

**THE EFFECT OF NSP ON HUD AND ITS GRANTEES:**

**AN EVALUATION OF THE NEIGHBORHOOD  
STABILIZATION PROGRAM, CAPACITY, AND HOUSING  
AFFORDABILITY**

A Thesis

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By

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## **Abstract**

This report examines how suburban characteristics may have hampered grantees' administration of the first round of Neighborhood Stabilization Program (NSP1) funding. The report focuses on NSP1's "set-aside" requirement which was designed to preserve housing (either rental or owner) affordable to very-low income families. This report reviews available literature and uses interviews with HUD (who administered the program), nonprofit partners, and two Florida grantees to examine the effect of four community characteristics: goals that are contrary to the creation of affordable housing, limited capacity to administer NSP, a dearth of NSP-eligible multifamily properties, and limited capacity in the jurisdiction's nonprofit community. This report finds that many grantees struggled with the fast pace of this crisis-response program. However, this fast pace directed HUD's attention to grantees that were chronic under-performers under other block grant programs such as CDBG, and may have improved grantee capacity as well as their relationship with HUD.

## **Biographical Sketch**

Nathaniel Decker is a second-year Masters of City and Regional Planning student at Cornell University. He graduated from Oberlin College with a BA in Biology and Environmental History. His research interests include affordable housing, fair housing, and neighborhood stabilization.

## **Acknowledgments**

Thanks to my advisors, Mildred Warner and Rolf Pendall. Particular thanks go to David Noguera, who showed me around HUD and vastly improved my ability to understand NSP. Finally, thanks to Maya Brennan, who first suggested that NSP1's set-aside might be fruitful topic.

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## List of Abbreviations

AMI – Area Median Income

CDBG – Community Development Block Grant

DRGR – Disaster Recovery Grant Reporting (HUD’s grant monitoring system for NSP)

HUD – The US Department of Housing and Urban Development

HERA – The Housing and Economic Recovery Act of 2008

NCST – National Community Stabilization Trust

LIHTC – Low Income Housing Tax Credit, created through the Tax Reform Act of 1986

NSP – Neighborhood Stabilization Program (includes NSP1, NSP2, and NSP3)

NSP1 – The first round of funding for NSP, \$3.92 billion

NSP2 – The second round of funding for NSP, \$2 billion (included in ARRA: The American Recovery and Reinvestment Act of 2009)

NSP-TA – Technical Assistance, an appropriation of \$50 million as part of NSP2

NSP3 – The third round of funding for NSP, \$1 billion (included in the Dodd–Frank Wall Street Reform and Consumer Protection Act, passed in 2010)

TA – Technical assistance, provided by HUD to grantees with funds appropriated under NSP2

TARP – Troubled Assets Recovery Program, part of the Emergency Economic Stabilization Act of 2008

## Chapter 1: Introduction

In 2007 the mortgage finance system in the US began to break apart. In 2007 1.2 million homeowners entered foreclosure. Banks foreclosed on 2 million more homes in 2008.<sup>1</sup> Misplaced confidence in housing markets had spurred investment, which bolstered prices, justifying increased investment. In late 2006 and 2007 this cycle began to reverse causing a huge increase in default and foreclosure rates. Foreclosures often led to abandonment, which further decreased property values and increased crime in neighborhoods. Immergluck and Smith calculated that every additional foreclosed property reduces property values by about 1 percent within an eighth mile of the foreclosure.<sup>2</sup> Increased crime and burdensome mortgages that were now more expensive than the homes themselves spurred more people to walk away from their mortgages.<sup>3</sup> State and Federal governments responded with a set of programs and policies referred to as neighborhood stabilization. Neighborhood stabilization refers to a set of government interventions designed to stop cycles of disinvestment by preventing foreclosures and ameliorating the negative effects of foreclosed properties.

A number of federal programs including the Home Affordable Modification Program (HAMP) and the Home Affordable Refinance Program (HARP) were designed to prevent future foreclosures. The federal government's most significant response to deal with the negative effects of currently foreclosed properties was the Neighborhood Stabilization Program (NSP). NSP is a series of three HUD-administered block grant programs designed to lessen the severity of the foreclosure crisis. The program began with an appropriation of nearly \$4 billion in the Housing

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<sup>1</sup> US Department of Housing and Urban Development. *Interim Report to Congress on the Root Causes of the Foreclosure Crisis*. Washington, DC: US Department of Housing and Urban Development, 2009. Web.

<sup>2</sup> Dan Immergluck and Geoff Smith. "The external costs of foreclosure: The impact of single-family mortgage foreclosures on property values." *Housing Policy Debate* 17.1 (2006): 69. Print.

<sup>3</sup> Thomas G. Kingsley, Robin Smith, and David Price. *The Impacts of Foreclosures on Families and Communities*. Washington, DC: The Urban Institute, 2009. Web.



and Economic Recovery Act of 2008 (NSP1), and was funded again with \$2 billion in 2009 (NSP2), and \$1 billion in 2010 (NSP3). The programs and basic characteristics of their grantees are summarized in Figure 1. Though these quantities are not enough to stabilize the nation's housing markets, they may be enough to stabilize some neighborhoods in some municipalities.<sup>4</sup> Each iteration of the program included a "set-aside" requirement stipulating that grantees spend 25% of NSP funds to house families making less than 50% of the area median income (AMI). In mid-September 2010 the 18-month deadline for obligating NSP1 funds passed, presenting the opportunity for an early look at how grantees administered a new program in the midst of a crisis. This paper analyses the available documents and uses interviews with HUD administrators and grantees to probe a hypothesis: did suburban characteristics hinder grantees' ability to satisfy their set-aside?

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<sup>4</sup> Harvard University. Joint Center for Housing Studies. "The State of the Nation's Housing." *The State of the Nation's Housing*. (2010) Print.

**Figure 1: Description of NSP 1, 2, & 3 (adapted from stablecommunities.org)<sup>5</sup>**

	NSP1	NSP2	NSP3
Year	Act passed in 2008 (Division B, Title III of HERA of 2008)	Announced and applications due in 2009 (Title XII of Division A of the ARRA). Awards announced 2010.	Passed July 2010 (Financial Reform). Awards announced October 2010.
Amount	\$3.92 billion	\$2 billion (\$50 million for technical assistance)	\$1 billion (up to 2% for technical assistance)
Methodology of Awards	HUD provided grants to all states and selected local governments on a formula basis.	Competitive application process open to local governments and nonprofits; collaborations were encouraged and could include private sector partners. Grantees were selected on the basis of foreclosure needs in their selected target areas, recent past experience, program design and compliance with NSP2 rules.	Distributes funds by the formula allocation used for NSP1.
Eligible Uses	<p>NSP funds may be used for activities which include, but are not limited to:</p> <ul style="list-style-type: none"> <li>• Establish financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties.</li> <li>• Purchase and rehabilitate homes and residential properties abandoned or foreclosed.</li> <li>• Establish land banks for foreclosed homes.</li> <li>• Demolish blighted structures.</li> <li>• Redevelop demolished or vacant properties</li> </ul>	<p>Key Changes:</p> <ul style="list-style-type: none"> <li>• In April, 2010, HUD changed the definitions of “foreclosed” and “abandoned” for the purposes of identifying eligible properties for NSP1 and NSP2 to include properties where the mortgage is 60 days delinquent or tax payments are at least 90 days delinquent. This allows for a property to be acquired through a short sale, and was intended to streamline the process of acquisition. Changes are retroactive to NSP1.</li> </ul>	<p>Key Changes:</p> <ul style="list-style-type: none"> <li>• Funds available until expended.</li> <li>• Grantees have 2 years from the date HUD signs their grant agreements to expend 50% of the funds and 3 years to expend 100%.</li> <li>• Establishes a minimum grant size of \$1 million for cities and counties.</li> <li>• Permits redevelopment or rehab of “vacant” properties to qualify for the 25% low-income set aside (previously only “abandoned or foreclosed” homes counted).</li> </ul>

<sup>5</sup> [Neighborhood Stabilization Program \(NSP\) Strategies](http://www.stablecommunities.org/nsp-strategies), 23 July 2010 2011, Neighborworks America, 4/19 2011 <<http://www.stablecommunities.org/nsp-strategies>>.

	NSP1	NSP2	NSP3
Number of Applicants	N/A	482	N/A
Number of Awards	309*	56	279
Number of State Grantees	50	1 <sup>†</sup>	50
Number of County Grantees	88	0 <sup>†</sup>	88
Number of City Grantees	164	15 <sup>†</sup>	141
Average Grant Size	States: \$40.8 million Counties: \$9.2 million Cities: \$6.4 million	\$30 million	States: \$5.9 million Counties: \$3.5 million Cities: \$2.7 million
Deadlines	Funds are to be obligated within 18 months of availability to recipient; and expended within 4 years.	Recipients must expend 50% of allocated funds within 2 years of the date funds are available to the recipient, and 100% of funds must be expended within 3 years.	Grantees have 2 years from the date HUD signs their grant agreements to expend 50% of the funds and 3 years to expend 100%.

\* Number of awards differs from the sum of state, county, and city grantees because of grants to territorial governments.

† Totals for NSP2 include only grantees that were solely state or city grantees. 3 awards went to nonprofits, but the majority of awards (37) went to consortia, many of which included state, county, and local governments.

The hypothesis that suburban characteristics hindered NSP1 grantees' ability to satisfy their set aside arose from the recognition that, though the foreclosure crisis hit many suburbs as hard as it hit urban areas, a number of factors may have hindered suburban grantees' ability to satisfy their set-aside.<sup>6,7</sup> I identified four factors that may explain poor grantee performance with

<sup>6</sup> Todd Swanstrom, et al. *Regional resilience in the face of foreclosures : evidence from six metropolitan areas*. Berkeley, CA: University of California, Institute of Urban and Regional Development, 2009. / *z-wcorg/*. Web.

<sup>7</sup> Elizabeth Strom. *The Challenge: The Tampa Bay Region and the Foreclosure Crisis*. Washington, DC: National League of Cities, 2010. Web.

the set-aside. I suspected that suburban municipal housing departments had less capacity (which I define as personnel and expertise) than their urban counterparts. Suburban grantees may have fewer foreclosed multifamily or rental properties, which would limit grantees' ability to effectively satisfy their set-aside using rental strategies. While urban grantees might primarily be interested in using the set-aside to boost their stock of affordable housing, suburban grantees might not have this goal. Suburban jurisdictions generally have far fewer non-profits than urban jurisdictions, which would also reduce grantees' ability to effectively obligate their set-asides.<sup>8</sup>

A cursory review of the literature supports the assumptions above. In their study on regional resilience in the face of the foreclosure crisis, Swanstrom, et al. show that suburban governments in St. Louis and Cleveland had less capacity compared to their central cities.<sup>9</sup> The 2007 American Housing survey shows that approximately 50% of housing in central cities was multifamily, as opposed to only 30% of all housing in suburbs.<sup>10</sup> It is likely that this pattern would be reflected in the availability of single-family and multifamily foreclosed housing stock. In his review of the history of exclusionary zoning, Ihlanfeldt notes that this behavior has largely been the provenance of suburbs.<sup>11</sup> There are also many indications that housing nonprofit capacity is less in suburbs relative to central cities, though the extent of this difference varies by metro. Swanstrom et al. discuss intra-metro differences in housing nonprofit capacity in six metros. They show that housing nonprofits are heavily concentrated in the center cities of St. Louis and Cleveland and very thin in their suburbs.<sup>12</sup> The team identifies a slightly more even dispersion in

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<sup>8</sup> Mildred E. Warner. "Market-based Governance and the Challenge for Rural Governments: US Trends." *Social Policy & Administration* 40.6 (2006): 619. Web. Amir Hefetz and Mildred Warner. "Dynamics of Service Provision: Service, Market and Place Characteristics." *Journal of Public Administration Research and Theory* 21.2 (2011): 19. Web.

<sup>9</sup> Swanstrom, et al.

<sup>10</sup> US Department of Housing and Urban Development and US Census Bureau. *American Housing Survey for the United States: 2007*, 2008. Web.

<sup>11</sup> K. R. Ihlanfeldt. "Exclusionary land-use regulations within suburban communities: A review of the evidence and policy prescriptions." *Urban Studies* 41.2 (2004): 261-83. Print.

<sup>12</sup> Swanstrom, et al.

San Francisco metro, but not in the Inland Empire. The team ends by noting that the city of Chicago has huge nonprofit capacity relative to suburbs, which have moderate capacity, while the Atlanta metro has very few housing nonprofits in its suburbs, but also has limited capacity in its urban center.<sup>13</sup> Additionally, Warner shows that in 2002 7% of a broad range of municipal services were delivered by nonprofits in urban areas, as opposed to 4% in suburban and rural areas, hinting at a capacity gap.<sup>14</sup>

I wanted to know if suburbs were ill-equipped to deal with NSP1 because many problems that were previously considered to be “urban problems,” such as poverty and distressed housing stock are now endemic to many suburbs.<sup>15</sup> NSP1 was based on the Community Development Block Grant program (CDBG), a program designed to help cities, particularly inner city areas. I was curious if cities could administer a block grant program like NSP more effectively than suburbs. What were the limitations of suburbs that block grant programs highlighted? Could these limitations be appropriately addressed with a different type of program, such as technical assistance provided by HUD? The \$50 million allocated by HUD toward technical assistance in NSP 2 may have been a response to grantee needs that NSP1 made apparent. As urban problems spread to suburbs, what policies and programs can respond to these problems in this new environment?

This study is based on a literature review and a series of interviews with two grantees in Florida and NSP administrators at HUD in Washington, DC. The study is far from comprehensive and is designed to raise issues to be probed with more in-depth studies. Though the study doesn’t allow for any conclusions about the program as a whole, the timing of the study

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<sup>13</sup> Swanstrom, et al.

<sup>14</sup> Warner.

<sup>15</sup> Robert Puentes and Jennifer S. Vey. *The Federal Housing Policy Dilemma for Older Communities*. Washington, DC: The Brookings Institution, 2007. Web.

does allow the interviewed grantees and HUD administrators to reflect on the obligation phase of NSP1, which recently passed its deadline in September 2010.

This paper is divided into 5 chapters. In Chapter 2 I review the published materials available on NSP1 to examine my hypothesis. In Chapter 3 I describe the methodology I used to approach my hypothesis, emphasizing how I structured my interviews. In Chapter 4 I discuss the findings of my interviews. In the last chapter I discuss promising aspects of NSP using broad policy recommendations to the federal government and discuss the significance of my findings and suggest further avenues of research.

## Chapter 2: Literature Review

### Introduction

This chapter reviews the literature on NSP1 that relates to the four factors of interest. Because the program is so new it is difficult to come to any sweeping conclusions on the program based on themes in the literature. The literature itself consists of a handful of cursory studies, material from HUD itself (largely training materials, monitoring data, and regulations), and newspaper items on the program. This review is therefore primarily meant to complement and inform a series of interviews that I performed with suburban and urban grantees in Florida and HUD NSP1 administrators in Washington, DC. These interviews revealed how the characteristics of suburbs that I identified above affected how suburban grantees decided to fulfill their set-asides. This review is also designed to provide nationwide and statewide context to the grantees' stories.

