NSP2 Workout Plan
Homebuyer Assistance
Prepared July 2011
Department of City Development
UPDATED – September, 2011

NSP HOMEBUYER ASSISTANCE

BUDGET: $2,000,000

OBLIGATED: ~~$391,708~~ $446,347

EXPENDED: ~~$234,043~~ $347,895

IN PROCESS: ~~$150,000~~ $120,000

Progress

The NSP Homebuyer Assistance Program provides forgivable loans of up to $30,000 for the purchase and rehabilitation of a foreclosed property for homeownership. The Program also provides technical assistance – program staff assists applicants by preparing a scope of work, assisting them in obtaining bids for the necessary rehabilitation work and monitoring and overseeing the construction process.

The program was very successful in NSP 1, providing assistance to 71 homeowners for the acquisition and rehabilitation of 92 housing units at an average per unit loan amount of under $17,000. All NSP 1 cases involved some level of rehabilitation as part of the purchase. The program also leveraged considerable investment in the form of bank financing and owner's equity.

NSP Homebuyer Assistance Program activity began in October of 2010, after full obligation of the City's NSP 1 grant. Currently, the amount of funding that has been obligated or is in process in this activity is ~~27%~~ 28% of the total budget. "In process" activity reflects applications that have already been received, met the qualifications for the program and are in the process of finalizing a rehabilitation plan and obtaining construction bids so they can proceed to closing.

Challenges

Experience thus far has indicated that given that the NSP 2 target area is significantly smaller than the NSP 1 target area, demand for the Homebuyer Assistance Program has diminished .This is due to the relatively poorer condition of the foreclosed housing stock in the NSP 2 target area.

Market data reflects these challenges. A review of foreclosed property sales since July 1, 2009, indicates there have been 1,533 sales of foreclosed properties in the NSP 2 program area. The average sale price has been $27,530. The average foreclosed home in the NSP2 area is selling for only 36.8% of its City assessed value. The average amount of time from when a home is acquired by a bank at Sheriff's Sale and when it is subsequently conveyed to a new owner is just over seven months (in addition to any time it is vacant before Sheriff's Sale). The protracted sales periods often results in deterioration in the condition of foreclosed properties. As a result, these properties require higher levels of rehabilitation, making them more difficult and challenging – and less appealing – for prospective homeowners to purchase.

The target area challenges are further evidenced by final results for the City's NSP 1 Program. At the close of the obligation period for the NSP 1 Program (September of 2010), a review of NSP 1 Homebuyer Assistance activity indicated that only 35% of NSP 1 Homebuyer Assistance properties were located in the NSP 2 Area. A budget shift was recently proposed and approved to bring the level of funding for the program to its current $2,000,000 level.

A final challenge common to all NSP 2 activities is while the grant period began in February of 2010, City NSP staff focused during 2010 on meeting the deadlines associated with the NSP1 program. This delayed the implantation of NSP2 activities until the later part of 2010 and early 2011. This delay has required (and will continue to require) an accelerated pace of expenditures to meet the deadlines of the NSP2 program.

Plan

Given the challenges, the City is implementing a number of activities and minor program modifications to help increase demand and homeownership.

1) Collaboration with City Real Estate

The City of Milwaukee's Real Estate Division's inventory of tax foreclosed property has increased significantly. The City currently owns over 500 tax foreclosed properties and is anticipating acquiring an additional 500 properties in 2011. City Real Estate has been collaborating closely with the NSP Program and is offering their property inventory at deeply discounted prices for NSP initiatives. This includes providing foreclosed tax deed properties under a new"$1 House" Program in which City owned tax foreclosed properties are being offered for $1 to qualified NSP homebuyers. NSP Homebuyer Assistance resources are being coupled with the purchases to assist homebuyers in undertaking necessary repairs. The City recently accepted an offer for the first home under the program, and an additional offer is pending. To further spur marketing efforts, two houses identified for the program are currently being rehabilitated to the NSP Homebuyer Assistance Program rehab standard. These will be used as "models" to illustrate the "before and after" for a foreclosure project and help prospective buyers envision the potential when buying a foreclosed properly as well as showcase opportunities under the program.

2) Outreach Activities

Throughout the NSP program, the City has had an active outreach and marketing campaign, involving local lenders, real estate brokers, community organizations and homebuying counseling agencies. Recently, those efforts have been expanded and enhanced. Milwaukee's Homeownership Consortium ("Take Root Milwaukee") has stepped up its collaboration with NSP and has implemented a media campaign (including television, radio advertising and the internet) to promote NSP and the City's $1 House Program. As a result, in the past two months the Consortium has received almost six hundred calls regarding NSP and forwarded them to NSP program staff so that program information can be distributed and inquires can be personally responded to.

