KUTAK ROCK LLP

PUBLIC FINANCE CLIENT ALERT

February 20, 2009

Neighborhood Stabilization Program

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA) into law which amends the Neighborhood Stabilization Program (NSP) previously introduced in July 2008. Please see our January 9, 2009 Client Alert attached for an introduction to the original NSP legislation. The ARRA allocates an additional $2B in funding to the existing $3.92B in emergency federal funds designed to stabilize neighborhoods impacted by foreclosed and abandoned homes.

Like the original NSP legislation, the additional ARRA funds will be used to establish financing mechanisms, purchase and rehabilitate homes, establish and operate land banks, demolish blighted structures and redevelop demolished or vacant properties. However, there are some key differences in how these new NSP funds will be administered.

Eligible Entities: All $2 billion must be allocated competitively. Eligible entities include states, units of local government and nonprofit entities or consortia of nonprofit entities. Nonprofits may submit proposals in partnership with for profit entities.

HUD must ensure that grantees are in areas with the greatest number and percentage of foreclosures and can meet the spending deadlines described below.

The Criteria for awards must also include grantee capacity, leveraging potential, and concentration of investment to achieve neighborhood stabilization, as well as any other criteria HUD establishes.

Deadlines: HUD must publish the criteria for the application process within 75 days of the date of enactment. Applications will be due to HUD within 150 days of the date of enactment. HUD must obligate all funds within 1 year of the date of enactment.

Grantees must spend at least 50% of the allocated funds within 2 years of date funds become available to them and 100% within 3 years.

Repayment: The ARRA Revises the original NSP legislation by repealing the requirement that revenues generated by the use of NSP funds must be continually used for

NSP activities and some returned to the Treasury after five years. However, all revenues generated to States and units of general local government must still be treated as CDBG funds.

Minor Revisions: The ARRA made the following minor revisions to the original NSP legislation:

NSP funds may be used for the establishment and <u>operation</u> of land banks for homes and residential properties (as opposed to just establishment of land banks).

NSP funds for the redevelopment of demolished or vacant structures can only be used for housing. The original legislation permitted small-scale commercial uses.

The ARRA caps each grantee's spending on demolition in connection with land bank and redevelopment activities at 10% of their grant unless HUD determines such use appropriate to local market conditions.

Tenant Protections: The ARRA forbids grant and loan recipients from refusing to rent a unit in an NSP assisted dwelling to a household based on their status as a Section 8 voucher holder (this applies to the original NSP legislation) and establishes required notice periods for certain tenants prior to eviction.

Kutak Rock LLP has assembled a team of attorneys specializing in this new program to leverage our national footprint and expertise in public finance to assist our clients in developing strategies to access these funds. Our attorneys have experience working closely with HUD on this new program and all aspects of the program regulations.

Please contact us to learn more about the Neighborhood Stabilization Program.

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