REALTORS® AND NEIGHBORHOOD RECOVERY:

How Realtors® Can Help Make the New Neighborhood Stabilization Program a Success

The rising tide of foreclosures throughout the nation often translates into vacant homes that become blighting influences on neighborhoods and further decrease values of adjoining properties. Given the patterns of predatory lending practices and exotic subprime mortgages, these vacant and foreclosed homes cluster together making it difficult to market and sell homes throughout the entire neighborhood. Since the promotion and marketing of neighborhoods, not just the sale of individual houses, is a key to success for many real estate professionals, local recovery strategies will be critical to address the neighborhood impacts of foreclosures and assist in the rebuilding of healthy real estate and financial markets.

In September 2008, the Department of Housing and Urban Development (HUD) released regulations that will provide local governments across the country with nearly $4 billion in supplemental Community Development Block Grant (CDBG) funds to stabilize the neighborhoods suffering the most from the blight of foreclosed and vacant homes. In many communities, local task forces are seeking help in forming action plans and activities. This special guide authored by the National Vacant Properties Campaign and commissioned by the National Association of Realtors® provides background about the new Neighborhood Stabilization Program (NSP) and offers ideas on how members of the National Association of Realtors®, including individuals and state and local Realtor® associations can play a pivotal role in the stabilization and recovery of the neighborhoods in their communities.

I. How foreclosures are destabilizing neighborhoods across the nation

By now the magnitude of our nation's foreclosure crisis that has gripped towns and cities across the United States is well-known. Foreclosure levels have steadily risen since 2006, with millions of families losing their homes. In the second quarter of 2008 alone, nearly half a million new foreclosures were filed across the country, while nearly a million and a half were in the process of foreclosure. Over the next year or even longer, with the economy falling into recession, house prices continuing to decline, and over a million adjustable rate mortgages scheduled to reset, conditions are likely to get worse rather than better. While the wave of foreclosures may have begun with the subprime market, it is spreading, not only to intermediate Alt-A and FHA mortgages, but to the conventional, prime mortgage market as well. Credit Suisse analysts have projected that by 2012, as many as 6.5 million households may lose their homes.

The initial concern and policy response has been the plight of the millions of homeowners and renters at risk of losing their homes. In 2007 Congress appropriated more than $167.8 million to establish a nationwide network of foreclosure counselors and the Hope NOW hotline to work with troubled homeowners. Their problems are still very real and very immediate. Despite many public and private efforts, thousands of families are still seeing their dreams destroyed every day, some abandoning their homes early in the foreclosure process and others evicted after losing their homes in sheriffs' sales. Beyond the crisis of the families losing their homes through foreclosure is another crisis, however, that can be seen in the collateral damage being done to the blocks and communities where the foreclosures are taking place, and where the homes are being vacated and abandoned. As properties become vacant, and maintenance declines, neighboring property owners see their own home values decline. Abandoned properties become magnets for crime and increased fire risks.

The damage that foreclosures do to neighborhoods results directly from the link between foreclosure, vacancy, and abandonment. When a property goes into foreclosure in stronger markets like Palo Alto, California or Princeton, New Jersey, the servicer will work hard to preserve its value by maintaining it if the owner leaves, and making sure that a new buyer is quickly found. This is not true in areas where houses have less value, or where the sheer number of foreclosures has overwhelmed both servicers' and local governments' ability to cope. In older neighborhoods in Newark or Chicago, and in newer subdivisions around Las Vegas or in California's Central Valley, entire communities are being destabilized; as one Realtor® from Detroit said of a once healthy middle-class neighborhood in that city, "Nobody's going to want to buy into a neighborhood with 20 percent foreclosures. You end up with no neighborhood."

2. The Neighborhood Stabilization Program

In July 2008, Congress enacted HR 3221, the Housing and Economic Recovery Act of 2008 – the most far-reaching housing bill enacted by the federal government in more than a decade. The Neighborhood Stabilization Program (NSP), contained in Sections 2301 through 2304 of that act, represents the first time the federal government has focused specifically on the properties and the neighborhoods impacted by the crisis. The legislation responded to mounting pressure from hard-hit areas in the Sunbelt and the Rust Belt, to help them deal with a crisis that had vastly outgrown their resources and their ability to address it.