### HUD NSP1 Monitoring Data

In order to assess whether grantees had difficulty obligating the set-aside I used two HUD data sources: the Disaster Recovery Grant Reporting system (DRGR) reported through HUD's monthly snapshots of grantee performance and Quarterly Performance Reports (QPRs). Previous studies have largely relied on DRGR data, often by assessing the success of a grantee based on their progress obligating or spending their grant.<sup>16,17</sup> Reliance on these data is understandable. At the end of every month HUD released snapshots of every grantee's

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<sup>16</sup> Ed Gramlich. *Jurisdictions' Compliance NSP1 Obligation Spend 25% of Funds for Very Low Income Household: Draft Report to the Annie E Casey Foundation*. Washington, DC: National Low Income Housing Coalition, 2010. Print.

<sup>17</sup> Strom.

performance, highlighting their obligations and expenditures and assessing their progress toward obligation and expenditure targets (including the targets of the set-aside).<sup>18</sup>

DRGR data, however, was not always a reliable indicator of grantees' performance over time. DRGR was a new system for local administrators, who were accustomed to reporting CDBG and HOME expenditures to HUD using the Integrated Disbursement & Information System (IDIS). Inexperience with DRGR led to inaccurate reporting, particularly in the early stages of the program.<sup>19</sup> There were also problems with standardized reporting with DRGR. A researcher at the National Low Income Housing Coalition found that while most grantees counted obligations toward units they expected to house very-low-income families, Birmingham, Alabama did not count funds to the set-aside until units were occupied by very-low-income families. Because of this unconventional definition Birmingham remained at 0% until three months from the September deadline. The city eventually reported obligating 35% of their grant to the set-aside, and had spent 17% of the grant to the set-aside by the end of November 2010.<sup>20,21</sup> HUD itself may have been misled by inaccurate and inconsistent reporting when it announced in May of 2010 that it expected to recapture up to \$1 billion of unspent funds from NSP1.<sup>22</sup> By September, Secretary Donovan reported that all but \$300 million of NSP1 had been obligated, and that the Department was abandoning plans for recapturing funds.<sup>23</sup>

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<sup>18</sup> Snapshot Reports, 30 Nov. 2010 2010, 10 Dec. 2010 2010  
<<http://hudnshelp.info/index.cfm?do=viewSnapshotHome>>.

<sup>19</sup> Ed Gramlich. *Personal Interview.*, 2010. Web.

<sup>20</sup> Gramlich.

<sup>21</sup> Birmingham, AL NSP-1 grantee Report Nov 2010, 30 Nov. 2010 2010, US Department of Housing and Urban Development, 12/13 2010 <[http://hudnshelp.info/media/snapshots/11-30-2010/1GR-BIRM\\_AL-R04-BIR-11302010.pdf](http://hudnshelp.info/media/snapshots/11-30-2010/1GR-BIRM_AL-R04-BIR-11302010.pdf)>.

<sup>22</sup> Obama Administration Supports Additional Funding to Stabilize Neighborhoods Hard-Hit by Foreclosure, May 18, 2010, U.S. Department of Housing and Urban Development, 10/25 2010  
<<http://portal.hud.gov/portal/page/portal/HUDMobile/pressreleases/2010/HUDNo.10-103>>.

<sup>23</sup> Shaun Donovan. *Prepared Remarks of Secretary Shaun Donovan at the Federal Reserve Board REO Summit: "Vacant Property, Strategies for Neighborhood Stabilization"*. Speech\_09012010 Vol. , 2010. Web.



Hints of the effectiveness of grantee set-aside strategies can be gleaned from the Quarterly Performance Reports (QPRs) that HUD required of its grantees. These reports go into more detail than the information posted on DRGR, and must be approved by HUD field offices, improving their accuracy. Though QPRs varied widely in the level of detail grantees that provided and HUD field officers had limited resources to check their accuracy, they are one of the best sources of data on grantee progress.<sup>24</sup> QPRs can not only provide a broad picture of how grantees expected to obligate grant money over the 18-month period, they frequently describe the affordability requirements of the grantee's set-aside.

Neither HERA nor the regulations released by HUD set rigorous affordability standards for the set-aside. The regulations issued by HUD stated only that "grantees shall ensure, to the maximum extent practicable and for the longest feasible term, that the sale, rental, or redevelopment of ... homes and residential properties ... remain affordable to individuals or families," and established HOME standards as the minimum for "affordable rents."<sup>25</sup> A National Low Income Housing Coalition study, examining a selection of 56 grantees' QPRs, discovered widely varying definitions of affordability and periods of affordability.<sup>26</sup> In Vermont, for example, "affordable rents" meant less than 30% of a family adjusted gross income, and the state incorporated the goal of permanent affordability into its subgrantee selection process. Other grantees used the HOME minimum prescribed by HUD (the lesser of the Fair Market Rent or 30% of 65% of AMI, almost guaranteeing that very-low-income families would be paying more

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<sup>24</sup> Gramlich.

<sup>25</sup> US Department of Housing and Urban Development. "Notice of Allocations, Application Procedures, Regulatory Waivers Granted to and Alternative Requirements for Emergency Assistance for Redevelopment of Abandoned and Foreclosed Homes Grantees Under the Housing and Economic Recovery Act, 2008." *Federal Register* 73.194 (2008): 58334. Web.

<sup>26</sup> Gramlich.

than 30% of their income on housing) and set periods of affordability as low as five to ten years.<sup>27</sup> Many grantees did not describe their definitions of affordability in their QPRs.

HUD's program monitoring data can hint at the effectiveness of grantees' set-asides. A detailed analysis of QPRs in particular could produce some conclusions about the program as a whole. All 309 grantees have released five QPRs so far, creating a vast trove of detailed data, including data on how grantees planned to satisfy their set-asides. Such an analysis would be time-consuming, however, and these data generally do not describe the decision-making processes and difficulties of administering NSP1. The next section will discuss studies that have taken close looks at QPRs and can provide some indications of how grantees administered NSP1 grants and set-asides.

### **Early evaluations of NSP1**

Enterprise Community Partners conducted the earliest study of NSP1, examining a selection of grantees' plans to spend NSP1 funds. HUD required that grantees submit these plans (called "action plan substantial amendments" in the language of CDBG) for approval before they could receive funding.<sup>28</sup> Enterprise examined these plans looking for "promising approaches." This study is useful in that it is one of very few studies that has critically analyzed NSP1 grantee actions. Its most obvious limitation is that it was released in April 2009, only one month into grantees' obligation period, and thus only examines grantees' plans to spend NSP monies, not their actual choices and actions. The study is also not ideal because, in an effort to identify the

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<sup>27</sup> Gramlich.

<sup>28</sup> US Department of Housing and Urban Development.

most promising approaches, larger grantees were over-represented in the study sample.<sup>29</sup> The study thus doesn't directly address my focus: difficulties with the set-aside, particularly with smaller suburban grantees. It does, however, provide a rare picture of how grantees expected to use NSP1 funds, and hints at problems in the program that would prove to be significant.

In March of 2010 Elizabeth Strom, a professor of geography at the University of South Florida, produced a brief study on the foreclosure crisis around Tampa Bay for the National League of Cities.<sup>30</sup> The study outlines the patterns of the foreclosure crisis and examines the response of different levels of government. Because of my plans to conduct interviews in Florida the study is quite useful. It not only describes the foreclosure crisis in the Tampa Bay area in terms of suburban and urban areas, it also describes the nonprofit infrastructure, the diversity of foreclosed housing type and tenure, and the capacity of municipal governments to administer NSP1 grants. The major weakness of the study is lack of a detailed methodology. Because sources are not cited, examination of Strom's conclusions is difficult. The study is still quite valuable, however, because of its focus on Florida, and because it is one of the few studies to examine NSP1 during the 18-month obligation period.

The last significant study of NSP1 that this paper relies on was produced by Ed Gramlich, the Regulatory Director/State Partner Liaison for the National Low Income Housing Coalition.<sup>31</sup> The study was produced for the Annie E. Casey Foundation in the summer of 2010, and examined the progress of grantees across the nation as of March 2010. The study focused on the set-aside requirement of NSP1, and relied heavily on both DRGR and QPR data. The study was limited by problems with DRGR and QPR data outlined above, and because it examined

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<sup>29</sup> Amanda Sheldon, et al, The Challenge of Foreclosed Properties: An Analysis of State and Local Plans to use the Neighborhood Stabilization Program (Columbia, MD: Enterprise Community Partners, Inc., 2009) 10.

<sup>30</sup> Strom.

<sup>31</sup> Gramlich.

only 56 of the 259 city and county grantees and only eight of the fifty state grantees. The study was still extremely valuable as it is the only assessment so far that examined the set-aside requirement in detail.

### **Problems with NSP1 Identified by Early Studies**

Observers noted a number of difficulties with NSP1 in the program's early stages. The Enterprise report described three "tensions" in NSP1.<sup>32</sup> The first tension noted was between the need for grantees to produce detailed plans, and the three month time frame that HUD gave grantees to produce the action plans. This short time frame diminished the quality of the action plans by limiting the range of resources that the grantees could consult to produce the plans. One of the few groups that attempted to improve grantees' action plans was NCB Capital Impact, a national non-profit community development organization. They commissioned Burlington Associates to produce materials encouraging grantees to pursue shared-equity strategies and included sample language for their action plans.<sup>33</sup> This report was released in late October, near the December 1 deadline for grantees to submit their plans to HUD. The Enterprise team, though, wrote that reports like this had limited impact because of very short time frame to produce action plans imposed by HUD. They described grantees producing action plans "in isolation and with limited awareness of how other NSP grantees were thinking about using NSP funds."<sup>34</sup>

After giving grantees three months to produce a plan of how to spend millions of dollars, HUD imposed an 18 month deadline for grantees to obligate the funds. HUD defined obligation

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<sup>32</sup> Sheldon, et al.

<sup>33</sup> Rick Jacobus, Heather Gould, and Barbara Kautz. *Preserving Affordability of NSP Funded Foreclosed Properties*, 2008. Web.

<sup>34</sup> Sheldon, et al.

in its regulations as “when orders are placed, contracts are awarded, services are received, and similar transactions have occurred that require payment by the [grantee or subgrantee].”<sup>35</sup> Both the Enterprise team and Georgia Tech professor Dan Immergluck recognized that this short time frame would limit grantees’ ability to leverage NSP1 by finding funds to match the grants.<sup>36,37</sup> This lack of time to leverage funds is especially harmful to grantees’ effectively satisfying their set-aside requirement. Very-low income populations often require subsidies for affordable rents. Though NSP1 could be used for down payment assistance and soft second mortgages, it could not be used for rent subsidy. Grantees that chose to satisfy their set-aside by acquiring and rehabbing units designed to be rented to very-low income families thus needed to look elsewhere to line up sources of funding to subsidize these rents. My interviews included questions about where grantees looked for funds and how this limitation on NSP1 money influenced their choice of how to obligate their set-aside. In NSP2 HUD recognized this issue and included ability to leverage funds as one of its criteria for awarding grants.<sup>38</sup>

The last tension the Enterprise team identified was need to target funds to the neediest areas, and the stigma that of being targeted as a needy area.<sup>39</sup> Strom also noted this problem, and a review of newspapers in Florida showed the prescience of the Enterprise team. This problem will be discussed in detail later in the paper.

HUD’s restrictions on what properties NSP1 funds could be used on was one of the biggest initial problems of the program. HUD required that grantees limit spending to properties

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<sup>35</sup> US Department of Housing and Urban Development.

<sup>36</sup> Daniel Immergluck. *Foreclosed: high-risk lending, deregulation, and the undermining of America's mortgage market*. Ithaca: Cornell University Press, 2009. Print.

<sup>37</sup> Sheldon, et al.

<sup>38</sup> US Department of Housing and Urban Development. *Notice of Fund Availability (NOFA) for the Neighborhood Stabilization Program 2 under the American Recovery and Reinvestment Act, 2009*. Docket No. FR-5321-N-01 Vol. , 2009. Web.

<sup>39</sup> Sheldon, et al.

that were either “foreclosed” or “abandoned.” Properties were “foreclosed” only if they had completed the foreclosure process. Properties were “abandoned” only if “mortgage or tax foreclosure proceedings have been initiated for that property, no mortgage or tax payments have been made by the property owner for at least 90 days, AND the property has been vacant for at least 90 days” (emphasis original).<sup>40</sup> Under these definitions grantees could not spend NSP money on properties abandoned by owners, but still occupied by tenants. In addition some grantees felt they could more effectively stabilize neighborhoods by providing assistance to owner-occupied properties rather than foreclosed ones.<sup>41</sup> HUD’s definitions made working with multifamily properties especially difficult. Many problematic multifamily properties were financed by Fannie Mae, which rarely initiated foreclosure proceedings against delinquent lenders unless they had confirmed a buyer for the foreclosed property. Thus many grantees were unable to use NSP funds on deteriorating multifamily units owned by delinquent lenders because they did not have an established relationship with Fannie Mae.<sup>42</sup>

HUD, responding to grantees, liberalized its definitions of “abandoned” and “foreclosed” properties in early April of 2010 for all three iterations of NSP. The new definitions allowed grantees to consider as “foreclosed” any property that was “at least 60 days delinquent on its mortgage and the owner has been notified; or the property owner is 90 days or more delinquent on tax payments” or on any property where foreclosure proceedings had begun.<sup>43</sup> The definition of “abandoned” properties was revised to include “homes where no mortgage or tax payments have been made by the property owner for at least 90 days or a code enforcement inspection has determined that the property is not habitable and the owner has taken no corrective actions

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<sup>40</sup> US Department of Housing and Urban Development.

<sup>41</sup> Sarah Greenberg. *Personal Interview.*, 2010. Web.

<sup>42</sup> Greenberg.

<sup>43</sup> Sullivan, Brian, US Department of Housing and Urban Development. *HUD Announces Improvements to Neighborhood Stabilization Program.* HUD No. 10-066 Vol. , 2010. Web.

within 90 days of notification of the deficiencies.”<sup>44</sup> These decisions helped many grantees, but the relatively late revision may still have diminished the success of the program.<sup>45</sup>

The tortuous process of foreclosure in many states also hindered grantees’ ability to acquire properties with NSP funds. In states with judicial foreclosure, such as Florida, the average foreclosure process took a year.<sup>46</sup> Cumbersome foreclosure processes had the potential to limit the effectiveness of NSP in nearly every state.<sup>47</sup>

Even when properties were eligible for NSP dollars, HUD stipulated that foreclosed or abandoned properties be acquired at a “minimum discount of 5 percent for each residential property purchased with NSP funds and a minimum average discount [of 10%] for all properties acquired with NSP funds over the 18-month HERA use period.”<sup>48</sup> This stipulation hindered grantees’ ability to acquire NSP-eligible properties in speculative housing markets.<sup>49</sup> Elizabeth Strom noted that a still-strong speculative market may have contributed to Tampa’s inability to purchase any properties with NSP1 funds by January, 2010.<sup>50</sup> The Palm Beach Post reported that Palm Beach County also experienced this problem.<sup>51</sup>

The pace of the program and HUD’s restrictive definitions may have been the result of NSP being a foreclosure-crisis response program. These two problems hint at the larger tension between designing NSP to respond to the foreclosure crisis, and designing an effective affordable housing or community development program. One of NSP’s goals was to release money quickly into the housing market to lessen the impact of the real estate bust. This goal was the rationale

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<sup>44</sup> Sullivan, Brian, US Department of Housing and Urban Development.

