

Community Development Block Grant

Neighborhood Stabilization Program



THE NSP SUBSTANTIAL AMENDMENT

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A. AREAS OF GREATEST NEED

Provide summary needs data identifying the geographic areas of greatest need in the grantee's jurisdiction.

Note: An NSP substantial amendment must include the needs of the entire jurisdiction(s) covered by the program; states must include the needs of communities receiving their own NSP allocation. To include the needs of an entitlement community, the State may either incorporate an entitlement jurisdiction's consolidated plan and NSP needs by reference and hyperlink on the Internet, or state the needs for that jurisdiction in the State's own plan. The lead entity for a joint program may likewise incorporate the consolidated plan and needs of other participating entitlement jurisdictions' consolidated plans by reference and hyperlink or state the needs for each jurisdiction in the lead entity's own plan.

HUD has developed a foreclosure and abandonment risk score to assist grantees in targeting the areas of greatest need within their jurisdictions. Grantees may wish to consult [this data](#), in developing this section of the Substantial Amendment.

Response:

The Department of Housing and Community Development (DHCD) has analyzed a number of resources that present data demonstrating areas of greatest need in Virginia. As a default, REALTY TRAC data will be used to illustrate where the greatest number of bank-owned properties are located. This information is updated on a regular basis and serves as a good starting point for identification of need. The table below provides a ten month snapshot of the inventory of bank-owned properties by locality (where a locality is shown to have a minimum on ten properties). The shaded areas denote those localities where the inventory exceeds 100.

Source: RealtyTrac.com

Locality	Real-Estate Owned Properties									
	Feb-1-08	Mar-6-08	Apr-2-08	May-6-08	Jun-3-08	Jul-1-08	Aug-3-08	Sep-4-08	Oct-1-08	Oct-31-08
	7,747	8,673	9,713	11,017	12,036	9,963	12,250	13,768	17,504	19,350
Prince William County	2,501	2,937	3,266	3,650	4,037	3,040	3,367	3,809	5,726	6,312
Fairfax County	1,900	2,081	2,356	2,780	2,892	2,491	3,494	3,929	4,760	5,166
Loudoun County	1,022	1,076	1,179	1,313	1,415	1,139	1,416	1,541	1,720	1,927
Stafford County	287	324	318	418	445	387	465	595	755	805
Spotsylvania County	347	355	416	451	458	430	547	588	636	700
Virginia Beach City	205	259	278	343	363	280	344	400	486	524
Norfolk City	244	257	246	220	305	237	286	353	428	470
Frederick County	156	169	191	207	226	200	249	281	313	335
Richmond City	57	88	153	172	197	203	237	232	255	318
Alexandria City	86	109	118	114	162	172	221	231	272	291
Culpeper County	113	135	142	160	181	181	224	244	270	290
Chesapeake City	58	74	96	119	139	155	191	189	210	276
Arlington County	89	107	125	123	151	98	127	145	224	247
Fauquier County	86	106	118	143	151	132	151	179	207	229
Newport News City	3	25	48	62	78	77	112	142	177	209
Henrico County	14	14	23	53	61	62	67	74	109	161
Caroline County	40	41	44	57	79	71	85	98	121	139
Danville City	115	126	124	123	129	100	115	120	127	131
Orange County	61	67	78	82	88	65	80	91	109	116
Winchester City	2	2	22	30	37	43	54	61	68	76
Portsmouth City	14	13	13	18	17	32	36	37	56	74
Suffolk City	34	34	42	44	45	47	53	56	57	66
Hampton City	11	18	29	34	47	54	68	66	65	63
Hanover County	24	31	31	30	42	28	36	44	51	60
Fredericksburg City	15	19	21	27	29	25	37	41	49	59
Warren County	1	0	0	2	5	4	3	1	25	58
Manassas City	104	99	105	106	103	54	53	66	53	45
King George County	23	23	27	29	28	21	24	26	36	44
Chesterfield County	7	4	6	7	15	15	11	19	29	40
Manassas Park City	7	5	5	5	5	8	18	32	19	19
Louisa County	1	1	2	3	3	1	2	2	6	16
James City County	4	6	7	9	9	10	10	11	11	11
Rappahannock County	2	4	5	5	5	7	7	8	10	10

However, recognizing that no single source of data provides a complete and accurate snapshot, DHCD will allow applicants to present alternate sources of data to support their requests for funding. Additionally, a reliable data source that depicts need at the neighborhood level, the true intent of this program, does not exist universally. Applicants will be required to go further beyond zip code, Census tract, and even Census block data analysis when demonstrating need. Resources such as HUD's foreclosure and abandonment assessments may serve as a starting point for identification and targeting of

need, however, additional research to identify specific neighborhoods within those data sets will be necessary.

Adhering to the intent of this program, resources will be directed to neighborhoods in which a significant positive impact is expected. Applicants should seek to target neighborhoods that have at least 10 percent of the housing units, properties, or structures that meet the approved definition of foreclosed or abandoned. The program is aimed at addressing neighborhoods that have been hardest hit by the recent *foreclosure crisis*, not necessarily those areas that have negative conditions brought about by events pre-dating this issue. Scattered-site approaches that dilute impact will not be allowed. When targeting neighborhoods, applicants will be required to document how the proposed project area constitutes a defined neighborhood. This can be based on historical information, community perception, mapping, or other supporting documentation.

In addition to the funds allocated to the Commonwealth of Virginia, NSP funds were also made available directly to the Counties of Fairfax and Prince William. Fairfax and Prince William Counties will be developing their own Action Plan to guide the uses and distribution of NSP funds they were directly allocated.

There is the potential for the Counties of Fairfax and Prince William, along with eligible applicants that serve those areas, to receive state Neighborhood Stabilization Program (NSP) funds to supplement their own individual allocations. Should those localities effectively demonstrate a need for additional NSP resources the same expectation for neighborhood targeting will apply. Their progress in successfully utilizing their direct allocation of NSP funds will also be evaluated.

For purposes of this program, the following definitions will apply:

Abandoned – A home is abandoned when 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.

Foreclosed Property – A property “has been foreclosed upon” at the point that, under state or local law, the mortgage or tax foreclosure is complete. DHCD generally will not consider a foreclosure to be complete until after the title for the property has been transferred from the former homeowner under some type of foreclosure proceeding or transfer in lieu of foreclosure, in accordance with state or local law.

The intent of Virginia’s program is to target properties that meet one of these two definitions, are no longer occupied, and are contributing to the decline of the neighborhood. **Any abandoned or foreclosed property must be vacant at the time it is purchased or rehabilitated using any NSP funds.**

B. DISTRIBUTION AND USES OF FUNDS

Provide a narrative describing how the distribution and uses of the grantee’s NSP funds will meet the requirements of Section 2301(c)(2) of HERA that funds be distributed to the areas of greatest need, including those with the greatest percentage of home foreclosures, with the highest percentage of homes financed by a subprime mortgage related loan, and identified by the grantee as likely to face a significant rise in the rate of home foreclosures. *Note:* The grantee’s narrative must address these three stipulated need categories in the NSP statute, but the grantee may also consider other need categories.

Response:

DHCD intends to distribute funds in an effective and expedient manner. Consideration has been given to allow a quick response to applicants that are positioned to respond rapidly, while also providing a reasonable amount of time for potential applicants to gain a better understanding of the areas of highest need and develop an implementation strategy. To best provide for immediate action by applicants that are ready to proceed, while also allowing preparation time for less geared-up applicants, four levels of distribution will be employed. These methods include an Open Submission program, Planning Grants, a Competitive application, and a Performance-Based Pool. Each distribution method is fully described in *Section G*.

It should be noted that during various input sessions leading to the development of the state program, one message was clear—that of flexibility. Virginia intends to operate this program in a manner that will target areas of greatest need using resources discussed below as a baseline, but also allowing applicants the ability to justify the need for Virginia NSP funds through alternate means. The Virginia NSP is a neighborhood-based approach that will require applicants to conduct very specific, on-the-ground research in order to determine priority areas. Because there is not a single, definitive data source that accurately reflects areas of greatest need, applicants must cite the methodology used to identify and target the areas of greatest need. It is expected that applicants will use a variety of resources, ranging from online datasets, real estate records, court filings, and windshield surveying to initiate this process.

Home Foreclosures

It is recognized that in terms of sheer volume, the localities identified in *Section A: Areas of Greatest Need*, have enormous needs and when viewed in terms of bank-owned properties, the localities shaded in blue clearly come through as priority areas. While there may be some under-reporting through the REALTY TRAC method, this data still provides a good starting point in identifying the absolute number of of bank-owned properties by locality. County-level data available from HUD supports this as well. When viewed in terms of number of foreclosures, HUD data reports 38 localities having at least 200 foreclosures, with many of the localities represented in both sets.

Locality	*Estimated Number of Foreclosures
Fairfax County	6,707
Prince William County	6,632

Virginia Beach City	2,904
Loudoun County	2,632
Chesterfield County	2,385
Henrico County	1,897
Chesapeake City	1,781
Norfolk City	1,738
Spotsylvania County	1,708
Stafford County	1,600
Richmond City	1,400
Newport News City	1,259
Hampton City	1,254
Portsmouth City	1,117
Frederick County	1,024
Suffolk City	783
Manassas City	766
Roanoke City	637
Fauquier County	570
Alexandria City	539
Culpeper County	516
Arlington County	486
Warren County	474
Caroline County	415
Manassas Park City	376
Hanover County	342
Petersburg City	328
Lynchburg City	305
Roanoke County	299
Orange County	294
Augusta County	280
Louisa County	273
Henry County	239
Danville City	236
Shenandoah County	235
Pittsylvania County	230
Winchester City	229
Dinwiddie County	219

* *The number of foreclosures for a jurisdiction is weighted to reflect the statewide totals of foreclosure starts over 18 months from the Mortgage Bankers Association National Delinquency Survey through June 2008. The HUD methodology can be found at: [http://www.huduser.org/publications/commdevl/Desc %20NSP_data.doc](http://www.huduser.org/publications/commdevl/Desc%20NSP_data.doc). Data resources can be found at: <http://www.huduser.org/publications/commdevl/nsp.html> .*

However, it should be noted that a much different picture emerges when the same HUD data is sorted by *foreclosure rate* and not simply by number of foreclosures or bank-owned properties. As seen below, looking at the issue by rate of foreclosures shows a pronounced problem in mostly rural areas of Virginia, compared to the predominance of clustering of Northern Virginia and Tidewater communities when viewed by sheer numbers. While there may not be the same concentration of homes when this is drilled down to a neighborhood level, this does illustrate the importance of flexibility and the

rationale for allowing applicants the opportunity to demonstrate their areas of greatest need.

Locality	Estimated Foreclosure Rate
Petersburg City	9.1%
Lee County	7.5%
Franklin City	7.3%
Buchanan County	7.3%
Martinsville City	6.9%
Danville City	6.8%
Hopewell City	6.6%
Craig County	6.6%
Sussex County	6.4%
Emporia City	6.4%
Dickenson County	6.2%
Nottoway County	6.1%
Lunenburg County	6.0%
Brunswick County	6.0%
Portsmouth City	5.8%
Norton City	5.7%
Greensville County	5.5%
Manassas Park City	5.5%
Henry County	5.5%
Manassas City	5.4%
Richmond County	5.4%
Wise County	5.3%
Dinwiddie County	5.3%
Covington City	5.2%
Hampton City	5.2%
Charlotte County	5.1%
Southampton County	5.1%
Norfolk City	5.1%
Charles City County	5.0%
Cumberland County	5.0%
Halifax County	5.0%
Winchester City	5.0%
Galax City	5.0%
Russell County	5.0%
Caroline County	4.9%
Richmond City	4.9%
Bristol City	4.7%
Buena Vista City	4.7%
Pulaski County	4.7%
Scott County	4.7%
Buckingham County	4.6%
Roanoke City	4.6%
Fredericksburg City	4.6%
Newport News City	4.5%
Frederick County	4.4%
Prince Edward County	4.4%
Grayson County	4.4%

Page County	4.3%
Pittsylvania County	4.3%
Warren County	4.3%
Surry County	4.3%
Westmoreland County	4.3%
Tazewell County	4.2%
Prince William County	4.1%
Patrick County	4.1%
Wythe County	4.1%
Northampton County	4.1%
Spotsylvania County	4.1%
Prince George County	4.0%
Accomack County	4.0%
King And Queen County	4.0%
Carroll County	4.0%
Giles County	4.0%
Amelia County	4.0%

Source: <http://www.huduser.org/publications/commdevl/nsp.html>

Subprime Mortgages

Subprime mortgage data released from HUD will also be used as a preliminary identifier for targeting Virginia NSP funds. Again, the severity of the issue, when viewed in absolute numbers, points primarily to the urban metro localities and those further outlying ring areas. As shown below, the numbers of localities with at least 1,000 high-cost (subprime) loans obviously are those located in more populated areas in Virginia. Again, while this data can provide a snapshot of areas with a significant number of subprime loans, this alone does not completely reflect impact of the subprime market in Virginia.

