Congressional
Research
Service

Community Development Block Grants: Neighborhood Stabilization Program; Assistance to Communities Affected by Foreclosures

Eugene Boyd
Analyst in Federalism and Economic Development Policy

Oscar R. Gonzales
Analyst in Economic Development Policy

March 13, 2009

Congressional Research Service
7-5700
www.crs.gov
RS22919

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

In response to the rising number of home mortgage foreclosures the 110th Congress passed the Housing and Economic Recovery Act of 2008, P.L. 110-289, formerly H.R. 3221 (HERA), which was signed by the President on July 30, 2008. Title III (Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes) of HERA resulted in the creation of the Neighborhood Stabilization Program (NSP), which allocates additional federal financial assistance to all fifty states and to local governments with high concentrations of foreclosed homes, subprime mortgage loans, and delinquent home mortgages.

Many economists contend that increased numbers of foreclosures contribute to neighborhood destabilization, trigger housing price depreciation, and result in declining state and local revenues and subsequent service cutbacks. Although Congress did include provisions in HERA that reformed the mortgage financing industry, this report will focus on legislative provisions of the act that allocate block grant assistance to state and local governments to aid them in acquiring, rehabilitating, and reselling the growing supply of foreclosed and abandoned housing. Title III of HERA uses the framework of the Community Development Block Grant (CDBG) program to channel an additional $4 billion in assistance to state and local governments. It should be noted that Title III of HERA overcame a veto threat by then-President Bush who contended that the assistance would result in the rescue of lenders and speculators. The act also drew criticism from fiscal conservatives who argued for cuts in other programs to offset the $4 billion appropriation.

With the passage of the American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5), Congress appropriated an additional $2 billion for NSP activities (NSP 2), and revised key elements of the program as a result of a number of issues raised during the early implementation of NSP. Funds appropriated under ARRA for the NSP will be awarded competitively. In addition, non-profit entities will be allowed to be direct recipients of funds. This is a substantial deviation from NSP funds appropriated under HERA, which used a formula-based method to allocate funds only to state and local governments. In turn, HERA allows state and local governments to designate non-profit entities as sub-recipients of funds. This report will be updated as events warrant.

Contents

Introduction ... 1

Congressional Action ... 1

Housing and Economic Recovery Act, Title III (P.L. 110-289) ... 1

Formula and Allocation of Funds ... 2

Eligible Activities ... 4

Restrictions, Limitations, and Prohibitions ... 4

NSP 2: American Recovery and Reinvestment Act, Title XII (P.L. 111-5) ... 7

Legislative Action ... 7

Eligible Entities and Distribution of Funds ... 8

Eligible Activities ... 8

Protections and Prohibitions ... 8

Policy Analysis ... 9

Formula vs. Competitive Grants ... 9

Precedent of Non-Profits Competing Against States and Local Governments ... 10

Administrative Capacity ... 11

Limited NSP Funding Covers Small Share of National Foreclosures ... 11

Figures

Figure 1. Formula Developed by HUD to Allocate $3.92 billion in NSP Funds at the State Level ... 3

Figure 2. Formula Developed by HUD to Allocate NSP Funds Below State Level ... 4

Tables

Table 1. Allocation of NSP Funds by HUD for FY2008 ... 5

Table 2. Program Elements of CDBG, NSP 1, and NSP 2 ... 10

Contacts

Author Contact Information ... 11

Introduction

The increasing number of mortgage foreclosures poses a financial threat to local housing markets, financial institutions, homeowners, and state and local governments. The impact of the foreclosure crisis on financial institutions and homeowners has been well documented, and has been the focus of congressional debate in the formulation of policy options. The impact on state, local governments, as well as neighborhoods, also has garnered the attention of federal policy makers.