A successful information campaign is only one component of the City's outreach activity. To insure that potential buyers are both well informed and engaged in the process, weekly NSP workshops are being held at local libraries, as well as open houses at foreclosed properties showcasing NSP homebuying opportunities. A major event is planned for August in conjunction with NSP lenders, realtors and homebuying counseling agencies, in which prospective buyers can get "pre-qualified" for the NSP program as well as mortgage financing. It is expected to attract over 200 families.

3) Program Modifications

Program modifications are being employed to encourage additional participation in the Homebuyer Assistance Program.

In the NSP 1 Homebuyer Assistance Program, in order to submit an application for the program, homebuyers had to provide an accepted offer to purchase, a prequalification for financing, and proof of 8 hours of homebuyer counseling. The rationale was that before committing staff time to the processing of an application, it was important to insure that the applicant was "purchase ready." For some homebuyers, in particular first time homebuyers, this may seem daunting. Therefore, on a test basis, homebuyers can get "prequalified" for the program before they shop for a home. The prequalification would include a review of income for NSP eligibility purpose and their financing commitment. This will allow them to shop for a home, with the confidence they meet the basic eligibility criteria for the program. It will also allow staff to engage with participants earlier, direct them to possible purchase opportunities, and monitor and encourage their progress.

In the NSP 1 Program, NSP assistance was structured as a forgivable loan, which was forgiven in full at the expiration of the period of affordability. Since homeownership was seen as critical to addressing the foreclosure issue, the City wanted to insure and encourage the longest possible period of retention. However, as most of the NSP assistance loans were over $15,000, the period of affordability and full forgiveness milestone was 10 years. This was not an impediment in NSP 1, but in a more challenged NSP 2 target area, this has been voiced as a deterrent to program participation. Therefore, a program modification is being made that will keep the same affordability periods, but allow a prorated portion of the loan to be forgiven over the period of affordability to encourage additional participation.

Based on the level of obligations and expenditures generated since NSP 2 activity commenced in October of 2010, monthly activity would have to double in order to totally expend the funds in this category before February of 2013. This is based on the assumption that all funds would have to be obligated prior to September of 2012, given all HBA cases involve rehabilitation, and enough time would have to be allowed to complete the rehabilitation associated with the purchase.

While the activities described above should increase demand, the expenditure and obligation levels will be re-evaluated on a monthly basis. If the program is not on track to meet the expenditure deadline, a decision will be made in the first quarter of 2012 regarding shifting funds from this category to another NSP activity. In regard to the 50% expenditure deadline of February of 2012, programs are being monitored in the aggregate to insure that a shortfall in expenditures in this program would be covered by excess expenditures in other NSP 2 activities.

RENTAL LARGE PROJECTS

BUDGET: $3,400,000

OBLIGATED: $645,235

EXPENDED: ~~$95,708~~ $256,319

IN PROCESS: ~~$1,200,000~~ $1,300,000

Progress

The Rental Large Projects Program is helping address the loss of quality affordable rental housing for low income families resulting from the foreclosure crisis. This activity involves the acquisition and rehabilitation of both multifamily and scattered site single family and duplex properties.

The pool of properties include ones acquired by the City's NSP Land Bank, City tax foreclosures, bank foreclosures, and vacant properties. NSP 2 funds are being be used to provide gap financing for development and are leveraging other funding sources, including low income housing tax credits, private mortgage financing and developer equity. Developers participating in the program commit to income and rent restrictions consistent with those required for the federal HOME program.

In NSP 1, the program provided $347,000 in assistance to 4 projects for the acquisition and rehabilitation of 10 housing units with an average per unit loan amount of $34,700. The program also leveraged considerable investment in the form of bank financing and owner's equity.

NSP Rental Large Projects activity began in October of 2010, after full obligation of the City's NSP 1 grant. Currently, the amount of funding that has been obligated or is in process in this activity is 54% of the total budget. "In process" activity reflects projects for which the City has issued "pre-commitments" of NSP funds, have received tax credit awards, and are undergoing final underwriting. In process projects are anticipated to close by the end of the third quarter of 2011. Projected expenditure milestones for this activity also take into account the terms for release of NSP funds that are currently contained in the Development Agreements and term sheets for the projects.

The City has made considerable effort to identify and encourage developer participation in the program. As a result, several large scale affordable housing developers are participating in the program and collaboratively working with the City to identify additional projects that will benefit NSP neighborhoods.

In addition, the City has worked with the Wisconsin Housing and Economic Development Authority (WHEDA), which is the state agency that allocated Low Income Housing Tax Credits to prioritize tax credit projects that involve the redevelopment of foreclosed properties. As a result, in the 2011 competitive tax credit round, several Milwaukee NSP projects received allocations of tax credits.

The demand for the program has increased, and as a result, the City recently requested and received a budget shift in this category of $1 million.

