

# **NEIGHBORHOOD STABILIZATION PROGRAM**

## **ADDENDUM TO THE 2008 HOUSING AND COMMUNITY DEVELOPMENT CONSOLIDATED ANNUAL ACTION PLAN**

**LAKE COUNTY CONSORTIUM  
LAKE COUNTY, ILLINOIS**

**NOVEMBER 18, 2008 (COUNTY BOARD APPROVAL)  
MARCH 2015 & 2017 REVISIONS**

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# EXECUTIVE SUMMARY

## OVERVIEW OF THE 2008 NSP PROGRAM

### History

- On July 30<sup>th</sup> Congress passed and the President signed the Housing and Economic Recovery Act of 2008, which contained many different methods of Economic Stimulus packages.
- One such element was the announcement of \$3.92 billion in CDBG funds that would be awarded nation-wide under specific prescribed formulas and program requirements for the acquisition of vacant and foreclosed properties that can be acquired, rehabilitated and sold/rented as affordable housing for low-and moderate-income families.
- Lake County was informed on September 26<sup>th</sup> that it would receive \$4.6 million under the Neighborhood Stabilization Program (NSP) for which HUD statutory program requirements were issued on September 29<sup>th</sup>.

### Purpose / Potential List of Eligible Activities

- Create financing mechanisms to purchase and redevelop abandoned and foreclosed upon homes and residential properties through soft-second loans, loan loss reserves and shared-equity loans.
- Purchase and rehabilitation of abandoned and foreclosed upon homes and residential properties to re-sell, rent or redevelop; homes must be purchased at a discount from the current market appraised value.
- Establish land banks of foreclosed upon homes.
- Demolish blighted structures.
- Redevelopment of demolished or vacant properties.
- Public services for Homebuyer Counseling to those benefitting from NSP funds; all homebuyers assisted are required to receive at least 8 hours of pre-purchase counseling from a HUD-approved housing counseling agency.
- Direct homeownership assistance (loan programs to purchase redeveloped homes).
- Foreclosure prevention and mortgage assistance are not eligible uses of NSP funds.

### NSP Targeting

- Priority emphasis to those areas of greatest need (as determined under NSP formula):
  - greatest percentage of foreclosures,
  - highest percentage of homes financed by subprime mortgage related loans, and
  - identified as likely to face a significant rise in the rate of home foreclosures.
- 100% of funds used to serve households at or below 120% of area median income (for example a four person household having income at or below \$90,500).
- 25% of funds must benefit households at or below 50% of area median income (for example a four person household having income at or below \$37,700).

### Timeline for Expenditure of NSP Funds

- Lake County must commit or obligate funds within 18 months; the sooner the better.
- All funds must be expended within four years from date of allocation.

### Program Administration

- Up to 10% of the grant (\$460,080 in Lake County), plus 10% of future program income, for Lake County's Program Administration.
- NSP funded governmental and non-profit agencies can also charge program delivery costs as part of NSP funded activities.

### Program Income

- Program income earned during the first 5 years must be used for the same type of activities.
- Program income received after 5 years must be returned to the US Treasury (although HUD can grant an exception).

## 2008 NSP Program Original Grant Allocation

Project Sponsor	Project Type	Consolidated Plan Goal #	NSP Original Amounts
Lake County Residential Development Corporation	NSP Rental Housing Program: Property Acquisition and Rehabilitation of Abandoned and Foreclosed Homes and Residential Properties for Permanent Rental of Single-Family Homes / Multi-Family Homes by Non-Profit Agencies	#1.3	\$1,262,200
Affordable Housing Corporation/ /North Chicago/Waukegan	NSP Single Family Housing Program: Property Acquisition and Rehabilitation of Abandoned and Foreclosed Homes and Residential Properties for Single Family Homes; Financing Mechanisms for Purchase and Redevelopment; First Time Homebuyer Assistance Program / Affordable Plus Mortgage Program; Homebuyer Housing Counseling Program	#1.3 #1.4 #1.5	\$2,878,520
Lake County CDBG-NSP Program	CDBG-NSP Program Administration	#3.5	\$460,080
Affordable Housing Corporation	Housing-related Inspections	#3.5	\$10,000
		<b>TOTAL</b>	<b>\$4,600,800</b>