A 2007 report by the U.S. Conference of Mayors projected that in 2008, mortgage foreclosures:

- could displace 1.4 million households from their homes;
- could result in $1.2 trillion in lost property values; and
- could potentially result in the loss of more than $1.4 trillion in projected real estate tax revenues—important sources of financing local government operations.[1]

Given the prospect of declining revenues, falling property values, and blighted neighborhoods with significant numbers of vacant houses, some local officials have sought relief through judicial actions.[2] In addition, various state and local officials have called for federal intervention.

Congressional Action

Housing and Economic Recovery Act, Title III (P.L. 110-289)

In response to the mortgage foreclosure crisis, several bills, including H.R. 3221,[3] were introduced during the 110th Congress that were intended to address specific issues, including:

- reducing the number of homeowners facing foreclosure because of their inability to keep pace with rising interest rates as their adjustable rate mortgages, many of them subprime loans, reset;

[1] United States Conference of Mayors. *The Mortgage Crisis: Economic and Fiscal Implications for Metro Areas.* U.S. Metro Economies. November 2007. Global Insight.

[2] For instance, the cities of Cleveland and Baltimore have filed suits against commercial and investment banks. Cleveland's suit against 21 commercial and investment banks, some of them involved in securitizing mortgage loans, contends that the banks violated state law by creating a public nuisance when providing mortgages to homeowners who could not afford them. This allegedly resulted in a significant number of foreclosures, creating blighted conditions and reducing property values and tax collections. Baltimore's suit against Wells Fargo, which was filed in U.S. District Court of Maryland, Baltimore Division, contends that the bank discriminated against black homebuyers by selling subprime, high interest loans to them at a higher rate than white homebuyers. See *City of Cleveland v. Deutsche Bank,* Court of Common Pleas, Cuyahoga County, Ohio, available at http://www.city.cleveland.oh.us/pdf/whats_new/ForeclosureDocument1-11-08.pdf, and *Mayor and City Council of Baltimore v. Wells Fargo,* U.S. District Court of Maryland, Baltimore Division, Case No. LO8CV 062, available at http://www.relmanlaw.com/City%20of%20Baltimore%20v.%20Wells%20Fargo%20-%2008-cv-62%20-%20Complaint.pdf.

[3] Other measures include S. 2455, S. 2636, and H.R. 5818. H.R. 3221 incorporated much of the language of S. 2636.

- reclaiming the supply of vacant housing by providing assistance to states, local governments, and nonprofit entities that could use funds to acquire, resell, rehabilitate, rent, or demolish vacant properties in an effort to minimize potential blight and associated problems in neighborhoods with high concentrations of foreclosed properties; and
- addressing declining tax revenues, particularly property taxes and the subsequent cutbacks or curtailment in the delivery of public services.

The Senate version of the Housing and Economic Recovery Act (HERA)—which was introduced by Senator Dodd in the nature of a substitute—initially passed the Senate on April 10, 2008.[4] Subsequently, in an effort to expedite consideration and passage of the measure, the House and Senate engaged in an amendment exchange, rather than establishing a conference committee. Despite initial objections raised by the Bush Administration, including the threat of a presidential veto, the measure passed the House on July 23, 2008. The Senate approved the measure on July 26, 2008. Despite his objections to the provisions of Title III, President Bush signed H.R. 3221 into law as P.L. 110-289 on July 30, 2008.

Title III of HERA—Emergency Assistance for the Redevelopment of Abandoned and Foreclosed Homes—appropriated $4 billion in supplemental CDBG assistance to states and local governments based on a formula developed by HUD that differs from that used to distribute funds under the regular CDBG program. HERA directed HUD to establish an allocation formula that distributed funds to states and local governments with the greatest need as measured by:

- the number and percentage of foreclosed homes in each state or locality;
- the number and percentage of subprime mortgages in each state or locality; and
- the number and percentage of homes in default or delinquency in each state or locality.

The measure gave HUD 60 days after enactment to establish a formula for allocating funds to eligible states and local governments, and an additional 30 days to distribute funds to states and local governments. Nonprofit entities would be allowed to participate in the program as sub-grantees, but could not receive a direct allocation of funds.