Locality	Total High-cost Home Mortgage Disclosure Act loans - 2004 to 2006
Fairfax County	27,077
Prince William County	26,503
Virginia Beach City	15,675
Chesterfield County	12,535
Loudoun County	10,450
Henrico County	10,150
Chesapeake City	9,033
Norfolk City	7,445
Spotsylvania County	6,787
Stafford County	6,211
Newport News City	5,884
Richmond City	5,800
Hampton City	5,722
Portsmouth City	4,945
Suffolk City	3,776
Frederick County	3,479
Roanoke City	3,005
Manassas City	2,987

Culpeper County	2,394
Hanover County	2,183
Fauquier County	2,172
Alexandria City	2,158
Arlington County	2,108
Roanoke County	1,903
Caroline County	1,868
Warren County	1,789
Augusta County	1,580
Manassas Park City	1,467
Orange County	1,403
Louisa County	1,350
Lynchburg City	1,345
Petersburg City	1,302
Albemarle County	1,247
James City County	1,244
Bedford County	1,184
Rockingham County	1,181
Shenandoah County	1,135
Gloucester County	1,047
Isle of Wight County	1,040
Dinwiddie County	1,015
York County	1,012

Source: <http://www.huduser.org/publications/commdevl/nsp.html>

Taking this same data, but looking at the percent of high-cost loans instead of the number of high-cost loans points to a problem that is more prevalent in rural Virginia. The true number of neighborhoods impacted cannot be determined from this, or even block-level analysis, but this does further support the need to allow for flexibility when determining greatest need and potential impact.

Locality	Estimated High-cost Loan Rate
Petersburg City	55.0%
Lee County	49.6%
Buchanan County	47.2%
Craig County	47.1%
Franklin City	46.8%
Hopewell City	41.7%
Sussex County	41.6%
Nottoway County	40.9%
Dickenson County	39.5%
Portsmouth City	39.1%
Lunenburg County	37.9%
Norton City	37.9%
Greensville County	37.6%
Brunswick County	37.4%
Emporia City	37.3%
Dinwiddie County	37.0%

Danville City	36.7%
Richmond County	36.1%
Hampton City	35.8%
Wise County	35.3%
Martinsville City	35.2%
Southampton County	34.9%
Cumberland County	34.2%
Caroline County	33.8%
Charles City County	33.7%
Roanoke City	33.2%
Charlotte County	33.0%
Norfolk City	32.9%
Buckingham County	32.6%
Manassas Park City	32.6%
Manassas City	32.2%
Covington City	31.9%
Russell County	31.7%
Newport News City	31.7%
Galax City	31.5%
Surry County	31.0%
Henry County	31.0%
Buena Vista City	30.9%
Richmond City	30.9%
Halifax County	30.0%
Halifax County	30.0%

Source: <http://www.huduser.org/publications/commdevl/nsp.html>

Future Foreclosure Risk

While some areas may not appear to be hot-spots of need at this point in time based on existing foreclosures or subprime loans, there is a need to look forward and project where there is likelihood for problems to appear. Again, using HUD supplied data, some assumptions can be made of where those areas will appear. Looking at this data—which is available at a block group level—those areas that appear to be at greatest risk lie within older, developed, traditional cities. The exception to this is Lee County, a rural county in southwest Virginia that also consistently appears as a high need area when looking at the percentages of foreclosures and subprime loans.

Locality	Place	Tract	Block Group	Predicted 18 Month Underlying Problem Foreclosure Rate
Martinsville City	49784	000200	1	13.0%
Martinsville City	49784	000200	2	13.0%
Martinsville City	49784	000200	3	13.0%
Martinsville City	49784	000200	4	13.0%

Petersburg City	61832	810400	1	11.9%
Petersburg City	61832	810400	2	11.9%
Petersburg City	61832	810100	1	11.6%
Petersburg City	61832	810100	2	11.6%
Lee County	23584	990100	5	11.6%
Lee County	61560	990100	5	11.6%
Lee County	69792	990100	1	11.6%
Lee County	69792	990100	2	11.6%
Lee County	99999	990100	1	11.6%
Lee County	99999	990100	2	11.6%
Lee County	99999	990100	3	11.6%
Lee County	99999	990100	4	11.6%
Lee County	99999	990100	5	11.6%
Lee County	23584	990100	5	11.6%
Lee County	42104	990100	3	11.6%
Lee County	99999	990100	3	11.6%
Lee County	99999	990100	4	11.6%
Lee County	99999	990100	5	11.6%
Franklin City	29600	090200	1	11.5%
Franklin City	29600	090200	1	11.5%
Franklin City	29600	090200	2	11.5%
Franklin City	29600	090200	3	11.5%
Richmond City	67000	020100	1	11.1%
Richmond City	67000	060700	1	10.8%
Richmond City	67000	060700	1	10.8%
Richmond City	67000	060700	2	10.8%

Richmond City	67000	060700	3	10.8%
Richmond City	67000	060700	4	10.8%
Richmond City	67000	060700	5	10.8%
Richmond City	67000	010900	1	10.7%
Richmond City	67000	010900	2	10.7%
Richmond City	67000	010900	3	10.7%
Richmond City	67000	010900	4	10.7%
Petersburg City	61832	810500	1	10.7%
Petersburg City	61832	810500	2	10.7%
Petersburg City	61832	810500	3	10.7%
Petersburg City	61832	810500	4	10.7%
Richmond City	67000	060200	1	10.6%
Richmond City	67000	060200	2	10.6%
Richmond City	67000	060200	3	10.6%
Richmond City	67000	060200	4	10.6%
Richmond City	67000	060800	1	10.4%
Richmond City	67000	060800	1	10.4%
Richmond City	67000	060800	2	10.4%
Richmond City	67000	060800	3	10.4%
Richmond City	67000	060800	4	10.4%
Norfolk City	57000	003501	1	10.3%
Norfolk City	57000	003501	2	10.3%
Norfolk City	57000	003501	3	10.3%
Virginia Beach City	82000	040000	1	10.3%
Virginia Beach City	82000	040000	1	10.3%
Newport News City	56000	030500	1	10.2%

Newport News City	56000	030500	2	10.2%
Richmond City	67000	010800	1	10.2%
Richmond City	67000	010800	2	10.2%
Richmond City	67000	010800	3	10.2%
Norfolk City	57000	005200	1	10.2%
Norfolk City	57000	005200	2	10.2%
Norfolk City	57000	005200	3	10.2%
Norfolk City	57000	007001	1	10.1%
Richmond City	67000	020300	1	10.1%
Richmond City	67000	020300	2	10.1%
Richmond City	67000	020200	1	10.1%
Richmond City	67000	020200	2	10.1%
Roanoke City	68000	000800	1	10.0%
Roanoke City	68000	000800	2	10.0%
Roanoke City	68000	000800	3	10.0%

Source: <http://www.huduser.org/publications/commdevl/nsp.html>

Overall, the data available from REALTY TRAC and HUD can be effectively used to identify those areas in Virginia that have been most impacted or stand to be significantly impacted by the foreclosure crisis. While some of this data is available at a zip code or block group level, there still needs to be further research to accurately target neighborhoods that have been hardest-hit. These data resources will be used for initial targeting but further detailed analysis will be expected from applicants. And again, the intent of this program is to target neighborhoods of greatest need and as such, applicants will need to provide the basis for how the target neighborhood has been defined.

As illustrated by the above data excerpts, there is no single way to best define greatest need. Approaching the problem by volume is one method, however, this should not be the sole means for targeting. A neighborhood may be in a far less populous locality but still have the same level (or greater) of negative impacts resulting from foreclosures and vacant properties.

Targeting NSP Funds

For purposes of this program, a combination of data sources that utilizes both the number of foreclosures and the rate of foreclosures will be used to target NSP funds in Virginia.

Based upon this data, cited previously, localities that have at least 200 foreclosed properties or have a foreclosure rate of at least 4.0 percent are eligible for NSP funding. Targeting through this means provides an opportunity for those larger, metropolitan localities that have high numbers of foreclosures, along with smaller, central city and rural localities that have significant foreclosure rates, to access funds. This also allows for highest impact targeting of neighborhoods, as described below. The table below denotes the localities that meet these criteria and which are eligible for funding. It should be noted that funds will not automatically be allocated to those communities that are eligible for funding. Instead, applicants must clearly demonstrate they have been severely impacted by the foreclosure crisis and that funding will result in significant improvements to the targeted neighborhoods.

Localities not listed may request individual discussions with DCHD to consider eligibility should there be special conditions that should be taken into account. Applicants will be expected to submit a proposal for funding that provides sufficient justification for why funds are needed and how they will be utilized, the proposed impact, and demonstrating the readiness and capacity to implement this program.

The Virginia NSP will provide some level of flexibility in allowing applicants to justify why a neighborhood targeted for assistance represents a good investment. It should also be restated that the program is aimed at addressing neighborhoods that have been hardest hit by the recent *foreclosure crisis*, not necessarily those areas that have negative conditions brought about by events pre-dating this issue. To achieve highest impact, this program will not be operated on a scattered-site basis; applicants will be expected to target neighborhoods that have at least 10 percent of the housing units, properties, or structures that meet the approved definition of foreclosed or abandoned.

Virginia Communities Eligible for NSP Funding

Accomack County
Alexandria City
Amelia County
Arlington County
Augusta County
Bristol City
Brunswick County
Buchanan County
Buckingham County
Buena Vista City
Caroline County
Carroll County
Charles City County
Charlotte County
Chesapeake City
Chesterfield County
Covington City
Craig County
Culpeper County
Cumberland County
Danville City
Dickenson County
Dinwiddie County
Emporia City
Fairfax County
Fauquier County
Franklin City
Frederick County
Fredericksburg City
Galax City
Giles County
Grayson County
Greensville County
Halifax County
Hampton City
Hanover County
Henrico County
Henry County
Hopewell City
King And Queen County
Lee County
Loudoun County
Louisa County
Lunenburg County

Lynchburg City
Manassas City
Manassas Park City
Martinsville City
Newport News City
Norfolk City
Northampton County
Norton City
Nottoway County
Orange County
Page County
Patrick County
Petersburg City
Pittsylvania County
Portsmouth City
Prince Edward County
Prince George County
Prince William County
Pulaski County
Richmond City
Richmond County
Roanoke City
Roanoke County
Russell County
Scott County
Shenandoah County
Southampton County
Spotsylvania County
Stafford County
Suffolk City
Surry County
Sussex County
Tazewell County
Virginia Beach City
Warren County
Westmoreland County
Winchester City
Wise County
Wythe County

Projected Distribution Summary

Virginia Allocation	\$38,749,931
*DHCD Administration	\$1,812,496
*Subrecipient Administration	\$1,812,496
Open Submission Program	\$20,000,000
Competitive Program	\$10,000,000
*Planning Grants	\$250,000
**Available for Performance Pool	\$4,874,939

** 10 percent of the total allocation is available for administrative costs (\$3,874,993). This will be split evenly between DHCD and NSP subrecipients. Of this amount, \$250,000 will be deducted (\$125,000 from DHCD and \$125,000 from NSP subrecipients) to support Planning Grants.*

*** The available amount noted is expected to increase significantly as recaptured funds, unobligated funds, and Program Income is added. An applicant's ability to leverage funds will be evaluated carefully and will be a significant consideration when evaluating proposals.*

The proposed distribution design allows for open submission and competitive applications. If demand exceeds (or does not meet) expectations, DHCD will have the ability to adjust the reservations as necessary. As such, DHCD reserves the right to shift up to 50 percent of any proposed reservation to accommodate demand and program needs. DHCD also reserves the right to adjust the timelines noted in *Section G* as needed.

Additional guidance will be provided through the issuance of Request for Proposals.

Targeting

The Virginia NSP will focus investments in neighborhoods that can be significantly impacted through a defined revitalization strategy and leveraging of resources. As stated previously, eligible communities were designated based on the presence of either a high number of foreclosures or high foreclosure rate. To achieve highest impact, this program will not be operated on a scattered-site basis; applicants will be expected to target neighborhoods that have at least 10 percent of the housing units, properties, or structures that meet the approved definition of foreclosed or abandoned. This can be accomplished through strategies that address supportive housing, special needs housing, low-income homeownership, rental housing for displaced LMMI households, and the provision of rental units that keep within the character of the neighborhood. Emphasis will be placed

on projects that retain the fabric of the existing neighborhood. **It is the intent of the Virginia NSP to ensure that projects will not significantly change the preexisting nature, characteristic, or stability of that neighborhood.** Proposals that contain a rental component will be evaluated on a case-by-case basis.

Pay for Performance

Subrecipients must prepare a project budget using the DHCD required format. This budget must reflect current budget activities and funding sources (both Virginia NSP and leverage funds). Typically, the project budget will be similar to the budget proposed in the proposal but includes any DHCD-related or other adjustments made during contract negotiations. The most significant adjustment is that all Virginia NSP administrative costs are performance-based, i.e., costs are paid only after the attainment of pre-determined thresholds. These are negotiated between DHCD and the subrecipient after the completion of the Project Management Plan (a management tool that enables the subrecipient and its partners to know where the project is going and how it will get there). The payment thresholds will outline the respective tasks and how much DHCD will pay upon the completion of each task.

Management Team

DHCD requires the formation of a Project Management Team to oversee the project. The Team is made up of stakeholders who have direct responsibility or oversight of specific activities necessary for the successful completion of the project. Typically, the Team consists of the Chief Executive Officer (who serves as the chair), project administrator, management consultant, rehabilitation specialist, building official, lending professional, assessor, elected official, realtor, homeownership counselor, and other relevant stakeholders.

Contract Negotiations

The grant implementation process begins with official notification of an award. Following the notice the Project Management Office's Associate Director will set up a contract negotiations meeting. This is the first step in getting a Virginia NSP Grant Agreement. The Contract Negotiations Meeting marks the beginning of the period known as the Pre-contract Activities Phase. During this phase, the Grantee must complete all of the requirements outlined at the contract negotiations meeting and any other conditions subsequently determined to be necessary to assure the successful implementation of the project. Shortly after the meeting, DHCD will send a follow-up letter to the Grantee, summarizing what these activities are and the expected completion date.

Program Income

Program Income is defined as funds received as a result of the use of Virginia NSP investment. The Virginia NSP is expected to generate significant Program Income, particularly as properties are acquired, rehabilitated, and sold to eligible clients. All subrecipients with projects that may earn Income must adopt a Program Income Plan (PIP) showing how Program Income will be expended. The PIP must be approved by DHCD prior to its adoption by the subrecipient and the receipt of Program Income.