<sup>45</sup> Leslie Leitch. *Workshop: Meeting the 25% Set Aside For Low-Income Persons.*, 2010. Print.

<sup>46</sup> Strom.

<sup>47</sup> Alan Mallach and Brookings Institution. Metropolitan Policy Program. *Tackling the mortgage crisis 10 action steps for state government.* Washington, D.C.: Brookings Institution Metropolitan Policy Program, 2008. Print.

<sup>48</sup> US Department of Housing and Urban Development.

<sup>49</sup> Sheldon, et al.

<sup>50</sup> Strom.

<sup>51</sup> Kimberly Miller, "Firm Foundation," [The Palm Beach Post](#) 12 September 2010, , sec. A: .

for the pace of spending and the stipulation that funds could only be spent on foreclosed properties. This goal was not in consonance with the goals of community development, which is predicated on continued support and the formation of partnerships within communities.

### **Potential Problems with Grantee Capacity**

Observers also identified grantees' lack of capacity as a problem in the program's early stages. Many of the "promising approaches" identified by Enterprise (such as construction of rental housing with Low Income Housing Tax Credits and supportive housing) required nonprofit partners.<sup>52</sup> NCB Capital Impact's report made this point explicitly regarding community land trusts: "a jurisdiction must already have an existing land trust or a community based nonprofit housing organization that is willing to act as a land trust."<sup>53</sup> In a webinar to new grantees on October 2, 2008 the Brookings Institution researcher Alan Mallach predicted that many grantees would have limited capacity to effectively administer NSP grants, and recommend that grantees "seek out capacity wherever it can be found."<sup>54</sup>

The early evaluations of NSP1 suggest that the concerns about grantee capacity were justified. Ed Gramlich found that states had obligated a higher percentage to the set-aside than counties, and counties had obligated more than local governments, hinting at capacity issues.<sup>55</sup> He also found that small grantees had generally obligated fewer funds to the set-aside than larger jurisdictions. Only about 30% of small grantees had obligated more than 20% of their grant to their set-aside by June 30. Medium-sized grantees had obligated 56%, large grantees 69% and

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<sup>52</sup> Sheldon, et al.

<sup>53</sup> Jacobus, Gould, and Kautz.

<sup>54</sup> Alan Mallach. *Thinking Strategically About the NSP Program: KnowledgePlex Expert Chat*, 2008. Web.

<sup>55</sup> Gramlich.



very large grantees 50%.<sup>56</sup> Examining grantees in the Tampa Bay area, Elizabeth Strom noted that “local governments tend to have extremely limited community development and affordable housing capacity; they do not have the robust staffing or institutional capacity to develop innovative programs in response to an unexpected turn of events.”<sup>57</sup> I intend to probe these capacity issues in my interviews.

HUD also appeared to recognize the inadequacy of many grantees’ capacity to effectively use their grants. As the deadline for obligation of NSP1 funds passed, HUD changed its policy about recapturing unspent funds. On 27 August 2010 HUD issued a notice in the Federal Register stating that it would not recapture unused funds so as “to limit the negative effects on communities that, although they may not have had the capacity to meet the deadline, still have great need for neighborhood stabilization funding.”<sup>58</sup>

### **Potential Problems with Grantees’ Partnerships with Nonprofits**

From very early in the program HUD recognized that nonprofits would be critical to help grantees gain capacity. Beginning with the notice of NSP1 in the Federal Register, HUD emphasized the importance of partnering with nonprofits, specifying how funds could be used in partnerships.<sup>59</sup> HUD also emphasized the importance of nonprofits in workshops and webinars. By late 2009 HUD had opened these events to nonprofit partners to help build partnerships. In a workshop held by HUD on 15 January 2010, the presenter specifically referred to building the

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<sup>56</sup> Gramlich.

<sup>57</sup> Strom.

<sup>58</sup> US Department of Housing and Urban Development. "Notice of Neighborhood Stabilization Program Reallocation Process Changes." *Federal Register* 75.166 (2010): 52772. Web.

<sup>59</sup> US Department of Housing and Urban Development.

capacity of the nonprofit partners of the grantees.<sup>60</sup> The early webinar by Alan Mallach also emphasized the importance of nonprofit partners.<sup>61</sup>

Foreseeing the need of grantees for assistance from the nonprofit sector, a group of six large national community development nonprofits formed the National Community Stabilization Trust (NCST) to ease the transfer of Real Estate Owned (REO) properties to new owners and renters with NSP1.<sup>62</sup> NCST provided two important services to grantees. The First Look Program allowed grantees to inspect and acquire abandoned and foreclosed properties before they became available to other buyers. The Targeted Bulk Purchase Program allowed grantees to buy dozens of properties from sellers in one transaction.<sup>63</sup> Though these services were available to all NSP1 grantees, it's likely that grantees with greater nonprofit capacity used these services more frequently. Specifically, it's reasonable to expect that grantees who partnered with nonprofits who were members of the organizations that came together to form NCST used these programs at higher rates.

There are signs that grantees who did partner with nonprofits were able to use their NSP grants more effectively. Ed Gramlich found a correlation between the extent to which subgrantees of states partnered with nonprofits and that state's progress on the set-aside. Strikingly, only about half of the formula grantees he surveyed had partnered with nonprofits.<sup>64</sup> Looking at the Tampa Bay area, Elizabeth Strom found that non-profit infrastructure and foundations to fund community development were extremely weak, which hindered grantees'

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<sup>60</sup> Leitch.Leitch.

<sup>61</sup> Mallach.

<sup>62</sup> National Community Stabilization Trust, 2010, 12/10 2010  
<<http://stabilizationtrust.com/index.php?q=aboutus>>.

<sup>63</sup> Sheldon, et al.

<sup>64</sup> Gramlich.

ability to obligate funds to NSP.<sup>65</sup> Conversely she identified Pasco County as a strong NSP grantee because of the partnerships the County had already established before 2008. Describing the ways in which Pasco CDCs worked with real estate agents, she wrote, “NSP 1 has therefore [been more effective in Pasco County] because it involved adding to the scope of this partnership, rather than creating new relationships.”<sup>66</sup> One can easily imagine this holding true for nonprofit partnerships as well. Grantees selected for NSP webinars emphasized their partnerships with nonprofits. In a webinar organized by Enterprise all three grantees were represented by their nonprofit partners. These partners ranged from Case Western University, which provided a sophisticated foreclosed and abandoned property identification and analysis system, to Mercy Housing in Chicago, which acquired, rehabbed, and managed large foreclosed multifamily buildings using NSP grants.<sup>67</sup>

Despite Ed Gramlich’s finding that only half of grantees partnered with nonprofits there are also hints that nonprofits were widely used during the obligation phase of NSP1. In a speech given 1 September 2010, Secretary of HUD Shaun Donovan spoke at length about the effectiveness of NCST. The secretary ended the speech by announcing a new partnership between NCST and a group of banks that together held 75% of the nation’s REO property.<sup>68</sup> This is a sign that NCST worked at least fairly well during NSP1. Neighborworks partners were also regularly tapped.<sup>69</sup> It remains to be seen, however, how prevalent nonprofit partnerships were during NSP1.

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<sup>65</sup> Strom.

<sup>66</sup> Strom.

<sup>67</sup> Enterprise Community Partners. *Webinar: Strategies for Comprehensive Neighborhood Stabilization.*, 2010. Web.

<sup>68</sup> Donovan.

<sup>69</sup> Greenberg.

## Potential Problems with Grantee Obligations to Rental Housing

Early in the program HUD and NSP1 observers predicted and recommended that grantees use a mix of rental and homeownership strategies to obligate their funds. While homeownership seemed to be an appropriate strategy for the 50-120% AMI populations where the majority of funds would be obligated, rental strategies seemed best suited for the set-aside. In a training video released in September 2009 HUD recommended that grantees pursue rental strategies to satisfy their set-aside.<sup>70</sup> HUD reiterated this recommendation in subsequent problem solving clinics.<sup>71</sup> The Enterprise report not only recommended that grantees satisfy their set-asides using rental strategies, but predicted that the vast majority of grantees would do so.<sup>72</sup> They based this prediction on the fact that about 28% of funds were expected to go to rental housing in their sample. The report also states that HUD found that 75% of all grantees planned to use rental housing to satisfy the set-aside.<sup>73</sup>

Early signs, however, suggested that many grantees were only pursuing homeownership strategies, even for the set-aside. Ed Gramlich's study found that only about half of the formula grantees he surveyed were using rental strategies to satisfy their set-asides.<sup>74</sup> Furthermore, examining the extent to which the grantees obligated funds to the set-asides, he found that those grantees who were using homeownership strategies were having at least as much success satisfying their set-asides as those who also employed rental strategies.<sup>75</sup> He also noted a vast difference between state grantees' strategies. Connecticut and Minnesota planned to satisfy their

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<sup>70</sup> NSP1 Training Presentation: Module 1 - Eligible Uses, Activities, and Properties, 17 September 2009 2009, US Department of Housing and Urban Development, 10 December 2010 2010  
<<http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/training/index.cfm>>.

<sup>71</sup> Leitch.

<sup>72</sup> Sheldon, et al.

<sup>73</sup> Sheldon, et al.

<sup>74</sup> Gramlich.

<sup>75</sup> Gramlich.

set-asides primarily with homeownership (83% and 99.9% respectively), while Vermont and Florida only used rental strategies. Gramlich found that states that used a mix of ownership and rental strategies had obligated the most funds.<sup>76</sup>

There are a number of potential reasons for the apparent disparity between the recommendations and expectations of HUD and Enterprise and the apparently prevalent use of homeownership strategies. A dearth of foreclosed and abandoned housing stock suitable for rental may have been a factor. During the January 2010 problem solving clinic a participant stated that the majority of eligible units in his jurisdiction were scattered single family units, which would be extremely difficult to manage as rental properties. He stated that rental strategies were only feasible with 25 units or more, and that the short time frame of the grant made it impossible to assemble this many units.<sup>77</sup> The presence of foreclosed multifamily properties appears to be an important factor in the use of rental strategies. A participant in an Enterprise webinar stated that Chicago was able to satisfy its set-aside fairly easily because they had a few large multifamily properties (including many failed condo conversions). These properties were acquired, rehabbed and transferred to Mercy Housing, a large nonprofit community development organization in the city.<sup>78</sup>

It is also possible that the Enterprise study, as it over-sampled large grantees and the rust belt, may have depicted a skewed picture of grantees' plans. Many suburban grantees were quite small and probably had far fewer large multifamily rental properties in foreclosure, if they had any. It is also possible that grantees were unable to fulfill their grants in the way they intended, or changed their strategy for other reasons. Grantees also may have had more experience with

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<sup>76</sup> Gramlich.

<sup>77</sup> Leitch.

<sup>78</sup> Enterprise Community Partners.

homeownership than rental. These hypotheses will be probed during my interviews with grantees.

## **NSP1 in Florida**

This study focuses on Florida because Florida grantees received more NSP1 funds than the grantees of any other state. Approximately 15% of all NSP1 funds went to Florida grantees, totaling about \$540 million. This allocation was the result of the extent of Florida's foreclosure crisis. On a state level, the Florida real estate bubble expanded faster and became more overinflated than other states, and caused more destruction when it burst. It has been argued that the state government and local governments in Florida are dependent on real estate development for revenue.<sup>79</sup> Florida also was chosen because of the state's varied affordable housing capacity. There are signs that governments in Florida have significant capacity to administer affordable housing programs. Not only does Florida have a comprehensive planning law that requires that local governments produce a detailed housing element, they also have distributed over \$700 million since 1992 to local governments to preserve and construct housing affordable to moderate to very-low income families.<sup>80</sup> On the other hand, because of the explosive growth in the population of the state in the past few decades, and the short durations of housing busts, local governments may be inexperienced in dealing with the problems of widespread foreclosure and weak housing markets. I was curious how local governments that were home to some of the worst foreclosure problems in the nation, and had no prior experience with widespread foreclosures, administered a large foreclosure-response program.

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<sup>79</sup> George Packer, "The Ponzi State," *New Yorker* 9 February 2009: 81-93, .

<sup>80</sup> State Housing Initiatives Partnership (SHIP), 2011, 4/20 2011 <[http://www.floridahousing.org/FH-ImageWebDocs/AboutUs/SHIP\\_ProgramOutline.pdf](http://www.floridahousing.org/FH-ImageWebDocs/AboutUs/SHIP_ProgramOutline.pdf)>.

To get a more detailed impression of how NSP functioned in Florida I examined Florida newspapers for articles referring to NSP using Factiva. The articles do not provide insight into internal workings of the grantees and their decisions-making processes, and at best reveal only grantees' final decisions. Newspaper coverage also may be spotty geographically, with some areas receiving more detailed coverage than others. Newspapers are, however, one of the few sources available that give a locally-oriented perspective on NSP. In my review of newspapers I've focused my attention on the quotes of grantees to limit the distortion that is often present in newspaper articles. This review of newspapers is meant to provide a perspective on how NSP1 worked in Florida. I reviewed papers across the state to provide a broad picture of the foreclosure crisis and NSP1 in Florida.

Some Florida grantees were wary of NSP when HUD launched the program in late 2008. The Sarasota NSP administrator was concerned that after acquiring and rehabbing properties her office would "be left holding the bag" with no potential buyers for the NSP properties.<sup>81</sup> Volusia County administrators expressed similar concerns. Speaking in late 2010 the Volusia County Community Services Director said "this was a program that Volusia County and the cities across Florida and across the United States were not well-suited for. We were not geared up to get in the real estate business and make this program successful under the federal guidelines. ... In the early stages of this program, I almost wish we hadn't gotten this money."<sup>82</sup> Part of this wariness may have come from the size of the grants. Pasco County officials expected to receive \$4 million, and were "shocked" when HUD allocated \$19.5 million to the county.<sup>83</sup>

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<sup>81</sup> Zac Anderson, "Florida Waits On A Promise," Sarasota Herald-Tribune 15 February 2009 2009, , sec. A: .

<sup>82</sup> Will Hobson, "Volusia officials: Federal cash helps county buy, sell foreclosed homes," Daytona Beach News Journal 22 October 2010 2010, , sec. C: .

<sup>83</sup> Kevin Wiatrowski, "Aid For Housing Surprises Officials," Tampa Tribune 18 October 2008 2008, : .