Formula and Allocation of Funds

Each state and local government that receives funds is required to allocate funds within 18 months of receipt and to give priority consideration to areas and metropolitan communities with:

- the greatest percentage of home foreclosures;
- the highest percentage of subprime loans; and
- the greatest likelihood of facing a significant rise in the number of home foreclosures.

Although HERA identified specific factors to be used by HUD to develop a formula, it did not specify an actual formula other than requiring a minimum allocation for each state of 0.5% of the

[4] The House version of H.R. 3221 did not include CDBG funds to buy foreclosed property.

amount appropriated ($19.6 million). On October 6, 2008, HUD published in the *Federal Register* a notice on the allocation of NSP funds including information on the formula developed by HUD to distribute funds. HUD's weighted formula uses several sources:

- the Mortgage Bankers Association *National Delinquency Survey* and the Census Bureau's *American Community Survey*;
- the Federal Reserve's Home Mortgage Disclosure Act (HMDA) data on high-cost loans at greatest risk of default and foreclosure;
- the Office of Federal Housing Enterprise Oversight (OFHEO) data on home price declines;
- unemployment data from the Bureau of Labor Statistics; and
- U.S. Postal Service data on home vacancies.

HUD first distributed the $3.92 billion in total appropriations to the 50 states, the District of Columbia, and U.S. territories, by assigning weights to the factors used in the formula. A total of nine variables were used in the computation of the formula, including (1) foreclosure starts in the last six quarters in the state and nation; (2) state and national foreclosure rate per household; (3) state and nation's subprime loans; (4) state and nation's subprime rate; (5) loans in default in the state and nation; (6) loan default rate in state and nation; (7) loans 60 to 89 days delinquent; (8) rate of loans 60 to 89 days delinquent; and, (9) state and national vacancy rate in census tracts with more than 40% of the loans that are subprime or high-cost loans. Each of these nine variables received the following weights outlined below. It is important to note that both the percentage and the rate of the state in comparison to the nation was used for each of the variables. The statewide allocation is calculated using the formula presented in **Figure 1**.

Figure 1. Formula Developed by HUD to Allocate $3.92 billion in NSP Funds at the State Level

Includes the 50 states, the District of Columbia and U.S. Territories

$$\begin{aligned}
&\text{Statewide Allocation} = \$3.92 \text{ billion} * \\
&\Big\{ \Big[0.7 * \frac{\text{(State's foreclosure starts in last 6 quarters)}}{\text{National foreclosure starts in last 6 quarters}} * \frac{\text{(State foreclosure rate)}}{\text{National foreclosure rate}} + \\
&0.15 * \frac{\text{(State's Number of subprime loans)}}{\text{National number of subprime loans}} * \frac{\text{(State subprime rate)}}{\text{National subprime rate}} + \\
&0.10 * \frac{\text{(State's number of loans in default)}}{\text{National number of loans in default}} * \frac{\text{(State default rate)}}{\text{National default rate}} + \\
&0.05 * \frac{\text{(State's loans 60 to 89 days delinquent)}}{\text{National loans 60 to 89 days delinquent}} * \frac{\text{(State 60 to 89 day delinq rate)}}{\text{National 60 to 89 day delinq rate}} \Big] \\
&* \frac{\text{(State vacancy rate in Census Tracts with more than 40\% of the loans High-cost)}}{\text{National vacancy rate in Census Tracts with more than 40\% of the loans High-cost}} \Big\}
\end{aligned}$$

Source: *Federal Register*, Vol. 73, No. 194, Monday, October 6, 2008, page 58344. Available at http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/nspnotice.pdf

Each state's allocation is further distributed to local governments using the second tier of a two-step allocation process. The second formula allocates funds based on a community's relative share of foreclosures and abandoned homes in the state. Each jurisdiction's allocation is calculated as shown in **Figure 2**.