All Program Income must first be returned to DHCD. If a subrecipient can continue the same activity in the same location that originally produced the Program Income, the returned Program Income will be earmarked for that subrecipient. If a PIP is approved to continue the same activity in the same location and Program Income is made available to the subrecipient, they will be entitled to keep up to 8 percent of the Program Income for administrative purposes (an increase from the approximately 5 percent allowed for initial use of funds). This alternative provides an incentive for subrecipients to continue pursuing neighborhood stabilization activities in the approved project areas. Program Income will be escrowed for the Grantee for further use in the designated project area until December 31, 2011, at which time all escrowed funds shall be transferred into the Performance Pool. At that time, DHCD will evaluate how to allocate administrative funds.

Program Income that is generated and which will not be re-invested in the approved project area will be retained DHCD. These funds will be reallocated to the Performance Pool.

Any Program Income that is received prior to July 30, 2013 will be retained by DHCD and used to further NSP activities per the above-noted conditions. Program Income received after July 30, 2013 will be returned to the Treasury.

Client Readiness

At the time when a proposal is submitted, applicants are expected to have an existing homeownership program in place or an agreement to partner with an entity that does. Additionally, applicants are expected to have developed a list of qualified, eligible clients that are willing to move into the neighborhood targeted for Virginia NSP investment.

Subrecipients must ensure that each Virginia NSP assisted homebuyer receive and complete at least eight hours of homebuyer counseling from a HUD-approved housing counseling agency before obtaining a mortgage loan. Where possible, subrecipients are expected to identify partners that can bring homeownership resources to bear instead of relying on Virginia NSP funds. If necessary, utilization of Virginia NSP funds for homeownership counseling will be considered, however, only to the extent that funds are targeted for delivery of services to a qualified, eligible client that is intent on purchasing a home in a NSP-targeted neighborhood. Funds cannot be used for provision of general homeownership counseling.

Subrecipients will be required to ensure that homebuyers obtain a mortgage loan from a lender who agrees to comply with the bank regulators' guidance for non-traditional mortgages.

Delivery Fee

It is DHCD's intent to allow reasonable and appropriate delivery fees which will encourage and fairly reimburse participants. Delivery fees may include both

performance-based lump sum payments and allowable costs incurred in the direct delivery of contracted products.

Security and Property Condition During Rehabilitation and Disposition

Reasonable costs for preserving the condition of eligible properties and its security from theft or vandalism are allowed.

Proposal Evaluation

Following the submission of a proposal, DHCD reserve the right to negotiate the approach, award, and components to ensure performance and targeting of the objectives of this program.

Virginia CDBG Policy

Existing Virginia CDBG program policies will be used as a model for development of a Virginia NSP Grant Management manual that will provide specific guidance, regulations, and sample documents for use by Virginia NSP subrecipients. Unless otherwise stated, Virginia CDBG policies will apply.

Virginia NSP Priorities

All activities authorized under the NSP are eligible activities, however certain activities are considered to be higher priority based on the needs identified in the state. Of the eligible activities listed below, the first two are considered priorities for the Virginia NSP.

- *Establishing financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-second, loan loss reserves, and shared-equity loans for low- and moderate-income homebuyers*
- *Purchasing and rehabilitating homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties*
- *Establishing land banks for homes that have been foreclosed upon*
- *Demolishing blighted structures*
- *Redeveloping demolished or vacant properties*

Emphasis is placed on projects that retain the fabric of the existing neighborhood and priority is placed on projects that provide homeownership opportunities for eligible clients. It is the intent of the Virginia NSP to ensure that projects will not significantly change the preexisting nature, characteristic, or stability of that neighborhood. Proposals that contain a rental component will be evaluated on a case-by-case basis. It is intended that the use of NSP funds will result in eligible properties being bought or inhabited by eligible households. Except in unusual situations, the expenditure of NSP funds will directly relate to this outcome and the regeneration of private real estate activities.

C. DEFINITIONS AND DESCRIPTIONS

(1) Definition of “blighted structure” in context of state or local law.

Response:

Per Virginia Code, *blighted area* means any area that endangers the public health, safety or welfare; or any area that is detrimental to the public health, safety, or welfare because commercial, industrial, or residential structures or improvements are dilapidated, or deteriorated or because such structures or improvements violate minimum health and safety standards. This definition includes, without limitation, areas previously designated as blighted areas pursuant to the provisions of Chapter 1 (§ 36-1 et seq.) of this title.

Blighted property means any individual commercial, industrial, or residential structure or improvement that endangers the public's health, safety, or welfare because the structure or improvement upon the property is dilapidated, deteriorated, or violates minimum health and safety standards, or any structure or improvement previously designated as blighted pursuant to § 36-49.1:1, under the process for determination of "spot blight."

(2) Definition of “affordable rents.” **Note:** Grantees may use the definition they have adopted for their CDBG program but should review their existing definition to ensure compliance with NSP program –specific requirements such as continued affordability.

Response:

The affordability of rents will be based on the guidelines established by the HOME program.

The proposed rent structure for assisted properties must be reviewed and approved by DHCD to determine the amount that will be considered Program Income.

(3) Describe how the grantee will ensure continued affordability for NSP assisted housing.

Response:

DHCD will ensure continued affordability by requiring that all loans be secured by a Deed-of-Trust. The nature of equity at resale, continued affordability, and future income to the Virginia NSP must be addressed and approved by DHCD.

Existing Virginia CDBG program policies will be used as a model for development of a Virginia NSP Grant Management manual that will provide specific guidance, regulations, and sample documents for use by Virginia NSP subrecipients. HOME standards will be used to establish minimum affordability standards.

(4) Describe housing rehabilitation standards that will apply to NSP assisted activities.

Response:

Attachment I.

D. LOW INCOME TARGETING

Identify the estimated amount of funds appropriated or otherwise made available under the NSP to be used to purchase and redevelop abandoned or foreclosed upon homes or residential properties for housing individuals or families whose incomes do not exceed 50 percent of area median income: **\$9,687,483**.

To help achieve this 25% targeting goal, the Virginia NSP expects to implement strategies that include:

- Special Needs and Supportive Housing;
- Low Income Homeownership programs, including those operated by Habitat for Humanity;
- Rental Housing for Displaced LMMI clients; and
- Rental Housing appropriate to character of neighborhood

Note: At least 25% of funds must be used for housing individuals and families whose incomes do not exceed 50 percent of area median income.

Response:

DHCD will utilize at least \$9,687,483 in Virginia NSP funds for housing individuals and families whose incomes do not exceed 50 percent of area median income. Beginning in *Section G*, a detailed description of the funding reservations is available. Through these reservations, funds will be specifically targeted to meet this 25 percent requirement.

E. ACQUISITIONS & RELOCATION

Indicate whether grantee intends to demolish or convert any low- and moderate-income dwelling units (i.e., $\leq 80\%$ of area median income).

If so, include:

- The number of low- and moderate-income dwelling units—i.e., $\leq 80\%$ of area median income—reasonably expected to be demolished or converted as a direct result of NSP-assisted activities.
- The number of NSP affordable housing units made available to low-, moderate-, and middle-income households—i.e., $\leq 120\%$ of area median income—reasonably expected to be produced by activity and income level as provided for

- in DRGR, by each NSP activity providing such housing (including a proposed time schedule for commencement and completion).
- The number of dwelling units reasonably expected to be made available for households whose income does not exceed 50 percent of area median income.

Response:

DHCD does not expect to demolish or convert any low- and moderate- income dwelling units with Virginia NSP funds that are habitable or which can be rehabilitated. However, DCHD reserves the right to review and examine the appropriateness of such a request should an instance surface where these activities appear reasonable. Relocation is not expected to be an activity of this program.

F. PUBLIC COMMENT

Provide a summary of public comments received to the proposed NSP Substantial Amendment.

Note: proposed NSP Substantial Amendment must be published via the usual methods and posted on the jurisdiction's website for no less than 15 calendar days for public comment.

Response:

The Virginia NSP has been developed with the full advice and involvement of stakeholders across the Commonwealth. Prior to the publication of the draft Virginia NSP Substantial Amendment, DHCD conducted a number of meetings with housing and community development professionals from across the state to discuss how to develop an effective program.

On October 23, as part of this effort to gain input, representatives from the most impacted areas of the state were invited to an input session in Richmond. Following an introduction and overview of the program, attendees were separated into small focus groups and led through a series of questions aimed at helping to develop the policies and procedures for the Virginia NSP. This input was made available through DHCD's website. Comments are included as *Attachment II*.

Subsequently, DHCD developed a draft NSP Substantial Amendment that was posted on the DHCD website at: http://www.dhcd.virginia.gov/CommunityDevelopmentRevitalization/Neighborhood_Stabilization_Program.htm on Monday, November 10. The availability of this was also advertised in four regional newspapers (Potomac News, Richmond Times-Dispatch, Virginian Pilot, and Roanoke Times Dispatch).

On November 20, DCHD convened a second open public input session to solicit feedback on the draft plan. Comments from this meeting are included in *Attachment III*.

The open window for public comments closed on November 25. Comments were then reviewed and as appropriate, incorporated into the Action Plan. A summary of those comments follows can be found in Attachment IV.

G. NSP INFORMATION BY ACTIVITY (COMPLETE FOR EACH ACTIVITY)

(1) Activity Name: **Open Submission Program**

(2) Activity Type: All NSP activities will be eligible and open for consideration. This includes:

- *Establishing 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*
- *Purchasing and rehabilitating homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties*
- *Establishing land banks for homes that have been foreclosed upon*
- *Demolishing blighted structures*
- *Redeveloping demolished or vacant properties*

Please note the first two items are considered priorities for the Virginia NSP.

(3) National Objective: Activities funded through this program will benefit individuals at or below 120 percent area median income.

(4) Activity Description:

Include a narrative describing the area of greatest need that the activity addresses; the expected benefit to income-qualified persons; and whether funds used for this activity will be used to meet the low income housing requirement for those below 50% of area median income.

DHCD will reserve \$20 million for an Open Submission program that is designed to allow applicants that are prepared to act the ability to do so immediately.

Project Types and Eligible Applicants

- 1) Where a project will serve an **individual locality**, units of local governments may directly apply OR non-profit organizations, Planning District Commissions, and Housing Authorities may apply (see below). Towns are expected to apply through the County in which they are located (see below). Project awards of up to \$2.0 million are available. Projects of this nature may serve up to three neighborhoods per project / application provided that a significant impact can be expected in each of the neighborhoods.
- 2) Applicants seeking to serve multiple localities may submit a **regional** application. Under this project type, up to \$4.0 million will be available per proposal, with not

more than two neighborhoods per locality allowed. Non-profit organizations, Planning District Commissions, and Housing Authorities may apply. Towns are expected to apply through the County in which they are located (see below). Localities that are served must also assure that adequate funds are available to cover administrative costs of the applicant.

- 3) Applicants that will target 100 percent of requested NSP funds to benefit individuals or families whose incomes do not exceed **50 percent of the area median income** may apply for up to \$1.0 million. Projects of this nature must be located in a DHCD-approved target neighborhood and be qualified as redevelopment projects. Up to two neighborhoods per project / application may be served.

General Open Submission Policies

A benefit to having an open, rolling submission period is the ability to have an iterative review process. Applicants that submit deficient proposals within the eligible timeframe will be provided feedback and critique from DHCD to allow for revision and resubmission. Revised proposals must be re-submitted by May 3, 2009.

For this reservation of funds, in instances where a local government **will NOT** apply directly for funds, other eligible entities must have the endorsement / concurrence (through resolution) of the local government that will be served. Towns must apply through the County in which they are located. If a County is not planning to submit an application, the Town must have the endorsement / concurrence (through resolution) of the County.

To ensure that funds are being spent efficiently, DHCD reserves right to recapture funds after six months from the effective contract date if sufficient progress has not made. As part of its monitoring practice, a review after four months will be conducted to be followed with 60-day period for corrective action, if necessary.

DHCD plans to conduct contract negotiation meetings as proposals are approved for funding. These meetings will be held on rolling basis as needed and will be completed by May 30, 2009. Subrecipients must complete a Project Management Plan based upon its approved proposal and DHCD Contract Negotiation conditions. The plan shall constitute the basis for its NSP contract. The contract will be dated and issued upon receipt of an acceptable plan.

Applicants are strongly encouraged to target at least 25 percent of the NSP funds to serve individuals or families whose incomes do not exceed 50 percent of the area median income. Applicants should seek out partners with prior experience in serving this target group as part of their pre-application process. This can be accomplished through strategies that address supportive housing, special needs housing, low-income homeownership, and the provision of rental units that keep within the character of the neighborhood. Projects that do not meet this threshold may have a reduced award offer. Should DHCD need to reduce an award offer because funds will not be utilized to meet

this 25 percent targeting, those funds will be set-aside as a 25/50 set-aside in the *Performance Pool*.

Example: Lewis County has requested \$1.5 million to acquire and redevelop foreclosed properties in the Woodbine neighborhood. The strategy calls for the homes to be sold to qualified clients but does not detail a specific strategy for targeting benefits to clients at or below 50 percent area median income. As a result, DHCD may reduce the award offer by \$375,000 and allocate that funding to the Performance Pool.

Detailed submission requirements will be developed and disseminated through a Request for Proposals and discussed at a How-to-Apply workshop. Proposals will be evaluated based on 1) Need; 2) Impact; 3) Readiness; 4) Capacity; and 5) Leveraging. Proposals must clearly demonstrate the potential for impact. DHCD has the right to revise and negotiate project activities based on the proposed impact.

