Kentucky Neighborhood Stabilization Program (NSP) Fact Sheet

The Neighborhood Stabilization Program is funded through the U.S. Department of Housing and Urban Development and is authorized by the Housing and Economic Recovery Act of 2008 (NSP-1) and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (NSP-3). Kentucky's allocations of $37.4 million and $5 million, respectively, are administered by the Governor's Office for Local Development's Office of Federal Grants staff.

These targeted funds are being used to purchase foreclosed, abandoned and vacant properties at a discount and to rehabilitate or redevelop them to stabilize neighborhoods and stop declining home values. In partnership with Kentucky Housing Corporation, the Department for Local Government (DLG) is making $500,000 of NSP-1 funds available for the creation of affordable permanent rental housing in the highest-need areas of the Commonwealth.

Eligible properties must be located in a census tract with a Tract NSP3 Need Score of ten or greater. A census tract's NSP3 Need Score can be determined at the following Web site: http://www.huduser.org/nsp/nsp3.html. Once on the Web site, enter the address of the proposed property, including city and state, and click on the box to show tract outlines (zoom 11+). Once the census tract appears, click in the census tract and a box will appear noting the score. Again, only properties located in census tracts with a Tract NSP3 Need Score of ten or greater are eligible.

Key NSP requirements:

Of the $500,000 made available, whether awarded to one or more projects, a minimum of 80% of funds for each allocation must be repaid to DLG. Repaid funds may be used as interim construction financing for up to 36 months or may be permanently invested. For either, loans should be underwritten with an interest rate of zero to 4.0% as required for project cash flows. Loan funds permanently invested may not have an amortizing term of more than twenty (20) years. No more than 20% of funds may be used as a forgivable deferred loan.

Developer fee is calculated as 8 percent of the NSP-funded development cost (including acquisition) for rehabilitation and 10 percent of the NSP-funded development cost, including acquisition, for new construction.

The Kentucky NSP program has established the following as reasonable, thus they are the maximum allowable fees based on total development cost of:

$0 - $250,000:

General requirements	up to 6%
Overhead	up to 7%
Profit	up to 12%

$251,000 - $750,000:

General requirements	up to 5%
Overhead	up to 6%
Profit	up to 8%

$751,000 and greater:

General requirements	up to 6%
Overhead	up to 2%
Profit	up to 6%

NSP funds may only be used for the production of permanent affordable rental housing; *transitional housing and emergency shelters are ineligible.*

Tenants may have gross annual income of up to 120% of area median, as defined annually by HUD and adjusted for household size and county of residence. Household income and assets must be verified at initial occupancy and unit turnover (annual re-verification is not required).

Eligible uses

NSP allows five uses of funds (further defined below). **All property acquired with NSP funds must be vacant.** NSP requires that the property be appraised, and the appraisal must be dated within 60 days of the final offer to purchase. All properties acquired with NSP funds must be acquired at no less than a one percent (1%) discount from the appraised value.

Please note that NSP funds are federal, and all cross-cutting requirements apply – particularly note that this includes the Uniform Relocation Act as well as federal environmental review requirements.

Eligible uses of funds are:

Eligible Use A:* Establish financing mechanisms for purchase and redevelopment of **foreclosed upon homes and residential properties**, including such mechanisms as soft-seconds, loan loss reserves, and shared-equity loans for low-and moderate-income homebuyers;

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 Use C: Landbanking (ineligible for this set-aside of funds)

Eligible Use D: Demolish **blighted structures** (must meet KRS definition of blighted); and

Eligible Use E: Redevelop **demolished or vacant properties**.

**Eligible Use A may include using NSP as a credit enhancement for housing revenue bonds.*

Eligible property types

Abandoned: A home or residential property is abandoned if either a) mortgage, tribal leasehold, or tax payments are at least 90 days delinquent, or b) a code enforcement inspection has determined that the property is not habitable and the owner has taken no corrective actions within 90 days of notification of the deficiencies, or c) the property is subject to a court-ordered receivership or nuisance abatement related to abandonment pursuant to state or local law or otherwise meets a state definition of an abandoned home or residential property.

Foreclosed: A home or residential property has been foreclosed upon if any of the following conditions apply: a) the property's current delinquency status is at least 60 days delinquent under the Mortgage Bankers of America delinquency calculation and the owner has been notified of this delinquency, orb) the property owner is 90 days or more delinquent on tax payments, or c) under state, local, or tribal law, foreclosure proceedings have been initiated or completed, or d) foreclosure proceedings have been completed and title has been transferred to an intermediary aggregator or servicer that is not an NSP grantee, subrecipient, contractor, developer, or end user.