Grantee concerns about capacity appeared to be justified in at least one case. A September 2010 HUD audit revealed that Polk County NSP administrators violated HUD procurement rules in contracting with a private company to help manage NSP. The HUD audit stated that “the number and significance of the procurement violations ... [brought] into question the County’s capacity to implement future NSP activities in accordance with competitive contracting requirements.”<sup>84</sup> According to an official at Neighborworks who was in close contact with housing nonprofits in Florida during NSP1, small grantees also struggled with capacity problems, frequently asking for assistance from Florida Neighborworks members.<sup>85</sup>

Problems with foreclosed property acquisition appeared common for grantees in Florida, where the speculative residential real estate market was still hot. Nearly a year into the 18-month obligation period Palm Beach County had not acquired any foreclosed properties after being routinely outbid by speculative investors.<sup>86</sup> In addition to the regulations requiring grantees to purchase properties at discounts, grantees were at a disadvantage to speculative investors because of the 30 pages of paperwork HUD required sellers to fill out, and because grantees were generally unable to pay in cash, as NSP was a reimbursement program. Coral Springs certified 52 buyers but was unable to purchase any homes by June 2009 because sellers preferred cash buyers.<sup>87</sup>

NSP1 also faced political problems in Florida. Some grantees faced resistance to the program’s support of affordable housing. The Palm Coast City Manager introduced the program

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<sup>84</sup> Tom Palmer, "Audit Knocks Polk's Handling of Housing Stabilization Program," The Ledger 17 October 2010, : .

<sup>85</sup> Greenberg.

<sup>86</sup> Miller.

<sup>87</sup> Terry Sheridan, "Lenders Pass Over Grants, Red Tape To Sell To Investors; Foreclosed Properties HUD Likely To Change Program Rules," Palm Beach Daily Business Review 16 June 2009 2009, , sec. A: .



by stating that NSP was not a “low-income public housing” program.<sup>88</sup> NSP administrators in Indian River County made the news by refusing to reveal the identities of families benefiting from NSP funds. Explaining this decision, the director of a nonprofit housing company stated, “if I didn’t have people come to my office and ask, ‘Why are you moving those people into my neighborhood? Can’t you find someplace else?’ I might not be so paranoid.” The director also stated that NSP properties had been vandalized and that resentful neighbors had left dog feces on the front steps of one rehabbed home.<sup>89</sup> Marion County Commissioners were also hostile to the goals of the program. One commissioner stated that NSP was “another example of us taking a department and doing the things that private enterprise can.”<sup>90</sup> Pasco County Realtors also resisted NSP, arguing more money be allocated to downpayment assistance from the acquisition and rehab budget. Pasco County administrators bowed to the Realtors’ requests, but found that the demand for downpayment assistance was far less than they expected, and eventually re-allocated funds to acquisition and rehab.<sup>91</sup>

By the end of the 18-month deadline however, newspapers reported that grantees had been able to make some difference using NSP1 money. Hillsborough County, which lost \$2 million in HOME funds after a damning HUD audit in 2008, received a positive HUD audit in 2010 for the County’s administration of NSP1.<sup>92</sup> Though Palm Beach County had a “sputtering start,” it was able to obligate its entire NSP1 grant by the 18-month deadline. A Palm Beach County official stated that though “we were having trouble at first, [and] it was definitely a challenge to match

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<sup>88</sup> Kari Cobham, "Officials clear air on home program; \$2.6 million federal grant designed to help buyers of foreclosures," Daytona Beach News Journal 28 February 2009 2009, , sec. A: .

<sup>89</sup> Henry A. Stephens, "Housing grants fueling discord?" Treasure Coast Newspapers 3 December 2010 2010, : .

<sup>90</sup> Bill Thompson, "County questions homes program," Ocala Star-Banner 20 October 2010 2010, : .

<sup>91</sup> Strom.

<sup>92</sup> Mike Salinero, "Housing office gets OK audit," Tampa Tribune 8 January 2010 2010, : .

buyers with homes” the county eventually obligated funds to assist 81 properties.<sup>93</sup> Even the officials in Volusia County who were concerned that the program would be more trouble than it was worth concluded that, “at the end of the day, we have made this program work. I think this is an outstanding example of what this county can accomplish.”<sup>94</sup>

## Conclusion

My hypothesis that suburban grantees were less successful obligating their set-asides compared to urban grantees has some support in the literature. Grantee capacity, nonprofit partnerships, presence of foreclosed multifamily rental housing, and politically fraught goals all appear to have been at work (at least in Florida) during the 18-month obligation period for NSP1. The literature, however, rarely describes these factors in terms of an urban/suburban difference. Though a Neighborworks manager agreed that small grantees were at a big disadvantage compared to larger grantees, she stated that Miami was probably not a good example of an effective grantee, mentioning severe bureaucratic and political problems with their administration of NSP1.<sup>95</sup> It is possible that I have identified important factors to NSP1 success, but that they are not correlated to an urban/suburban difference as I had expected.

The literature also reveals a number of questions that can be approached in my interviews with grantees. Because the literature does not reveal the magnitude of the five factors, I could ask grantees what factors limited them the most. The literature suggests that some grantees faced significant political pressure that influenced grantee set-aside decisions. It would be interesting to see how political pressure both within government and from the outside influenced grantee goals

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<sup>93</sup> Miller.

<sup>94</sup> Hobson.

<sup>95</sup> Greenberg.

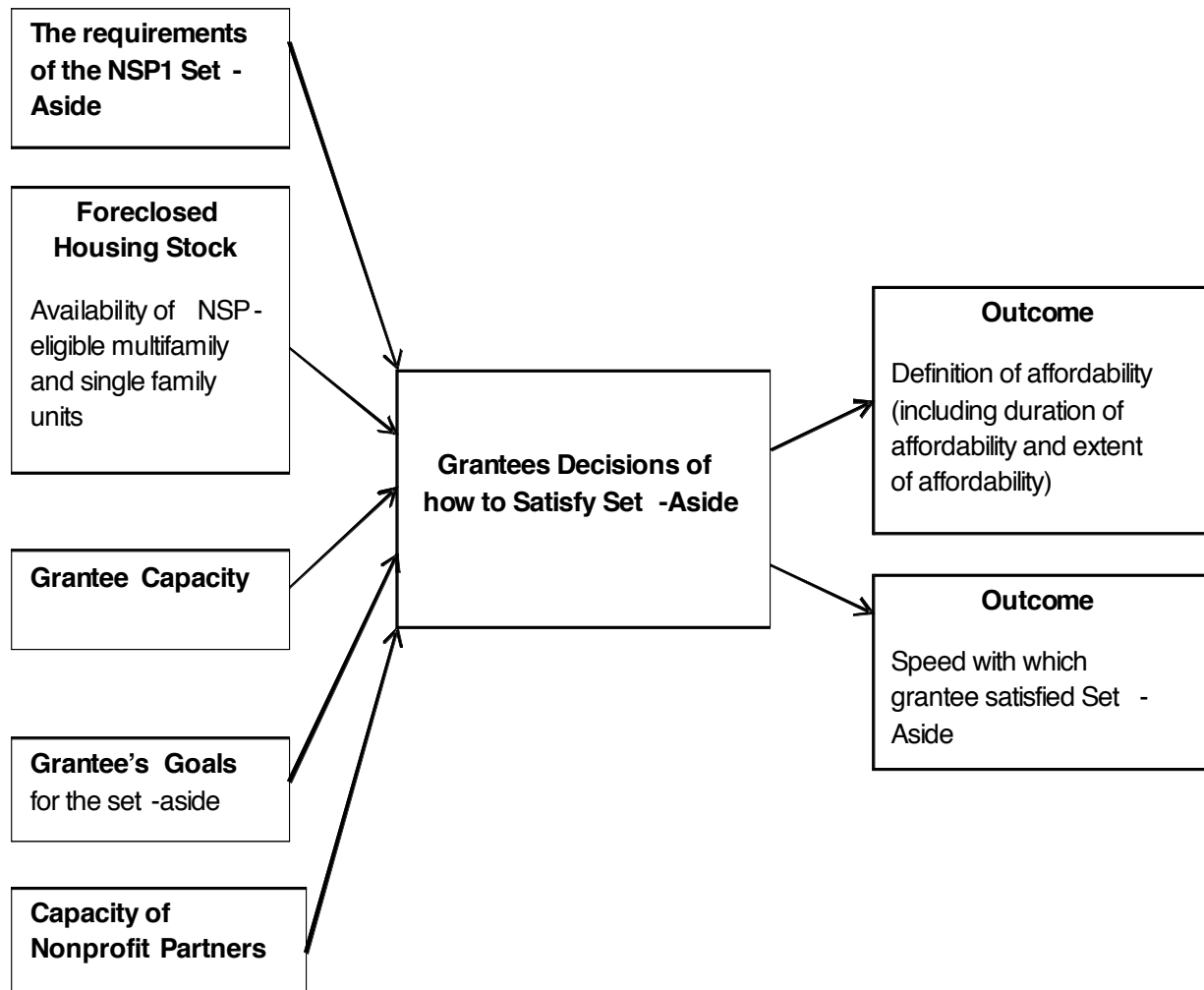
for the set-aside. Lastly, the review sharpens my questions to grantees: instead of asking how the short time-frame affected their set-aside, I can be more specific and ask how the short time impaired their ability to find matching funds to subsidize renters for the set-aside.

## Chapter 3: Methodology

NSP1 disbursed \$4 billion to 309 grantees (which included states, territories, counties and localities) from Guam to Maine. In lieu of attempting to come to any conclusions about the program as whole, this methodology was designed to probe a specific research question: did NSP1 grantees have difficulty fulfilling their set-aside because of their suburban attributes? Though NSP2 and NSP3 affected the administration of NSP1 grants, this study is limited to the administration of NSP1 grants. This chapter describes the conceptual framework that bounded and focused this study, and describes the methods I used to construct interview schedules and select interviewees.

This study used two scales of analysis: a national look at the problems that grantees had with their set-asides, and a detailed look at the local level - how one urban and one suburban grantee administered their NSP1 grants, with particular attention to their set-asides. The national perspective came from a literature review and interviews with HUD staff, other NSP researchers, and national nonprofits, including TA providers and nonprofit partners. (A complete list of interviews with dates and the job titles of the interviewees is included as Appendix A.) The national perspective shows the successes and challenges of NSP as a program and provides context to the stories of the two local grantees. The two grantees show what these successes and challenges look like on the ground. “Capacity,” for example, is a term that refers to a wide range of grantee attributes. The stories of the two grantees are included to help clarify what a national-scale problem like “a lack of capacity” means in the context of NSP.

**Figure 2: Conceptual Framework for Study**



**Conceptual framework**

I constructed the conceptual framework above based on Miles and Huberman’s recommendations in *Qualitative Data Analysis*.<sup>96</sup> The framework centered on the process that I was interested in: the series of grantee decisions regarding how they chose to satisfy their set-aside. These decisions were influenced by the requirements of the set-aside as articulated by HERA and HUD regulations and the four factors that I suspect vary between urban and suburban grantees.

<sup>96</sup> Matthew B. Miles and A. M. Huberman. *Qualitative data analysis : an expanded sourcebook*. Thousand Oaks: Sage Publications, 1994. Print.

The decisions that grantees made affect the outcomes of their set-aside. I intend to discover the character of grantee's difficulties by examining the success of grantees' set-aside strategies. What plans did grantees have to abandon because they were unfeasible? Were there instances of wasted time or resources when planning to obligate money to the set-aside? I'm also curious about how grantees chose to define affordability. HUD's regulations suggest that grantees should "ensure [affordability] to the maximum extent practicable and for the longest feasible term," but these definitions varied widely by grantee.<sup>97</sup>

### **Discussion of Research Methods**

I chose to approach these research questions using interviews with grantees and HUD because I wanted a small, detailed picture of how a few grantees administered their NSP1 grants. I made this decision partially because this was such a new program, and because I wanted an insider's view on the program. In order to test my hypothesis I needed to understand the factors that influenced how grantees obligated money to their set-asides. Because the program is so new I couldn't understand the decisions of the grantees simply by using resources in the library or on the Internet. I decided that the most direct way to understand how these decisions were made was to talk to the people who made them.

To provide a detailed picture of how grantees administered NSP1, I interviewed two grantees in Florida: Brevard County and Miami. Brevard is a suburban county, with a high homeownership rate (75%) and few multifamily homes (12% of all units in structures of 10 units or more).<sup>98,99</sup> Miami is an urban city, with a homeownership rate of approximately half of

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<sup>97</sup> US Department of Housing and Urban Development.

<sup>98</sup> Douglas White and Robert C. Stroh Sr. *The State of Florida's Housing 2009*. Gainesville, Florida: Shimberg Center for Housing Studies, 2010. Web.

Brevard's, and large amount of multifamily housing (41%).<sup>100,101</sup> These data do not reveal the mix of properties available to the grantees, however, as NSP funds could only be used on foreclosed or abandoned properties. Brevard has 50% more residents than Miami, and 1/3 more housing units. Miami, though, was harder hit by the foreclosure crisis, receiving a grant of \$12.1 million, while Brevard received \$5.3 million. The average NSP1 grant for counties and cities in Florida was \$9.4 million.

Miami was the obvious candidate for an urban grantee, as it was hit extremely hard by the foreclosure crisis and received one of the largest grants given to a Florida city, approximately 42% of which went to the set-aside. I was able to schedule an interview with the administrator for NSP for the city of Miami, Ann Kashmer, on 13 January 2011.

To identify suburban grantees that had difficulty with the set-aside I initially used August and September snapshots of DRGR data. I used obligation rate to the set-aside as an indicator of the difficulty that grantees had with the set-aside. Grantees needed to obligate at least 25% of their grant to the set-aside 18 months after they received their grants. This deadline fell between the end of August and mid-September, varying by grantee. I assumed that grantees that had not obligated at least 23% of their funds to their set-aside by the end of August had had trouble fulfilling this requirement. Using the monthly snapshots available on the HUD NSP website, I

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<sup>99</sup> [B25024. UNITS IN STRUCTURE - Universe: HOUSING UNITS: 2005-2009 American Community Survey 5-Year Estimates](http://factfinder.census.gov/servlet/DITTable?_bm=y&-geo_id=05000US12009&-ds_name=ACS_2009_5YR_G00_&-redoLog=false&-mt_name=ACS_2009_5YR_G2000_B25024), 2005-2009, 21 March 2011 2011 <[http://factfinder.census.gov/servlet/DITTable?\\_bm=y&-geo\\_id=05000US12009&-ds\\_name=ACS\\_2009\\_5YR\\_G00\\_&-redoLog=false&-mt\\_name=ACS\\_2009\\_5YR\\_G2000\\_B25024](http://factfinder.census.gov/servlet/DITTable?_bm=y&-geo_id=05000US12009&-ds_name=ACS_2009_5YR_G00_&-redoLog=false&-mt_name=ACS_2009_5YR_G2000_B25024)>.