(5) Location Description: As stated in *Section B*, funds will be targeted to proposals that clearly identify neighborhoods that demonstrate a significant need and the ability to significantly impact and stabilize the proposed project area. DHCD will provide data resources and guidance to assist with targeting need but ultimately, applicants will be responsible for prioritizing neighborhoods and developing an implementation strategy.

(6) Performance Measures (e.g., units of housing to be acquired, rehabilitated, or demolished for the income levels of households that are 50 percent of area median income and below, 51-80 percent, and 81-120 percent).

- 38 properties to be rehabbed and sold / rented to a client at or below 50 percent AMI
- 45 properties to be rehabbed and sold / rented to a client at or between 51-80 percent AMI
- 50 properties to be rehabbed and sold / rented to a client at or between 81-120 percent AMI

The number of properties to be address by the NSP and related funding will significantly increase the prospect of unrelated private investment and increase property values.

(7) Total Budget: Up to \$20 million in Virginia NSP funds are committed for this program. Presently, DHCD has spoken to representatives from Virginia Housing Development Authority (VHDA) and Virginia Community Capital (VCC). Both entities are very interested in providing resources for this program, including mortgage financing from VHDA and funds for acquisition from VCC. Both entities are expected to be strong partners in this program.

An applicant's ability to leverage funds will be evaluated carefully and will be a significant consideration when evaluating proposals. Additionally, applicants are expected to establish partnerships that will provide additional leveraged resources and provide for better service delivery.

(8) Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)

The Virginia Department of Housing and Community Development will assume leadership for this program. DHCD partners with Virginia's communities to develop their economic potential; increase their capacity to address community development and housing needs; improve the quality and affordability of housing; regulate Virginia's building and fire codes and provide training and certification for building officials; and invest more than \$100 million each year into housing and community development projects throughout the state.

The DHCD Division of Community Development will serve as the primary service delivery agent. This Division brings to bear a comprehensive mix of programs tailored to support economic development, revitalization, infrastructure improvements, housing, and other key issues associated with community development as a whole. These programs include the Community Development Block Grant (CDBG), Virginia Enterprise Initiative, Virginia Main Street, Virginia's Appalachian Regional Commission, Virginia Enterprise Zone, and the Virginia Individual Development Account program.

Todd Christensen, Deputy Director, Division of Community Development, will provide the day-to-day program oversight. Mr. Christensen's responsibilities include the Community Development Block Grant, Appalachian Regional Commission, Indoor Plumbing Rehabilitation, Main Street, and Community Capacity Building programs, along with the Enterprise Initiative, Virginia Individual Development Accounts and Rural Broadband Planning Initiative. Todd was instrumental in the development of several innovative initiatives, such as the The Crooked Road, Virginia's Heritage Music Trail and 'Round the Mountain: Southwest Virginia's Artisan Network. In 2003, he received the Governor's Agency Star Award, presented to the one state employee each year whose achievements most exemplify the mission of their agency.

Mr. Christensen can be reached at 804-371-7061 or Todd.Christensen@dhcd.virginia.gov.

Denise Ambrose, Associate Director, Division of Community Development, DHCD Ms. Ambrose assures that grant programs, while meeting federal and state requirements, are innovative and responsive to clients' needs. Ms. Ambrose's Office focuses on high levels of collaboration and technical assistance with clients when projects are in the development stage, and manages the human, fiscal and programmatic resources of the office to target rural community development efforts.

Denise has worked in Community Development for 25 years. She was employed as a Community Development Director in New Jersey and has been with DHCD since 1981, beginning as a Community Representative, working as a Program Manager, and currently serving as an Associate Director.

She is a trained facilitator and has recently been closely involved in bringing an outcome funding focus in design and implementation to both the ARC and CDBG Programs. In addition, she has worked alongside the Deputy Director to initiate the development of The Crooked Road: Virginia's Heritage Music Trail and 'Round the Mountain: Southwest Virginia's Artisan Network. Ms. Ambrose can be reached at 804-371-7061 or Denise.Ambrose@dhcd.virginia.gov.

Chris Thompson, Project Manager, Division of Community Development
Chris can be reached at 804-371-7056 or Chris.Thompson@dhcd.virginia.gov.

(9) Projected Start Date: Applications will be accepted on a rolling-basis beginning January 30, 2009.

(10) Projected End Date: Applications will be accepted through April 3, 2009 or until all funds have been committed. Proposals submitted within that timeframe that are found to be deficient may be revised and resubmitted by May 3, 2009.

(11) Specific Activity Requirements:

For acquisition activities, include:

- discount rate

Properties acquired with Virginia NSP funds will be required to be purchased at least at a 15 percent discount from the current appraised market price.

All properties, regardless of source of acquisition funding, must achieve a discount of at least 5 percent.

For financing activities, include:

- range of interest rates

VHDA is able to provide mortgage financing to first-time homebuyers who purchase foreclosed homes made available through local NSP programs. VHDA can offer financing through the FHA Plus program which provides an FHA-insured first mortgage at 97% loan-to-value ratio combined with a VHDA 2nd mortgage covering down payment and closing costs up to a maximum combined loan-to-value of 105%.

Subrecipients will be required to ensure that homebuyers obtain a mortgage loan from a lender who agrees to comply with the bank regulators' guidance for non-traditional mortgages.

Subrecipients must ensure that each Virginia NSP assisted homebuyer receive and complete at least eight hours of homebuyer counseling from a HUD-approved housing counseling agency before obtaining a mortgage loan. Where possible, subrecipients are expected to identify partners that can bring homeownership resources to bear instead of relying on Virginia NSP funds. If necessary, utilization of Virginia NSP funds for

homeownership counseling will be considered, however, only to the extent that funds are targeted for delivery of services to a qualified, eligible client that is intent on purchasing a home in a NSP-targeted neighborhood. Funds cannot be used for provision of general homeownership counseling.

For housing related activities, include:

- duration or term of assistance;
- tenure of beneficiaries--rental or homeownership;
- a description of how the design of the activity will ensure continued affordability

As discussed in *Section C*, DHCD will ensure continued affordability by requiring that all loans be secured by a Deed-of-Trust. The nature of equity at resale, continued affordability, and future income to the Virginia NSP must be addressed and approved by DHCD.

Existing Virginia CDBG program policies will be used as a model for development of a Virginia NSP Grant Management manual that will provide specific guidance, regulations, and sample documents for use by Virginia NSP subrecipients. HOME standards will be used to establish minimum affordability standards.

(1) Activity Name: **Planning Grant Program**

(2) Activity Type: Planning and project development. To be funded from administrative funds.

(3) National Objective: N/A – to be funded from administrative funds.

(4) Activity Description:

Include a narrative describing the area of greatest need that the activity addresses; the expected benefit to income-qualified persons; and whether funds used for this activity will be used to meet the low income housing requirement for those below 50% of area median income.

DHCD will reserve \$250,000 to fund Planning Grants. Up to \$25,000 for projects targeting one locality or up to \$40,000 for regional projects is available to local governments, Planning District Commissions, Housing Authorities, and non-profit organizations for Planning Grants to assist with identification of properties and determination of ownership, prioritization of neighborhoods, securing the participation of owners and negotiation of discounts, identification and development of qualified homebuyers who are interested in living in the targeted neighborhood, development of criteria for eligible home buyers, and identification of a strategy for delivery of homeownership training / counseling.

Planning Grant activities can be completed in a short time and will better prepare communities that may have been impacted by the foreclosure crisis but have not yet developed a plan to address this problem. Planning grants will provide resources necessary for communities to identify and prioritize target neighborhoods, determine ownership status and appropriate contacts for the properties, initiate negotiation for property acquisition, assess the condition and rehab needs, identify necessary partners to assist with implementation (client identification, counseling, mortgage resources, disposition), along with other activities necessary to implement the NSP. Applicants will have up to three months to complete all required activities and **must** submit a Competitive application (described later). **Failure to submit an application will result in the withholding of Planning Grant funds in excess of \$5,000.** Without the assistance of Planning Grant funds, many impacted communities that need help will not be able to develop the capacity or expertise necessary, leaving large pockets of unmet need throughout Virginia.

Towns are expected to apply for funding through the County in which they are located. However, a Town may request permission to apply directly if the County will not support the Town's efforts.

Subrecipients must complete a Project Management Plan based upon its approved proposal and DHCD Contract Negotiation conditions. The plan shall constitute the basis for its NSP contract. The contract will be dated and issued upon receipt of an acceptable plan.

(5) Location Description: See *Open Submission Program* description.

(6) Performance Measures (e.g., units of housing to be acquired, rehabilitated, or demolished for the income levels of households that are 50 percent of area median income and below, 51-80 percent, and 81-120 percent).

(7) Total Budget: Funding for Planning Grants is derived by utilizing up to \$250,000 of administrative funds, to be split evenly between the amount available for the State of Virginia and subrecipients.

(8) Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)

See *Open Submission Program* description

(9) Projected Start Date: Applications will be accepted on a rolling basis beginning January 15, 2009.

(10) Projected End Date: Applications will be accepted through February 20, 2009 or until all funds have been committed.

(11) Specific Activity Requirements:

DHCD will develop a checklist of expected outcomes that must be achieved. This checklist will be used to measure how successfully the applicant met the requirements of the program.

(1) Activity Name: **Competitive Application Program**

(2) Activity Type: All NSP activities will be eligible and open for consideration. This includes:

- *Establishing financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-second, loan loss reserves, and shared-equity loans for low- and moderate-income homebuyers*
- *Purchasing and rehabilitating homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties*
- *Establishing land banks for homes that have been foreclosed upon*
- *Demolishing blighted structures*
- *Redeveloping demolished or vacant properties*

Please note the first two items are considered priorities for the Virginia NSP.

(3) National Objective: Activities funded through this program will benefit individuals at or below 120 percent area median income.

(4) Activity Description:

The Competitive round will allow those interested applicants that were not in a position to apply in the *Open Submission Program* but will still serve areas of great need in Virginia the opportunity to receive funding.

Projects targeting neighborhoods in an **individual** locality will be eligible for up to \$2.0 million. Eligible applicants include units of local governments, non-profit organizations, Planning District Commissions, and Housing Authorities. Projects of this nature may serve up to three neighborhoods per project / application provided that a significant impact can be expected in each of the neighborhoods.

Applicants seeking to serve multiple localities may submit a **regional** application. Under this project type, up to \$4.0 million will be available per proposal, with not more than two neighborhoods allowed per locality.

Applicants are strongly encouraged to target at least 25 percent of the NSP funds to serve individuals or families whose incomes do not exceed 50 percent of the area median income. Applicants should seek out partners with prior experience in serving this target

group as part of their pre-application process. This can be accomplished through strategies that address supportive housing, special needs housing, low-income homeownership, and the provision of rental units that keep within the character of the neighborhood. Projects that do not meet this threshold may have a reduced award offer. Should DHCD need to reduce an award offer because funds will not be utilized to meet this 25 percent targeting, those funds will be set-aside as a 25/50 supplement in the *Performance Pool*.

To ensure that funds are being spent efficiently, DHCD reserves right to recapture funds after six months from the effective contract date if sufficient progress has not made. As part of its monitoring practice, a review after four months will be conducted to be followed with 60-day period for corrective action, if necessary.

Detailed submission requirements will be developed and disseminated through a Request for Proposals and discussed at a How-to-Apply workshop. Proposals will be evaluated based on 1) Need; 2) Impact; 3) Readiness; 4) Capacity; and 5) Leveraging. Proposals must clearly demonstrate the potential for impact. DHCD has the right to revise and negotiate project activities based on the proposed impact.

Subrecipients must complete a Project Management Plan based upon its approved proposal and DHCD Contract Negotiation conditions. The plan shall constitute the basis for its NSP contract. The contract will be dated and issued upon receipt of an acceptable plan.

(5) Location Description: As stated in *Section B*, funds will be targeted to proposals that clearly identify neighborhoods that demonstrate a significant need and the ability to significantly impact and stabilize the proposed project area. DHCD will provide data resources and guidance to assist with targeting need but ultimately, applicants will be responsible for prioritizing neighborhoods and developing an implementation strategy.

(6) Performance Measures (e.g., units of housing to be acquired, rehabilitated, or demolished for the income levels of households that are 50 percent of area median income and below, 51-80 percent, and 81-120 percent).

- 18 properties to be rehabbed and sold / rented to a client at or below 50 percent AMI
- 20 properties to be rehabbed and sold / rented to a client at or between 51-80 percent AMI
- 28 properties to be rehabbed and sold / rented to a client at or between 81-120 percent AMI

The number of properties to be address by the NSP and related funding will significantly increase the prospect of unrelated private investment and increase property values.

(7) Total Budget: Up to \$10 million has been reserved for the competitive application program.

Presently, DHCD has spoken to representatives from Virginia Housing Development Authority (VHDA) and Virginia Community Capital (VCC). Both entities are very interested in providing resources for this program, including mortgage financing from VHDA and funds for acquisition from VCC. Both entities are expected to be strong partners in this program.

An applicant's ability to leverage funds will be evaluated carefully and will be a significant consideration when evaluating proposals. Additionally, applicants are expected to establish partnerships that will provide additional leveraged resources and provide for better service delivery.

Example 1: During proposal reviews, two similar projects are evaluated. Both projects intend to acquire, rehabilitate, and sell properties to qualified clients. One proposal intends to only use Virginia NSP funds for completion of these activities. The second proposal has secured funds for acquisition from the local community bank and has identified a non-profit partner who will provide homeownership counseling and has an established homeownership program that includes an Individual Development Account program to provide downpayment assistance.

The second proposal would rate more effectively since other resources have been leveraged, allowing Virginia NSP funds to be available for use for other projects.

Example 2: A proposal is received that targets a neighborhood of 200 homes, of which 20 are foreclosed properties. Of the 20 foreclosed properties, the applicant proposes to address 8 through the Virginia NSP.