<u>Challenges</u>

The challenges associated with the program relate to the considerable lead time that is often involved in implementing a large scale project. In addition, since over 90% of the bank owned and City owned foreclosure are 1 and 2 family properties, there are also challenges associated with the assembly of large numbers of clustered scattered site properties which are controlled by multiple owners.

An additional challenge common to all NSP 2 activities is while the grant period began in February of 2010, City NSP staff focused during 2010 on meeting the deadlines associated with the NSP1 program. This delayed the implantation of NSP2 activities until the later part of 2010 and early 2011. This delay has required (and will continue to require) an accelerated pace of expenditures to meet the deadlines of the NSP2 program.

<u>Plan</u>

The City has implemented the following strategies to address these challenges.

<u>1) Collaboration with City Real Estate</u>

The City of Milwaukee's Real Estate Division's inventory of tax foreclosed property has increased significantly. The City currently owns over 500 tax foreclosed properties and is anticipating acquiring an additional 500 properties in 2011. NSP staff has been collaborating closely with the City's Real Estate Division to support activity in this program. Traditionally, City Real Estate had a policy of severely limiting the sale of tax foreclosed properties to investors. As a result of the foreclosure crisis and City Real Estate's collaboration with NSP, the City's Common Council recently approved a change to that policy to make it easier for responsible investors to purchase foreclosed properties who are utilizing NSP. Working with

NSP staff, properties are being targeted for the program that may not be viable for homeownership (e.g., level of required rehab, two family properties that aren't desirable homeownership candidates) and being sold to NSP participants at deeply discounted prices.

2) Collaboration with Wisconsin Housing and Economic Development Authority

As indicated above, the Wisconsin Housing and Economic Development Authority (WHEDA), is the state agency that allocates low income housing tax credits for the State of Wisconsin. In order to submit an application for credits, developers must provide evidence of site control with their application. For a scattered site project, this is extremely challenging since the assembly of multiple properties involves negotiations with a number of lenders and servicers. Further, because of the urgency among the owners of foreclosed properties to liquidate their foreclosure holdings, they are unable to exhibit the degree of patience necessary to accommodate the extended purchase option periods normally associated with low income housing tax credit projects. The City worked with WHEDA on an arrangement that allowed developers to submit their applications with site control for groups of City tax foreclosures which were available at application time. However, it was with the understanding that if tax credits were awarded, the developer had the opportunity to later substitute other foreclosed properties for their tax credit project which would provide them the optimum mix of properties for both redevelopment and clustering purposes. The strategy was successful in that two Milwaukee NSP scattered site projects applied for tax credits that included 40 city tax foreclosed properties. Both received tax credit awards, are in the final underwriting process and have refined their selection of properties to achieve the maximum positive impact on NSP neighborhoods.

3) Outreach Activities

Throughout the NSP program, the City has had an active outreach and marketing campaign, involving local lenders and real estate brokers. These efforts have been further expanded, including collaboration with the Apartment Association of Southeast Wisconsin (the local trade association for rental property owners) and the City's Landlord Training Program.

Based on the level of obligations and expenditures generated since NSP 2 activity commenced in October of 2010, if the current pace of activity is maintained, the 50% expenditure deadline will be exceeded, and the program would also meet its full expenditure deadline. There are also several "pipeline" projects that are not included in the "in process" numbers reflected above. These are multifamily projects where the City is currently working with developers and the lenders who own the properties prior to the formal submission of an application for NSP funding.

VACANT LAND – NEW CONSTRUCTION

BUDGET: $3,400,000

OBLIGATED: ~~$1,305,464~~ $2,220,803

EXPENDED: $283,714

IN PROCESS: $400,000

Progress

The Vacant Land New Construction Program involves the construction of high quality affordable housing on vacant land, including vacant land resulting from the demolition of abandoned, foreclosed and blighting structures.

In NSP 1, the program provided $1,313,900 in assistance to 12 projects for the acquisition and rehabilitation of 84 housing units with an average per unit loan amount of under $15,600. The program also leveraged considerable investment in the form of bank financing and owner's equity.

NSP Vacant Land New Construction activity began in October of 2010, after full obligation of the City's NSP 1 grant.

Almost all of the sites being developed under the program are those acquired by the City through the tax foreclosure process and sold to developers at nominal value. All of the projects also involve the utilization of the low income tax credit program, which is leveraging additional resources for NSP efforts.

The City has made considerable effort to identify and encourage developer participation in the program. As a result, several large scale affordable housing developers are participating in the program and collaboratively working with the City to identify projects that will benefit NSP neighborhoods and support other NSP activities. Funds obligated or in process in this category account for ~~65%~~ 77% of the program budget.

