

SPRING 2010
Volume 1 Number 2

Forefront

New Ideas on Economic Policy from the FEDERAL RESERVE BANK
of CLEVELAND

A Proposal: Using the CRA to Fight Vacancy and Abandonment

INSIDE:
Credit for
Small Businesses
Systemic Risk
Q&A with
Economist
Anil Kashyap

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Neighborhood Stabilization: Early Reports on Policymaking in Action

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View: Neighborhood Stabilization: Early Reports on Policymaking in Action



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Many neighborhoods bear visible scars of the housing crisis in the form of vacant and abandoned homes. These properties attract crime, drag down the values of neighboring properties, and erode a neighborhood's sense of community. On a larger scale, widespread vacancies threaten the stability of regional and national housing markets. Help for the hardest-hit areas has come through the federal Neighborhood Stabilization Program, or NSP, one of the largest infusions of federal housing dollars in the past decade. The program is three-fourths of the way through the first phase. Is it working? And how can the NSP1 experience help inform NSP2?

The main goal of the Neighborhood Stabilization Program is precisely what its name suggests. Enacted in July 2008, NSP funneled close to \$4 billion in grants to neighborhoods severely battered by the foreclosure crisis. Money is targeted to areas that have the highest concentrations of vacant and foreclosed properties. The housing crisis is still a virulent force, and unemployment now fuels many new foreclosure starts. So while a community works to return some vacant properties to productive reuse, many more homes may emerge from foreclosure, then quickly deteriorate and be abandoned.

This is the challenge faced by weak-market states like Ohio, where Cuyahoga County alone has seen more than 13,000 new foreclosure starts annually *for the past four years*.¹ Can a program like NSP effect meaningful change in such communities? Will NSP2, in which grant money will be awarded to consortia of local governments and nonprofits working together, yield better outcomes than NSP1?

1. From Policy Matters Ohio and NEO CANDO (Northeast Ohio Community and Neighborhood Data for Organizing).

At the Federal Reserve Bank of Cleveland, we've been assessing NSP as a tool for improving neighborhood stability here in the Fourth District. Focusing on 10 communities, we documented how each plans to use its allocation of NSP1 dollars and, through outreach visits, investigated the barriers and challenges administrators grapple with in spending those funds.

We've learned two key things to date. One is that communities define "neighborhood stabilization" in different ways. Thus some flexibility in how grant money can be spent is critical. The second is that partnerships—particularly long-established ones—have been a vital element of communities' NSP successes.

We first shared these findings as a learning tool with communities receiving NSP funds. We have also used them to help inform policy. In early 2010 we, along with several other Reserve Banks, state NSP administrators, the National Vacant Properties Campaign, and the Federal Reserve Board of Governors, met with Housing and Urban Development (HUD) officials in Washington to share our collective findings on NSP1. While it is too early for a definitive answer on the program's overall success, our assessment suggests that the first phase is yielding mixed results.

Critics have called the program too rigorous and inflexible. Complaints range from the heavy administrative burden on communities, especially smaller ones, to the narrow time frame allowed for spending the dollars. NSP rules also severely limit the uses to which officials may direct these dollars. And some feel that NSP1 allocations are simply too little.



Money aside, implementation challenges abound. Some officials are finding that although areas targeted in their original plans as “most needy” are still worthy of stabilization efforts, other areas in their communities are now worse off. Grant money, however, must be spent in the areas targeted by the original plans.

Another challenge lies in purchasing the properties specified in a community’s plans. Program administrators tell us that private investors often scoop up these properties before public entities can. The reasons vary: a cumbersome administrative process for securing legal approval to buy the house with NSP funds; a seller unwilling to accept less than fair market value for the house; or an able and willing investor—able to move quickly and willing to pay fair market value—who beats the community to it. While competition from private investors can certainly indicate a market is working, it has nevertheless been problematic for some communities. Moreover, private investors often do nothing with their purchases but wait, leaving the properties to fall into further disrepair.

To its credit, HUD is addressing these complaints. In its most recent move, the agency announced on April 2 that it is relaxing some of its NSP rules to smooth communities’ path to redeveloping some of their vacant properties using the grant monies. These changes are the direct result of feedback HUD received from sources across the country, including the Federal Reserve Bank of Cleveland. But not every problem can be resolved. Final deadlines loom. Some money will undoubtedly have to be returned because a community, despite its great need, could not fulfill all the program requirements and commit its funds within the prescribed 18 months.

Despite the challenges, there have been positives to report. In Lima, Ohio, where manufacturing has declined and population has dwindled in recent years, the plan is to demolish 210 properties in less than three years; previously, the city averaged between five and 10 demolitions a year. Cooperation among several departments, including public works, economic development, and legal, was the critical element in the city’s success with NSP.

Greater flexibility would allow communities to adapt plans to shifting market conditions.

In Montgomery County, Ohio, rehabbing homes has been an essential part of the NSP plan. But to make it work, administrators needed to develop a pool of potential home buyers. Tapping local realtors, they set up a website, posted video clips of homes for sale, and generated neighborhood support through online transformation stories of local properties. Neighbors then told others about rehabbed houses available on their streets. County administrators cite this buy-in and word-of-mouth marketing as crucial to helping them sell properties enhanced with NSP1 dollars.

Key lessons so far: Greater flexibility would allow communities to adapt plans to shifting market conditions. Not every community has the same needs, and rural areas seem to have had a tougher time with NSP program requirements. Extending the time frame might enable communities, especially those with fewer resources, to take fuller advantage of programs like NSP. Technical assistance before the program launches could help get the right players and partnerships in place to succeed. And ongoing process improvements are a must.

HUD’s responsiveness to feedback about NSP1 demonstrates adaptive policymaking in action. A community’s circumstances can and do change over time. Every community has its own definition of neighborhood stabilization. Weak markets face different challenges than do stronger ones. In considering the government’s neighborhood stabilization goal on a national level, then, the policy message from our study of NSP thus far is clear: Flexibility supports sustainability. ■

A Look at the NSP



Find profiles of how some Fourth District communities are spending their NSP dollars.

www.clevelandfed.org/Community_Development/topics/nsp/

HUD Ideas in Action



The agency lays out its five-year strategic plan and invites public feedback via online forums. <http://hudideasinaction.uservoice.com>