### NOTES REGARDING THE NSP PROGRAM FUNDING RECOMMENDATION TABLE

**NOTE:** NSP low-income formula calculated as  $\$4,600,800 \times 25\% = \$1,150,200$  (later adjusted), for projects to purchase and redevelop abandoned and foreclosed upon homes or residential properties that house individuals or families whose income does not exceed 50 percent of area median income, distributed through a future RFQ competitive application process for non-profit rental agencies in keeping within the areas of greatest need as identified by Census Tract/Block Groups under the NSP Program.

**NOTE:** NSP administration formula calculated as  $\$4,600,800 \times 10\% = \$460,080$ , distributed between the Lake County project for general program administration (\$450,080) and the Affordable Housing Corporation project for Housing-related Inspections (\$10,000).

**NOTE:** The Affordable Housing Corporation's NSP Financing Mechanisms for Purchase and Redevelopment are shown at no cost. This is because they are a non-cash event as the post-acquisition and rehabilitation costs will be paid back to Lake County from secondary non-NSP lending sources for primary mortgages. Thus Lake County will be holding approximately 20% - 25% of the post-acquisition and rehabilitation cost as soft second non-cash liens securing the period of affordability.

## **NSP1 Allocation W/Program Income (Revised March 2017)**

<b>Project Sponsor</b>	<b>Project Type</b>	<b>Consolidated Plan Goal #</b>	<b>NSP Original Amounts</b>	<b>W/ Program Income</b>	<b>March 2017 Revision</b>
Lake County Residential Development Corporation	NSP Rental Housing Program: Property Acquisition and Rehabilitation of Abandoned and Foreclosed Homes <b>(Eligible Use B)</b>	#1.3	\$1,262,200	\$1,597,603.84	<u>\$1,466,276.25</u>
Lake County Residential Development Corporation	<u>Redevelopment of Vacant properties for rental</u> <b>(Eligible Use E)</b>	#1.3	This includes Victoria and two townhomes on Georgetown Lane in Waukegan		<u>\$345,029.20</u>
Affordable Housing Corporation/ /North Chicago/Waukegan	NSP Single Family Housing Program: Property Acquisition and Rehabilitation of Abandoned and Foreclosed Homes and Residential Properties for Single Family Homes <b>(Eligible Use B)</b>	#1.3 #1.4 #1.5	\$2,878,520	\$8,249,240.17	<u>\$8,282,294.55</u>
Community Development	NSP Program Administration	#3.5	\$460,080	\$460,080	<u>\$500,000</u>
Affordable Housing Corporation	Housing-related Inspections	#3.5	\$10,000	\$0	\$0
		<b>TOTAL</b>	<b>\$4,600,800</b>	<b>\$10,306,924.01</b>	<b><u>\$10,593,600</u></b>

### **Description of Key Projects**

Lake County has a strong background in CDBG and HOME funded affordable housing practices through its strong expertise in federal and county funded first time homebuyer programs and various housing rehabilitation programs, which already incorporate housing counseling activities. Lake County’s existing CDBG and HOME funded Homeowner Rehabilitation Program (for the 50 non-CDBG entitlement jurisdictions) is administered by the Affordable Housing Corporation of Lake County (AHC). North Chicago’s existing CDBG and HOME funded Homeowner Rehabilitation Program is administered by the City of North Chicago. Waukegan’s existing CDBG and HOME funded Homeowner Rehabilitation Program is administered by the City of Waukegan.

Lake County previously amended its Consolidated Plan and prior Action Plans to allow for NSP-type housing activities (May 25, 2005 and February 14, 2006 through Community Development

Commission approval and County Board approval for the acquisition and rehabilitation of vacant, abandoned, or foreclosed properties, respectively). Lake County already has an established Lending Pool Consortium of area bankers. Accordingly, new additional CDBG funding under the Neighborhood Stabilization Program allows for greater coordination of previously separated housing activities through the development of a quick concise specific NSP program balanced against Lake County housing needs.

