

**TEXAS DEPARTMENT OF
HOUSING & COMMUNITY AFFAIRS**
Building Homes. Strengthening Communities.

The Texas Neighborhood Stabilization Program Application Workshop



**OFFICE • OF • RURAL
COMMUNITY • AFFAIRS**

Where rural Texas comes first.



Key Definitions

- **Foreclosed**
 - Completion of mortgage/tax foreclosure under state/local law
 - Transfer of title complete
 - Transfer in lieu of foreclosure under state/local law
- **Abandoned**
 - Mortgage or tax foreclosure proceedings have been initiated
 - No mortgage or tax payments have been made by the property owner for 90 days; and
 - Property has been vacant for at least 90 days
- **Residential properties**
 - Units meeting the definition of 'homes' as well as vacant land that is designated for residential use (zoned)



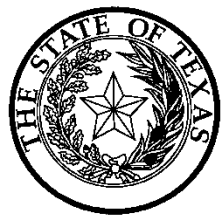
Ineligible Activities

- Ineligible Activities:
 - Generally, if an activity is ineligible under CDBG, it is ineligible under NSP
 - Not eligible under HERA:
 - Demolition of public housing
 - Foreclosure prevention
 - Demolition of non-blighted structures
- Ineligible Properties:
 - Properties already acquired, no longer foreclosed, or no longer abandoned; please make sure that contract with State and all environmental requirements have been met prior to purchase



NSP Income Targeting

- Income eligibility for NSP based on 120% of area median income
- HUD is providing 120% AMI data on website
 - www.hud.gov/nsp
- HOME Income Calculator is a valuable tool
<http://www.hud.gov/offices/cpd/affordablehousing/training/web/calculator/calculator.cfm>



Uses of Texas NSP Funding

Eligible Use

A. Establish financing mechanisms for purchase & redevelopment of **foreclosed upon** homes & residential properties...

Eligible Activities

- As an activity delivery cost for an eligible activity (designing & setting it up)
- Financing of an NSP eligible activity, to carry out that activity, is eligible as part of that activity



Texas NSP Financing Mechanisms

- Permanent Financing (50% or less AMI)
 - 30-yr mortgage at 0%
 - Repayable loan
 - Down payment: \$500 or sweat equity
- Homebuyer Assistance (120% or less AMI)
 - 50% of down payment assistance
 - Reasonable closing costs
 - Gap financing/principal reductions up to \$30,000
 - Forgivable loan
 - Anticipated to be leveraged with conventional financing for 51-120% AMI households



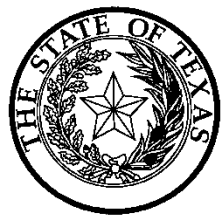
Examples: Eligible Use A (Permanent Financing)

- Facilitating the purchase of a foreclosed upon home
 - Subgrantee identifies qualifying household and qualifying foreclosed home at an affordable price
 - Subgrantee provides avenue for 50% or below household to access 100% financing through the Department
 - Assistance results in a repayable, but 0% interest loan from the Department to the household



Examples: Eligible Use A (Homebuyer Assistance)

- Facilitating the purchase of a foreclosed upon home
 - A 120% AMI or below household has sought private financing to purchase a foreclosed home but cannot qualify due to their debt-to-income ratio or inability to make a full down payment
 - Subgrantee facilitates the purchase by providing the minimum amount of HBA necessary for the household to qualify for the bank loan
 - The homebuyer assistance is a forgivable loan (which converts to a grant as long as the homebuyers maintain the home as their primary residence for the duration of the applicable affordability period)



Uses of NSP Funding

Eligible Use

B. Purchase and rehabilitate homes and residential properties that have been **abandoned or foreclosed upon**, in order to sell, rent, or redevelop such homes and properties

Eligible Activities

- Acquisition
- Disposition
- Relocation
- Direct homeownership assistance
- Eligible rehabilitation and preservation activities for homes and other residential properties
- Housing counseling for those seeking to take part in the activity



Examples: Eligible Use B Acquisition & Rehabilitation

- Subgrantee identifies a foreclosed or abandoned home
 - \$100,000 Current Market Appraised Value
 - (\$15,000) 15% discount
 - = \$85,000 purchase price
 - + \$25,000 rehabilitation costs
 - = \$110,000 sales price to 120% AMI or below household identified by the subgrantee
 - Initial acquisition and rehab loan from the Department to the subgrantee is repaid with conventional financing secured by the purchasing household



Example continued: Combination of Eligible Uses A (HBA) & B

- A 120% AMI household cannot secure a \$110,000 loan from a bank due to their debt-to-income ratio
- Subgrantee facilitates the purchase with the minimum amount of Texas NSP gap financing needed (up to \$30,000) for the bank to make the loan
- Result: bank loan is reduced to \$80,000 and monthly payments become affordable
 - TDHCA places a \$30,000 lien on the property that is incrementally reduced at \$3,000 per year for 10 years; if at the end of 10 years the home is still the principal residence, the lien expires (fully converted to a grant)
 - Caution: When combining eligible uses, the more restrictive use determines requirements; therefore, the home in this example would have to be foreclosed (not just abandoned)