Another proposal targeting a neighborhood of 40 homes is also received. Of the 40 homes, 18 have been foreclosed on. The proposal intends to address 12 through the Virginia NSP.

In this example, with other factors being similar, the second proposal would rate more effectively since there is a larger percentage of homes being addressed and because the potential to demonstrate impact is greater.

(8) Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)

See *Open Submission Program* description.

(9) Projected Start Date: The competition deadline is June 1, 2009, with contract negotiations to be held beginning by July 15, 2009.

(10) Projected End Date: Same as above.

(11) Specific Activity Requirements:

For acquisition activities, include:

- discount rate

Properties acquired with Virginia NSP funds will be required to be purchased at least at a 15 percent discount from the current appraised market price. All properties, regardless of source of acquisition funding, must achieve a discount of at least 5 percent.

For financing activities, include:

- range of interest rates

VHDA is able to provide mortgage financing to first-time homebuyers who purchase foreclosed homes made available through local NSP programs. VHDA can offer financing through the FHA Plus program which provides an FHA-insured first mortgage at 97% loan-to-value ratio combined with a VHDA 2nd mortgage covering down payment and closing costs up to a maximum combined loan-to-value of 105%.

Subrecipients will be required to ensure that homebuyers obtain a mortgage loan from a lender who agrees to comply with the bank regulators' guidance for non-traditional mortgages.

Subrecipients must ensure that each Virginia NSP assisted homebuyer receive and complete at least eight hours of homebuyer counseling from a HUD-approved housing counseling agency before obtaining a mortgage loan. Where possible, subrecipients are expected to identify partners that can bring homeownership resources to bear instead of relying on Virginia NSP funds. If necessary, utilization of Virginia NSP funds for homeownership counseling will be considered, however, only to the extent that funds are targeted for delivery of services to a qualified, eligible client that is intent on purchasing a home in a NSP-targeted neighborhood. Funds cannot be used for provision of general homeownership counseling.

For housing related activities, include:

- duration or term of assistance;
- tenure of beneficiaries--rental or homeownership;
- a description of how the design of the activity will ensure continued affordability

As discussed in *Section C*, DHCD will ensure continued affordability by requiring that all loans be secured by a Deed-of-Trust. The nature of equity at resale, continued affordability, and future income to the Virginia NSP must be addressed and approved by DHCD.

Existing Virginia CDBG program policies will be used as a model for development of a Virginia NSP Grant Management manual that will provide specific guidance, regulations,

and sample documents for use by Virginia NSP subrecipients. HOME standards will be used to establish minimum affordability standards.

(1) Activity Name: **Performance Pool Program**

(2) Activity Type: All NSP activities will be eligible and open for consideration. This includes:

- *Establishing financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-second, loan loss reserves, and shared-equity loans for low- and moderate-income homebuyers*
- *Purchasing and rehabilitating homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties*
- *Establishing land banks for homes that have been foreclosed upon*
- *Demolishing blighted structures*
- *Redeveloping demolished or vacant properties*

Please note the first two items are considered priorities for the Virginia NSP.

(3) National Objective: Activities funded through this program will benefit individuals at or below 120 percent area median income.

(4) Activity Description:

DCHD will utilize a Performance Pool to distribute unobligated funds, recaptured funds, and Program Income (with the first priority on the use of unobligated funds).

The Performance Pool is designated for use by *high performers*—entities that previously received NSP funds and have demonstrated the ability to spend these funds in a quick, responsible, and efficient manner. This method provides an incentive for NSP recipients to act swiftly in order to access additional funds. The Performance Pool will be available to the Counties of Fairfax and Prince William should those localities demonstrate a need for additional resources, demonstrate they can meet the standards developed for the state NSP, and have performed to a satisfactory level with their direct allocation.

This funding is not intended to address new areas of need; instead, these funds are to be used by those entities that have already demonstrated success in implementing the Virginia NSP. The Performance Pool will accelerate the expenditure of NSP funds by providing an incentive for high producers—subgrantees that can spend funds quicker and in a more efficient manner are able to access more funds for continued activities. This concept also provides a check and balance for the NSP program—subgrantees are limited in the amount that can be requested through the Open Submission and Competitive programs, thereby providing a safeguard of not allocating too much up front to an entity

that may have difficulty in meeting performance targets, while also providing the opportunity to request and spend above the maximum by rewarding achievement. Again, only subgrantees that have demonstrated the capacity and ability to implement the NSP through prior awards can access the Performance Pool.

Should there be an instance where an applicant's proposal in the Competitive or Open Submission Round was not funded but still demonstrated a strong need for assistance, DHCD reserves the right to work with the applicant to address deficiencies and subsequently offer funding through the Performance Pool. This will only happen on exceptional, cases-by-case situations where it is apparent that a community would significantly benefit from NSP funding and where the applicant can address weaknesses that were noted during proposal review.

DHCD reserves the right open competition to new applicants or neighborhoods should the amount of funds in the Performance Pool exceed the projected rate of expenditure by active projects. DHCD may obligate funds or access to the Performance Pool to localities which have experienced a significant increase in eligible properties subsequent to the Competitive Round.

Applicants are strongly encouraged to target at least 25 percent of the NSP funds to serve individuals or families whose incomes do not exceed 50 percent of the area median income. DHCD will regularly review progress in meeting the 25 percent targeting requirement. If this threshold is not being met, DHCD reserves the right to limit use of Performance Pool funds to activities that meet this requirement.

In instances where an applicant's request for funding was reduced due to the inability to meet the 25/50 requirement, those funds will be placed in a separate Reserve Pool allocation. Those funds will only be available for requests that will meet the 25/50 requirement.

Subrecipients must complete a Project Management Plan based upon its approved proposal and DHCD Contract Negotiation conditions. The plan shall constitute the basis for its NSP contract. The contract will be dated and issued upon receipt of an acceptable plan.

(5) Location Description: As stated in *Section B*, funds will be targeted to proposals that clearly identify neighborhoods that demonstrate a significant need and the ability to significantly impact and stabilize the proposed project area. DHCD will provide data resources and guidance to assist with targeting need but ultimately, applicants will be responsible for prioritizing neighborhoods and developing an implementation strategy.

(6) Performance Measures (e.g., units of housing to be acquired, rehabilitated, or demolished for the income levels of households that are 50 percent of area median income and below, 51-80 percent, and 81-120 percent).

- 9 properties to be rehabbed and sold / rented to a client at or below 50 percent AMI

- 9 properties to be rehabbed and sold / rented to a client at or between 51-80 percent AMI
- 13 properties to be rehabbed and sold / rented to a client at or between 81-120 percent AMI

The number of properties to be address by the NSP and related funding will significantly increase the prospect of unrelated private investment and increase property values.

(7) Total Budget: While the initial balance is expected to be approximately \$4.8 million (Total Allocation minus administrative funds, minus Open Submission reservation, minus Competitive Round reservation), this amount is expected to grow significantly due Program Income funds that are generated.

Presently, DHCD has spoken to representatives from Virginia Housing Development Authority (VHDA) and Virginia Community Capital (VCC). Both entities are very interested in providing resources for this program, including mortgage financing from VHDA and funds for acquisition from VCC. Both entities are expected to be strong partners in this program.

An applicant's ability to leverage funds will be evaluated carefully and will be a significant consideration when evaluating proposals. Additionally, applicants are expected to establish partnerships that will provide additional leveraged resources and provide for better service delivery.

(8) Responsible Organization: (Describe the responsible organization that will implement the NSP activity, including its name, location, and administrator contact information)

See *Open Submission Program* description.

(9) Projected Start Date: Proposals will be accepted beginning June 1, 2009.

(10) Projected End Date: The program will remain open until all funds have been committed. Program Income, recaptured funds, and unobligated funds will be added as available.

(11) Specific Activity Requirements:

For acquisition activities, include:

- discount rate

Properties acquired with Virginia NSP funds will be required to be purchased at least at a 15 percent discount from the current appraised market price. All properties, regardless of source of acquisition funding, must achieve a discount of at least 5 percent.

For financing activities, include:

- range of interest rates

VHDA is able to provide mortgage financing to first-time homebuyers who purchase foreclosed homes made available through local NSP programs. VHDA can offer financing through the FHA Plus program which provides an FHA-insured first mortgage at 97% loan-to-value ratio combined with a VHDA 2nd mortgage covering down payment and closing costs up to a maximum combined loan-to-value of 105%.

Subrecipients will be required to ensure that homebuyers obtain a mortgage loan from a lender who agrees to comply with the bank regulators' guidance for non-traditional mortgages.

Subrecipients must ensure that each Virginia NSP assisted homebuyer receive and complete at least eight hours of homebuyer counseling from a HUD-approved housing counseling agency before obtaining a mortgage loan. Where possible, subrecipients are expected to identify partners that can bring homeownership resources to bear instead of relying on Virginia NSP funds. If necessary, utilization of Virginia NSP funds for homeownership counseling will be considered, however, only to the extent that funds are targeted for delivery of services to a qualified, eligible client that is intent on purchasing a home in a NSP-targeted neighborhood. Funds cannot be used for provision of general homeownership counseling.

For housing related activities, include:

- duration or term of assistance;
- tenure of beneficiaries--rental or homeownership;
- a description of how the design of the activity will ensure continued affordability

As discussed in *Section C*, DHCD will ensure continued affordability by requiring that all loans be secured by a Deed-of-Trust. The nature of equity at resale, continued affordability, and future income to the Virginia NSP must be addressed and approved by DHCD.

Existing Virginia CDBG program policies will be used as a model for development of a Virginia NSP Grant Management manual that will provide specific guidance, regulations, and sample documents for use by Virginia NSP subrecipients. HOME standards will be used to establish minimum affordability standards.

ATTACHMENT I

The following minimum housing standards will be utilized for implementation of rehabilitation activities funded through the Virginia NSP Program.

Housing Quality Standards in DHCD Housing Rehabilitation Programs

July 1, 2007

I. General

The eligibility of all rehabilitation work must be documented by the DHCD Section 8 Checklist.

Replacement of appliances, fixtures and housing components may take place **only** after it has been documented that repair is not possible or cost effective.

All work must relate to the health, safety, and energy efficiency of the household, and must be cost effective.

No cosmetic or incipient violation improvements shall be made.

All houses shall be inspected using this checklist by **both** the Project Administrator and the Rehab Specialist. The checklist must be signed by **both** the Project Administrator and the Rehab Specialist.

All work to be performed shall be reviewed for eligibility, prior to bidding construction or approval of change orders, by the Project Administrator.

The condition of the house after rehabilitation must comply with the minimum standards set forth here.

II. Preliminary Inspection Procedures

The Rehabilitation Specialist shall use DHCD's Section 8 Field Inspection Checklist to review and determine the need and eligibility of rehab work to be done on each house.

All work specified in the work writeup must relate to a specific violation cited on the Checklist.

All violations noted in the Checklist must be addressed by repairs in the writeup.

Where replacement of components is specified, the justification must be provided in the "Comments" column of the Checklist and, if relevant, documentation must be attached.

The Rehab Specialist should conduct the inspection in a routine manner consistent in each house.

Inspections must be conducted "room by room" and by major component. The inspection must include the exterior, yard, roof, chimney, attic, basement or crawl space, and out buildings.

The electrical system must be inspected by a licensed Journeyman, certified by the Virginia Department of Professional and Occupational Regulation (DPOR), who is independent from the contractor doing electrical work, or by a Building Official certified by DHCD to do electrical inspections.

All houses must be inspected by a professional exterminator for infestation of wood-boring insects, vermin and roaches, and be treated if infested.

Certifications of thorough chimney inspection and of Blower Door test and weatherization measures are required by the Rehab Specialist.

Housing built prior to 1978 will be presumed to contain lead-based paint (LBP). All repairs will be designed (upon recommendation of a DPOR licensed Risk Assessor) to eliminate LBP hazards using interim control measures, more specifically *standard treatments*, and the house must pass a Clearance Examination as documented by the Risk Assessor.

III. DHCD Section 8 Standards

A. Living Room and Bedrooms

- 1. Electrical:** The living room must be free of electrical hazards (uncovered outlets, bare or exposed wire, or overloaded extension cords). Circuits and outlets must be able to carry the proposed load. At least two duplex outlets must be properly installed. Permanent light bulbs and switches must be covered by appropriate fixtures.
- 2. Security:** All doors and windows which are accessible from the ground must be equipped with a properly-working locking device.
- 3. Windows:** At least one operable window must be present in living room and bedrooms. All windows must form a reasonably tight weather seal, be free of signs of severe deterioration, be able to be opened and closed by the occupant (if so designed) and be free of missing or broken (not cracked) panes.

All non-passable windows must be repaired rather than replaced unless it is demonstrated that repair will exceed 75% of replacement cost.

4. **Walls and Ceilings:** All walls and ceilings in habitable areas of the dwelling must be free of severe damage from friction, impact, moisture, insects, or fatigue. Any holes, unkeyed surfaces, severe buckling, or structural weakness must be repaired. Doorstops must be installed at each doorway to prevent wall impact at the knob.

All non-passable walls and ceilings must be repaired, rather than replaced, unless more than 40% of surface area is damaged or structurally unstable.

5. **Floors:** Floors must be structurally sound, able to withstand normal walking and stationary loads without buckling or bouncing, and contain no holes or damaged or missing structural parts.

Carpeting may only be installed if flooring must be replaced and carpeting will be laid directly upon sub-flooring.

6. **Paint/Surface Treatment:** Repaired or replaced surfaces may be finished or painted to match surrounding surfaces. Where existing surfaces are significantly damaged (scaled paint, exposed subsurface), the surface treatment shall be as follows:

- a. Where children aged 6 years and under are present, contractor shall wet scrape all loose paint and/or cover with a cost-efficient covering using interim control measures as identified in the "Lead Safe Work Practices" course required of all contractors.
- b. Where the sole inhabitants are handicapped and/or 65 years of age or older, contractor shall prepare surface appropriately and cover with cost-efficient covering.
- c. Where an able-bodied person between the ages of 16 and 65 is present, and no child aged 6 or under is present, the family shall be provided with sufficient paint to repaint.