Vacant: Qualifies the broadest range of property types. Because the legislation does not limit this use to homes and/or residential properties, DLG will permit subgrantees to acquire and redevelop any property type. This includes commercial or industrial property in addition to all types of residential property. Property acquired need not be abandoned or foreclosed upon, however, it MUST be vacant. "Vacant properties" includes both vacant land and properties with vacant structures on the land. Please note that redevelopment implies that vacant land was previously developed and is surrounded by existing development, undeveloped or "greenfield" sites, at the edge of development, may not be acquired.

For all eligible uses, units must be complete and occupied within 48 months from the date of the funding agreement. Please note that HOME and/or conduit bond requirements may have more stringent project completion requirements.

Tenant counseling

Contingent upon funding availability, DLG may make available up to an additional $100,000 to successful applicants; funds may be used for "good renter" counseling for tenants of NSP-assisted rental developments. The specific purpose of the counseling funding is to ensure, to the extent feasible, that NSP-assisted developments maintain stable tenant populations with minimal vacancy rates to ensure projects operate in a sound and efficient manner and meet all performance and affordability period requirements. "Good renter" counseling may only be provided by a HUD-approved housing counseling agency. (This may include housing counselors who are approved through KHC, which is itself a HUD-approved counseling agency.)

Counseling must be provided in compliance with HUD Handbook 7610.1, as follows:

I. NSP-funded housing counseling supports the delivery of a wide variety of housing counseling services to homebuyers, homeowners, low- to moderate-income renters and the homeless. The primary objective of the program is to educate families and individuals in order to help them make smart decisions regarding improving their housing situation and meeting the responsibilities of tenancy and homeownership. Counselors also help borrowers avoid inflated appraisals, unreasonably high interest rates, unaffordable repayment terms and other conditions that can result in a loss of equity, increased debt, default and possible foreclosure.

II. Education is defined as formal classes, with established curriculum and instructional goals, provided in a group or classroom setting, or other formats approved by DLG, covering topics such as, but not limited to: (1) renter rights; (2) the home buying process; (3) how to maintain a home; (4) budgeting; (5) fair housing; (6) identifying and reporting predatory lending practices; (7) rights for persons with disabilities; (8) and the importance of good credit. _Special Note:_ The educational topic of “Fair Housing” may include the promotion and protection of civil rights as they relate to ensuring equal opportunity housing. Such educational sessions may include topics such as identifying and reporting discriminatory policies, procedures practices, fair lending, Section 504 of the Rehabilitation Act, and predatory lending.

III. Counseling education must be provided by a HUD-approved agency, which may include housing counselors approved by Kentucky Housing Corporation (a HUD-approved agency). Education is defined as formal classes, with established curriculum and instructional goals, provided in a group or classroom setting, or other formats approved by DLG. For delinquency counseling, one-on-one sessions in lieu of classroom setting is acceptable.

DLG will approve payments for housing counseling as follows:

a. Lease-purchase units must convert to homeownership within 36 months or, with prior approval, within 42 months from the date of initial occupancy. During the course of the lease-purchase term, financial and homebuyer counseling on a regular basis is mandatory. DLG will provide a maximum of $333 per quarter per lease-purchase unit, with a maximum per-unit counseling cap of $4,000. Counseling payment may be requested at the end of each calendar quarter; payment requests must include employee time sheets that indicate the time/date of counseling, length of counseling session(s), name of client/household.

b. For rental developments, counseling for up to three classes per tenant as follows:

   i. Tenant rights and responsibilities, renter/landlord relationships, basic unit upkeep and maintenance, being a good neighbor, legal rights and responsibilities including the eviction process, and rights for persons with disabilities. Subgrantee may request counseling payment quarterly at a rate of $30 per client; the pay request should include class roster(s).

   ii. Financial literacy, including money management and budgeting, debt, debt management, understanding credit reports, and identifying and reporting predatory lending practices. Counseling payment quarterly at a rate of $30 per client; the pay request should include class roster(s). In addition, DLG will reimburse up to $20 per client for tri-merge credit reports; class rosters should indicate whether the client(s) credit report has been obtained and reimbursement is requested.

   iii. Fair housing, including federal, state and local laws and statutes, including in-depth education on rights for persons with disabilities. Class should also include promotion and protection of civil rights as they relate to ensuring equal opportunity housing. Such educational sessions may include topics such as identifying and reporting discriminatory policies, procedures practices, fair lending, Section 504 of the Rehabilitation Act, and predatory lending. Sub grantee may request counseling payment quarterly at a rate of $30 per client; the pay request should include class roster(s).