The “in process” numbers reflected above involve projects where pre-commitments of NSP funds have been issued for tax credit projects and final underwriting is in process. Projected expenditure milestones also take into account the terms for release of NSP funds that are currently contained in the Development Agreements and term sheets for the projects

Challenges

The main challenge associated with the program relate to the considerable lead time that is often involved in implementing a large scale new construction project. The funding has been used exclusively for multi-family projects. The City has been reluctant to utilize funding for the construction of new single family homes for homeownership because of the depressed real estate market and the significant subsidies that would be necessary based on the cost to develop single family homes vs. the estimated for sale market value. This is more than a subsidy issue – the City does not wish to further negatively impact the value of newer single family homes that were built in City redevelopment areas (within the NSP 2 target area) with little or no subsidy prior to the downturn in the real estate.

Because the projects that have received NSP funding have also utilized low income tax credits and other financing resources, the average per unit subsidy for the projects that have received NSP assistance or a commitment of NSP funds has been considerably less than the $30,000 per unit that had been projected. As a result, the unit goal for this category has already been exceeded.

A final challenge common to all NSP 2 activities is while the grant period began in February of 2010, City NSP staff focused during 2010 on meeting the deadlines associated with the NSP1 program. This delayed the implantation of NSP2 activities until the later part of 2010 and early 2011. This delay has required (and will continue to require) an accelerated pace of expenditures to meet the deadlines of the NSP2 program.

Plan

Based on the level of obligations and expenditures generated since NSP 2 activity commenced in October of 2010, if the current pace of activity is maintained, the 50% expenditure deadline will be exceeded, and the program would also meet its full expenditure deadline.

However, given there are limited number of “pipeline” projects that are over and above the “in process” numbers reflected above, the City will monitor this activity carefully and work with its development partners to insure that sufficient projects are in process with sufficient lead time to meet the final February 2013 expenditure deadline.

ACQUISITION/REHAB

BUDGET: $5,450,000

OBLIGATED: ~~$2,221,871~~ $2,984,567

EXPENDED: ~~$387,682~~ $1,026,106

IN PROCESS: ~~$1,551,900~~ $1,006,000

The Acquisition/Rehab Program involves purchase and redevelopment of vacant foreclosed properties by private developers or by a City of Milwaukee-affiliated entity. Redeveloped properties are offered for sale for affordable homeownership. The program provides subsidies to provide "gap funding" for the difference between the cost to purchase and rehabilitate a property and the sale price for affordable homeownership. These properties are targeted for purchase by families with income of less than 120% of area median income.

In the City's NSP 1 program, 21 foreclosed properties containing 25 units of housing were developed under the program. The program has been very successful and there has been a demonstrated strong demand for houses developed under the program for affordable homeownership. Acquisition/Rehab properties developed under NSP 1 (located within the NSP 2 target area) have generally sold within two weeks of being listed, and the City's NSP real estate brokers and home buying counseling agencies report a strong demand for finished product. The program has an important secondary benefit in supporting local neighborhood real estate markets. Properties developed under the program have been selling for and achieving appraised values far in excess of many of the comparable sales that are available relating to foreclosure sales. This is establishing new comparables for appraisal purposes that should have a positive impact on future sales of rehabbed properties as well as non-foreclosed arms length transactions.

As a result of this experience, and given the importance of promoting homeownership in light of the loss of homeownership in the City due to the foreclosure crisis, a budget shift was recently proposed and approved to bring the level of funding for the program to its current $5,450,000 level. With the $5,450,000 budget for this activity for NSP 2, the City is proposing to acquire and develop 73 units of housing.

Currently, the amount of funding that has been obligated or is in process in this activity is ~~69%~~ 71% of the total budget. The "in process" numbers reflected above involve projects where projects have been identified, and properties have either been acquired, or are under contract. Most are in the bidding process prior to project set-up and commencement of development. Projected expenditure milestones assume a 90 day construction period, which has been built into all construction contracts and Development Agreements for the program.

Challenges

The challenges associated with the program relate to the level of capacity in the community that is available to undertake these projects. There are few non-profit community development corporations in Milwaukee who develop housing. In the NSP 1 program, almost all of the activity was carried out by the City through its non-profit corporation housed within the Department of City Development.

An additional challenge is making right selection of properties to insure that they can be sold in a relatively short period of time after completion. It would be detrimental and risky to the program and City neighborhoods if large numbers of vacant rehabilitated properties remained on the market for protracted periods of time.

A final challenge common to all NSP 2 activities is while the grant period began in February of 2010, City NSP staff focused during 2010 on meeting the deadlines associated with the NSP1 program. This delayed the implantation of NSP2 activities until the later part of 2010 and early 2011. This delay has required (and will continue to require) an accelerated pace of expenditures to meet the deadlines of the NSP2 program.

Plan

The City has implemented the following strategies to address these challenges.