<sup>100</sup> [S2501. Occupancy Characteristics: 2005-2009 American Community Survey 5-year Estimates](http://factfinder.census.gov/servlet/STTable?_bm=y&-geo_id=16000US1245000&-qr_name=ACS_2009_5YR_G00_S2501&-ds_name=ACS_2009_5YR_G00_&-redoLog=false), 2005-2009, 21 March 2011 2011 <[http://factfinder.census.gov/servlet/STTable?\\_bm=y&-geo\\_id=16000US1245000&-qr\\_name=ACS\\_2009\\_5YR\\_G00\\_S2501&-ds\\_name=ACS\\_2009\\_5YR\\_G00\\_&-redoLog=false](http://factfinder.census.gov/servlet/STTable?_bm=y&-geo_id=16000US1245000&-qr_name=ACS_2009_5YR_G00_S2501&-ds_name=ACS_2009_5YR_G00_&-redoLog=false)>.

<sup>101</sup> [B25024. UNITS IN STRUCTURE - Universe: HOUSING UNITS: 2005-2009 American Community Survey 5-Year Estimates](http://factfinder.census.gov/servlet/DITTable?_bm=y&-geo_id=16000US1245000&-ds_name=ACS_2009_5YR_G00_&-redoLog=false&-mt_name=ACS_2009_5YR_G2000_B25024), 2005-2009, 21 March 2011 2011 <[http://factfinder.census.gov/servlet/DITTable?\\_bm=y&-geo\\_id=16000US1245000&-ds\\_name=ACS\\_2009\\_5YR\\_G00\\_&-redoLog=false&-mt\\_name=ACS\\_2009\\_5YR\\_G2000\\_B25024](http://factfinder.census.gov/servlet/DITTable?_bm=y&-geo_id=16000US1245000&-ds_name=ACS_2009_5YR_G00_&-redoLog=false&-mt_name=ACS_2009_5YR_G2000_B25024)>.

looked at grantees that had obligated less than 23% by the end of August. 44 grantees (14% of all grantees) fit this criterion.<sup>102</sup>

From this list I selected two suburban grantees as potential interviewees: Deerfield Beach and Coral Springs. During January of 2011 I attempted to contact these two grantees by email and phone, but never got responses to my phone and email messages. In mid-January I went to Washington, DC to interview the HUD NSP team, and was told that the NSP team for Deerfield Beach was recently fired and was currently under investigation for misuse of NSP funds.<sup>103</sup> At this point I changed my strategy and asked HUD personnel for recommendations of suburban grantees in South Florida that had difficulty with the NSP1 set-aside. I was told that the City of Palm Bay and Palm Beach County both fit my criteria, and I began to email and call them. The NSP administrator from the City of Palm Bay declined to be interviewed. After numerous discussions with various staff at in Palm Beach County throughout February 2011 I was unable to schedule an interview with the administrator of the program there.

I then expanded my search for suburban grantees that struggled with the set-aside to all of Florida. HUD staff recommended that I look at Brevard County. This recommendation was intriguing, because though Brevard County was hit very hard by the foreclosure crisis and received a large NSP1 grant, the grant was relatively small given the number of households in the County. Pasco County, for example, was  $\frac{3}{4}$  the size of Brevard, yet received a grant more than three times larger than Brevard. I had assumed that larger counties would be more capacity to administer NSP1 grants, and Brevard had potential to challenge this assumption. Lastly, Brevard was a good candidate for a suburban grantee, as its largest urbanized area, Palm Bay, was only

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<sup>102</sup> Program-Wide Detail Report, HUD NSP-1 Reporting (August), 8/31/2010 2010, 9/28/2010 2010 <<http://hudnsphelp.info/media/snapshots/08-31-2010/1PW-DETAIL-08312010.pdf>>.

<sup>103</sup> David Noguera. *Personal Interview.*, 2011. Web.



barely 100,000. I was able to schedule an interview with the Brevard County NSP administrator, Paula Davis.

Though I had initially wanted to select a high-performing urban grantee and an under-performing suburban grantee to highlight the differences that I was interested in, the grantees do not fit into these typologies perfectly. Both grantees had very low obligation rates by December 2009, causing HUD to send technical assistance providers to conduct needs assessments. HUD had categorized both grantees as risk level 2, on a scale of 1 (most in need of technical assistance) to 4 (least in need of technical assistance). Miami had a troubled history as a CDBG grantee.<sup>104</sup> Brevard County exceeded the minimum level for the set-aside (eventually obligating 33% of their grant to the set-aside), suggesting that they had not struggled with it.

**Figure 3: Expected Findings for Interviews**

	Diversity of Foreclosed Housing Type	Diversity of Foreclosed Housing Tenure	Capacity of local non-profits	Grantee capacity	Grantee goals for set-aside	Difficulties fulfilling the Set-aside
Suburban: Brevard County	Low	Low	Low	Low	Stabilize or increase property values?	Many
Urban: Miami	High	High	High	High	Increase Affordable housing stock	Few
HUD expectations for and responses to suburban grantees	?	?	?	?	?	?

<sup>104</sup> John Laswick. *Personal Interview.*, 2011. Web.

The above matrix shows the categories that I examined. This matrix is also based on Miles and Huberman.<sup>105</sup> The last column is an output that I expect the factors in all the other columns will influence. The lowest row, my interviews with the program administrators at HUD, differs from the interviews with the two grantees. Instead of focusing on the actions of HUD directly I asked them how they expected suburban grantees to behave, given the program they helped to design, and how urban and suburban grantees did behave. Though the questions I asked HUD were very similar to the questions I asked the grantees, they were phrased as “what did you expect” and “how did you assess” questions, not “what did you do” questions. I supplemented these interviews with semi-structured interviews with national nonprofits and TA providers to get a better sense of the role of non-profit partners.

The cells of the matrix contain my expectations for the characteristics of the grantee or the grantee’s jurisdiction. For example, I expected that suburban grantees will have far less diversity in housing type (multi-family v. single-family) than urban grantees. The question marks indicate topics where I did not have grounded expectations. I was unsure, for example, of HUD’s plan to deal with grantees that had difficulty with the program. While I expected that urban grantees saw the set-aside as a means of increasing its affordable housing stock, I did not assume that this would be the motivation of suburban grantees. According to a technical assistance provider for HUD, some grantees were uninterested in creating affordable housing. The city leaders in Vallejo, CA, for example, attempted to satisfy their set-aside by rehabilitating a former Masonic temple, obligating \$1.2 million to create four new units of affordable housing.<sup>106</sup> Their plan was

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<sup>105</sup> Miles and Huberman.

<sup>106</sup> Kent Buhl. *Personal Interview*, 2010. Web.

revised to increase the number of units created to 30 units, and reduced the amount of NSP funds used to \$660,000.<sup>107</sup>

Because so little is known about NSP1, I decided to perform semi-structured interviews with open-ended questions. Though I had a hypothesis and a set of topics that I wanted the grantees to discuss, I wanted to give interviewees the space to describe aspects of the program outside of my interests. If my hypothesis was incorrect, or was less important than other factors, I wanted the interviewees to be able to tell me how to accurately describe their experience with NSP1. With this in mind I phrased questions asking interviewees to “please describe” the processes of interest.

Though every interview took at least one unexpected and often fruitful turn, every interview was structured around the four characteristics that I focused on: capacity, nonprofit partners, foreclosed housing stock, goals. My interviews with grantees approached these topics using the interview instrument found in Appendix B. My interview with HUD officials used a similar structure: I described the four topics of my hypothesis and asked HUD officials to describe the extent to which these attributes affected grantees’ ability to administer the set-aside. I also asked HUD officials why they thought grantees struggled with the set-aside of NSP1, and what characteristics separated grantees that had difficulty from those that did not. My interviews with researchers, and nonprofits involved with NSP (including TA providers) began with the four categories and proceeded to the details of their findings about NSP, especially what they saw as the biggest challenges to grantees.

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<sup>107</sup> July 1, 2010 thru September 30, 2010 Performance Report, Vallejo, CA, 2010, 4/21 2011  
<[http://hudnsphelp.info/media/GAReports/Q\\_B-08-MN-06-0010\\_2010\\_Q3.pdf](http://hudnsphelp.info/media/GAReports/Q_B-08-MN-06-0010_2010_Q3.pdf)>.

## Chapter 4: Analysis of Interviews

Findings from the interviews with the HUD NSP team are interwoven to put Miami and Brevard in context with the other 307 grantees. This analysis attempts to show how broad-scale challenges with NSP1, identified by HUD, manifested themselves in Miami and Brevard County while acknowledging the unique peculiarities of these grantees. Interviews are supplemented with reports from TA providers (which HUD supplied to the author upon request), and council minutes from the Brevard County legislature.

The interviews and supplementary resources reveal some support for the hypothesis outlined in the previous chapter. Miami's goals for NSP1's set-aside did appear to be more related to the creation of affordable housing than Brevard County's. Though Ann Kashmer was frustrated by inefficiencies in the city's bureaucracy, Miami appeared to have far greater resources in terms of personnel and expertise than Brevard County, improving their ability to obligate their set-aside. Neither grantee, however, appeared to struggle due to a lack of NSP-eligible multifamily properties. Suburban grantees in general appear to have pursued scattered site rental strategies without exceptional difficulty.<sup>108</sup> There also appeared to be no obvious differences in the capacity of housing nonprofits between Brevard County and Miami. Unexpectedly, both grantees also partnered with for-profit developers to satisfy their set-aside.

### Goals

The legislation that became NSP 1 had three goals: mitigate the effects of the foreclosure crisis, mitigate the ongoing "hemorrhaging" of affordable housing, and do both quickly. The goals of foreclosure response were shaped by the Republican administration, which preferred to

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<sup>108</sup> Jessie Handforth Kome. *Personal Interview.*, 2011. Web.

deal with the negative effects of foreclosure instead of allocating resources to prevent foreclosures. In the words of David Noguera, one of the senior administrators at HUD, “NSP is not foreclosure prevention, NSP is a cleanup tool for cities and counties.”<sup>109</sup> The concern for affordable housing was incorporated into the bill by the office of Barney Frank, a longtime advocate for affordable housing preservation.<sup>110</sup> As Noguera put it, “here was an opportunity! Housing values were down so communities could use this money to benefit low income families while addressing the foreclosure problem.” To ensure a speedy response, Congress used the CDBG program as a “chassis” for NSP, and included an 18-month deadline to obligate funds.<sup>111</sup>

HUD’s role in NSP1 was to help grantees understand and meet the goals established by Congress. As with CDBG, NSP1 was designed to allow local governments to create their own goals rather than give discretion to HUD.<sup>112</sup> As another senior member of the NSP team at HUD, Jessie Handforth Kome, put it, “we make [very] few value judgments, because a tenet of the CDBG program is that the local governments are going to know better what their choices should be.”<sup>113</sup> Thus HUD responded more strongly to low obligation rates than it did to poor grantee decisions that complied with HERA. Referring to one problem grantee the NSP team leader John Laswick stated, “they can [make poor decisions] in NSP1. [Because] they couldn’t find mortgages, they did 100% financing, which is a tremendous waste of money.”<sup>114</sup> Though HUD took a leading role when disbursing NSP2 funds and allocating technical assistance, their goals in NSP1 were for the most part limited to ensuring compliance with HERA.

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<sup>109</sup> Noguera.

<sup>110</sup> Jeffrey Toobin, “Barney’s Great Adventure,” *New Yorker* 12 January 2009 2009: .

<sup>111</sup> Noguera.

<sup>112</sup> Nancy Pelosi. *Housing and Economic Recovery Act of 2008*. H.R.3221 Vol. , 2008. Web.

<sup>113</sup> Kome.

<sup>114</sup> Laswick.

For some grantees the goal of homeownership led to low obligation rates. The HUD team identified a mismatch between housing market and program design as the biggest factor that led to dozens of grantees with obligations of less than 10% to their set-aside with only 6 months before the deadline. As Jessie Handforth Kome said, “the most common failing was that the program design didn’t match their market. Even grantees with low capacity who had matched their program design to their market ... were getting off to a pretty smooth start. [But] if you’re trying to do homeownership in Flint (which by the way they were), it won’t work.”<sup>115</sup> David Noguera pointed to a distaste for rental housing as a common problem that led to mismatch, “there’s still a negative stigma that comes with rental housing. In many of the tipping point communities you have a lot of NIMBY’s that don’t want this ... [especially] in single-family detached neighborhoods.”<sup>116</sup>

Miami and Brevard County’s goals were closely related to their capacity. Because of their greater capacity, Miami formulated more goals that affected how money was obligated than Brevard County. When targeting areas where NSP funds would be used Miami had demographic targeting goals, while Brevard was most interested in selecting eligible properties as fast as possible. In Miami the terms of affordability for NSP were the same terms they used for other affordable housing programs run by the city. Brevard used the NSP-prescribed HOME minima (the lesser of the Fair Market Rent or 30% of 65% of AMI, almost guaranteeing that very-low-income families would be paying more than 30% of their income on housing with periods of affordability as low as five years).<sup>117</sup> Both grantees recognized their limitations and limited their goals accordingly.

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<sup>115</sup> Kome.

<sup>116</sup> Noguera.

<sup>117</sup> US Department of Housing and Urban Development.

Pursuant to criteria specified in HERA, HUD specified census tracts where NSP funds could be used, and grantees the targeted properties within these tracts. This targeting was a means of enacting grantee goals. Miami requested that HUD expand the targeted area in order to allow NSP to reach multiple racial groups. Ann Kashmer, the administrator for NSP in Miami, described the motivation for the change in targeted area. “Half of the people [in Miami] live north of the river, and half of the people live south of the river. Our primary plan that was set up with HUD was ... north of the river serving an African American population. [But] my Hispanic population lived south of the river. So I was not serving half of my population, and I couldn’t get my Hispanic population to move into my African American part of the neighborhood.”<sup>118</sup> Thus Miami requested that HUD expand their target area across the river, which HUD agreed to.

Brevard County’s targeting was based mainly on the exigency of obligating money in time. Because of a long RFP process when selecting nonprofit partners, Brevard County’s overriding concern when selecting properties for NSP was speed. As Paula Davis, the NSP administrator for Brevard County, explained, “we didn’t even get our contracts [with our nonprofit partners] until February of 2010. Then we were like, ‘Oh my lord, how are we going to spend this money?! How are we going to do it?!’ And we just went for it. We didn’t have a lot time to think as strategically as I think we would have liked on, ‘here’s this neighborhood, here’s that neighborhood’ .... We contracted with developers and said, ‘here’s the areas. You guys go in go find the properties. We’ll do the due diligence.’”<sup>119</sup>

The difference in capacity was also apparent in the definitions of affordability that the grantees used. In Miami the city already had a policy for the definition for affordability. As Kashmer explained, “that was the city’s policy.... Under NSP [the definition of affordability]

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<sup>118</sup> Ann Kashmer. *Personal Interview.*, 2011. Web.