How the Neighborhood Stabilization Program funds can be used

The Neighborhood Stabilization Program deals specifically with the problems created by vacant and foreclosed properties. Congress appropriated $3.92 billion to be distributed to states, cities and counties for the following activities designed to stabilize neighborhoods undermined by foreclosures and abandoned properties:

- Acquire foreclosed or abandoned homes and residential properties
- Rehabilitate homes and residential properties
- Demolish blighted structures
- Redevelop demolished or vacant properties
- Establish land banks
- Establish financing mechanisms to assist low- and moderate-income homebuyers

Reflecting its sense of urgency, Congress ordered the Department of Housing and Urban Development to move quickly, giving them 60 days to adopt guidelines and funding allocations for the new program. HUD issued its guidelines and allocations on September 29, and gave the states, counties and cities receiving NSP funds until December 1, 2008 to submit action plans outlining how they would spend the money. Now that the plans have been submitted, Realtors® can play a vital role in implementing the work over the next few years. Once the initial plans are approved and funds actually made available – expected to happen in February or March 2009 – these jurisdictions will have 18 months to obligate the funds; that is, to make binding contracts for specific activities that will require future payment.

This timetable puts the states and local jurisdictions set to receive NSP money under great pressure. A key issue confronting both state and local officials, as well as other involved stakeholders such as community development corporations (CDCs), Realtor® associations, and Realtors®, is how to balance the need to move quickly with the equally important need to move strategically, so that these funds will make a real difference to each community's most impacted neighborhoods.

Where is the neighborhood stabilization money going?

Congress instructed HUD to develop a formula to allocate the NSP funds based on three factors:

- The number and percentage of home foreclosures in each area
- The number and percentage of subprime mortgages in each area
- The number and percentage of homes in default or delinquency in each area.

In addition, Congress mandated that each state receive a minimum of 1/2 of 1% of the fund, or $19.6 million. HUD issued its allocations along with its rules on September 29. Over $2 billion or 52% of the total was allocated to state governments, with the rest going to cities and counties. HUD set the minimum cut-off for allocations at $2 million to make sure that any community receiving NSP funds directly would have a critical mass of funds to work with. The largest allocation went to Florida, with the state and its local subdivisions receiving a total of $541 million, followed by California with nearly $530 million. In California, the state received $145 million, and 46 different cities and counties received the balance, with the largest being Riverside County with $49 million and the City of Los Angeles with $33 million. Other large allocations went to Michigan ($264 million) and Ohio ($258 million). At the other end, fifteen states received the minimum allocation of $19.6 million.

Who is pulling together these plans and who else is involved?

The primary responsibility for drafting the action plans falls to the local governments and states receiving the funds. This might be under the direction of the housing and community development or planning departments. Some cities will draft the plans on their own and others may contract with a consultant to help define the strategy. Many cities are also creating task forces made up of public agency staff, community development corporations, policy experts, and Realtors®.

State governments also play a critical role in the NSP. They have the choice of either sub-allocating their money to cities and counties within the state – which can include the cities and counties that also received NSP money directly – or they can spend it directly, by deciding which neighborhoods, strategies and programs are most worthy of support. Since many states have only limited experience with programs involving acquisition, rehabilitation and redevelopment of distressed properties, they are likely to find this role particularly challenging.

City	NSP Allocation
Miami Dade County, FL	$62.2
Chicago, IL	$55.2
Riverside County, CA	$48.5
Detroit, MI	$47.1
Phoenix, AZ	$39.4
Los Angeles, CA	$32.8
Indianapolis, IN	$29.0
Cook County, IL	$28.1
Orange County, FL	$27.9
Palm Beach, FL	$27.7
Jacksonville, FL	$26.1
Wayne County, MI	$25.9
New York, NY	$24.2
Clark County, NV	$22.8
Columbus, OH	$22.8
San Bernadino, CA	$22.7

The top sixteen local governments (cities and counties) will each get more NSP funds than many states (the minimum state allocation is $19.6 million). Also note the substantial grants given to major metropolitan areas hit hard by foreclosures, such as Chicago/Cook County and Detroit/Wayne County.

3. Key Strategies for State and Local Government

Although state and local governments can and will contract with private and nonprofit entities – known as sub-recipients – to carry out many of the eligible activities, they are ultimately accountable for the use of the funds. It is particularly important, therefore, that they use these funds wisely to effectively stabilize neighborhoods impacted by foreclosures and abandonment.

In order to encourage strategic use of NSP funds, we would suggest a number of ideas that may help guide state and local governments as they decide how to use these funds.