1) Recruitment of Development Partners

The City has made a concerted effort to recruit additional development partners for its efforts. Currently, there are five developers that are actively participating in the City's Acquisition/Rehab program and three additional developers who the City is working with to identify projects for. The Zilber Group, a local real estate development firm with a long history and considerable experience in real estate development, has become a partner in the City's Neighborhood Stabilization Program. With significant capacity, they are currently developing 2 properties per month under the program. Additional partners include Kuhs Development and Cross Development, both who had significant experience in new homebuilding in partnership with the City in NSP 2 redevelopment areas. In light of the depressed real estate market, they have “retooled” their businesses and successfully moved from new construction to rehabilitation activities.

2) Property Selection

The City has been thoughtful and diligent in selecting properties for inclusion in the program. Properties are evaluated for their rehabilitation potential, desirability for homeownership, and context within a neighborhood. Efforts are made to cluster properties together to support the market and achieve the maximum benefit for NSP neighborhoods. Whether acquired by the City’s landbank for the program, or directly by participating developers, a market assessment is performed prior to acquisition by an experienced real estate broker to evaluate the properties likely selling price and market potential for homeownership.

3) Marketing

Through a Request for Proposals process, the City has contracted with three local real estate brokers who are familiar with the NSP 2 target area to market and sell its NSP properties.

These brokers work in conjunction with NSP outreach staff, who are also active in marketing NSP acquisition rehab properties, and have developed a pipeline of pre-qualified homebuyers. Marketing activities begin prior to completion and include open house previews for neighborhood residents, outreach with homebuying counseling agencies, website advertising, and listing on the local Multiple Listing Service.

Based on the level of obligations and expenditures generated since NSP 2 activity commenced in October of 2010, if the current pace of activity is maintained, the 50% expenditure deadline will be exceeded, and the program would also meet its full expenditure deadline by the February 2013 deadline.

NSP RENTAL REHABILITATION

BUDGET: $1,250,000

OBLIGATED: $~~159,023~~ $174,083

EXPENDED: $~~86,069~~ $87,545

IN PROCESS: $137,000 $197,490

Progress

The Rental Rehabilitation Program provides resources for the rehabilitation of foreclosed properties being developed for affordable rental opportunities and primarily focuses on 1-4 family properties. The program offers forgivable loans to responsible landlords, on a matching funds basis, to pay for necessary repair and renovation costs (participants purchase the foreclosed property with their own resources). The program pays for up to half of the rehabilitation costs (capped at $17,500 per unit, with the amount depending on income targeting benchmarks that are met). Property owners are screened with the local city and court records, and only those with good track records of owning and managing property are eligible for participation. Landlords participating in the program commit to income and rent restrictions consistent with those required for the federal HOME program.

For NSP 1, the program provided $1,078,500 in forgivable loans for the rehabilitation of 37 foreclosed properties containing 77 units with an average per unit loan amount of just over $14,000.

NSP Rental Rehabilitation Program activity began in October of 2010, after full obligation of the City's NSP 1 grant. Currently, the amount of funding that has been obligated or is in process in this activity is ~~24%~~ 30% of the total budget. "In process" activity reflects applications that have already been received, met the qualifications for the program and are in the process of finalizing a rehabilitation plan and obtaining construction bids so they can proceed to closing.

Challenges

The challenges associated with the program include the relatively more distressed conditions of foreclosed properties in the NSP 2 target which make them more difficult for smaller investors to redevelop.

Market data reflects these challenges. A review of foreclosed property sales since July 1, 2009, indicates there have been 1,533 sales of foreclosed properties in the NSP 2 program area. The average sale price has been $27,530. The average foreclosed home in the NSP2 area is selling for only 36.8% of its City assessed value. The average amount of time from when a home is acquired by a bank at Sheriff's Sale and when it is subsequently conveyed to a new owner is just over seven months (in addition to any time it is vacant before Sheriff's Sale). The protracted sales periods often results in deterioration in the condition of foreclosed properties. As a result, these properties require higher levels of rehabilitation, making them more difficult and challenging – for responsible investors to purchase.

In addition, access to capital and financing for projects has been restricted due to the economic downturn and stricter underwriting criteria, particularly for investment properties. Many participants in the Rental Rehabilitation Program, including experienced landlords have had to utilize cash for acquisition and the matching funds for rehabilitation, especially for the construction phase of their projects.

Plan

The City has implemented the following strategies to address these challenges.

1) Collaboration with City Real Estate

The City of Milwaukee's Real Estate Division's inventory of tax foreclosed property has increased significantly. The City currently owns over 500 tax foreclosed properties and is anticipating acquiring an additional 500 properties in 2011. NSP staff has been collaborating closely with the City's Real Estate Division to support activity in this program. Traditionally, City Real Estate had a policy of severely limiting the sale of tax foreclosed properties to investors. As a result of the foreclosure crisis, and their collaboration with NSP, the City's Common Council recently approved a change to that policy to make it easier for responsible investors to purchase foreclosed properties who are utilizing NSP. Working with NSP staff, properties are being targeted and jointly marketed for the program that may not be viable for homeownership (e.g., level of required rehab, two family properties that aren't desirable homeownership candidates). Properties are sold to NSP participants at deeply discounted prices.

