



OFFICE OF THE CITY MANAGER
CITY HALL
375 MERRIMACK STREET
LOWELL, MA 01852
TELE: (978) 970-4000 FAX: (978) 970-4007
www.blynch@lowellma.gov

In CC
jackets
11/21/08

Bernard F. Lynch
City Manager

TO: Mayor Edward Caulfield
And
Members of the Lowell City Council

FROM: Bernard F. Lynch, City Manager 

DATE: November 20, 2008

SUBJECT: **MOTION OF 10/14/08 BY COUNCILOR MILINAZZO
"REQUEST THE CITY COUNCIL SUPPORT AN
APPLICATION TO DHCD FOR HUD NEIGHBORHOOD
STABILIZATION FUND FOR REDEVELOPMENT OF
FORECLOSED PROPERTIES".**

I have been in contact with Alison Lamey, Senior Community Development Planner in Division of Planning & Development. She has concluded and provided the following information.

We appreciate the support of the City Council for the Neighborhood Stabilization Program and the efforts to address foreclosures and their impacts on Lowell's neighborhoods.

In September the U.S. Department of Housing and Urban Development, under the Neighborhood Stabilization Program (NSP), awarded \$43 million to the Massachusetts Department of Housing and Community Development (DHCD) to be used to support municipalities in their efforts to address foreclosed and abandoned properties.

DHCD released a draft plan for the use of NSP funds on November 3rd. Among the programs it plans to administer, DHCD identified \$11.9 million that will be distributed to 14 communities, including Lowell, hardest hit by the foreclosure crisis. While no official opportunity to apply for these funds has been made available yet, it is expected that DHCD will announce its plans to distribute NSP funds following the submission of their final plan to HUD on December 1st.

Mayor Edward Caulfield &
Members of the Lowell City Council
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During DHCD's comment period, the Division of Planning and Development (DPD) submitted a letter requesting access to these funds. Attached is a copy of our letter to DHCD describing our intended plans should Lowell be given the opportunity to apply and receive funding.

Staff from DPD will provide an update on these funds and their potential impacts in Lowell when more information becomes available. Should you have any questions or require additional information in the meantime please contact me.

If you have any further questions, please do not hesitate to contact me.

Thank you.

cc: Adam Baacke, Assistant City Manager / DPD Director
Allison Lamey, Senior Community Development Planner



City of Lowell
Office of the City Manager

City Hall
375 Merrimack street
Lowell, Massachusetts 01852
www.lowellma.gov

Bernard F. Lynch
City Manager

November 14, 2008

tel. 978-970-4000
fax 978-970-4007

Mark Siegenthaler, Community Development Manager
Department of Housing and Community Development
100 Cambridge Street, Suite 300
Boston, MA 02114

Re: Draft NSP Substantial Amendment – Comments

Dear Mr. Siegenthaler:

On behalf of the City of Lowell, I would like to take this opportunity to describe efforts that the City of Lowell is taking to address the recent surge in foreclosures and property abandonment in our neighborhoods, and how programs like HUD's Neighborhood Stabilization Program will help the City advance its efforts.

Lowell has the highest number of foreclosures in the State in 2008, among communities that did not receive a direct allocation of NSP funds from HUD. City staff have been diligently working with members of the Lowell Foreclosure Prevention Task Force (an ad hoc group which includes local lenders and officials from the public, private, and non profit sectors) to explore how NSP funds could benefit Lowell's neighborhoods affected by foreclosures:

Based on DHCD's draft plan for the use of NSP funds, I understand that a process of distributing the \$11.95 million targeted toward the 14 hardest hit communities is still in development. With a number of successful programs already underway, a proven track record of developing strong local partnerships, and an ability to leverage additional funds, Lowell is poised to begin using NSP dollars in a timely manner and in programs that will generate significant neighborhood impact. With this in mind, we are requesting that DHCD consider awarding \$2.4 million in NSP funds to help Lowell achieve its goals.

Enclosed is a summary of Lowell's existing efforts to address foreclosures and abandonment, as well as an outline of our strategy for prioritizing NSP funds. Also enclosed are questions regarding the specific application of NSP funds and DHCD's plans to administer the program.

Thank you for your consideration. We look forward to working with DHCD in improving our neighborhoods. Should you have any questions or need additional information, please contact me or Adam Baacke, Assistant City Manager at 978-446-7200.

Sincerely,

Bernard F. Lynch
City Manager

cc: Adam Baacke, Assistant City Manager/DPD Director
Michael LaMotte, Director of Housing Programs
Allison Lamey, Senior Community Development Planner

Current City Efforts to Address Foreclosures & Property Abandonment

The City of Lowell is proactive in its approach to address foreclosures and prevent future ones. In collaboration with the Merrimack Valley Housing Partnership, a local non-profit service agency, the City operates a First Time Homebuyer Program for low- and moderate-income households. An extensive pre-purchase counseling component is a vital piece to this program. This relationship ensures that potential homebuyers are well informed of the home buying and mortgage process. Despite the successes of this program, however, homebuyers, most of whom do not seek pre-purchase counseling or training, have fallen victim to sub-prime mortgages and foreclosures. To combat this problem, the Lowell Foreclosure Prevention Task Force was initiated by members of the local banking, government, and non-profit service sectors. The Task Force coordinates assistance in a variety of forms including financial counseling, negotiations with an existing mortgagor to refinance or modify terms, or negotiating a short sale, among others. An interdepartmental City effort is also underway to address the potential problems associated with abandonment and neglect of properties in neighborhoods following foreclosures. Among these efforts are specific inspection protocols of foreclosed properties, maintaining a database of troubled and abandoned properties, and working with property owners to make sure the impact of these properties on their surrounding neighborhoods is minimized and mitigated. Finally, the City's First Time Homebuyer Program is working with homebuyers to purchase homes already foreclosed upon to ensure properties are reoccupied quickly and prevent neighborhood decline.