<sup>119</sup> Paula Davis. *Personal Interview.*, 2011. Web.

could be the minimum or you could do more, and the city wanted more. Our policy is 30 years for homeownership and for rental.”<sup>120</sup> Brevard County used the minima described by outside sources. Their definitions “[were] based on HOME and ... the Florida State Housing Initiative Partnership. That’s what’s driving our affordability levels.”<sup>121</sup>

Both Miami and Brevard County had a strong goal not to become property owners through NSP. In Miami the reasons were largely an acknowledgement of the city’s capacity. “We ended up owning about 10 [NSP properties], but that was never the original intent. ... [We knew from] the past that we’re not good property owners. We don’t have the infrastructure set up internally to do that ... The city is not a developer. Nobody in their right mind would ever think a city or municipality has this kind of capacity. By being an owner you’re just holding yourself up for liability.”<sup>122</sup> In Brevard County the decision was largely political, as purchasing property directly would involve the participation of the Board of County Commissioners. “We in Brevard County have decided as a County not to directly acquire properties... This has to do with the makeup of our board of County Commissioners ... It was really semi-political that we did not want to be in the chain of ownership as Brevard County for those properties.”<sup>123</sup>

In order to make NSP more politically palatable, Brevard County Commissioners attached an amendment to the grantee’s action plan stating that one-third of NSP-funded housing went to veterans. Commissioners stated that NSP was a plan to bail out the banks, and that a veterans quota would be a means of “turn[ing] lemons into lemonade.”<sup>124</sup> Because few units have been marketed and occupied at this point, the effect of this policy is currently unclear.

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<sup>120</sup> Kashmer.

<sup>121</sup> Davis.

<sup>122</sup> Kashmer.

<sup>123</sup> Davis.

<sup>124</sup> Brevard County Board of County Commissioners. *Minutes Of The Meeting Of The Board Of County Commissioners*, 2008. Web.



Theoretically, block grant programs give local authorities the resources and freedom to address local goals. But because this was a new program implemented during very short time frame the ability of grantees to develop or pursue goals was limited. Though this shortcoming was most apparent with low capacity grantees like Brevard County, even relatively high-capacity grantees initially budgeted funds based on misunderstandings of the requirements of the program instead of their internal goals. Miami, for example, budgeted \$100,000 towards a homeownership subsidy for one property because “[the grant administrators at the time] felt they needed to show [something] under homeownership. We were going to try to have someone in that category.”<sup>125</sup> Grantees’ goals, then, were at times more a function of grantee capacity, rather than grantees’ political or economic visions.

## Capacity

NSP strained the capacity of most grantees. HUD administrators had an impression of the limitations of grantees from years of administering CDBG, and knew of the difficulty that many grantees had with that program. As NSP team leader and department veteran John Laswick put it, “the really worst ones were bad before [NSP] came along.”<sup>126</sup> Yolanda Chavez, Deputy Assistant Secretary for all HUD Grant Programs, had previously worked for a CDBG grantee: the Los Angeles Housing Department. She stated that “it was a really big surprise to me as a former grantee, [to see] the lack of capacity in two-thirds of our grantees. There are [one-third that are] high capacity.”<sup>127</sup> In 18 months largely under-prepared grantees were expected to undertake a set of activities that many had never performed before. During the obligation period

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<sup>125</sup> Kashmer.

<sup>126</sup> Laswick.

<sup>127</sup> Yolanda Chavez. *Personal Interview*, 2011. Web.

grantees faced numerous internal problems, both bureaucratic and political, that hindered their ability to obligate grant funds. Grantees also grappled with a lack of staff and expertise and with the many stresses of local governments during the recession. Despite these difficulties, grantees built capacity internally and with assistance from HUD to obligate their grants, including the set-aside.

The 18-month obligation deadline for NSP1 was one of the biggest stressors for grantees. The deadline was established to respond to a sense of urgency that David Noguera compared to a dying person in an emergency room.<sup>128</sup> The speed required of a disaster response program, though, led to problems. In the words of John Laswick: “There’s a fine line between focusing people’s attention and making them obsessive . . . . To do something that they don’t know about, is more complicated than they are used to dealing with, have no experience with, fast – is a recipe for disaster. Honestly it’s miraculous that they got 99% obligated.”<sup>129</sup> For Miami and Brevard County this short timeline was further truncated by bureaucratic timelines. By the end of 2009, Miami had obligated less than 5% of its grant.<sup>130</sup> Kashmer explains the delay this way: “we were way behind in the end of December . . . but my projects were all in that queue that I couldn’t push any further because of commission meetings [and] because of legal obligation because of the outside committee meetings. . . . It took me till March 25<sup>th</sup> of 2010 to . . . obligate my funds.<sup>131</sup> Brevard County didn’t exceed a 5% obligation rate until three months before the September deadline.<sup>132</sup> The county’s delays happened for reasons similar to Miami’s. “Once the RFP [to contract with our developer partners] closed it went before a joint group of our CDBG board

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<sup>128</sup> Noguera.

<sup>129</sup> Laswick.

<sup>130</sup> Miami, FL NSP-1 Grantee Report Nov 2010, 30 November 2010 2010, 21 March 2010 2011 <[http://hudnshelp.info/media/snapshots/11-30-2010/1GR-MIA2\\_FL-R04-MIA-11302010.pdf](http://hudnshelp.info/media/snapshots/11-30-2010/1GR-MIA2_FL-R04-MIA-11302010.pdf)>.

<sup>131</sup> Kashmer.

<sup>132</sup> Brevard County, FL NSP-1 Grantee Report Nov 2010, 30 November 2010 2010, 16 March 2010 2011 <[http://hudnshelp.info/media/snapshots/11-30-2010/1GR-BREV\\_FL-R04-JFL-11302010.pdf](http://hudnshelp.info/media/snapshots/11-30-2010/1GR-BREV_FL-R04-JFL-11302010.pdf)>.

and housing counsel. They released their recommendation, then we had an appeal, [but] it was late in the year, and other issues were coming before the board of county commissioners. So we didn't even ... contract until February of 2010."<sup>133</sup>

Though all NSP grantees were CDBG entitlement communities, NSP required a radically different set of activities than CDBG. As John Laswick put it, "we have 1,200 CDBG grantees. 300 acquire real estate in any given year. The other 75% don't know much about property ... [and] they definitely don't know much about acquiring REO property or abandoned houses. That's hard to do even if you know what you're doing."<sup>134</sup> This general characterization was true of Brevard County, which had "used CDBG primarily for infrastructure stuff," and had no experience with REO acquisition and rehab.<sup>135</sup> Even the City of Miami, which much more staff and expertise, had very limited experience with the activities of NSP. To compensate for this weakness, Miami hired personnel with affordable housing development experience.<sup>136</sup>

Deputy Assistant Secretary Chavez hypothesized that part of the lack of capacity at the local level was "a real disinvestment in terms of capacity and support from the federal government."<sup>137</sup> Part of the limited capacity to run a program like NSP also may have come from political decisions in local government. Many cities did not want to become actively involved in affordable housing development or take an active role in development of any kind. This may have led to a lack of capacity brought on by historical local disinvestment in development experience. Political issues were also an immediate problem with some grantees. Brevard County Commissioners, whose cooperation was necessary for contract approval and the acquisition of large properties, showed limited support for NSP. In the first meeting on NSP one commissioner stated that he

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<sup>133</sup> Davis.

<sup>134</sup> Laswick.

<sup>135</sup> Davis.

<sup>136</sup> Kashmer.

<sup>137</sup> Chavez.

was “philosophically opposed to County government being forced to bail out banks ... [and] tinkering with the free market.” He also opined that “local businesses and real estate industry is being hurt by government interference.”<sup>138</sup> A later meeting on NSP led to an argument among the commissioners. One commissioner stated that he would vote against all NSP-related motions until the Housing and Human Services Department conducted a workshop to explain NSP. Another commissioner chided him, asking if he was willing to “give up \$5 million because he is uncomfortable.”<sup>139</sup>

In addition to internal political problems, bureaucratic inefficiencies also hampered implementation of NSP. Ann Kashmer, whose background was in the private sector, was particularly frustrated by the sclerosis of the city of Miami. “There’s no sense of urgency .... If I don’t follow a piece of a paper to get to my city manager it was taking a month to get a sign off.... [I had to] physically walk into their offices with a piece of paper and say ‘it’s an emergency.’ If I don’t say it’s an emergency it doesn’t get attention. My whole staff has done that.”<sup>140</sup> Implementation of NSP in Brevard County was slowed by similar problems, “We had a lot of bureaucratic forces that impacted on how quickly we rolled out our program. ... We [also] had a change of department leadership we had a major reorganization right in the middle of this.”<sup>141</sup>

The level of staffing and their expertise with housing programs was the most direct factor affecting the capacity of grantees to implement NSP. Speaking as both the head of grant programs at HUD and as a former grantee in Los Angeles, Yolanda Chavez said that “leadership is very important ... because they have to understand what capacity they have and what capacity

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<sup>138</sup> Brevard County Board of County Commissioners.

<sup>139</sup> Brevard County Board of County Commissioners. *Minutes of the Meeting of the Board of County Commissioners.*, 2009. Web.

<sup>140</sup> Kashmer.

<sup>141</sup> Davis.

they don't, and be able to figure out how they get it." She also emphasized the importance of expertise and organizational tools, saying that it was important to have "practitioners that understand housing and can assess their market conditions."<sup>142</sup> Confronted with NSP, Miami chose to hire staff with experience in affordable housing development, in addition to utilizing their current staff. "They hired myself and I hired two other people. We used the environmental person, used a person [to ensure compliance with Davis Bacon labor requirements, and we used] the finance person for HUD. A lot of the infrastructure was in place already."<sup>143</sup> Brevard County chose not to hire new staff, instead transferring a health care planner to lead NSP. As Paula Davis noted, "my job was going to go somewhere else so they said 'here you can do [NSP]'. ... I had no experience with CDBG HUD world [prior to NSP]."<sup>144</sup> The County also hired no new staff for the project, though Ms. Davis noted that "during some of that we really could have used it."<sup>145</sup>

The Brevard County team thus spent much of NSP learning how the program worked instead of developing strategies to maximize the program's impact. Ms. Davis explained how a lack of personnel and expertise prevented consideration of ways to make the program more effective. "We were all learning this type of program, just as HUD was learning how they wanted things to be done. It was really ... us learning where we were: 'we can't forget this, let's get this next. ... Here's this other part where we have to do: this 25% set-aside. ... I'm doing this project; I'm doing this project; oh wait! I have to do that project too! So I'm behind on that project, I better figure out how to catch up!'"<sup>146</sup>

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<sup>142</sup> Chavez.

<sup>143</sup> Kashmer.

<sup>144</sup> Davis.

<sup>145</sup> Davis.

<sup>146</sup> Davis.

Miami's capacity and expertise allowed them to improve their NSP implementation with Low Income Housing Tax Credits (LIHTC). LIHTC had the potential to be of more use to suburban grantees because of HUD regulations that prevent construction of multifamily in income impacted minority concentrated neighborhoods.<sup>147</sup> Miami, however, was able to leverage NSP funds used for demolition and redevelopment to finance new multifamily construction partly for the set-aside.<sup>148</sup>

Because NSP was a new program even high capacity grantees went through a learning process. Numerous HUD personnel talked about the "learning curve" for NSP.<sup>149,150,151</sup> Part of the learning experience was the process that Alan Mallach described as "seek[ing] out capacity wherever it can be found."<sup>152</sup> Miami developed an innovative means of building capacity by creating an NSP Task Force. Ann Kashmer described the task force as follows:

"It was set up by the City Commission when they reviewed the Action Plan. ... They wanted the community to have input [during NSP] ... to be able to tell staff what was happening in the community. We had realtors, we had brokers, we had commercial people that stay on the committee. That gave us good input of what was happening in the community. They were very active and our meetings were very active, they liked the committee so much that they extended it out and we still have it. [They're still involved in NSP3] They actually approve our deals. We have a list of demolition properties: they approve those. ... They approved our RFPs, they read them, they devoted many, many hours reviewing RFPs. They have input on some of the structure of some of our deals. And it's open to the community, it's advertised on our clerk's calendar and on our NSP webpage so

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<sup>147</sup> Kome.

<sup>148</sup> Kashmer.

<sup>149</sup> Chavez.

<sup>150</sup> Laswick.

<sup>151</sup> Noguera.

<sup>152</sup> Mallach.

anyone in the community can always come to the meetings ... They'd propose certain things and we'd look into them, sometimes they come up with really good ideas ... and we'd implement them. We had a woman that ran a nonprofit green enterprise in town ... when we were putting together our green components she had made numerous suggestions of things that we needed to include in our rehab standards for our properties that were green, and those we adopted.”<sup>153</sup>

For Brevard County, much of the learning took the form of internal reorganization around the processes that NSP required. “We were able to get to a process [where we were] able to educate our partners over at the clerk’s office and over in purchasing about what we were trying to do: ‘What do you need from us to get this to happen?’ We worked as a group internally to look at: ‘here’s what I need as a contract administrator, here’s what the finance team needs, here’s the timeframe that we need to do and here’s our check off point. Here’s when we need to get it to our county finance in order to get a check cut by this time.’ A lot of it was trial and error with the first few of those to find where the hiccup was. We were really able to work out a good system once we did it a few times.”<sup>154</sup>

After the appropriation of \$50 million in technical assistance funds as part of NSP2, HUD took a more active role in building grantee capacity starting in January 2010, nine months until the obligation deadline. HUD not only provided formal technical assistance with on-site consultants, they also conducted numerous webinars, problem solving clinics, and improved the usefulness of their website to grantees with the NSP Resource Center. Both Brevard County and Miami had generally positive opinions of these interactions with HUD. Ann Kashmer stated that “the webinars were great! They answered any questions you had, and it was a safe environment to ask any questions. ... and if they didn’t get it they could ask again. ... From an issues standpoint

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<sup>153</sup> Kashmer.

<sup>154</sup> Davis.

that was great. The problem solving clinics ... [allowed grantees] to meet other [grantees.] ... It's the most transparent I've ever seen HUD: putting up the Resource Center and Q and A's. They have done much better roll-out with [NSP] in the past six months, with more transparency, [and more] assistance [than before NSP]."<sup>155</sup> Some HUD staff credited these kinds of assistance from HUD with the remarkable surge in obligation rates in the last few months of the program. A senior HUD administrator stated that "we expected a 75% obligation rate... What we didn't expect was how well the problem solving clinic format was going to work. That led us both to run constant little seminars during the clinics to get basics into people, and then to sit down and answer really specific question to customize answers."<sup>156</sup> Paula Davis also noted the improvement in HUD's performance.<sup>157</sup>

Miami and Brevard County saw limited value in the on-site needs assessments provided by consultants contracted by HUD. Kashmer was particularly irritated by the TA, noting that she had explained to HUD why her numbers were low, and why that was not a problem. She described the TA in terms of wasted staff time and taxpayer dollars and noted that she had more building experience than the TA providers. The TA report itself ranked Miami on the lowest two risk levels in all characteristics.<sup>158</sup> Paula Davis' opinion of TA was similar, "the [TA] was beneficial in clarifying the set-aside and things like that, but the problems that we had were more internal ... things that a TA from outside can't really do for us."<sup>159</sup> Though on-site technical assistance from consultants hired by HUD helped HUD understand the capacity of many grantees, it frustrated some grantees.