2) Outreach Activities

Throughout the NSP program, the City has had an active outreach and marketing campaign, involving local lenders and real estate brokers. These efforts have been further expanded, including collaboration with the Apartment Association of Southeast Wisconsin (the local trade association for rental property owners) and the City's Landlord Training Program.

3) Financing

To help address the challenges associated with obtaining financing for rental rehabilitation projects, the City has continued its outreach with local lenders to encourage them to consider financing for rental rehabilitation projects. The local office of the Local Initiatives Support Corporation (LISC) has agreed to, and has financed some small scale NSP projects. In addition, the City is in the process of finalizing commitments with lenders to capitalize an NSP Leveraged Loan fund (an NSP2 funded activity) which once implemented, should assist program participants in financing rental projects under the program.

Based on the level of obligations and expenditures generated since NSP 2 activity commenced in October of 2010, monthly activity would have to double in order to totally expend the funds in this category before February of 2013. This is based on the assumption that all funds would have to be obligated prior to September of 2012 given all Rental Rehabilitation cases involve rehabilitation, and enough time would have to be allowed to allowed for completion

While the activities described above should increase demand, the expenditure and obligation levels will be re-evaluated on a monthly basis. If the program is not on track to meet the expenditure deadline, a decision will be made in the first quarter of 2012 regarding shifting funds from this category to another NSP activity. In regard to the 50% expenditure deadline of February of 2012, programs are being monitored in the aggregate to insure that a shortfall in expenditures in this program would be covered by an overage in expenditures in other NSP 2 activities.

NSP LEVERAGED LOAN FUND

BUDGET: $1,500,000

OBLIGATED: $0

EXPENDED: $0

IN PROCESS: see below

Access to capital is a continuing challenge in addressing redevelopment of foreclosed and vacant properties for both private and non-profit developers. This has been the experience of the City and its development partners in NSP 1 and NSP 2. Funding for this activity was proposed to leverage other financing programs offered by 3rd party capital providers (including the National Community Stabilization Trust or other lenders) to provide financing for the purchase and/or rehabilitation of foreclosed properties.

The City has been working with several local and national lenders over the past several months to form a loan pool that would utilize NSP resources to provide a guaranty for the top 20% of risk for NSP redevelopment projects.

Challenges

The challenges associated with the activity included educating potential loan participants on the activities of NSP 2 and the relative success of development activity that has occurred to date in the NSP program.

Because of the foreclosure crisis, and the depressed real estate market, lending has constricted considerably, and lenders perceive a more significant amount of risk associated with the acquisition of foreclosed and vacant properties. Lenders have indicated that the type of lending being proposed is further challenging because of the nature of the transactions, i.e., the redevelopment of vacant properties and the risks and oversight associated with rehabilitation and construction activity.

Further, some lenders were less than enthusiastic about the pooled loan concept from an administrative and oversight standpoint.

Plan

The City has implemented the following strategies to address these challenges.

Loan Pool Structure

The City put together a loan pool plan to address the individual needs and concerns of potential lending participants. Key elements included:

- In its meetings with lenders, lenders indicated a preference for utilizing EQ2 or a similar investment vehicle for the loan fund. They also indicated that they preferred to lend the money to the City or one of its affiliates which would relend the funds to eligible NSP developers in contrast to a loan participation pool, where each lender would have a prorata and direct share of individual loan transactions.

  The City proposed the City's Neighborhood Improvement Development Corporation serve as the financial intermediary for the program. The Neighborhood Improvement Development Corporation (NIDC) is a non-profit corporation established by the City of Milwaukee to promote reinvestment in housing and neighborhood development within the City. It has been in existence since 1973 and is housed within the City of Milwaukee's Department of City Development (DCD) and has assisted in administering the City's NSP activities.

- Consistent with lenders' expressed preferences, lenders would make a low interest EQ2 or patient loan (on a non-recourse basis) to NIDC, and NIDC would utilize the funds to make loans to eligible developers of foreclosed properties. The term of the bank loan/investment would be four years. NSP 2 funds would be pledged to cover the top 20% of risk of individual loans originated through the pool. Since the terms of the underlying loans originated to individual developers would vary, NIDC would make scheduled interest payments on the bank loan/investment and principal would be repaid at maturity.

- Loans would be underwritten consistent with underwriting criteria that have been developed for the program which have been provided to participating lenders for their review and approval. Loans would be approved by a loan committee composed of representatives from the City and participating lenders.

- Activity under the fund would be jointly administered by the City and a third party loan administrator with specific experience in the administration and oversight of programs involving the redevelopment of vacant and foreclosed homes.

- Since each loan transaction would also have a companion NSP 2 subsidy contribution, consistent with its current procedures for the NSP program, city staff will prescreen applicants for their track record of owning and managing property in the City. They will also manage and oversee the construction process, insuring that projects are completed consistent with an approved rehabilitation plan, on time and on budget.