Proposed Use of NSP Funds

Prioritized Neighborhoods:

The City of Lowell plans to prioritize NSP funds in the City's 50 block groups identified in DHCD's Draft NSP Substantial Amendment. These tracts represent neighborhoods most significantly impacted by recent foreclosures and property abandonment and include the Jackson/Appleton/Middlesex (JAM) Urban Renewal Plan and portions of the Acre Urban Renewal Plan. A dozen of these block groups are also within the City's federally designated Urban Renewal Community. The combined efforts of NSP funds with other public and private funds already invested in these areas will have a significant impact on these neighborhoods in Lowell. The City's goal will be to target funds where improvements to neighborhoods will be widely achieved, as oppose to targeting individual scattered sites.

Proposed Activities:

Based on the eligible uses allowed under the HERA legislation, the City proposes to prioritize NSP funds among the following programs:

- 1) First Time Homebuyer Program – NSP funds will be used to bolster the City's First Time Homebuyer Program. With required pre-purchase counseling available through the Merrimack Valley Housing Partnership, as a component of this program, the City ensures that qualified households are acquiring secure loans that they can afford. The City's FTHB program has a proven track record of assisted families avoiding foreclosure, and has placed more than half of its program participants in foreclosed properties in the past year. NSP funds will help expand this successful program and allow more qualified households purchase a home and ensure that vacant properties become occupied.
- 2) Housing Rehabilitation – The City will partner with the Merrimack Valley Community Development Financial Institution and the Lowell Development Financial Corporation to assist property owners with rehabilitation expenses. Using HUD's Section 203(K) program as a model, NSP funds will be used as a second loan product to help expand homeownership opportunities by assisting first time homebuyers and other property owners with rehabilitation expenses. Estimates suggest an ability to leverage \$3 for

every \$1 of NSP funds invested. Given the high incidence of abandonment among foreclosed properties, this leveraging opportunity will help property owners with expected home repairs and ensure property habitability standards.

3) Property Development – The City will identify pre-qualified for-profit and non-profit developers to redevelop large vacant properties to help improve neighborhood property values and overall stabilization efforts. Pre-qualified developers will be identified as follows:

- *Non-profit*: The City maintains a list of non-profit housing developers that meet HUD's criteria as a Community Housing Development Organization. Agencies with a CHDO designation follow specific organizational guidelines and must demonstrate the experience and capacity to carry out affordable housing activities. Furthermore, these agencies have a proven track record of successful completion of large-scale housing development projects within Lowell.
- *For-profit*: Qualified for-profit developers will be identified as ones that can demonstrate site control of large vacant properties in the City's Renewal Community area and whose residential redevelopment is consistent with the City's Master Plan and other planning goals and policies. Consideration will also be given to those who have a proven track record of successful mixed-income projects in Lowell and comparable locations, and a proven capacity to leverage significant public and private financing sources, including a strong track record with DHCD.

Developer Selection/Evaluation Criteria:

The City has identified several criteria by which it will evaluate proposed projects using NSP funds. These criteria include:

- *Neighborhood impact* – Proposed projects should have the potential to enhance the surrounding neighborhood when complete, or eliminate a blighting influence that adversely impacts neighboring properties.
- *Scale* – Priority will be given to projects that will create larger numbers of units in single project sites or that combine multiple properties on a block or otherwise in close proximity to one another.
- *Cost-effectiveness* – Projects with a lower per unit cost to the program will be given priority.
- *Leveraging* – Preference will be given to projects that have the ability to leverage other affordable housing priorities and that will address the goals of the City's Five-Year Consolidated Plan.
- *Energy Efficiency* – To help ensure the long-term affordability of housing units rehabbed with NSP funds and encourage sustainability, projects that incorporate green building standards and apply energy star standards will be given preference.

Questions Regarding the Administration of the NSP Program

1. What methodology will DHCD use to distribute the \$11.95 million identified for eligible municipalities?
2. How will the state address the requirement that 25% of the NSP funds be directed toward households at 50% AMI? What provisions, if any, will the state expect from subrecipients to help meet this requirement?
3. NSP regulations allow grantees to begin incurring pre-award costs beyond general planning and administrative costs. Will these parameters also apply to subrecipients of the State?
4. DHCD's Draft NSP Substantial Amendment identifies specific block groups eligible for NSP assistance. Are subrecipients limited to using NSP funds in these block groups? Could funds be used in an area not on the list if significant need and consistency with NSP goals and objectives were demonstrated?

Questions Regarding NSP Regulations

1. Section II. Subsection J of the Federal Register describes limitations on the sale of a residential property used as a primary residence. Do these regulations apply to the initial sale only or will future sales be limited as well?
2. Section II. Subsection N(1)(c) of the Federal Register describes revenue received by a private individual. Is this "excess profit rule" in perpetuity or does it only apply during the affordability period?
3. If other funding sources are used in addition to NSP dollars to acquire and rehab a property, how will program income be prorated?
4. Some projects assisted with NSP funds will result in residential rental property. Would any rents, net of operating expenses, be considered revenue, and thus required to be returned to the grantee?