Figure 2. Formula Developed by HUD to Allocate NSP Funds Below State Level

$$\text{Local Allocation} = (\text{Statewide allocation} - \$19{,}600{,}000) * \left[\frac{(\text{Local estimated foreclosure starts in last 6 quarters})}{\text{State total foreclosure starts in last 6 quarters}} * \frac{(\text{Local vacancy rate in Census Tracts with more than 40\% of the loans High-cost})}{\text{State vacancy rate in Census Tracts with more than 40\% of the loans High-cost}}\right]$$

Source: *Federal Register,* Vol. 73, No. 194, Monday, October 6, 2008, page 58345. Available at http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/nspnotice.pdf

Communities receiving a minimum allocation of $2 million receive NSP funds directly, whereas all other entitlement communities not meeting this threshold must request funds from the state. Based on a minimum threshold of $2 million, approximately 250 communities, the 50 states, the District of Columbia, and U.S. territories received direct allocations in FY2008. This is approximately 900 fewer communities than received grants under the regular CDBG program.

Eligible Activities

Under HERA, state and local governments must use funds to:

- create financing instruments that would enable them to finance the purchase and redevelopment of foreclosed homes and residential properties;
- purchase and rehabilitate foreclosed homes and residential properties for sale, rent, or redevelopment;
- establish land banks for foreclosed homes; and
- demolish blighted structures.

It should be noted that the recently passed ARRA makes significant changes to the list of eligible activities. For example, ARRA limits the use of funds for land banks and demolition of blighted structures. Additional information on changes made by ARRA is provided in the last section of this report.

Restrictions, Limitations, and Prohibitions

HERA limits the purchase price of a home or residential property acquired by a state or local government to an amount less than the home's current appraised market value. The discounted value should be significant enough to ensure that when the home is sold by the state or local government the purchaser (homebuyer) will pay below market value for the home or residential property. Further, when a foreclosed home or property is to be purchased as a primary residence by an eligible homebuyer, the act limits the price for which a state and local government may resell such property. The resale price of the home can be no more than the cost the state or local government paid to acquire, redevelop or rehabilitate the property.

As originally enacted, HERA required a community or state to reinvest all profits earned during the first five years following its enactment in additional sales, rentals, redevelopment, and rehabilitation of foreclosed homes and properties. After the five-year period, all profits could be recaptured by the federal government and deposited in the U.S. Treasury unless HUD approved a request to allow a community or state to continue to use funds to finance activities eligible for assistance under HERA. The five-year recapture provision was eliminated with the passage of ARRA.

Other NSP provisions of HERA have the same requirements as funds appropriated under the regular CDBG program. For the sole purpose of expediting the use of funds under HERA, however, HUD may issue alternative requirements to those governing the regular CDBG appropriations, except for requirements related to fair housing, nondiscrimination, labor standards, and environmental review. In addition, HERA:

- prohibits funds from being used in economic development projects involving the use of eminent domain;
- limits the income of individuals and families who may benefit from assistance provided by the act to those whose incomes do not exceed 120% of the area's median income;
- requires a state and local government to certify that at least 25% of the amount allocated by the bill will be used to purchase and redevelop housing for individuals and families whose incomes do not exceed 50% of the area's median income; and
- requires that each state receives a minimum allocation of 0.5% of the amount appropriated.

Table 1 presents data from HUD showing the distribution of Neighborhood Stabilization Program (NSP) funds by state for FY2008. As of FY2009, all eligible grantees are required to provide a revised annual plan to HUD.

Table 1. Allocation of NSP Funds by HUD for FY2008

State Name	NSP Funds	Number of Grantees in State
Alabama	$41,851,121	3
Alaska	$19,600,000	1
Arizona	$121,119,049	10
Arkansas	$19,600,000	1
California	$529,601,774	47
Colorado	$53,053,033	5
Connecticut	$25,043,385	1
Delaware	$19,600,000	1
District of Columbia	$2,836,384	1