7. **Smoke Detector:** At least one working hard-wired and one battery- operated smoke detector must be permanently installed at a location audible to occupants of all sleeping rooms in the event of fire.

B. Kitchen

A separate room or a definitive area for storage and preparation of food must be present.

- 1. Electrical:** There must be at least two working outlets and one working, permanently-installed light fixture.

The kitchen must be free of electrical hazards (uncovered outlets, bare or exposed wire, overloaded extension cords). Circuits and outlets must be able to carry the proposed load. GFI outlets are required within 6ft. of the sink.

Permanent light bulbs, outlets and switches must be covered by appropriate fixtures.

- 2. Security:** All doors and windows which are accessible from the ground must be equipped with a properly-working locking device.
- 3. Windows:** If present at least one operable window must open in the kitchen. All windows must form a reasonably tight weather seal, be free of signs of severe deterioration, be able to be opened and closed by the occupant (if so designed), and be free of missing or broken (not cracked) panes.

All non-passable windows must be repaired rather than replaced unless it is demonstrated that repair will exceed 75% of replacement cost.

- 4. Walls and Ceilings:** All walls and ceilings in habitable areas of the dwelling must be free of severe damage and be protected from friction, impact, moisture, insects, or fatigue. Contractor shall provide water proof and grease proof treatment where needed. Any holes, unkeyed surfaces, severe buckling, or structural weakness must be repaired. Doorstops must be installed at each doorway to prevent wall impact at the knob.

All non-passable walls and ceilings must be repaired, rather than replaced, unless more than 40% of surface area is damaged or structurally unstable.

- 5. Floors:** Floors must be structurally sound, able to withstand normal walking and stationary loads without buckling or bouncing, and contain no holes or missing structural parts.

Kitchen flooring must be easily cleanable and resistant to water damage.

Linoleum is acceptable for flooring which does not pass.

New carpeting cannot be installed.

- 6. Stove:** Kitchens must be equipped with a stove which has at least two top burners. All top burners must work and be controlled by knobs to turn them off and on.

The stove must contain an oven which is capable of baking food at 400°F.

Stove shall be free of any gas leaks or electrical hazards and be equipped with an oven door which opens and closes properly.

The kitchen shall have a properly-functioning and ventilated range hood.

- 7. Refrigerator:** Kitchens must be equipped with a refrigerator which is adequately sized for the number of persons in the household. The refrigerator must be able to maintain a temperature of 40°F or lower. It must be equipped with a sealed door which opens and closes properly.

The maximum size for new refrigerators shall be: 14 cubic feet for 1-4 persons; and 17 cubic feet for 5 or more persons.

- 8. Sink:** Kitchens must have a permanently-affixed sink with hot and cold running water from a faucet, and a properly-working and connected drain with a gas trap.

Must have a hot and cold shut-off valve which is accessible.

No rust below rim level.

Sink must be free of defects such as leaking faucet, slow drain, missing or broken stopper, or improper venting.

- 9. Space for Storage and Preparation of Food:** Kitchen shall have permanently space for the preparation and storage of food.

A minimum of 6 linear feet (LF) of enclosed base and wall cabinet space is required for 1 to 3 persons.

A minimum of 8 LF of enclosed base and wall cabinet space is required for 4 or more persons.

A minimum of 6 LF of surface area at least 18 inches deep shall be affixed for food preparation.

If new cabinets are necessary, they shall not exceed the minimums provided herein.

Shelving, cabinet doors, drawers and hardware must function properly.

C. Bathroom An enclosed bathroom with a solid, hinged, and lockable door shall be present and accessible without traversing another person's bedroom.

- 1. Electrical:** There must be at least one outlet and one permanently- installed light fixture. Outlets must be GFI. Outlets, fixtures and switches must be properly covered. Room shall be free of electrical hazard.

If a new bathroom is to be installed, it must be installed in existing interior space, if possible.

- 2. Walls and Ceilings:** All walls and ceilings in habitable areas of the dwelling must be free of severe damage and be protected from friction, impact, moisture, insects, or fatigue. Contractor shall provide waterproof wall treatment where needed. Any holes, unkeyed surfaces, severe buckling, or structural weakness must be repaired. Doorstops must be installed at each doorway to prevent wall impact at the knob.

All non-passable walls and ceilings must be repaired, rather than replaced, unless more than 40% of surface area is damaged or structurally unstable.

- 3. Floors:** Floors must be structurally sound, able to withstand normal walking and stationary loads without buckling or bouncing, and contain no holes or damaged or missing structural parts.

Kitchen flooring must be easily cleanable and resistant to water damage.

Linoleum is acceptable for flooring which does not pass.

Carpeting cannot be installed.

- 4. Sink:** Bathrooms must have a permanently-affixed sink with hot and cold running water from a faucet and a properly working and connected drain with a gas trap.

Must have a hot and cold shut-off valve which is accessible.

Sink must be free of defects such as leaking faucet, slow drain, missing or broken stopper, or improper venting.

- 5. Toilet:** Bathroom must have a toilet connected to an approved disposal system which is not clogged. No water leakage or escape of gases shall occur.

Must have a shut off valve which is accessible.

Constant running or slow draining shall be repaired.

If there is broken or cracked porcelain, the toilet shall be replaced.

- 6. Tub or Shower:** A tub and or shower with hot and cold water running properly. Functioning handles, faucet, trap and drain must be present.

Tub shall have functioning stopper and anti-back siphonage drain.

Repair if leaking, poor pressure, improper venting or trapping.

Replace if porcelain is broken.

Shower shall have rod and curtain, or door.

- 7. Ventilation:** There must be an operable window in good repair, or a working mechanical vent system.

- 8. Storage:** An enclosed medicine cabinet is required.

- 9. Handicapped Accessibility:** If an occupant is physically handicapped or elderly, relevant improvements to make fixtures and accessories accessible must be made.

Grab bars for toilet and tub must be sized to carry full body weight and be permanently affixed to wall studs. Insulation around exposed hot water pipes and drains must be installed for persons in wheelchairs.

D. Rooms Other than Living Room and Permanently Used Bedrooms:

If a room is not used for normal living functions on a daily basis, repairs or improvements may not be made except for repairs to conditions which threaten the viability of the structure, the condition of other rooms, or the health and safety of occupants.

E. Other Rooms Used Daily (Must be Specified):

- 1. Electrical:** The room must be free of electrical hazards (uncovered outlets, bare or exposed wire, overloaded extension cords). Circuits and outlets must be able to carry the proposed load.

Permanent light bulbs and switches must be covered by appropriate fixtures.

If a room is necessary for ingress/egress, a permanently-installed light fixture is required.

- 2. Security:** All doors and window which are accessible from the ground must be equipped with a properly-working locking device.

3. **Windows:** Windows must be operable. All windows must form a reasonably-tight weather seal, be free of signs of severe deterioration, be able to be opened and closed by the occupant (if so designed), and be free of missing or broken (not cracked) panes.

All non-passable windows must be repaired rather than replaced unless it is demonstrated that repair will exceed 75% of replacement cost.

4. **Walls and Ceilings:** All walls and ceilings in habitable areas of the dwelling must be free of severe damage from friction, impact, moisture, insects, or fatigue. Any holes, unkeyed surfaces, severe buckling, or structural weakness must be repaired. Doorstops must be installed at each doorway to prevent wall impact at the knob.

All non-passable walls and ceilings must be repaired, rather than replaced, unless more than 40% of surface area is damaged or structurally unstable.

5. **Floors:** Floors must be structurally sound, able to withstand normal walking and stationary loads without buckling or bouncing, and contain no cracks or damaged or missing structural parts.

Carpeting may only be installed if flooring must be replaced and carpeting will be laid directly upon sub-flooring.

6. **Paint/Surface Treatment:** Repaired or replaced surfaces may be finished or painted to match surrounding surfaces. Where existing surfaces are significantly damaged (scaled paint, exposed subsurface), the surface shall be as follows:

- a. Where children aged 6 years and under are present, contractor shall wet scrape all loose paint and/or cover with a cost-efficient covering using interim controls as identified in the "Lead Safe Work Practices" course required of all contractors.
- b. Where the sole inhabitants are handicapped and/or 65 years of age or older, contractor shall prepare surface appropriately and cover with cost-efficient covering.
- c. Where an able-bodied person between the ages of 16 and 65 is present, and no child aged 6 or under is present, the family shall be provided with sufficient paint to repaint.

F. Building Exterior

1. **Foundation:** Foundation must be structurally capable of supporting the entire house. It must be enclosed with skirting or masonry units, vented, and capable of keeping water from under the structure and free from hazards.

Replacement must be made only if it is documented that significant structural damage is present which would make repair not possible or cost effective.

- 2. Stairs, Rails and Porches:** Stairs, porches, balconies and decks must be free of severe structural defects or missing and broken boards or steps.

A secure handrail shall be present on a run of steps with four or more risers, and around a porch or balcony more than 30 inches above the ground.

No porch may be repaired where the cost of repairs will exceed 75% of the cost of replacement. Replacement or new porches shall not exceed 25 square feet.

Decks or balconies may not be built or replaced.

- 3. Roof and Gutters:** Roof shall be free of serious defects such as buckling, serious sagging, holes, leaks, unkeyed or curling shingles, or missing roofing elements such as shingles, underlayment, flashing and sufficient joists.

Gutters, downspouts, soffit and fascia shall be free of defects which allow water, air or vermin into the interior of the structure, or to damage the surface or foundation of the structure.

- 4. Exterior Siding:** The exterior of the structure shall be completely covered by suitable weatherproof materials which have a surface treatment which adequately protects against water damage. Siding materials shall be free of major material defects and be properly secured to framing members.

Where wood siding is present with inadequate, degraded or seriously peeling paint, the entire house may be repainted using interim control measures as needed to protect occupants and workers from lead paint hazards. If less than 25% of existing siding needs to be replaced, the exterior shall be repaired with similar siding materials.

If more than 25% of the existing siding material needs to be replaced, the nature and extent of the damage must be documented and vinyl or other cost-effective siding may be installed.

- 5. Chimney:** All chimneys must be adequately lined and secure, with no unkeyed or loose structural members. All missing or loose mortar joints shall be repaired. Draft, dampers, flaking and blockage shall be inspected. Rehab Specialist shall certify inspection of all components, including a roof and attic inspection.

6. **Mobile Home Tie Downs:** All mobile homes must be secured by properly placed and installed tie downs.
7. **Handicapped Accessibility:** If physically handicapped or elderly persons with limited mobility are present, the exterior must provide for relevant accessibility from the street or parking areas to the interior of the structure.

Examples include: sidewalk or ramp no more than a 1-inch to 1-foot rise in slope from street or parking to point of entry. Railing along sidewalk or ramp, door threshold flush with internal and external entry/egress surface. Door handle which can be pulled rather than turned.

G. Heating and Plumbing

1. **Heating Equipment:** Heating equipment shall be safe, free of defects, able to heat the entire living area to 70°F, at 0°F outside temperature, and cost effective as compared to other heating sources.

Heaters using fossil fuels shall be properly vented to the exterior. Fossil fuel heaters shall have an emergency cutoff which is accessible, with its use and location familiar to occupants. No unvented space heaters using fossil fuels shall be necessary or present.

2. **Electric baseboard heating shall not be installed** unless it is documented that it is justified by long term cost efficiency, is acceptable to residents, and is easily turned off and on by the current occupants.
3. **Ventilation:** The entire living area shall have adequate cross ventilation and cooling by means of operable windows.
4. **Water Heater:** A water heater with all components in working condition, which does not leak and is capable of heating water to 120°F, shall be present.

The heater shall have a temperature pressure relief valve and discharge line directed toward the floor or outside the living area.

If replacement is necessary, a **40-gallon heater** shall be installed in a non-daily living area, or be enclosed.

5. **Water Source/Sewer Discharge:** The plumbing system shall be legally served by an approved water source with full-flow shut-off valve and approved discharge and sewage disposal system.
6. **Plumbing:** Main water feed and drain pipes shall be free from leaks and delivered water free from discoloration and odor.

H. General Health and Safety

1. **Access/Exits:** The living area must have two safe and easily-accessible points of access and exit which current occupants may use.

Door exits must be illuminated.

Access doors must be solid and lockable.

2. **Infestation:** The property must be inspected by a licensed exterminator. If infestation is discovered, treatment must be provided for thorough extermination.

Any seriously-damaged structural elements must be repaired.

All openings to exterior must be properly covered with framed insect screening.

Any access routes for rodents or other vermin must be permanently closed.

3. **Garbage and Debris:** All debris, junk, inoperable vehicles and appliances, and dilapidated structures on the exterior of the property shall be removed to a legally-acceptable location outside of the neighborhood prior to the initiation of rehabilitation.

The household shall be responsible for any and all physical removal that they are physically able to accomplish.

All debris, garbage, and accumulated belongings not necessary for daily living shall be removed from the living area by the household (if physically able) prior to rehabilitation.

The property shall have at least one 30-gallon trash container in good condition. If more than 3 persons inhabit the property, a second 30-gallon trash container shall be present.

I. Overcrowding

There must be an adequate sleeping room (passable bedroom or living room) for every two persons living full time in the household. However, no non-spousal persons of different gender may be required to share a sleeping room if both persons are 6 years of age or older.

J. Weatherization

All homes must be weatherized with at least R-38 ceiling insulation. All windows and doors must be caulked and weather-stripped.