Plan

The formal loan fund proposal described above was presented to lenders in May. Subsequent meetings were scheduled to answer questions and provide additional information. Lenders considering the pool are US Bank, Chase Bank, Bank of America, Deutsche Bank, Guaranty Bank, PNC Bank and M & I Bank (now Harris).

The City also engaged a loan fund administrator who has prepared underwriting guidelines, procedures and documents for the program. The administrator is the Wisconsin Partnership for Housing Development, Inc. (WPHD) has been in existence since 1985 and has provided housing assistance to over 15,000 households. WPHD has created, managed or provided consulting services for 12 financing programs in two states that have provided over $300 million in debt and equity financing to develop, rehabilitate 7,700 homes. WPHD has been a HUD-funded Technical Assistance provider since 1988, primarily through HUD’s CHDO Technical Assistance and HOME Technical Assistance programs. Most recently, WPHD was one of ten national Technical Assistance providers selected by HUD to work with grantees, sub-grantees and sub recipients and their development partners in the Neighborhood Stabilization Program.

~~Two~~ Four banks have indicated commitments are forthcoming. The goal is to have all commitments in place by ~~mid August~~ the end of September. Since guidelines, procedures and processes for the program are nearly complete, loan origination activity should commence shortly thereafter.

Given the time frame to the full expenditure deadline of NSP 2, the City scaled back its requests from funding for a pool of $5 million to an initial pool of $2.5 million. Lenders have indicated if demand exceeded this level of funding, they would be willing to provide additional capital. The project milestone schedule assumes additional demand beyond $2.5 million.

However, if the $2.5 million level of funding is sufficient, approximately $500,000 of NSP 2 funds will be needed to support the program. This will be closely monitored and evaluated at year end, and if necessary, a funding shift will be made from this program activity to another NSP category with excess demand.

UPDATED – September, 2011

NSP2 LANDBANK

BUDGET: $~~2,000,000~~ $1,700,000
$300,000 allocated to City In Rem properties

OBLIGATED: ~~$565,191~~ $685,971

EXPENDED: ~~$441,870~~ $515,374

IN PROCESS: ~~$45,000~~ $52,130

Progress:

The City of Milwaukee has allocated $2 million of NSP2 funds to be utilized to carry out landbank activities which include the acquisition of 67 properties. Currently, all of those funds have been allocated to the Milwaukee Neighborhood Reclamation Company LLC (MNRC), which is a limited liability company established to carry out the purchase and disposition of foreclosed homes to support the City's ongoing NSP activities. It is not the goal of the MNRC to be a long-term holder of foreclosed homes. Properties purchased by the MNRC are generally either slated for rehabilitation through one of the City's NSP programs or demolition and longer-term landbanking of the resulting vacant land. In either case, properties are purchased in areas where the City is targeting NSP funds to support ongoing neighborhood revitalization efforts.

MNRC carried out landbank activities utilizing the City's NSP1 allocation and a sub-award of State NSP1 funds as well, which resulted in the acquisition of 44 foreclosed properties containing 67 units of housing. NSP Landbank activity began in October of 2010, after full obligation of the City's NSP 1 grant.

Currently, the amount of funding that has been obligated or is in process in this activity is ~~31%~~ 37% of the total budget. MNRC has completed acquisitions or signed purchase contracts for the acquisition of 20 properties containing 45 units of housing. "In process" projects represent two properties MNRC has accepted offers on.

Challenges:

There are two primary challenges which have resulted in current landbank obligations and expenditures being lower than projected at the outset of the NSP2 grant period. The first is that while the grant period began in February of 2010, City NSP staff focused during 2010 on meeting the deadlines associated with the NSP1 program, which had the impact of delaying NSP2 activities and expenditures from ramping up until the later part of 2010 and early 2011. This delay has required (and will continue to require) an accelerated pace of expenditures to meet the deadlines of the NSP2 program.

A secondary cause of expenditures being lower than projected has been the continuing declines in the neighborhood real estate markets in the City's NSP2 program area. Decreased prices have allowed the MNRC to acquire units at a lower cost than originally projected. While this has the positive effect of making it easier to achieve performance measures and potentially allowing the MNRC to impact more units than originally expected, decreased acquisition costs also have the effect of reducing the pace of expenditures, even as the number of units acquired meet or exceed projections. The average assessed value of the properties acquired by the MNRC using NSP2 funds is $88,485; however, the average acquisition price has been $22,041. As a result, while 28.2% of activity funds are obligated, 67.2% of projected units are under contract or acquired. Depressed pricing will continue to be a factor impacting the rate of landbank expenditures, but will have the positive side effect of allowing the City to carry out additional NSP activity.

Plan

MNRC has identified a number of actions which it will carry out in the coming months to ensure that these expenditure goals are exceeded.

