood. NSP funds will be used to acquire the property and demolish the blighted structure. The cleared property will be made available to adjacent property owners. As an alternate, the property will be transferred to the Land Bank. For purposes of this program component, a blighting property will be defined in accordance with Michigan Law under Act 27 of 2002.

#### Soft Second Mortgages In Support of the Purchase of REO Properties

The City, through the Department of Community and Economic Development, currently operates a Down Payment Assistance Loan Program to assist income eligible households to purchase existing houses. These transactions are generally taking place in the private marketplace. The City proposes to expand this program to work with REO properties held by banks and other finance agencies. In the inventory of 554 REO properties shown on *Map No. 6*, Federal Home Loan Bank owns 39, FannieMae owns 16 and Michigan State Development Authority owns 16. An additional 151 properties are owned by four banks: Chase; Citimortgage; Citizens and Wells Fargo. With the increased income limits for eligibility of the use of NSP funds, this program activity has the potential to attract purchasers into Flint and to stabilize neighborhoods where abandonment is not as prevalent as some areas of the City. As part of this program, NSP funds may also be used for rehabilitation necessary to meet Housing Quality Standards (HQS).

#### Redevelopment For Job Providing Economic Development Activities

NSP funds can be used for the acquisition and disposition of foreclosed / abandoned properties as well as supporting public facility improvements for uses which produce jobs for income eligible employees. This can create or retain jobs for persons whose household incomes are at or below 120% of median-income (LMMJ). Any successful neighborhood stabilization program must include the availability of jobs so households have the income to afford housing either created through the NSP, other programs or the private marketplace. This is particularly true in Flint which has experienced a major decline in employment due to cutbacks in the automobile industry and other economic sectors. The severely depressed housing market in Flint can be attributed in large part to this loss of jobs.

#### **Plan to Purchase Properties at a Discount**

The NSP regulations require that when the acquisition of foreclosed upon properties is proposed, such properties shall be acquired at a discount off appraisal value. This requirement is proposed to be met by purchasing properties in bulk from the Land Bank as well as banks and GSEs holding REO properties. As cited earlier, the Land Bank holds over 2,500 properties in the City and there are 554 REO properties foreclosed upon since May 1, 2008. Of these 554 properties,



222 are owned by 7 banks or GSEs. Implementation of the NSP will rely on consultation with these entities for the following purposes:

- Agreement on a “first look” policy for involvement in the NSP program.
- Selection of properties which will have the greatest impact on neighborhood stabilization.
- Agreement on a minimum 5% discount off appraisal value on any one property with an overall 15% discount on all properties acquired.

### **Performance Measures**

The Flint Consolidated Plan contains a goal of 900 housing units to be provided through new construction, home purchase assistance and rehabilitation over the 2005 to 2010 time period. In accordance with the provisions of HERA, NSP funds must be committed within 18 months or by June of 2010. Therefore, the establishment of NSP performance measures in relation to the Consolidate Plan goal is a logical approach. Based upon the amount of NSP funds available to Flint, past experience with housing programs in the City and program guidelines, the following performance benchmarks and budget allocations have been established.

### **Program Budget**

#### **Housing Development Financing**

This program is concentrated in the target areas shown on *Map 5*. The program will use public/private partnerships to rehabilitate or construct both ownership and rental units. It is anticipated that Flint NSP funds will leverage NSP funds being made available to the State of Michigan. For purposes of establishing benchmarks, a Flint NSP budget of \$25,000 per unit has been established.

75 units @ \$25,000                      \$1,875,000

#### **Soft Second Mortgages for REO Properties**

This program to be offered citywide, but targeting Block Groups adjacent to the areas proposed for rehabilitation and new housing construction. This program will be offered in conjunction with the banking community, and will provide financing for downpayment and property rehabilitation necessary to address building code issues. The downpayment assistance will be at a maximum of \$7,500 and rehabilitation assistance at a maximum of \$15,000.

75 units @ \$20,000                      \$1,500,000

#### **Spot Acquisition and Demolition Program**

This program will be used for spot demolition of abandoned, dilapidated properties which have a blighting, destabilizing impact on the surrounding neighborhood. An average demolition cost of \$5,000 has been established based upon recent demolitions in Flint.

40 units @ \$5,000                      \$225,000

Redevelopment for Job Providing Economic Development Activities

This program will provide foreclosed properties for re-use for economic development activities. The costs related to this program are anticipated to include demolition, site preparation and infrastructure improvements.

Lump Sum \$202,159

Program Administration

These costs are necessary to implement the various program components outlined above.

\$4,224,621 @ 10% \$422,462

**BUDGET SUMMARY**

Housing Development Financing	75 units @ \$25,000	\$1,875,000
Soft Second Mortgages for REO Properties	75 units @ \$20,000	\$1,500,000
Spot Acquisition and Demolition Program	40 units @ \$5,000	\$ 225,000
Redevelopment for Job Providing Activities	Lump Sum	\$ 202,159
Program Administration	Ten Percent of Alloc.	\$ 422,462
<b>TOTAL</b>		<b>\$4,224,621</b>

It should be noted that some of the NSP funds will be repaid as various loans are repaid. Under HERA, the City will be able to revolve these funds for program purposes through 2013.

**Interest Rates and Terms for Program Components**

The interest rates and terms to be established for the use of NSP funds will depend on the specifics of the reuse proposal and overall conditions at the time of closing. However, in both the Housing Development Financing and the Purchase of REO properties components, NSP funds will be used for gap financing in combination with other funds. This approach is intended to maximize housing production with available NSP funds as well as to provide an incentive for investment in Flint. The anticipated public/private partnership will also provide for an underwriting of the project by other entities in addition to the City.

**Tenure of Beneficiaries and Continued Affordability**

The NSP regulations require that 25% of the funds benefit households earning less than 50% of median income. In order to meet this requirement as well as to provide for a mix of housing in the targeted areas, a goal of 25% of the NSP funds to produce rental housing units has been established. The income limits for a four person household at 50% of median is \$28,900. At 30% of income available for housing, this equates to \$8,670 on an annual basis or \$722.50 per month. This will be a target rent for rental units. Continued affordability for both renter and owner households will be established through the use of this maximum of 30% of income for housing costs.