Exterior doors must be equipped with a **storm door** unless a manufacturer's warranty will be voided on an entry door if the storm door is installed. In the case of a voided warranty, a screen door may be installed.

All homes must be tested before and after rehabilitation for air infiltration by means of a Blower Door. Air infiltration through sidewalls and bypasses must be mitigated where found. Weatherization measures should be designed to meet the minimum air flow of 1500 CFM or other standard based on square footage of the home and family size.

ATTACHMENT II

NEIGHBORHOOD STABILIZATION PROGRAM COMMENTS FROM OCTOBER 23, 2008 INPUT SESSION

GOALS OF NSP

1. Homeownership or Rental?

- Program should have a mix of target audiences, both homeowner and rental, and add a lease purchase option (lease with option to buy).
- Should not be restricted to either homeowner or rental as not everyone should be homeowners (at current situation) and a noted spike in the number of applicants not qualifying for homeownership. There needs to be flexibility, such as:
 - Rent to own
 - Service for special needs populations
 - Work with Habitat to reach 50% AMI requirements
 - Housing counseling, downpayment assistance, financial literacy
 - Transitional housing
- Individual markets may dictate whether there is potential for homeownership
- Bigger focus on rental, as rental needs to be included to meet 50% AMI requirement and problems finding buyers for assisted units will add to carrying costs

2. Options to Facilitate Homeownership?

- Lease /purchase option, down payment assistance, non-profit operated homebuyer clubs
- Maybe it should not target “first time” homeownership.
- Education of buyers is vital, as is post purchase counseling
- Assist those at 120%AMI for homeownership and partner with others for 50%AMI.
- Program has a bias towards homeownership.
- Need to protect the investment to protect against scams –shared equity , deed of trusts, no cash out.

3. Options to Identify Applicants?

- Existing homebuyer clubs or many localities have existing assistance programs in place
- Leverage programs like SPARC may have buyers identified
- Habitat for Humanity, Housing Authority, and housing counselors are able to identify candidates.
- Education, outreach, advertising on our programs is important.
- Timing issue of matching buyers with available properties will be the challenge.
- Poor credit of applicants and poor spending /debt behaviors make qualifying a challenge

4. Stabilization Options?

- Availability of resources - Acquisition is time consuming and larger organization have a greater ability to acquire property from banks from economy of scale
 - Property acquisition of bank owned property
 - Escheat sales, tax liens by locality, eminent domain, abandoned property is selectively purchased /demolished /taken
 - Rehab program should include energy efficiency improvements
 - Maintenance escrow
 - Rehab versus demolitions must be determined based on condition of property and cost or feasibility of rehab work
 - Land banking - good for long term plans or addressing a failed subdivision, some localities are hesitant to land bank or enter chain of title. Land banking and CLT's are a great opportunities but more information and TA is needed. CLT's build inventory and wealth for low-income individuals – only one CLT currently in Virginia
 - Issues /concerns about property acquisition:
 - Increased property value
 - Liens often exceed value of properties (could make program difficult)
 - Title problems
 - In high growth /high foreclosure rural regions it is important to have the opportunity to design local solutions and build the local housing resource infrastructure
 - Using existing programs from non-profits, look for partners to bring leverage money.
 - Down payment assistance – education very important
 - Holding costs for bad property maintenance from bank owners
 - Concern about timing of NSP grant announcements and coordination of local budget, local CDBG /HOME
 - Identifying foreclosures – Realty track, assessor's office, courts, economist real estate trends, foreclosure.com
 - GIS mapping – foreclosures and at risk
-

MEASURING NEIGHBORHOOD IMPACT

- Key is to have good data – choose an area ser outcomes and concentrate on meeting goals in order to make an impact and move to another area
- Concentrations in new developments or combination of old and new developments depending on the market
- Buyers ready to participate.
- Programs to address abandoned properties
- Long term affordability – covenants on property

- Long standing positive relationship with bank
- Limit/localities should be determined by localities - concentrate on specific areas
- Should not limit the number of neighborhoods
- Limit to number of neighborhoods per locality based on need
- There are concentrations in some communities, and some scattered properties
- Both old and new homes impacted, there is also an increase in tax delinquencies - problems also seen with refinanced properties
- Foreclosure rates are higher in more affluent areas
- Existing programs are limited mostly due to funding
- Should invest into established neighborhood investment areas, Neighborhoods in Bloom, etc.
- Success depends on condition of properties (rehab or demolish), historic value, blight abatement
- Condition of housing stock
 - Entry level homes, older homes
 - Combination of older and newer (90's) homes
 - Need for rehabilitation versus demo
- Existing programs
 - Abandoned property registry
 - Down payment assistance program funded through CDBG, HOME, general funds
 - City employee housing assistance program

ISSUES

- Not all localities have defined neighborhoods
- Not all foreclosures are clustered, some are scattered across localities
- If localities only get enough funding for a few units, the scale is not large to have a real impact
- Everyone's numbers /data are inconsistent
- How do we identify stakeholders needed to have an impact
- Every regions inventory and condition varies
- If all the funds are spread out across the state and then spread out across the locality, no real impact will be made.
- Concern if will be able to buy these properties below market rate. Have not experienced dramatic price fall, rapid sales increase.
- Banks don't feel need to discount in some regions

ALLOCATION OF FUNDS

- Special needs housing should be considered for 50%AMI
- Special needs requirement is restrictive. Could cost additional time and expenses
- Potential partners to leverage resources

- Habitat, Housing Authorities, CSB to target disabled
- If you already have partners, additional points should be awarded: non-profits and banks
- Private industry partners (banks) VHDA, FHA, Rural Development
- Establishing a developer's fee would help to engage the non-profit community
- Grant amounts should be based on the identification of needs with guidelines developed at the local level
- No fixed grant amount. Grant amount based on local needs determined by a combination of factors.
- Housing Authority should be able to receive funds directly from DHCD and PDC's should be eligible applicants
- How large of a program/project can be created? Major redevelopment project?
- What is meant by abandoned? Can program be used for commercial property? What are eligible projects?
- How much will be available per house?
- If non-profits etc. are to be applicants they should have support / coordination with locality. This will be an issue if the local government does not want to move forward and will veto the project
- Have one applicant as an umbrella to serve multiple localities
- In terms of applicants, need to look at accountability and capacity,
- Virginia Mortgage Bankers Association to help work through the discount negotiations
- NSP might limit mortgage holders willingness to discount - might have been willing to go lower before NSP
- Do local media release, give participating mortgages good PR.
- How program income is treated – which will impact the program design – will affect the impact of these funds.
- Work with HUD office on assessing capacity of locality in CDBG administration.
- 2 rounds preferred
- Is LMI area benefit allowed for 50% AMI? Would demo in a 50% AMI area count as a benefit?
- AMI's vary across the region – it is easier to meet the 25% requirements in an area where 50% AMI is \$60,000 versus \$15,000. Is it fair to punish a locality with fewer funds because residents make less?
- If a disabled /elderly person makes more than 50% AMI, do they count (as 50% AMI) because they are special needs?
- Financing mechanisms for interest rate buy downs
- Work with banks who own these properties, which can be labor intensive.
- Do we want to work with banks that made “bad” loan in the first place?
- Allocation should be on a rolling basis as project ideas are formed and become ready.

PROGRAM COMPONENTS

- The percentage of need met is not measureable.
- Yes, planning grants should be offered. But are planning grants feasible for an 18 month period? Planning grants may save money in long run. Planning grants should only be offered for small localities.
- Planning Grants are not needed as expertise should already be in place. Where do planning grants come from? Overall state admin or the localities admin based on what they receive? We would rather have admin.
- Administrative and Soft costs:
 - Admin, legal, appraise, survey, title, etc.
 - Should be 20% administrative. 10% is a challenge.
 - Staff (possibly new, short term employment); Complex new program to administer (time consuming)
 - Assessment / appraisal costs, evaluate which property to purchase, building condition evaluations
 - Literature
 - Post purchase counseling
 - Reporting costs
 - Front end fees/ soft costs
 - Pass through money to partners for property acquisition and holding
 - Carrying costs, utility, stabilization , taxes
 - Reasonable developer fee – 5%, 10%; 10% on rehab, 17% on rehab and new construction
- Census tracts for neighborhood for tracking and data collection purposes.
- Who determines neighborhood boundary? Defining neighborhood should be done by the locality. Neighborhoods don't match up with census tracts. Density, age of housing stock, demographics should be considered. Appropriate measures may be different in a rural area.
- Collaboration with non-profits, realtors, VHDA, other localities with successful programs
- Would be helpful to see model
 - programs
 - templates
 - web links
- Performance based is preferred. Performance based – needs to be sensitive to need for some upfront money. What is the difference between performance based and outcome based measures?
- Performance based is not good for contractors. May be only do performance based in 2nd round. Rather than “performance based” the program follow SPARC type model.
- Compliance/monitoring requirements for tracking outcomes should be based on % of need. How to meet need as it continually changes (addition foreclosures occurring)? Data and needs are changing daily.
- Joint applications between locality and housing authority.
- Difficulty promoting VHDA financing locally

- Need to utilize existing programs
- Need to address entire localities – problems rather than small area
- Separate applications for each neighborhood taxing on localities – don't want it
- Set-up different programs for specific activities.
- Want partners that already have capacity
- Options for use of program income will impact program designs. How are program income and profit defined? Is rent?
- Money should be set aside for the state to be accurately tracking the program and to function as a clearing house of data.
- Ideally, give everyone subscriptions to the same clearing house so applicants are using data from the same source.
- Many of the programs may be new /innovative.
- Only if gross negligence occurs should funds be taken back / withheld.
- This entire program was thrown together too fast. Time is needed to plan through things.
- Need to hear other areas ideas because there are no best practices or ideas for us to pull from. Would be nice to know what each locality is thinking of doing if funded.
- Indicator of successful project is collaboration with banks, non-profits, other localities. Success might allow movement to other areas.
- Should structure silent seconds that are forgiven.
- Instead of limiting from the outset, look at applications more thoroughly to mechanical issues or compliance issues.
- Give localities a chance to talk to banks as a large group to discover what is feasible.
- There should be a session at the Governor's Housing Conference where ideas can be shared.

OTHER ISSUES

- Is there a difference between vacant and abandoned? Definition of each is needed.
- Will regional plans (from PDC's) be considered as applicants?
- DHCD and VHDA should convene a meeting with large banks and REO executives.
- Is senior housing eligible?
- What are leverage factors that can be applied to funds received?
- Will localities have an opportunity for input on funding formulas before they are published?
- Allow locality to make applications as open as possible.
- Flexibility is most important.
- How does government get foreclosure data?
- Utilization of funds for current programs

- DRGR is a challenge, who will do this?
- Great that this program goes to 120%AMI
- Concerns about tracking and reporting.

ATTACHMENT III

NEIGHBORHOOD STABILIZATION PROGRAM

INPUT SESSION
November 20, 2008

Comments Received:

- The requirement for a 15% discount may ultimately lower the value appraisals in the neighborhood since it will lower the sales price on comparable properties.
- Clarification is needed on the terminology of abandoned and foreclosed homes to determine exactly what makes a property eligible. “Abandoned” has been defined as vacant for at least 90 days, foreclosure proceedings initiated, and no payment made for at least 90 days.
- Effort is needed to work with banks and mortgage lenders on a wide scale, instead of each locality having to approach individually.
- Many foreclosed homes are owned by investment pools, meaning there are multiple owners in different locations. This will make contact with someone authorized to negotiate on the property more difficult to achieve.
- It was clarified that nonprofit organizations can apply in the second (competitive) round without a supporting resolution from the local government, and that DHCD will contract directly with the nonprofit organization.
- A concern was shared that with the board resolution required on the first round localities would feel like they were accepting responsibility for a project that would be contracted between DHCD and the nonprofit organization.
- Data showing a high number of foreclosures in a locality does not necessarily indicate there is a concentration of homes in a neighborhood.
- The 10% threshold for eligibility seems counter productive to the approach of trying to find the “tipping point” to turn around a particular neighborhood.
- It was questioned rather the 10% threshold had to be a point in time figure or could be based on a period of time. It was also suggested it should allow for pending foreclosures.
- Will the 10% threshold be required for all rounds or just the open submission (first) round?

- Use of program income with administration and delivery costs deducted will result in a dissipation of funds which needs to be accounted for in projections of activities.
- Contacts to real estate agents should be made early in the process for help in identifying property owners with larger holdings.
- Flexibility is needed on the membership of the Management Teams.
- NSP seems to be emphasizing acquisition and rehab; however, down-payment and closing cost assistance are also eligible. It was questioned rather these items were eligible after NSP funded acquisition since property is technically no in foreclosure any longer.
- The properties sold must fit the available pool of loan products, some of which are specific on down-payment requirements, etc. It was recommended that grantees share the program requirements with prospective lenders early in the process.
- It was noted that the redevelopment of vacant property is a different activity under NSP than acquisition.
- Rental housing is an eligible use of NSP and the approach for this needs to be better developed. Rental housing is likely required to meet the 25/50 requirement.
- There is a large number of investor owned properties that have not gone into foreclosure because the owners are “sitting” on them.
- The question was raised rather an applicant doing its own lending would have to count origination fees as program income.

DHCD Action Steps

- DHCD will work to develop a list of contacts for major banks and lenders and provide this list to applicants.
- DHCD requested to clarify that with a project that is contracted directly with a third party the locality is not accepting liability for success.
- DHCD to clarify language on a qualifying property.
- DHCD to clarify the 10% eligibility threshold for a neighborhood.
- DHCD was requested to make a sample contract available for applicant review prior to opening of first round.

- DHCD was requested to provide a listing of allowable delivery fees.
- DHCD was requested to provide updated information on the program prior to the January How-to-Apply workshops, via website, mailing, etc.