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<sup>155</sup> Kashmer.

<sup>156</sup> Kome.

<sup>157</sup> Davis.

<sup>158</sup> TDA Inc. *NSP Needs Assessment Summary, City of Miami, FL.*, 2010. Web.

<sup>159</sup> Davis.



## Foreclosed Housing Stock

Whether confronted with multifamily or single-family units, the majority of grantees pursued rental strategies for their set-asides. John Laswick noted that homeownership programs are “hard to sustain ... for the ... set-aside. You need a support package of support systems that most communities don’t have.” He attributed the misguided decisions to pursue ownership programs for very-low income families to a lack of knowledge of the local housing market, not a limitation caused by the available NSP-eligible housing stock.<sup>160</sup> Scattered site rental was a very common means of satisfying the set-aside.<sup>161</sup> Communities like Miami, though, that had plenty of NSP-eligible multifamily housing available, and had the resources to purchase and rehab it, found advantages to doing so.

Though Brevard had NSP-eligible multifamily properties, they chose not to use them in NSP, for both political and practical reasons. As Paula Davis explained, “anything over \$100,000 had to go to the board of county commissioners [which meets rarely] ... [Because] even a duplex will cost more than [\$100000] ... we would not have made any deadlines.”<sup>162</sup> Additionally the eligible multifamily units were “too big – they would have eaten up all our dollars.”<sup>163</sup> Therefore Brevard County pursued a strategy of scattered site single-family rental for their set-aside.

Miami chose to satisfy their set-aside using only multifamily rentals. This decision was largely made due to the large numbers of NSP eligible multifamily properties, including a number of half-built condominiums, and a LIHTC project that had lost its construction loan when Washington Mutual failed.<sup>164</sup> Miami also focused on multifamily in order to avoid owning any

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<sup>160</sup> Laswick.

<sup>161</sup> Kome.

<sup>162</sup> Davis.

<sup>163</sup> Davis.

<sup>164</sup> Kashmer.

units.<sup>165</sup> Miami also had the subsidies to support multifamily, largely made possible by having nonprofits that had received very large grants under NSP2.<sup>166</sup> This decision suggests that grantees could, given strong nonprofits and adequate subsidies, more effectively satisfy their set-asides with multifamily than single family. A lack of NSP-eligible multifamily properties, however did not appear to have been a large hindrance for Brevard County.

### **Nonprofits and Other Partners**

Because the vast majority of grantees had neither the capacity nor the desire to become developers, HUD recognized that partnerships were essential to NSP implementation.<sup>167,168</sup> In Miami and Brevard County partnerships with nonprofit and for-profit developers appear to have been quite successful implementing the NSP1 set-aside. Contracting, however adds another layer of responsibility to NSP, and grantees spent time and resources managing their partners to better satisfy the goals of the program. There are also questions about the legacy that these partnerships will leave when the program ends.

Although Brevard County is suburban it was able to partner with a number of nonprofits. To implement its set-aside the County contracted with two nonprofits and one for-profit developer. “These are two of our best nonprofits. I believe they both are CHDOs [through the HOME program] as well. [They are] well known in our community [and] well known to our department.”<sup>169</sup> Though Paula Davis described these partnerships as being “very successful,” there have been some inefficiencies and costs. Two of the ten developers that the county contracted with through NSP were not used at all. “One ... really wanted to focus on the [multi-

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<sup>165</sup> Kashmer.

<sup>166</sup> Kashmer.

<sup>167</sup> Noguera.

<sup>168</sup> US Department of Housing and Urban Development.

<sup>169</sup> Davis.

family properties] which we couldn't do because of our time frame. The other didn't want to do scattered site rentals.”<sup>170</sup> An appeal to the board of county commissioners by a developer who was not recommended slowed down the implementation of NSP by months, shortening further an already short timeline.<sup>171</sup> Contrary to the County's goals, developers contracted by the city under NSP competed with private sector developers for foreclosed homes. “We had regular meetings with our developers. ... [to tell them that] we want the ugly houses. We don't want to be in a place that's competing with the private investor. ... Over time they became more educated of what we were looking for and [proposed] properties that were less likely to have any competition.”<sup>172</sup> Brevard's experience demonstrates that even successful partnerships entailed risks and costs.

Miami had a robust housing nonprofit community with experience in multifamily development.<sup>173</sup> NSP 2 boosted the capacity of Miami grantees, improving the implementation of the city's NSP1 set-aside but also distancing nonprofits from the city. NSP2 was structured very differently than NSP1. HUD allocated \$2 billion to far fewer grantees, who were mostly coalitions of nonprofits and local governments. Two very large awards went to a consortium of housing nonprofits in Miami and a Habitat for Humanity International branch in Miami, which collectively received well over \$100 million.<sup>174</sup> NSP2 helped the city's NSP1 projects. “[The] not for profits that received NSP2 funding ... had sufficient funding ... so they didn't have to go to the banks for the long term debt that would have been associated with some of the projects. We

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<sup>170</sup> Davis.

<sup>171</sup> Davis.

<sup>172</sup> Davis.

<sup>173</sup> Kashmer.

<sup>174</sup> NSP2 Awards by Total Allocation, 14 January 2010 2010, U.S. Department of Housing and Urban Development, 19 March 2011 2011  
<<http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/pdf/nsp2awardtotalAllocation.pdf>>.

were able to marry NSP1 and NSP2. So that assisted some of our nonprofits to be able to have the capacity and the financial wherewithal to complete some of the transactions.”<sup>175</sup> However when asked if NSP1 had improved the relationship between the city and its partners, Kashmer was dubious, stating that local housing nonprofits were focused on their eight million NSP2 grant, not on enriching their relationship with the city.<sup>176</sup>

## Conclusion

Of the four factors that I focused on, capacity issues and conflicted political goals appeared to be the most important explanations for why both urban and suburban grantees struggled with the set-aside requirement of NSP1. Because NSP1 was a new program with a very short time frame and required grantees to perform many novel activities, the majority of grantees struggled to some extent. HUD’s intervention with technical assistance helped grantees gain capacity to implement the program. HUD’s list of grantees’ risk levels identifies both suburban and urban grantees as high risk, suggesting that capacity problems were not more common in suburban grantees compared in urban grantees.<sup>177</sup>

A lack of foreclosed multifamily housing may not have posed significant issues for grantees’ obligation of their set-asides, though it may have affected the effectiveness of the set-asides. Scattered-site rental, developed by either a partner contracted by the grantee or (in some cases) the grantee itself, was a common strategy that didn’t pose a major problem to a suburban grantee such as Brevard County. Miami was able to extend their NSP funds further by pursuing

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<sup>175</sup> Kashmer.

<sup>176</sup> Kashmer.

<sup>177</sup> US Department of Housing and Urban Development. *NSP TA Tier 1-2-3-4 sites by Tier 3-2-10*. Internal HUD document ed. Washington, DC., 2009. Print.

multifamily rental strategies for their set-asides, using LIHTC and leveraging private funds. This variation can be attributed to an urban/suburban difference.

Grantees' goals appeared to have a significant role in the effectiveness of NSP set-aside implementation. The Brevard County Commissioners' opinion of NSP1 significantly affected the program by precluding multifamily development, including a quota for veterans, and making the program politically polarizing. Miami's established affordable housing policies led them to ensure for longer terms of affordability than Brevard County, which did not have established affordable housing standards. The importance of having affordable housing policies in place before NSP1 existed hints at the relationship between grantee capacity and grantee goals. Because Miami had built the capacity to administer affordable housing programs in the past they came to NSP1 with politically acceptable goals. These differences may have arisen from the political inclination of the local government, more than from urban/suburban differences.

For both Miami and Brevard County nonprofit partners were essential for NSP implementation, though both counties also contracted with for-profit developers. David Noguera alluded to a lack of nonprofit partners for some grantees who had pursued misguided homeownership strategies and were forced to become landlords when unsold homes were converted to rental properties.<sup>178</sup> A study of the patterns of the dearth of both for-profit and nonprofit partners for NSP would reveal of these weaknesses fall into an urban/suburban typology.

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<sup>178</sup> Noguera.

**Figure 4: Revised Conceptual Framework**

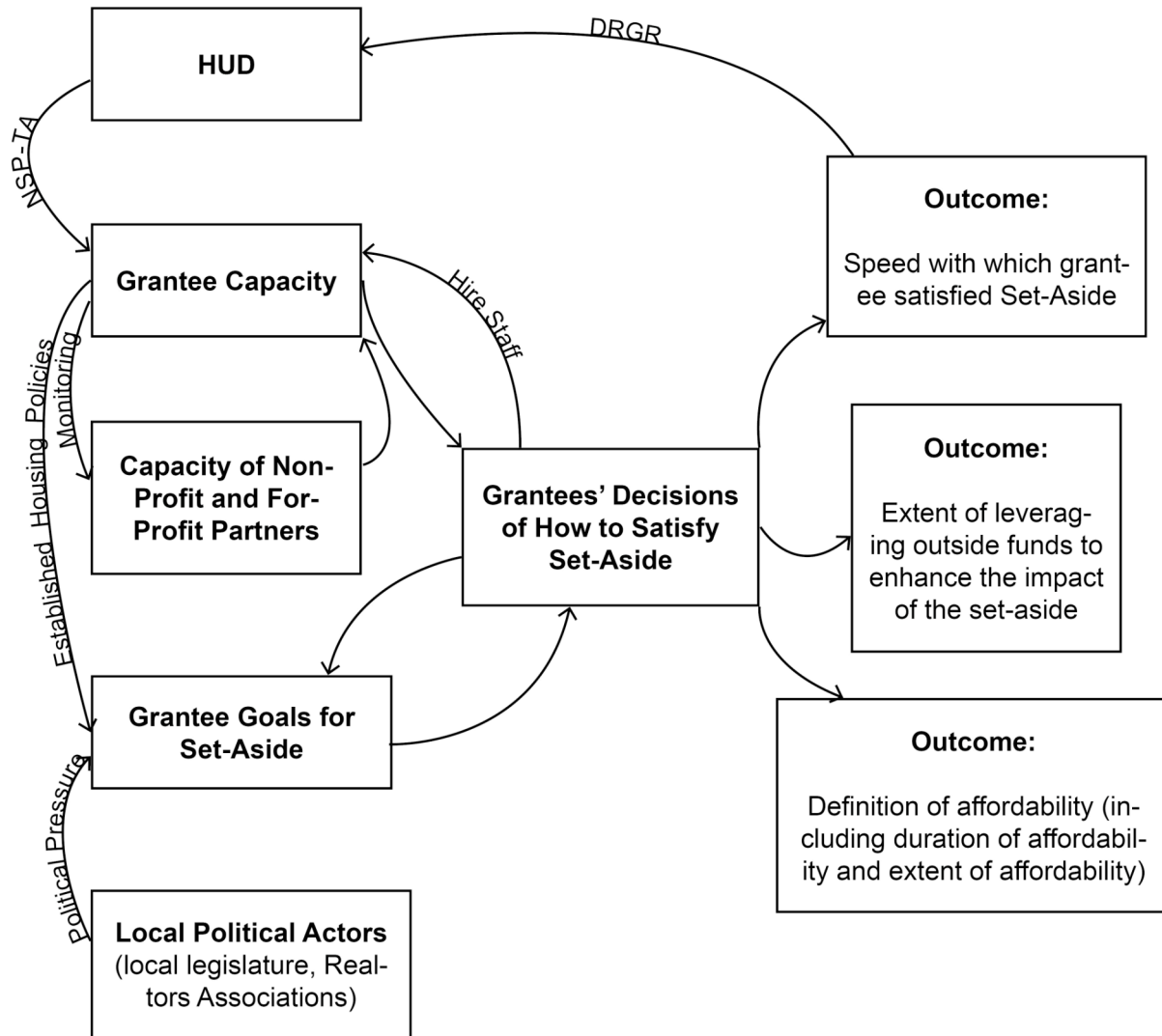


Figure 4 updates the initial conceptual framework in Figure 2 with the information gleaned from the interviews. The decisions that grantees made remain at the center of the process and are the proximate explanations for the three outcomes that describe grantee facility or difficulty with the NSP1 set-aside. In addition to the two outcomes that I initially looked for, I've added the extent to which grantees leveraged outside funds such as Miami's use of NSP2 and LIHTC funds.

To clarify arrows that might be difficult to imagine I've included some labels that describe example actions.

The revised framework recognizes that grantee capacity and grantee goals are more active nodes than I had previously conceived. They not only affect the decisions that grantees made, but were themselves affected by grantee decisions. Miami chose to hire staff, which increased its capacity. To acknowledge that grantee goals for the NSP1 set-aside were not formed solely by grantees I've added "Local Political Actors" to the framework.

Differences between high-capacity and low-capacity grantees were magnified by the short time frame of NSP1. For Brevard County, and to some extent for HUD, compliance with the 18 month deadline became the most pressing outcome of the program. One of the biggest revelations that came out of the interviews was the extent to which the grantee outcome of the speed with which they obligated NSP1 grants (including the set-aside) affected HUD's behavior. This interaction is represented by the arrow labeled "DRGR," the system that HUD used to keep track of grantees' progress with NSP. The tardiness of grantee's obligations was a significant part of why HUD lobbied for the \$50 million NSP-TA allocation.

Lastly, the revised framework better acknowledges the multiple scales of NSP. Specific problems that affected each unique grantee initially manifested themselves to HUD administrators as low national obligation rates on DRGR. HUD responded with NSP-TA, which provided flexible assistance in the form of webinars, problem solving clinics and a website that could directly address the peculiar problems of diverse grantees.

## Chapter 5: Conclusion

### **Policy Recommendations**

NSP is the first major new federal housing program since the introduction of the HOME and HOPE programs in 1990. The interviews analyzed above suggest that NSP, particularly the webinars, problem solving clinics, and increased responsiveness from HUD made possible by NSP-TA, is a promising development in the relationship between HUD and grantees. The potential of NSP to build the capacity of grantees may be a more important legacy of the program than its real, though limited, impact on neighborhoods. This section discusses the most promising aspects of NSP through a series of broad recommendations to Congress and HUD.

### **Continue Building Grantee Capacity**

Aside from neighborhood stabilization itself and the preservation of affordable housing, one of NSP's potential legacies is the building of grantees' capacity. In addition to building capacity to implement other block grant programs (such as HOME and CDBG), grantees became more proficient at affordable housing development. As Deputy Assistant Secretary Chavez noted, most grantees managed these programs poorly because of a lack of a lack of leadership, expertise, and basic grant monitoring systems. She stated that it was "challenging to look at grantees that are not clear how much money they have in CDBG ... they cannot even tell you what their balance is for."<sup>179</sup> NSP not only more precisely revealed deficiencies in capacity, it also began to address them.

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<sup>179</sup> Chavez.