Understand market conditions in each area, to make sure that NSP monies are used to build on or help foster market strength, rather than duplicate or conflict with the private market

In some areas, including many parts of the Sunbelt – given time and effective vacant property strategies – the neighborhoods should remain relatively stable and the market will eventually recover on its own, with properties finding buyers without much government assistance. Conversely, there are some parts of America's most hard-hit older cities where the market really no longer exists, and years – or decades – of holding may be needed before revival is even possible. NSP funds are likely to have the greatest impact in the areas in between those two extremes, where neighborhood stabilization can foster market activity or eliminate the impediments to market recovery.

Target NSP funds to key neighborhoods to support stabilization strategies, rather than scatter the funds widely across a large number of cities, towns and neighborhoods

$3.92 billion may appear to be a large amount of money, but when measured against the millions of vacant or foreclosed properties potentially in need of acquisition, demolition or rehab, it falls far short of what would be needed to tackle all of those properties. Where there are many different areas competing for funds, targeting resources to just a few areas can be a politically difficult strategy, but is a critical one if the NSP funds are going to have a meaningful impact.

Maximize the impact of NSP funds by leveraging them with private sector and other public funds, and by linking them to other neighborhood stabilization strategies, particularly strategies to keep families facing foreclosure in their homes

Acquisition, rehabilitation and demolition of vacant properties are only one part of stabilizing a neighborhood. If hundreds of new properties are being abandoned as a city or CDC is rehabilitating the ones that are already vacant, the neighborhood will be no better off than before. By leveraging the NSP money, and combining NSP strategies with activities such as foreclosure prevention, code enforcement, and creative efforts such as Chula Vista, California's successful vacant property registration program to make servicers take responsibility for maintaining vacant properties, cities and counties are far more likely to bring about real change and market recovery in the areas they target for stabilization.

Form partnerships for effective neighborhood stabilization: no state, city or county is likely to succeed on its own

States, cities and counties are good at some things, and less good at others. Moreover, even the most capable local government is likely to be limited in both the staff capacity and the financial resources needed to plan and carry out a neighborhood stabilization strategy. Fortunately, most communities contain many stakeholders whose resources and capabilities can complement those of local government. These include neighborhood-based CDCs, private developers, major institutions such as universities, locally-based corporations, Realtor® associations and their Realtor® members.

4. How Realtors® can play a key role in the success of the Neighborhood Stabilization Program

Realtors® can play important roles in the implementation of any state or local NSP strategy. First, Realtors® know these neighborhoods, having worked in these communities for years. Beyond being good and engaged citizens, Realtors® also bring specific skills and experience that are particularly relevant to the tasks involved in neighborhood stabilization. By leveraging their expertise in partnership with others from both the public and private sector, Realtors® can make an important, even unique contribution to making a community's neighborhood stabilization program a success.

Realtors® can help local officials and CDCs understand housing markets in particular neighborhoods and monitor property conditions to ensure effectiveness of local NSP programs

The housing market is Realtors®' bread and butter. As a result, Realtors® often have a more in-depth understanding of the nuances of the local housing market than either public officials or many community-based nonprofit organizations. By bringing this knowledge to bear in the planning process, Realtors® can help communities target their programs to geographic areas where the funds can be most effective, and to specific activities in those areas that will best stabilize the neighborhoods and foster market recovery. As programs are implemented, Realtors® can help monitor how the market is moving in the target areas, and help public agencies and CDCs adjust their efforts as market conditions change. As a complement to the use of NSP funds, cities are stepping up their code enforcement efforts to target vacant and foreclosed homes that have blighting influences on neighborhoods and adjoining properties. Realtors® can be effective eyes and ears in the community in helping a city's code enforcement team identify the properties and the responsible mortgage company as many Realtors® have experience working with mortgage servicers and field companies.

Realtors® can assist local officials and CDCs with the property acquisition phase of their community's neighborhood stabilization program

While not every community may use its NSP funds to acquire foreclosed or abandoned properties, many will. This is likely to be a difficult task for many local governments for many reasons. Negotiating property deals is complicated, and requires experience that is often lacking in local government. This is rendered even more complicated by the fact that REO properties are often controlled by servicers who are difficult to access, and subject to complicated constraints of their own. Finally, the law requires that all properties acquired with NSP funds be acquired at a discount; that is, below fair market value.