Therefore, as much as possible, Lake County would like to use its **existing housing partners to expand its current housing activities under the Neighborhood Stabilization Program**.

The Housing and Economic Recovery Act (July 2008) requires that NSP funds be distributed to the areas of greatest need based on three NSP specific program need categories. In response to HUD's NSP "expedited program implementation" strategy, Lake County has established this NSP Addendum to "establish the needs, target the geographical areas, and limit the eligible uses of NSP funds" in response to the NSP statutory program requirements. Accordingly, priority emphasis and consideration will be provided to those geographic areas of Lake County showing the greatest need, including those:

- with the greatest percentage of home foreclosures.
  - Under the NSP Program, HUD's Estimated Foreclosure Rate model has identified areas of Lake County having the highest percentage of foreclosures measured by HUD's estimated number of foreclosure starts over 18 months through June 2008 divided by HUD's estimated number of mortgages, per HUD's NSP foreclosure data table for the State of Illinois, as having a foreclosure rate above 5.1%;
- with the highest percentage of homes financed by subprime mortgage related loans.
  - Under the NSP Program, HUD's model has identified areas of Lake County with the highest percentage of homes financed by a subprime mortgage, as having at least 25% high cost loans as a percent of conventional loans made between 2004 and 2006 from Home Mortgage Disclosure Act data where the rate spread is 3 percentage points above the Treasury security of comparable maturity; and/or
- identified as likely to face a significant rise in the rate of home foreclosures.
  - Under the NSP Program, HUD's model has identified areas of Lake County likely to face a significant rise in the rate of home foreclosures, as having a high risk factor for foreclosure or abandonment based on a ranking of 8 or above on a scale of 1 to 10 where 10 indicates that the area is in the highest 10 percent of risk nationwide for foreclosure and abandonment based on the combination of HUD's foreclosure risk estimate and USPS residential vacancy rate.

HUD allows NSP recipients to identify other local identifiers of concern. Lake County will also consider other non-NSP stipulated need categories, such as:

- the number and rank of home foreclosures within Lake County municipalities, as identified by the Woodstock Institute.

Lake County will need to provide priority emphasis and consideration to those abandoned and foreclosed properties that are located within these areas of greatest need. At the present time it appears as though the following communities have the highest number of foreclosures:

- Mundelein
- North Chicago
- Round Lake Beach
- Waukegan

- Zion

At the present time it appears as though the following communities have the highest foreclosure rate per 1,000 owner-occupied units (exclusive of those communities listed above):

- Round Lake
- Round Lake Park
- Round Lake Heights
- Hainesville

NSP funded acquisition and rehabilitation of abandoned and foreclosed upon homes and residential properties will occur in one or more of the following ways:

- NSP Rental Housing Program: Property Acquisition and Rehabilitation of Abandoned and Foreclosed Homes (Eligible Use B) ---\$1,262,200, increased with program income to \$1,466,276.
- NSP Redevelopment of Vacant Properties (Eligible Use E) ----\$345,029.20:
  - 1235 Victoria, North Chicago --- \$175,109.63
  - 2105/2107 Georgetown Lane, Waukegan --- \$170,000
- NSP Single Family Housing Program: Property Acquisition and Rehabilitation of Abandoned and Foreclosed Homes (Eligible Use B) ---\$2,878,520, increased with program income to \$8,282,294.55.
- NSP Program Administration (\$460,080, increased with program income to \$500,000 out of over \$1,000,000 permitted under the 10% admin cap.)

## Neighborhood Stabilization Program Flow Chart

(“a residential recycling program for abandoned or foreclosed properties”)