ATTACHMENT IV

NEIGHBORHOOD STABILIZATION PROGRAM WRITTEN COMMENTS AND RESPONSES

- 1) As we put together our proposals, a deciding question is going to be whether the house must have been foreclosed on. I read this morning on HUD's website the Q&A's. A lot of times it states "vacant and foreclosed" and other times it states "or". This truly impacts how we do our local research so as soon as DHCD makes a determination, please let us all know. We don't want to waste a lot of staff time without this answer.

Response: The intent is to really deal with properties that have been foreclosed or abandoned as a result of the foreclosure crisis, so we want to stay away from neighborhoods that have been impacted by conditions that pre-date the foreclosure issues. Vacant may be a function of foreclosure but again, this should relate back to the recent crisis, not other economic issues that have created problems.

- 2) There is some concern about DHCD's proposed Program Income procedures, particularly involving the return of all program income to DHCD, subject to the approval of a Program Income Plan (PIP) which, if approved, may result in DHCD's allowance of a sub-recipient's keeping 8% of program income (instead of 5%). This extra 3% is based on a program assumption that on-going NSP efforts will be needed in the "approved" project areas described in the original NSP proposal. It would appear that these procedures could be simplified by allowing sub-recipients to retain 8% of program income if further efforts in proposed project areas are needed or may help move to the next defined priority area (i.e. only return 92% of program income), otherwise 95% could be returned (allowing the retention of 5%) to DHCD. Having a project funding tracking system for all sub-recipients might obviate the need for **all** program income to be returned to DHCD over & over again and greatly reduce administrative and accounting burdens on all concerned.

Response: We understand that tracking Program Income is going to be a burden but in order for us to be able to accurately account for all NSP funds, Program Income will need to be come through DHCD before being re-used. We will make this as seamless as possible and if you intend to direct PI to approved activities in the same project area, you will have access to it, but it will be necessary for funds to be returned and then redistributed.

- 3) No operational definition of a "region" is found in the guidelines, leaving regional applications to be submitted by many possible combinations of participants (2 or more local governments, towns and counties, or 2 towns, or local governments endorsing a regional non-profit, a PDC representing less than the full membership of local governments in the planning district, etc). The regional application

approach is more constrained by a limitation of 2 neighborhoods per locality vs. the proposed allowance of 3 neighborhoods under a local grant application. Moreover the guidelines compel program investments in each community participating in such a regional plan (irrespective of local needs or NSP housing affordability), rather than allowing localities to support a regional approach and encourage NSP efforts wherever they are most needed in the Region. Also, it is unclear how broadly or narrowly DHCD would evaluate a locally defined target “neighborhood”. At a minimum, it would seem that localities that take a regional approach should be allowed the same degree of flexibility (i.e. 3 neighborhoods) as they could have under a local NSP application.

Response: We expect that Towns will apply as part of the County; Cities can be treated independently. The total amount of NSP funds will be capped, not more than \$2 million per locality—this should reduce or eliminate overlapping or duplicative efforts. In terms of defining regional, the basic premise is that it will encompass at least two localities. While we hope that all localities in your service area that meet the eligibility requirements will participate, we understand that we cannot compel them to. We expect that by allowing the PDC to serve as an applicant, more localities will cooperate and participate, however, it would be possible that the PDC may have an application that does not fully address all member jurisdictions.

Regarding the number of neighborhoods that can be addressed, can you provide some input in terms of how many neighborhoods you expect can be addressed through one application? The limit was put in place to ensure that proposals are not over-reaching and instead focus on a manageable goal. The limit on the number of neighborhoods would not preclude you from completing the proposed neighborhoods in a timely and effective manner and coming back for additional funds, in additional neighborhoods, through the Performance Pool.

We are open to letting the applicant define what constitutes a neighborhood.

- 4) DHCD guidelines are somewhat vague on allowed delivery fees, whereas HUD guidelines allow for the recovery of reasonable program development costs prior to grant award for specific NSP efforts. In the absence of clearer DHCD guidelines, would such local program development costs be allocable on a pro-rata basis to individual NSP projects prior to the actual grant award date?

Response: We have the ability to prior-authorize costs; a request must be submitted in writing along with an explanation of the proposed costs to be incurred. Be aware that the program is operated as pay for performance, so there will need to be clear outputs and outcomes that can be measured and tracked as part of the service delivery. You may also want to consider applying for a Planning Grant to help with activities necessary to submit a proposal.

- 5) The description of “Example 2” on page 27 speaks to the latter proposal (which targets a higher percentage of homes in a neighborhood) as the program proposal having more impact and more deserving of NSP funding. It was noted that the community-wide effect of one or a few high-value property foreclosures having a larger de-valuation effect on surrounding higher-value homes (and the associated community’s tax base and positive community image) than perhaps a larger number of foreclosed homes in a lower-value neighborhood. Moreover, it was noted that the proposed DHCD program seems to de-emphasize HUD’s emphasis on making strategic investments through the NSP program to address community redevelopment objectives and mitigate conditions of existing or emerging neighborhood blight. It may be in such neighborhoods where a community can realize greater leverage and higher community impact.

Response: The intent of the program is to target investments where there is a high concentration of need and not pursue a community-wide or scattered approach. Not exactly certain what is meant by not emphasizing redevelopment strategies, could you provide more information. Redevelopment activities are eligible as long as they address the goal of the program. Beyond just looking at foreclosure / bank-owned property data, you can use other sources that attempt to identify high-risk areas, however, NSP funds are still going to be restricted to being used for eligible activities which in most cases, will involve the acquisition, redevelopment, and disposition of foreclosed or abandoned properties.

- 6) Reviewers are somewhat unclear what criteria the State is using to define a target “neighborhood”. In rural counties and rural portions of suburban counties, the foreclosed and more affordable inventory may be more scattered, making it difficult to demonstrate higher impact on a “neighborhood”.

Response: There may be situations where the NSP is not going to be a good fit for every community. Going back to the idea of neighborhood stabilization, there must be some rationale for defining a project area and believing that investments will achieve a market tipping point. You should look at the areas of greatest concentration and work outward.

- 7) As an extension of #4 above, the reviewers note that the DHCD NSP program would benefit for more incentive for communities to use the funds in low-income neighborhoods that might help attract buyers historically reluctant to settle in these neighborhoods. Allowing some higher level of rehabilitation, for example, in these neighborhoods may attract otherwise reluctant buyers, thereby reinforcing community redevelopment efforts.

Response: At this point we are using the DHCD Housing Quality Standards as our measure for home improvements. There comes a point when the amount invested in the upgrades exceeds what is reasonable for the program, plus you still need to be able to price the home at a level that will be within the NSP limits. Important to this is the need

to identify partners that have established homeownership programs with a pool of qualified, willing clients.

- 8) Under the U.S. Department of Housing and Urban Development's Neighborhood Stabilization Program website, RE: Tax Liens, you will find the statement: "...the NSP grantees cannot use NSP funds to repay taxes that they levied; if your jurisdiction levied the tax, then your jurisdiction would have to waive the tax. However, if the tax was levied by another jurisdiction, than your jurisdiction may pay off the taxes owed."

In light of these HUD guidelines,

A) does the Virginia Code authorize the waiver of a tax lien, and

B) does the NSP program prevent a resident from another locality from purchasing NSP property within a different jurisdiction.

Response: Not sure, this is something you may need to have an attorney investigate. For the second item, yes.

- 9) The activities allowed under HERA and the DHCD plan include "redeveloping demolished or vacant properties." Are we correct in understanding that demolished and vacant properties that are not foreclosures are eligible for assistance?

Response: This is a gray area that is still being researched but it appears that yes, vacant properties--even ones that have not been foreclosed, may be eligible. However, if this is allowed, you need to consider how long they have been vacant, if there really is a market for the property, who the owner is (i.e.--was this purchased as a speculative property by an investor).

- 10) We understand that an "abandoned" property is defined as "mortgage or tax foreclosure proceedings have been initiated, 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." Are there any definitions for or limitations on what we can consider "demolished" or "vacant" properties, e.g. how long ago it was demolished or how long it has been vacant?

Response: Same as above. You need to demonstrate why demo is the best alternative and why the property is targeted.

- 11) Is a Redevelopment and Housing Authority automatically within the definition of an entity that can act as a Land Bank under the NSP?

Response: A Housing Authority is eligible but at this point, we have not seen much interest in landbanking. There would need to be a very compelling reason why this is the

best strategy since it would effectively tie up NSP funds and not result in any direct LMMI benefits for a potentially long amount of time. We are hoping to see projects that have a plan for acquiring, rehabbing/redeveloping properties, and moving clients into these properties in a timely manner.

- 12) Is maintenance of foreclosed properties acquired for a land bank an eligible use of the funds and is there any time limit on using the funds for maintenance?

Response: Possibly, but we would need to evaluate the carrying costs and how long you expect these properties to be in inventory. However, we would really need to see why this is a better option than working towards moving eligible clients into the target area. Again, this dives into an area where NSP funds do not appear to be leveraged effectively.

- 13) If we have concentrations of vacant properties resulting from demolitions, whether publicly owned or not, especially in low-mod income areas, but the area is not particularly affected by foreclosures, can NSP funds be used for redeveloping these vacant properties?

Response: This could be eligible but there needs to be a strong case made. We see the intent to primarily focus on areas hit by the foreclosure crisis; if you look at the legislation and how greatest need is defined, the language is geared to foreclosure issues, not other housing and economic problems that pre-date the recent crisis.

- 14) Foreclosures in Alexandria have been most common in two areas of the City - the West End and the Arlandria community. The West End is characterized by condominium communities, many of which have been destabilized by high numbers of foreclosures and extended periods of unpaid condo association fees. Concurrently, prices for these units continue to decline and deferred maintenance items are resulting in special assessments that are having a disparate impact on low-income residents.

We believe that assisting first-time homebuyers to purchase these units will have the greatest impact on mitigating the effects of foreclosures in Alexandria. I hope that DHCD will consider the special circumstances of densely populated communities in allocating NSP funding. While it is unlikely that any of these condominium communities have a 10% rate of vacancy or abandonment, we do believe that assisting 10 to 15 low or moderate income City residents and workers will have a very beneficial impact on the long-term health of the communities.

Response: Your situation does present a unique circumstance and we would encourage you to contact DHCD further to discuss how the Virginia NSP could potentially be utilized while still adhering to the intent of the program.

- 15) Regarding "Timely Use of Funds" as described in the draft action plan, it is recommended that DHCD consider making the "obligation of funds" period and

the "expenditure of funds" period consistent with those required by the HOME program, i.e. funds obligated within 24 months and funds expended within 5 years.

Response: We are still awaiting further guidance regarding what will be accepted as obligated. A determination from HUD will allow DHCD to provide better guidance.

16) Regarding "Client Readiness" as described in the draft action plan, it is recommended that DHCD consider allowing the 6-hour, VHDA-approved homeownership education seminar to satisfy the NSP 8-hour homebuyer counseling program requirement.

Response: The NSP program requires at least eight hours of homebuyer counseling from a HUD-approved housing counseling agency before obtaining a mortgage loan; DHCD does not have the authority to lessen this requirement.

17) Regarding "Future Foreclosure Risk" as described on page 9 of the draft action plan, it is not clear from the narrative how exactly DHCD determined that the census tracts and block groups shown on the table are at risk of future foreclosure. It is recommended that DHCD describe the methodology for determining future risk in greater detail.

Response: This methodology is detailed at:

http://www.huduser.org/publications/commdev/Desc_%20NSP_data.doc.

18) Regarding allowable administrative costs, it is recommended that localities be allowed to expend up to 10% versus 8% for administrative costs when program income is involved, owing to the increased fiscal complexity, monitoring, and administrative details involved in tracking and expending program income.

Response: DHCD plans to allow up to 8% of Program Income to be used for administrative purposes by the applicant (per approval by DHCD of the applicant's Program Income Plan); the remaining 2% will be utilized by DHCD for continued administration and oversight of the program.

19) Regarding Attachment I to the draft action plan, which describes Housing Quality Standards for DHCD Housing Rehabilitation programs, it is recommended that references to "Section 8" be replaced with "Housing Choice" to be consistent with HUD's terminology for these vouchers.

Response: This will be evaluated and changed as appropriate.

20) I would like to suggest that applications which include funding for the 25/50 rule include reference to local or regional Ten Year Plans to Prevent and End Homelessness where applicable. Many communities in the commonwealth have developed collaborative, community plans to end homelessness which include

goals about increasing the housing stability of persons earning less than 50% of AMI. I am particularly excited about the possibility of using NSP funds to increase access to rental housing for persons earning below 50% AMI through supportive housing programs. My hope is that 25/50 funds are not used exclusively for homeownership. Neighborhood health and stability depends on providing decent housing options for all members of the community and this includes those for whom homeownership is not the best option currently.

Response: The Virginia NSP does allow for activities beyond just the creation of homeownership. It should be noted that in order to satisfy the 25/50 rule, the outcome must result in permanent housing solutions for clients that are served.

21) HUD limited grants to a minimum of \$2M because, as they explained, the set-up, administration and reporting requirements are substantial and would be onerous for smaller grants. The current plan calls for grants of \$2M maximum. Do we not think the smaller grants will be difficult to manage, especially given the small amount of admin funding available? Have you considered what a minimum grant size should be?

Response: At this point, a minimum grant amount has not been established but it is expected that applicants will submit proposals that demonstrate a significant impact for the targeted neighborhoods. A grant limit was established to ensure that interested applicants that have a demonstrated problem will have the opportunity to apply for funds. Additionally, a maximum was established to limit the amount of NSP resources obligated for an applicant at any one point; there is a strong emphasis to not only demonstrate a need, but to quickly and effectively spend funds. Obligating too large an award could result in significant resources resting with an applicant that is not spending those funds in a timely manner.