Realtors® can contribute their expertise and professional relationships to help make the property acquisition process a success. They can help make contact with lenders and servicers, creating lines of communication between the communities where they work and national firms. They can then use their expertise to help their local officials or CDC staff to negotiate mutually acceptable terms to acquire the properties they need to carry out their stabilization strategies. As they become involved in this arena, however, Realtors® must remain conscious of their ethical responsibilities under the Realtors® Code of Ethics and carefully avoid becoming involved in ways that could potentially raise conflict of interest issues.

Realtors® can assist local governments and CDCs to market properties rehabilitated or redeveloped with NSP funds

The days of "build it and they will come" are over, at least for the next couple of years. As cities, CDCs and local developers rehabilitate older houses, or build new homes on vacant lots created by demolition of older houses, as part of the local neighborhood stabilization program, they will have to work hard to ensure that they find buyers and tenants for these properties. Here, too, Realtors® bring valuable expertise, beginning with establishing the right price points for these homes, and continuing with the marketing efforts needed to find the buyers and tenants to fill them. One of the statutory goals of the NSP is to create financing mechanisms, including soft-seconds, loan loss reserves, and shared-equity loans. If local governments or CDCs use some of their funds to create innovative financing structures, Realtors® should become familiar with them and help market properties to low- and moderate-income buyers.

In many cases, this is likely to involve not just marketing the houses themselves, but working with CDCs and others to market entire neighborhoods. By developing marketing campaigns highlighting the neighborhood's distinctive assets, Realtors® can make a major contribution to the market revival of those neighborhoods.

Finally, as engaged citizens of a city, metro area or state, both individual Realtors® and Realtor® associations can play important roles. Within the community, individual Realtors® can participate in local foreclosure prevention and neighborhood stabilization task forces and working groups, both helping to focus local efforts for maximum impact and to promote those efforts to the community at large. At the state level, Realtor® associations can act as a voice for effective, strategic use of NSP funds by the state government, as well as advocate for state policies and legislative initiatives that will both help prevent more foreclosures and address the neighborhood impacts of foreclosure where they take place. ■

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JM Schilling - pages one and two.

Resources on Neighborhood Stabilization Plans and Programs

The U.S. Department of Housing and Urban Development, the Federal Reserve Banks, and national community development and housing organizations have compiled a variety of resources on the NSP program and the general topic of community stabilization.

stablecommunities.org: NeighborWorks® America's new web site to provide community development practitioners with information and strategies to stabilize and revitalize communities in the wake of the foreclosure crisis.
www.stablecommunities.org

housingpolicy.org: The Center for Housing Policy provides timely and reliable information on successful policies to expand availability of homes for working families. The foreclosure section of the web site links to draft action plans.
www.housingpolicy.org/foreclosure-response.html

HUD's NSP web site: To assist NSP grantees in implementing the program, HUD has provide a web site which maps state and local allocations, explains requirements of eligible grantees, lists activities authorized under the program, and provides other relevant program information.
www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/

Recovery/Renewal/Rebuilding series of the Federal Reserve System: Over the summer and fall of 2008, the Federal Reserve System convened meetings series in several bank districts to focus on the impacts of the foreclosure crisis on different real estate markets, on strategies that address both the negative impact of foreclosures in high-cost markets and the challenge of strengthening neighborhoods in weak markets, and on potential public policy coming from recent research on foreclosure vacancy and abandonment.
stlouisfed.org/RRRSeries/event_overview.html

Summit on Housing: Partnering for Responsible Policy: Presentations for this entire HUD Summit are available online.
www.hcdi.com/housing_summit/what.html

How to Spend $3.92 Billion: Stabilizing Neighborhoods by Addressing Foreclosed and Abandoned Properties: Author Alan Mallach outlines 11 key principles that states, cities, and counties should follow as they plan NSP activities. The report is available on the Federal Reserve Bank of Philadelphia's web site.
philadelphiafed.org/community-development/publications/discussion-papers/DiscussionPapers_Mallach_10_08_final.pdf

National Vacant Properties Campaign: The Campaign is a project of Smart Growth America, LISC, the Metropolitan Institute at Virginia Tech, and the Genesee Institute. The National Vacant Properties Campaign exists to provide everyone – individuals, advocates, agencies, developers, non-profits, and others – with information resources, tools, and assistance to support their vacant property revitalization efforts. As the attention of the country has turned towards the foreclosure crisis' effect on urban and suburban neighborhoods nationwide, lessons learned from the Campaign's technical assistance work in the field can provide a framework for addressing property abandonment caused by foreclosures around the country.
www.vacantproperties.org

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