One promising feature of NSP3 is HUD's renewed focus on building grantee capacity using TA funds from NSP2. Though grantees may have been frustrated by the needs assessments, they provided HUD and grantees with a detailed view of the limitations grantees faced. The HUD NSP team noted that one of the most common deficiencies was the lack of understanding of the local housing market, particularly when targeting NSP funds. HUD responded to this deficiency in NSP3 with a tool that grantees could use to pinpoint the most distressed areas in their jurisdiction.<sup>180</sup> Though this tool may be of limited use to a relatively high-capacity grantee like Miami, Brevard County relied heavily on this tool when selecting their targeted area for NSP3.<sup>181</sup> In addition to the surge in obligation rate that TA may have led to, HUD administrators noted that grantees were becoming more strategic and thoughtful about implementation of NSP. As John Laswick put it, "we weren't talking about strategy two years ago."<sup>182</sup>

HUD has continued to expand its efforts to build grantee capacity. It has consolidated TA provision among CDBG, HOME, and the special needs programs. Chavez described further assistance meant to develop grantees' capacity for affordable housing development. She said that, beginning shortly, HUD will "roll out underwriting training ... week long underwriting courses that we'll offer to our grantees. We're going to do ten around the country, because we know how difficult it is for them to travel. We're going to do ten for single family underwriting, and ten for multifamily underwriting. This is about NSP, but it's also quite beyond that, because these skills really allow us to build capacity."<sup>183</sup>

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<sup>180</sup> Chavez.

<sup>181</sup> Davis.

<sup>182</sup> Laswick.

<sup>183</sup> Chavez.

### **Preserve Grantee Capacity**

Grantees have been benefitting from HUD's increasing focus on building grantee capacity. Policies at the federal and local level should be implemented that preserve this capacity. David Noguera identified two major threats to the preservation of grantee capacity. "We're finding 6 months later because of budget cuts, the city had to lay off [the grantee employees trained by HUD], or for whatever reason they took their skills and they sold them and took a job with one of our TA providers. So you end up losing a lot of the good staff and you end up with people who are straight out of school."<sup>184</sup> The current fiscal crises of many state and local governments make these both of these concerns especially pressing. Layoffs are the most obvious threat, but cuts in salary and benefits makes talented and capable public employees more likely to move to the private sector, or not enter the public sector in the first place.

HUD is attempting to invest directly in the grantees. Losing expertise to TA providers makes block grant programs less efficient. Beyond efficiency, building grantee capacity will almost certainly have positive effects beyond improved administration of the program under which the training occurred. Most obviously, TA provided under NSP will almost certainly improve grantees' implementation of CGBG, HOME, and the special needs programs. It is also likely that investment in capacity through these block grant programs will improve grantee performance beyond the federal programs that they administer by making state and local affordable housing programs more effective. For this reason, federal and local policies should be altered to retain experienced employees whose skills have been developed through HUD programs.

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<sup>184</sup> Noguera.

### **Continue Improving the Relationship Between HUD and Grantees**

NSP appears to have improved grantees' opinion of HUD. Yolanda Chavez noted that "what we hear from our grantees on NSP is extremely positive in terms of the way that the relationship has changed between HUD and the NSP grantees. What [we] hear from grantees is that HUD should be like NSP."<sup>185</sup> Both Brevard County and Miami mentioned that NSP was well managed by HUD. Ann Kashmer of Miami said that "[NSP] is the most transparent I've ever seen HUD. In the past six months they've done a much better roll out and have been more transparent and very much assisting you in trying to get things done."<sup>186</sup> This improvement is largely due to projects initiated with the \$50 million in TA money from NSP2.

Though grantees may have been frustrated by the needs assessments that HUD conducted, the weaknesses that HUD discovered have improved the ways in which HUD provides assistance to grantees. There are signs that NSP has made grantees more eager for HUD assistance.<sup>187,188</sup> Though the novelty of the program and short timeframe for implementation may have hurt the effectiveness of the program, it focused HUD's attention on chronically underperforming grantees. There are signs that grantees appreciated this assistance from HUD whose programs they had implemented for decades.

### **Maybe More NSP**

One of the most common observations in the literature was the inadequacy of NSP in the face of the foreclosure crisis. As Ann Kashmer, the NSP administrator in Miami, noted, "I could

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<sup>185</sup> Chavez.

<sup>186</sup> Kashmer.

<sup>187</sup> Kashmer.

<sup>188</sup> Davis.

have used ten times the amount of money. It was drop in the bucket. [Though] it was a good bucket.”<sup>189</sup> In congressional testimony delivered in defense of NSP3, HUD Assistant Secretary of Community Planning and Development Mercedes Marquez acknowledged the relative puniness of NSP, “there were 1.7 million foreclosure completions between April 2009 and December 2010 and we expect NSP will impact 100,000 properties in the nation’s hardest-hit markets.”<sup>190</sup> NSP was not designed to the scale necessary to address the national foreclosure crisis.

Because HUD and grantees targeted funds within their jurisdictions, however, NSP probably did help stabilize some neighborhoods. Marquez noted that because NSP had rehabbed or demolished and redeveloped nearly 20% of REOs in targeted areas, NSP created a “multiplier effect,” as public investment through NSP made neighborhoods more attractive to private investment. Though Ann Kashmer was critical of the political motive of the program, she believed that “it ultimately will bring some good into each of our communities.”<sup>191</sup> Though it is too soon for an accurate assessment of NSP’s stabilizing effect on communities, these are promising signs. A full assessment of this effect will determine whether this approach should be taken in future foreclosure crises.

### **Emphasize the Goal of Affordable Housing Preservation**

One of NSP’s political liabilities was its association with the bank bailouts. Brevard County Commissioners consistently disparaged NSP as a bank bailout.<sup>192</sup> Miami NSP administrator Ann Kashmer shared this opinion. “I don’t know if [neighborhood stabilization] was really the

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<sup>189</sup> Kashmer.

<sup>190</sup> Mercedes M. Márquez. *Written Testimony of Mercedes M. Márquez Assistant Secretary of Community Planning and Development U.S. Department of Housing and Urban Development.*, 2011. Web.

<sup>191</sup> Kashmer.

<sup>192</sup> Brevard County Board of County Commissioners.; Brevard County Board of County Commissioners.

purpose of NSP1. NSP1 was the bailout of the banks ... that was the primary purpose of it. ... This was not ... ‘we’re going back in and stabilizing the neighborhoods kind of thing,’ [though] that was the way they sugar-coated it. It was to get the real estate assets off the banks’ books.”<sup>193</sup>

Though assistance to banks may have been an important motivation for passing NSP1, its impact on banks would be about as significant as NSP1’s impact on the nation’s housing stock. NSP1 provided \$4 billion to be used by grantees not only for purchase of abandoned and foreclosed properties, but also for redevelopment, rehab, demolition, and establishment of financing mechanisms for homeowners. Three months after the passage of NSP1 in HERA Congress provided \$700 billion directly to banks through TARP, reducing NSP1’s relative impact on banks to insignificance.<sup>194</sup>

Potentially more important than NSP1’s effect on banks and on neighborhood stabilization was the goal that Barney Frank added to the program: the preservation and creation of affordable housing. The low prices of housing in some areas, coupled with the income requirements of the program had the potential to temporarily stanch the hemorrhage of affordable housing in grantees’ jurisdictions. Though the sugar coating of emergency foreclosure-response was probably the most politically feasible way of shepherding NSP in its early stages, a change in rhetoric to the language of affordable housing preservation may help defend the program now that the crisis has passed and that the program’s association to bailout is a liability.

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<sup>193</sup> Kashmer.

<sup>194</sup> Immergluck.

## **Monitoring and Evaluation**

These issues all relate to a larger question: was CDBG the right platform for the goals of NSP? By using CDBG, HUD had the opportunity to build local capacity and potentially improve outcomes by allowing local governments to craft local response to local patterns of foreclosure. This approach, however, magnified the huge variations in grantees' abilities to implement the program. Devolving implementation also meant that contentious local politics at times reduced the potential effectiveness of the program. Competitive grants like NSP2 almost certainly will be more efficient than formula grant programs like NSP1, but at the expense of not addressing severe foreclosure problems in areas that are not served by high capacity nonprofits or local governments such as Brevard County.

To address the inefficiencies of formula grant programs without giving up on low-capacity jurisdictions, HUD should implement more rigorous monitoring and evaluation programs. HUD officials noted that most underperforming NSP1 grantees were also chronically underperforming CDBG grantees. Requiring that grantees reflect on their administration of grants, including identifying weaknesses would help low-capacity grantees build and preserve capacity. HUD could establish a system that sets baselines for performance, and provides resources and consequences for low-capacity grantees. Performance standards should be at least considered for all formula grant programs, particularly NSP1, NSP3, and CDBG.

## **The Political Future of NSP**

The time in which HERA was developed was auspicious for NSP1 both politically and economically. The foreclosure crisis was raging and there was public support for federal

intervention. Housing prices were plummeting, which presented an opportunity to acquire affordable housing and ensure that it would stay affordable even when markets rebounded. The current political and economic context works against NSP. Local governments across the country are facing budgetary crises, leading to the potential loss of the capacity that NSP has built. Because of the program's association with the bailout and the negative view of government spending and interventions, NSP is politically vulnerable. In a recent congressional hearing on bills that would defund NPS<sup>3</sup>, Congressman Gary Miller of Orange County California painted NSP as a government handout program to shady nonprofits.<sup>195</sup>

Larger, more detailed studies of NSP will undoubtedly be conducted as the program's effects on neighborhoods across the country become apparent. Because of the political vulnerability of the program and its ilk, the entities that conduct these studies should first consider all of the effects of NSP. To measure the effects of NSP by examining only the extent to which it stabilized neighborhoods would be short-sighted and misleading. In addition to stabilizing neighborhoods NSP created affordable housing, built grantee capacity, and improved the relationship between grantees and HUD. Serious further studies of the program need to look particularly carefully at capacity. This paper began with the thesis that suburban grantees were at a disadvantage compared to urban grantees when implementing NSP's set-aside. This paper provides evidence that the difference between high-capacity and low-capacity grantees is more important than the urban/suburban difference. It would be a disservice to everyone who implemented and was affected by NSP to assess the program on a narrow range of criteria.

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<sup>195</sup> House Financial Services Committee's Subcommittee on Insurance, Housing, and Community Opportunity. *Legislative Proposals to End Taxpayer Funding for Ineffective Foreclosure Mitigation Programs.*, 2011. Web.

# Appendix A

## Schedule of Interviews

Name	Title	Organization	Date	Topic
Ed Gramlich	Regulatory Director/State Partner Liaison	National Low Income Housing Coalition	10/18/10	DRGR and QPR reliability, patterns of grantee set-aside fulfillment
Kent Buhl	Technical Assistance Provider	KB Consulting	11/12/10	Kent's observations as a provider of technical assistance for NSP1 grantees.
Mai Nguyen	Assistant Professor	University of North Carolina Chapel Hill	11/12/10	Mai's research project on foreclosures in Miami.
Sarah Greenberg	Stable Communities Program Manager	Neighborworks	12/9/10	Nonprofits and NSP1.
Ann R. Kashmer	NSP Project Manager	City of Miami	1/13/11	Interview using the schedule in Appendix B.
David Noguera	CPD Specialist	Office of Block Grant Assistance, HUD	1/14/11	Interview using the schedule in Appendix B.
Jessie Handforth Kome	Deputy Director	Office of Block Grant Assistance, HUD	1/14/11	Interview using the schedule in Appendix B.
John Laswick	NSP Team Leader	Office of Block Grant Assistance, HUD	1/14/11	Interview using the schedule in Appendix B.
Yolanda Chavez	Deputy Assistant Secretary for Grant Programs	Office of Community Planning and Development, HUD	1/14/11	The role of technical assistance in NSP.
Ryan Flanery	DRGR Specialist	Office of Block Grant Assistance, HUD	1/14/11	GIS and DRGR data.
Paula Davis	Staff Specialist IV	Department of Housing and Human Services Brevard County, FL	3/14/11	Interview using the schedule in Appendix B.



# Appendix B

## Instrument for Grantee Interviews

### The topics that I want the grantees to talk about:

1. What goals the grantee had for the set-aside initially, and if these goals changed over time.
2. The extent to which a lack of diversity of housing type and tenure limited their ability to effectively satisfy the set-aside.
3. The extent to which grantees were experienced working with the 50% AMI population, and the capacity of the grantee to satisfy their goals.
4. The extent to which the grantee was able to partner with non-profits (to judge non-profit capacity).
5. The \$/families helped ratio for the set-aside.
6. What they've learned and how their approach to the set-aside has changed from NSP1 to NSP3.

### The questions that I intend to ask to get them to talk about these topics:

1. GOALS: One of the things I've been asking grantees is how your goals for NSP1 changed over time. What did you initially set out to do when you were writing up your Action Plan, and how did those goals evolve into how you eventually obligated money to your set-aside? (Try to get at housing market tool)
  - a. [I describe the 11 units acquired and rehabbed to be turned into rental housing.] Please describe the strategies your office eventually used to obligate the set-aside.
  - b. What role did housing market analysis play in the decisions that your office made regarding the set-aside?
  - c. What definition of affordability did your office use? Why? Why not longer?
2. FORECLOSED HOUSING STOCK:
  - a. Explain how your office decided to use homeownership and rental strategies to fulfill the set-aside.
    - i. What was the mix of foreclosed rental and for-sale properties that you dealt with? Did a lack of rental units or property management companies hinder your ability to fulfill the set-aside?
    - ii. What was the mix of foreclosed single-family versus multifamily housing that you dealt with? Did a lack of multifamily hinder your ability to fulfill the set-aside?
  - b. [I expect that they initially tried to do all for-sale for LH25 and supplement with downpayment assistance.]
3. NONPROFITS: Please describe how your office partnered or worked with non-profit housing services companies before NSP.
  - a. How many non-profit housing services companies did your office attempt to work with to obligate set-aside money? How large are they?

- b. How important were non-profit housing services companies to your office when you were obligating set-aside money?
  - c. In what ways did working with non-profit housing services company A make fulfilling the set-aside easier? Were there any instances when partnering with these companies frustrated your attempts to fulfill the set-aside?
  - d. In what ways did working with non-profit housing services company B make fulfilling the set-aside easier? Were there any instances when partnering with these companies frustrated your attempts to fulfill the set-aside?
4. CAPACITY (personnel, expertise):
- a. Do you think that if your office had more time or expertise with housing the target population, you would have been able to help many more families? If so, how?
  - b. Did your office hire new staff to manage NSP?
  - c. Many grantees had almost no experience acquiring properties before NSP. I'm curious if your office did, and if this was a significant difficulty to obligate funds. Compete with speculators where you are?
  - d. Leveraging funds, LIHTC
  - e. Housing market
5. One of HUD's goals for NSP1, particularly the technical assistance provided, is that it builds capacity for grantees. Do you think that NSP1, and the NSP in general has increased the capacity of your office?
- a. Looking back, are you satisfied with the result of the program?
  - b. In what ways has your experience with the NSP1 set-aside affecting your plans for the NSP3 set-aside?
  - c. Interaction with HUD, problem solving clinics, webinars, TA?
  - d. In what ways would you have changed NSP1 to better address Broward County's foreclosure problem? (Criticism.)

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