<p>Pending foreclosure site:</p> <ul style="list-style-type: none"> <li>○ Select “area of greatest need”</li> <li>○ Property is identified</li> <li>○ NSP process begins</li> <li>○ &lt;60 day old appraisal</li> <li>○ Initial housing inspection</li> </ul>	<p>Foreclosure:</p> <ul style="list-style-type: none"> <li>○ Sheriff’s Sale</li> <li>○ Privately financed mortgagee forecloses for value owed</li> </ul>
<p>NSP Acquisition Stage</p> <ul style="list-style-type: none"> <li>○ NSP acquisition occurs at required discount                             <ul style="list-style-type: none"> <li>○ =&gt;5% individual</li> <li>○ =&gt;15% aggregate</li> </ul> </li> <li>○ NSP pays off privately financed mortgagee <sup>(1)</sup></li> <li>○ Title changes hands</li> </ul>	<p>NSP Rehabilitation Stage</p> <ul style="list-style-type: none"> <li>○ Secondary housing inspection</li> <li>○ Rehab bid process to select contractor</li> <li>○ NSP pays for required code related repairs</li> <li>○ Third+ housing inspections</li> <li>○ Rehabilitation complete</li> <li>○ Final housing inspection</li> </ul>
<p>NSP Housing Counseling Stage</p> <ul style="list-style-type: none"> <li>○ =&gt;8 hours</li> <li>○ =&lt;120% AMI program eligibility</li> <li>○ FTHB assistance provided</li> <li>○ Private mortgage approval of secondary purchaser</li> </ul>	<p>NSP Sale/Rental Stage</p> <ul style="list-style-type: none"> <li>○ =&lt;120% AMI household or tenant</li> <li>○ Sale: closing proceeds from secondary private mortgagee pays back NSP funds <sup>(2)</sup></li> <li>○ Rental: annual demographic information required</li> <li>○ Recording of NSP mortgage documents will reflect the NSP period of affordability, which will be payable back to Lake County upon sale or transfer of the NSP assisted home.</li> </ul>

**Economic Stimulus Notes:**

- (1) foreclosed private financing replaced with discounted NSP funds (of which the original mortgagee can lend back out)**
- (2) discounted NSP funds + rehabilitation costs replaced with secondary private financing that returns NSP funds (of which NSP can lend back out)**

## Citizen Participation: Substantial Amendment Approval Process

The NSP application of funds will consist of a ***substantial amendment*** to Lake County's 2008 Annual Action Plan, which was originally approved March 14, 2008. The customary HUD-required CDBG Citizen Participation process has been waived by HUD, such that the amended Action Plan must be published through the County's usual methods and be available on the County's website for at least 15 calendar days for public comment as NSP materials are developed, published, and submitted to HUD:

(<http://www.co.lake.il.us/planning/cd/actionplan.asp>). The following documents are available on the County's website: The HUD Standard 424 application form, the proposed NSP Action Plan amendment, and (ultimately) the final NSP Action Plan amendment (as of December 1, 2008) along with any subsequent NSP amendment/adjustments that are made.

A "Citizen Participation Notice" was published on November 1, 2008 in the News-Sun regarding the NSP Addendum to the 2008 Annual Action Plan (See Appendix 1). Copies of this "Notice" were distributed to over 392 entities from the Community Development Division mailing list. Copies of the proposed NSP Addendum to the 2008 Annual Action Plan were made available at five libraries in different areas of the County, and were distributed to groups and individuals on request. The proposed NSP Addendum to the 2008 Annual Action Plan was available for citizen comment for at least a 15 day calendar comment period prior to approval by the Lake County Board.

The NSP Addendum to the 2008 Annual Action Plan, including Lake County's funding strategies, was approved by:

- o The Affordable Housing Commission on October 21, 2008 (proposed draft);
- o The Lake County Community Development Commission on October 22, 2008 (proposed draft);
- o The Lake County Board's Health and Community Services Committee on November 11, 2008 (final draft);
- o The Lake County Board's Financial and Administrative Committee on November 12, 2008 (final draft); and
- o The Lake County Board on November 18, 2008 (final version).

See the Citizen Participation Comment Appendix regarding the comments received and the actions taken regarding those comments (Appendix 2).

### March 2015 Revision

The 2015 amendment to the NSP1 Substantial Amendment was undertaken to clarify the use of program income funds and to edit outdated language.

### March 2017 Revision

The 2017 amendment to the NSP1 Substantial Amendment was undertaken to further define NSP budgets and to add the redevelopment of vacant property – 1235 Victoria, North Chicago and two townhomes on Georgetown Lane in Waukegan.