1) Utilize NSP2 Landbank Funds to maintain City Owned Tax Foreclosed Properties

In Milwaukee, properties which are tax delinquent are foreclosed on through a judicial process initiated by the City, which results in the City acquiring clear title and being responsible for marketing these foreclosed properties for sale, in effect operating a *de facto* landbank.

The foreclosure crisis has resulted in the City taking ownership of increasing numbers of abandoned, tax foreclosed properties. The City currently owns over 500 tax foreclosed properties and is anticipating acquiring an additional 500 properties in 2011. The vast majority of these properties are in the City's NSP2 target neighborhoods. If they are not maintained to a high standard, managed appropriately and disposed of in a responsible manner, these properties have the potential to undermine the work that the City is carrying out in the NSP2 target neighborhoods.

In the fall of 2010, the City explored the possibility of utilizing NSP funds to assist with the maintenance of tax foreclosed properties in NSP2 neighborhoods. Based on NSP policy guidance received from HUD at that time, the City elected not to pursue that option. However, during the summer of 2011, HUD provided updated policy guidance which would allow NSP2 landbank funds to be used to maintain tax foreclosed properties without triggering requirements which could be excessively burdensome barriers to resale.

The City plans to begin to utilize NSP2 landbank funds to maintain a large group of tax foreclosed properties in the NSP2 target neighborhoods in the near future. City Real Estate staff are currently evaluating the properties recently acquired through tax foreclosure and slated for acquisition in the coming months to determine which are appropriate to be maintained with NSP2 funds. During September, the Department plans to make a formal request to the Common Council to reallocate a portion of NSP2 landbank funds from the MNRC to the City to be utilized for these purposes.

Property set-ups would occur shortly thereafter and initial expenditures could begin immediately. Many of the expenses in maintaining tax foreclosed properties, including board-up and clean-out charges, occur shortly after acquisition, so this initiative has the potential to result in significant expenditures of NSP2 funds.

This strategy will allow the City to employ a higher standard of maintenance on these properties in an attempt to arrest decline in the NSP2 neighborhoods, as well as employ some creative marketing strategies that may not be possible absent NSP2 funding.

<u>2) Explore Purchase of Larger Property(ies)</u>

Program staff is currently in the process of evaluating an opportunity to purchase a number of larger apartment buildings which are negatively impacting one of the City's NSP2 target neighborhoods. These properties are part of a portfolio of properties overseen by a local bank, who has expressed a willingness to negotiate a sale to MNRC.

Because of the timing of the foreclosure action impacting these properties, it is unlikely that this project would help the City meet the 50% expenditure deadline of February 2012. However, if this project moves forward, it would result in a significant expenditure of landbank funds prior to the February 2013 deadline.

City staff is carrying out the due diligence associated with these potential acquisitions and plan to have determined prior to the end of the year whether they are likely to proceed. If it becomes clear that these acquisitions will not occur, the City will continue to evaluate other similar opportunities as well as cultivating a large enough "pipeline" of projects using strategies #1 and #3 that it will be able to meet the expenditure deadlines without relying on a single large acquisition.

3*) Continue Strategic Acquisitions to Support Ongoing NSP2 Activities:*

Program staff continually evaluates foreclosed properties available through the National Community Stabilization Trust, Fannie Mae, and HUD/FHA First Look Programs, as well as the local Multiple Listing Service. Staff physically inspects an average of 15-20 properties each month for potential purchase.

The MNRC will implement a number of additional strategies to increase the pace of acquisitions and expenditures for the program.

These strategies include utilizing the MNRC's contract title company to facilitate closings for property acquisitions. In past transactions, the MNRC has occasionally utilized title companies selected by the seller (at the seller's expense). While this did result in some cost savings to MNRC, these companies were often unfamiliar with local regulations and closings were often delayed as a result. Utilizing a local title company to handle all closings should result in streamlined, faster closings and reduce the amount of time spent by program staff troubleshooting challenges which arise from the use of out-of-area title companies.

Another strategy to speed the pace of acquisitions is to continue to rely on NSP developers, partnering real estate agents and neighborhood partners to identify and conduct do an initial screen of potential candidates for acquisition. As increasing numbers of developers are expressing interested in carrying out NSP development activity, they are also increasingly identifying and referring properties which would be appropriate for MNRC acquisition.

As of July 13, 2011, $441,870 in landbank funds have been expended (22.1% of activity allocation). In addition to the obligation and expenditure figures reported in the introductory portion of this section, MNRC has active offers to purchase on three properties, which if accepted would result in another $100,000 in obligations

Based on the fact these expenditures have occurred almost exclusively during the previous six months, if the pace of spending were to continue at current levels, the MNRC would meet the requirement of expending 50% of allocated funds prior to the February 2012 deadline, and 100% of funds prior to the February 2013 deadline.