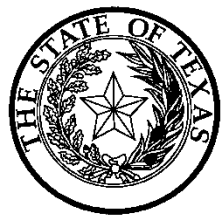
Example: Combination of Eligible Uses A (100% Financing) & B

- Subgrantee identifies a foreclosed home
 - \$85,000 Current Market Appraised Value
 - (\$12,750) 15% discount
 - = \$72,250 purchase price
 - + \$25,000 rehabilitation costs
 - = \$97,250 sales price to 50% AMI or below household
 - If a 50% AMI or below household is able to afford the monthly payments on this property and qualifies for the loan, then the initial acquisition and rehab loan from the Department to the subgrantee is converted to a 30-yr mortgage at 0% interest between the Department and the homebuyers



Example Continued: Combination of Eligible Uses A (100% financing and HBA) & B

- A 50% AMI and below household is unable to meet the underwriting requirements of the Department due to their debt-to-income ratio for the \$97,250 home in the previous example
 - Subgrantee can facilitate the purchase by utilizing HBA in the minimum amount (up to \$30,000) needed to make the loan work
 - Result: loan amount is subsidized to \$67,250; monthly payments become affordable and the debt-to-income ratio becomes allowable to fund the loan
 - The original loan for \$97,250 to purchase and rehabilitate between the Department and the subgrantee and the Department is fully converted to a \$67,250 loan at 0% interest and a \$30,000 forgivable loan between the Department and the homebuyer.
 - Caution: home must be foreclosed (not just abandoned) to take advantage of the financing mechanisms



Uses of NSP Funding

Eligible Use

C. Establish land banks for homes and residential properties that have been **foreclosed upon**

Eligible Activities

- Acquisition
- Disposition (includes maintenance)



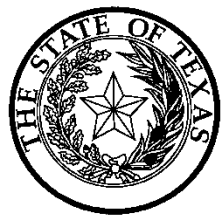
Key Definitions

- Land Banks
 - Governmental or nongovernmental non-profit entity established to assemble, temporarily manage, and dispose of vacant land for the purpose of stabilizing neighborhoods
 - Under NSP must have **specific, defined, geographic area**
 - NSP land bank activities limited to foreclosed upon homes & residential properties
 - Land banks can undertake other NSP activities separate from eligible land bank activities



Example: Eligible Use C

- Subgrantee has identified a major factor contributing to declining property values in a local neighborhood to be too many foreclosed homes on the market
 - In a normal year there may be 2 or 3 homes for sale in this neighborhood, but due to excessive foreclosures there are 10 homes for sale
- Subgrantee could establish a land bank to acquire and hold foreclosed properties until the local market can support their reintroduction (up to 10 years)



Uses of NSP Funding

Eligible Use

Eligible Activities

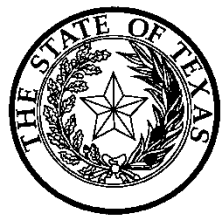
D. Demolish **blighted** structures

Clearance, for blighted structures only



Demolition

- Demolition of blighted structures
 - Not limited to abandoned/foreclosed
 - Not limited to residential
 - Need not be acquired by grantee if law allows demolition
 - **10% limit on demolition costs with NSP funds**
 - **No demolition of public housing**
- Documentation
 - Code inspection & determination of blighted structure under local/state law
 - Property location
 - Priority Needs Area
 - NSP national objective (slum/blight not applicable)



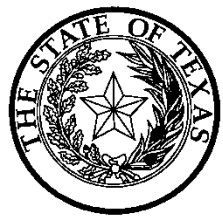
Uses of NSP Funding

Eligible Use

E. Redevelop
**demolished or
vacant properties
for housing**

Eligible Activities

- Acquisition
- Disposition
- Housing counseling public services (limited to prospective purchasers or tenants of redeveloped properties)
- Relocation



Uses of NSP Funding

Eligible Use

E. Redevelop demolished or vacant properties (continued)

Eligible Activities

- New housing construction
- Direct homeownership assistance
- Currently, no rehabilitation of housing



Redevelopment

- Documentation
 - Vacant properties includes both vacant land and vacant structures; however,
 - Properties must have been developed at some time.
 - No greenfield development.
 - Can acquire and redevelop commercial property, but the end use must be residential



Example: Eligible Use E

- Subgrantee identifies and acquires 5 vacant homes in a neighborhood that is suffering decreased land values from these vacancies
- Subgrantee demolishes remaining blighted structures on the properties
- Subgrantee builds 5 new homes on the acquired lots and sells homes to 120% AMI or below households
 - Can be combined with Financial Mechanisms if vacant land is also foreclosed; can count towards 35% requirement if foreclosed and serves 50% AMI or below
 - Caution: must repay original loan from Department to acquire and redevelop within 3 years



Environmental

STOP!!

Do not move forward with or commit NSP funds to a project if you have not completed all of your environmental review responsibilities.