



## NEIGHBORHOOD STABILIZATION PROGRAM 2 NSP2 CONCEPT PAPER FOR WASHINGTON METROPOLITAN REGION

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### BACKGROUND

From 2002 to 2007, the Washington metropolitan region experienced rapid growth and development and an accompanying dramatic increase in housing prices caused by easy access to credit and a booming regional economy. The region's population grew by more than 450,000 households in the past five years and by more than 2 million since 1990. Housing prices rose more than 100% in the region from 2000 to 2007, behind only Los Angeles and Miami. Although the recent economic downturn has impacted the pace of growth and caused real economic hardship throughout the region, the region is projected to grow another 30% by 2050.

The region is facing a significant foreclosure problem due to the result of unprecedented subprime lending – which disproportionately impacted neighborhoods of color – unsustainable rising housing prices, the subsequent fall in housing prices leaving homeowners unable to sell their homes or refinance their mortgages, and a reduction in income caused by job loss or reduction in hours. Foreclosures resulting from the adjustment of interest rates on subprime loans are projected to peak in 2009 and 2010. Prime loans are also defaulting at a significant pace as unemployment in the region grows. While loans were originated with the assumption that home prices would continually rise, housing prices in the Virginia suburbs (Prince William, Loudon, Fairfax, Arlington, and Alexandria) fell 23% from 2007 to 2008, while Maryland suburbs (Montgomery and Prince George's Counties) saw their housing values fall by more than 8%. Declining home prices mean that owners cannot sell or refinance their mortgages and create a disincentive for continued mortgage payments.

The foreclosure crisis has had a disparate impact on communities of color. Between March 2007 and February 2008, more than 15,000 houses in the region went into foreclosure, with more than one third in Prince George's County, Maryland or Prince William County, Virginia – counties where Black and Latino homeowners represented the majority of new buyers or people that refinanced their mortgages since 2000. Minorities were 2 to 3 times more likely to receive subprime loans in recent years. The region's increased homeownership rates achieved in the late 1990's has all but been erased, and minorities stand to lose hundreds of millions of dollars of wealth.

## **A TARGETED REGIONAL STRATEGY**

Spanning two states and the District of Columbia, housing directors in the Washington metropolitan region have a history of coming together through the Metropolitan Washington Council of Governments (COG). COG is comprised of 21 local governments surrounding the nation's capitol, and acts as the Metropolitan Planning Organization for the region. The corporation provides a focus for action and sound regional responses to issues such as the environment, affordable housing, transportation, economic development and public safety. Examples of COG's successful housing initiatives include the development of a regional analysis of impediments to fair housing, the creation of a Section 8 mobility counseling program, and the start up and annual coordination of a regional homeless enumeration program. Based on this history of collaboration and due to recognition that the region's housing and jobs market are inter-connected, the region's housing directors were receptive to applying for and administering a regional grant through the U.S. Department of Housing and Urban Development's (HUD) second neighborhood stabilization program (NSP2). In addition, the COG Board directed staff to pursue opportunities for funding created by the federal stimulus bill.

The second round of neighborhood stabilization funding is being released through a competitive grant application. The HUD Notice of Funds Availability allows local jurisdictions to apply on their own, as part of a local consortium, as part of a state consortium or as part of a regional consortium. All of COG member jurisdictions were invited to a May 22<sup>nd</sup> meeting to explore the opportunity to participate in a regional consortium. Based on extensive information provided at this meeting, jurisdictions determined within a week if they would like to participate in a regional work group or pursue another strategy.

The following jurisdictions will participate in the regional consortium seeking funding through the NSP2 program: Prince William County, Virginia; the City of Alexandria, Virginia; the City of Bowie, Maryland; Fairfax County, Virginia; the City of Gaithersburg, Maryland; and Prince George's County, Maryland. COG will serve as the lead agency for this application. Benefits to a regional approach include: 1) ability to leverage private sector partnerships and resources, particularly from nonprofit and for profit lenders and realtors; 2) ability to negotiate discount on bulk purchase of REO inventory; 3) ability to work regionally on some initiatives and locally on others; 4) ability to focus efforts on neighborhoods connected to regional economic, environmental and transportation plans, 5) additional exposure and information about green

rehab required by the grant; and 6) increased capacity that comes from collaborative approach in preparing the application and administering the program.

While the District of Columbia is an important part of the region, the foreclosure crisis in the District is unfolding in a different way than in many of the region's suburban jurisdictions. While the inter-related issues of foreclosure and vacant housing are concerns throughout the region, vacant housing is more of a problem in the District than in the suburban jurisdictions. For this reason, the neighborhood stabilization strategies may vary, and the District has decided to apply separately for NSP2 funds. Also, initially HUD only allowed applicants to choose one of two risk indices to qualify for funding. The District qualified using the vacancy risk factor, while the rest of the region scored high on the foreclosure index. While HUD subsequently shifted gears to allow both indices, the District had already developed a local strategy, held a hearing and worked extensively on its grant application. Given the short time for completion of the application, incorporating them into the consortium became impractical. The District and other COG member jurisdictions will be kept informed and benefit from the work of the consortium. Leila Edmonds, the Director of the D.C. Department of Housing and Community Development is chair of COG's housing directors committee, where foreclosure and local and regional neighborhood stabilization efforts will be regularly discussed.

With approximately \$2 billion available for the entire country, NSP2 grant funds cannot realistically target and improve all of the Washington metropolitan region's impacted properties. For this reason, the consortium decided that further neighborhood targeting was necessary and that neighborhoods that have significant transportation infrastructure, access to jobs and are near commercial corridors be targeted as part of a regional smart growth strategy. Criteria that will be applied to NSP 2 neighborhoods include: access to major transit infrastructure and nodes, access to public transportation, proximity to major employers, areas of recent investment and/or disinvestment, and the soundness of the area's overall housing market. This strategy will maximize the return on infrastructure investment from the region's local, State and federal governments. Additional NSP2 investment will ensure the return on government investments by serving as a resource in providing an attractive and sustainable regional environment for residents and employers alike.

The consortium will undertake the following four NSP2 activities: the provision of financial assistance to homebuyers seeking to purchase foreclosed and/or abandoned properties; the

acquisition, rehabilitation and resale of foreclosed and/or abandoned properties; the acquisition, rehabilitation and rental of foreclosed and/or abandoned properties; and the transformation of foreclosed and/or abandoned properties into permanent supportive housing. The consortium will also implement green building principles into its rehabilitation program. Attention to green development will improve the region's awareness and use of sustainable building practices in addition to provide jobs for a rapidly expanding green workforce.

## **SUSTAINABLE AND AFFORDABLE FUTURE**

Although not immune, to the nation's economic recession, the Washington metropolitan region continues to be an economically strong and attractive business environment due, in part, to the continued federal government presence and growth. In a June 2009 Brookings Institution report, the Washington area ranked near the top of 100 metropolitan areas on most economic indicators for the first quarter of 2009. A regional approach to neighborhood stabilization provides jurisdictions with additional resources to stabilize neighborhoods that contribute to smart growth and development. Using federal resources to create balanced neighborhoods that include a mixture of affordable rental and homeownership opportunities will provide families with a variety of housing choices, stabilize the revenue sources of local jurisdictions, and focus regional attention on sustainable green building practices. The implementation of an NSP2 program across the Washington metropolitan region's jurisdictional lines will open the dialogue for additional regional initiatives – here and throughout the country – that bring together housing, transportation and environmental programs.