State Name	NSP Funds	Number of Grantees in State
Florida	$541,364,780	49
Georgia	$153,037,451	10
Hawaii	$19,600,000	1
Idaho	$19,600,000	1
Illinois	$172,509,479	14
Indiana	$151,936,496	13
Iowa	$21,607,197	1
Kansas	$20,970,242	1
Kentucky	$44,382,509	2
Louisiana	$38,795,050	3
Maine	$19,600,000	1
Maryland	$46,370,822	4
Massachusetts	$54,806,330	5
Michigan	$263,563,262	23
Minnesota	$57,783,175	6
Mississippi	$46,267,963	2
Missouri	$64,859,275	4
Montana	$19,600,000	1
Nebraska	$19,600,000	1
Nevada	$71,934,352	5
New Hampshire	$19,600,000	1
New Jersey	$63,995,490	6
New Mexico	$19,600,000	1
New York	$100,318,608	7
North Carolina	$57,734,781	2
North Dakota	$19,600,000	1
Ohio	$258,089,179	23
Oklahoma	$32,851,741	2
Oregon	$19,600,000	1
Pennsylvania	$88,122,808	6

State Name	NSP Funds	Number of Grantees in State
Puerto Rico	$19,600,000	1
Rhode Island	$19,600,000	1
South Carolina	$49,158,407	3
South Dakota	$19,600,000	1
Tennessee	$72,520,649	6
Texas	$178,143,197	15
Utah	$19,600,000	1
Vermont	$19,600,000	1
Virginia	$45,691,843	3
Washington	$28,159,293	1
West Virginia	$19,600,000	1
Wisconsin	$47,976,588	2
Wyoming	$19,600,000	1
Insular Areas	$1,144,287	4
TOTAL	$3,920,000,000	308

Source: HUD. Available at http://www.hud.gov/nsp

NSP 2: American Recovery and Reinvestment Act, Title XII (P.L. 111-5)

Legislative Action

During the first month of the 111th Congress, Members debated the passage of the American Recovery and Reinvestment Act of 2009 (ARRA, H.R. 1). ARRA, which was signed by President Obama on February 17, 2009, as P.L. 111-5, seeks to mitigate the effects of the economic recession. As initially passed by the House, ARRA would have provided an additional $4.19 billion for the CDBG-based NSP, and would have required $3.44 billion of this amount to be distributed competitively to non-profits, states and local governments with $750 million allocated solely to non-profits on a competitive basis. The Senate version of ARRA did not include funding for the NSP program. On February 13, 2009, both the House and the Senate passed the conference version of the act, which includes $2 billion for NSP activities. The act gives HUD until September 30, 2010, to allocate funds to eligible recipients. Recipients are required to spend at least half of the funds within two years of allocation, and 100% within three years of the date funds are allocated.

Eligible Entities and Distribution of Funds

Under ARRA, funds from the Neighborhood Stabilization Program (NSP 2) are to be distributed competitively to states, local governments, nonprofit entities and consortia of for-profit and non-profit entities, partially based on the highest number and percentage of foreclosures. In addition to need based factors that measure the concentration of foreclosures, ARRA directs HUD to select eligible entities based on additional factors that measure project quality such as:

- a grantee's demonstrated ability to carry out proposed activities and expend funds within two to three years;
- a project's potential leveraging of other funds, both private and public;
- the concentration of investment needed to achieve neighborhood stabilization; and
- other factors determined by HUD.

HUD is also given discretion to establish a minimum grant size, is required to publish grant selection criteria within 75 days of passage of the law, and applications are due to HUD no later than 150 days after passage of the law. It must obligate funds within one year of ARRA's enactment.

Eligible Activities

ARRA makes several modifications governing the use of NSP funds, including funds previously appropriated under HERA. It revises section 2301(c)(3)(C) of HERA related to the establishment of land banks for homes that have been foreclosed upon. Under ARRA, the establishment and ***operation*** of land banks is included as an eligible activity. Activities related to demolition under HERA are also amended by ARRA. Under ARRA, a grantee may not use more than 10% of its grant for demolition activities, unless HUD provides a waiver indicating that local market conditions makes such demolition acceptable. Previously, under HERA, demolished vacant properties could be redeveloped for purposes other than housing. ARRA requires that redeveloped properties be ***only*** related to housing.

In addition, ARRA allows HUD to use up to 10% of NSP funds for capacity building and technical assistance. Up to 1% of NSP funds can be used for staffing, training, technical assistance, monitoring, travel, research and evaluation. Funds set aside for this purpose are available until September 30, 2012. HUD is granted authority to waive NSP requirements, with the exception of fair housing, non-discrimination, labor standards and environmental requirements.

Protections and Prohibitions

ARRA establishes several protections for renters, including tenants receiving federal and state assisted housing benefits. ARRA stipulates that grantees may not refuse to lease a housing unit acquired with NSP funds to a tenant who is already receiving Section 8 housing assistance.[5] In addition, entities that acquire foreclosed properties with NSP funds are required to give tenants

[5] 42 U.S.C. 1437f

notice to vacate a property at least 90 days before the effective date of such notice. ARRA establishes several requirements for a bona fide lease under this clause. A lease is considered bona fide if the mortgagor is not the tenant; if rent is not substantially below fair market rent; and if the renter and the tenant are not related, and have no overt common interests that would make the tenant contract void.

Since individuals eligible for federal housing vouchers or certificates of eligibility can benefit from NSP funding, grantees that take over a property previously rented to an assisted housing beneficiary are subject to the lease and housing assistance payments for the occupied units. Grantees cannot terminate the lease based solely on the status of the tenant as a holder of a Section 8 certificate or voucher. Vacating the property prior to the sale is not a cause to terminate the lease contract, unless the owner decides to use the property for private or family use. If a public housing agency is unable to make payments to a successor tenant who is not eligible for federal housing assistance, the funds can be used to pay for utilities, moving costs, and security deposit payments. In addition, no funding under ARRA can be used to demolish public housing.

Policy Analysis

Formula vs. Competitive Grants

ARRA makes important changes to the NSP originally created under HERA. Although both components of the NSP program will be administered within the framework of the statute governing CDBG (Title I of the Housing and Community Development Act of 1974 – 42 U.S.C. 5301 *et. seq.*) HERA funds were allocated by formula for distribution to a select group of communities (253 cities and counties) characterized as having high rates of foreclosures, delinquencies, defaults and vacancies. Communities and states are required to amend their annual community development plan to reflect how the additional funds will be used to meet program objectives. Under HERA, states are allowed, for the first time, to directly administer program activities rather than act as pass-through-agents for local governments, as is the case with the CDBG program.[6] The original NSP program allocated $3.92 billion in funds to the 50 states and eligible communities with each state guaranteed a minimum allocation of $19.6 million (0.5% of the total appropriated).

Conversely, ARRA funds will be awarded competitively, not only to states and local governments, but directly to nonprofit entities. This is a fundamental change in the structure of the program specifically, and block grants in general, which as a rule distribute funds by formula. The intent of formula-based grants is to encourage long range planning by providing a predictable funding stream. By contrast, competitive grants are intended to maximize the return on investment. Such grants typically will award funds based on comparative need (greatest number of foreclosures) and project quality factors (leveraging of private sector dollars). Awarding NSP funds competitively may make the geographic distribution challenging.

[6] 122 Stat. 2851. See also HUD's *Federal Register* notice dated October 6, 2008, page 58336, available at htttp://www.hud.gov/nsp "NSP Federal Register Notice."

Precedent of Non-Profits Competing Against States and Local Governments

ARRA establishes a precedent by allowing non-profits, and consortia of for-profit and non-profit entities, to compete directly against states and local governments for NSP funds. The provision raises several policy concerns, including:

- whether nonprofits will be required to coordinate their activities with those of a local government in order to ensure that the proposed activities are consistent with the jurisdiction's federally approved community development plan; and
- what will be the administrative structure employed by HUD to manage and monitor grants directly awarded to nonprofit and for-profit grant recipients.

HERA requires that each community submit to HUD a substantial amendment to its HUD-approved annual community development plan allowing HUD to monitor NSP activities for consistency with both local and national objectives. ARRA does not explicitly require nonprofits to certify that proposed activities are consistent with a local government's federally approved community development plan. In the absence of consultation with state and local governments, this may result in activities being undertaken that may conflict with approved state and local plans and activities.

Formula-based NSP (NSP 1) grants awarded under HERA allow nonprofit and for-profit entities to serve as sub-recipients while ARRA includes non-profits as direct recipients of competitively awarded NSP funds. Under rules governing NSP 1 grants to state and local governments must integrate NSP activities within their overall community development plan. They have the discretion of including nonprofit and for profit entities as subgrantees. In doing so, the responsibility for ensuring that subgrantees meet program requirements rest with state and local government grantees. Under ARRA, where grants will be awarded competitively (NSP 2), HUD must develop an application and performance reporting process that may differ significantly from the present application submission and reporting processes governing CDBG and NSP 1 funds. As **Table 2** illustrates, NSP 2 differs from both the larger CDBG program and NSP 1.

Table 2. Program Elements of CDBG, NSP 1, and NSP 2

	CDBG	NSP 1	NSP 2
Eligible Activities	25 eligible activities[a]	5 eligible activities	5 eligible activities
Eligible Entities	50 states, Puerto Rico, U.S. territories, and 1,162 local governments	50 states, Puerto Rico, and 252 local governments	states, local governments, non-profits and for-profit consortiums
Funding	FY2009 $4.5 billion[b]	FY2008 $3.92 billion supplemental[c]	FY2009 $2 billion supplemental[c]
Objective	broad economic and community development	reduce the supply of foreclosed and abandoned housing	reduced the supply of foreclosed and abandoned housing

	CDBG	NSP 1	NSP 2
Distribution method	formula intended to measure community development need	formula intended to measure relative degree of foreclosures, defaults, delinquencies, and housing abandonment	competitive selection criteria intended to target assistance based on need (number and percent of foreclosures) and project inputs (leveraging potential, concentration of investments)

Source: CRS.

c. one time supplemental funding

a. See 42 U.S.C. 5305.

b. Includes $1 billion supplemental awarded under ARRA.

c. One time supplemental funding.

Administrative Capacity

HUD may face a number of issues in the implementation of the NSP. These challenges include HUD's capacity to administer, monitor, and evaluate the diverse components of the CDBG NSP 1 and 2 programs. In addition to the two components of the Neighborhood Stabilization Program ($3.9 billion in formula grants and $2 billion in competitive grants), HUD's Office of Community Planning and Development is responsible for administering the regular CDBG program ($3.5 billion) and the department's disaster-recovery grants (which includes $6.5 billion for disaster relief in 2008). As noted previously, up to 1% ($10 million) of the amount appropriated for NSP 2 activities may be used to administer, monitor, evaluate, and provide technical assistance in support of program activities.

Limited NSP Funding Covers Small Share of National Foreclosures

The impact of the Neighborhood Stabilization Program may be limited by the level of funding when compared to the total number of foreclosures in the nation. According to data from the Mortgage Bankers Association (MBA), an estimated 1.35 million homes were in foreclosure in the third quarter of 2008. Using a national median home price of $200,000, the $5.9 billion in funding for both NSP 1 and 2 activities would buy a total of approximately 30,000 homes in foreclosure, or about 2% of the 1.35 million foreclosed homes. Even if the homes were purchased at half their value, NSP funds would help to purchase only about 4% of all homes in foreclosure. Some observers may question the efficacy of NSP funding in light of the great need for assistance. In addition to the purchase price, recipients of grant funds are responsible for rehabilitating homes, which may further diminish the level of NSP funding available for acquisition activities.

Author Contact Information

Eugene Boyd
Analyst in Federalism and Economic Development Policy
eboyd@crs.loc.gov, 7-8689

Oscar R. Gonzales
Analyst in Economic Development Policy
ogonzales@crs.loc.gov, 7-0764