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Commissioner



State of Connecticut
Department of Economic and
Community Development

TESTIMONY SUBMITTED TO THE BANKS COMMITTEE
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Neighborhood Stabilization Program (NSP)

Good Afternoon Senator Duff, Representative Barry and members of the Banks Committee. Thank you for the opportunity to provide you with an overview of the activities that the Department of Economic and Community Development (DECD) in coordination with the Connecticut Housing and Finance Authority (CHFA) have undertaken to implement the *Neighborhood Stabilization Program (NSP)*.

Under the Housing and Economic Recovery Act of 2008 (HERA), Connecticut is to receive about \$25 million in federal funds intended to help communities respond to the national foreclosure crisis. The U.S. Department of Housing and Urban Development (HUD) made funding allocations to both states and local governments through a complex formula using estimated data on foreclosures, mortgages, vacancies and lis pendens in those jurisdictions. Nationally, approximately 250 local jurisdictions other than state government received direct allocations from HUD. Connecticut, like 23 other states, was the sole recipient selected by HUD to administer the NSP funds in its area of jurisdiction.

Owing to the emergency nature of the HERA legislation, Congress set very aggressive timeframes. HERA authorized the HUD secretary to specify alternative requirements and waivers to expedite the use of the NSP funds. HUD's waiver required only a 15-calendar-day public comment period.

Under HERA, DECD developed an action plan that detailed the method by which the NSP funds would be put into use. Congress required that funds be used in those areas of greatest need. The indicators for determining the greatest need included communities with the greatest percentage of home foreclosures, communities with the highest percentage of homes financed by a subprime mortgage related loan, and communities identified by the recipient as likely to face a significant rise in the rate of home foreclosures. HUD had used estimates of these factors in their funding process, but these estimates were only calculated in Connecticut's 22 entitlement communities. Further direction from HUD indicated that DECD could use estimated data as a data source when considering how and where to allocate the NSP funds, but that DECD needed to justify its decisions through other data sources and by considering other need factors.

First, DECD made the decision that it would be in the best interests of the state to make NSP funds available for implementation at the local level, because a key goal of NSP was the stabilization of individual neighborhoods, and targeting specific activities at the neighborhood level would be essential to the program's success. Second, it was important that local capacity be taken into consideration. Congress set an aggressive timetable to obligate NSP funds within 18 months, of face recapture of the unallocated funds.

The department felt that in order to truly look at the impact, all of Connecticut's cities and towns had to be considered. Neither HUD nor any other available data provider were able to supply foreclosure or mortgage data (actual or estimates) down to the municipal level for all 169 of Connecticut's cities and towns, so DECD, per HUD guidelines, sought reasonable "equivalent" statewide data. Fortunately, by working in cooperation with CHFA and using the proprietary information CHFA purchased while working on the Governor's Sub-Prime Task Force, we were able to obtain actual data on subprime mortgages and subprime foreclosures in all of Connecticut's municipalities.

DECD, with the assistance of CHFA, determined there was a close correlation between the subprime mortgage and subprime foreclosure data and the HUD estimated data on foreclosures and mortgages. That is, much of the estimated data used by HUD and the Local Initiatives Support Corporation (LISC) was mirrored by the actual subprime data CHFA was able to obtain. Using this as a starting point, DECD chose to the extent possible, to replicate the HUD methodology and weighting on a statewide basis using the subprime data. A comparison of all three data analyses (HUD, LISC and DECD) indicated strong correlations between groups of towns, with a clear correlation among the first tier of seven (7) communities (Bridgeport, Hartford, Meriden, New Britain, New Haven, Stamford and Waterbury) and second tier of nine (9) cities and towns (Bristol, Danbury, East Hartford, Hamden, New London, Norwalk, Norwich, Stratford and West Haven) with the greatest need in the state. However, there were differences between and among the second tier towns.

As a result, DECD developed a strategy for the distribution of NSP funds which included both a first tier noncompetitive allocation and a second tier competitive allocation of funds. The comparative analysis of this data and the delineation of the detailed local data, including available information on local capacity, were key factors in the final determinations as to the first tier and second tier communities. I want to restate that all 169 towns in Connecticut were evaluated against the various data sets.

On November 7, DECD issued a draft NSP action plan for a 15-day public comment period. The draft plan was developed by DECD staff based on an analysis of statewide data, so that we could determine where the areas of greatest need were located within the state. During that period (November 7 to November 21), more than 45 separate comments were received and considered in developing our final action plan that was submitted to HUD on the December 1 deadline.

NSP is not a foreclosure prevention program. NSP funds must meet the national objective of benefit to low-, moderate and middle-income persons. For NSP, HUD created a new income category of "middle income" which is for households between 80% and 120% of the Area Median Income (AMI). NSP eligible activities included:

- Establishing financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties,
- Purchasing and rehabilitating homes and residential properties that have been abandoned or foreclosed, in order to sell, rent or redevelop such homes and properties;
- Establishing land banks for homes that have been foreclosed upon;
- Demolishing blighted structures; and
- Redeveloping demolished or vacant properties.

In order to supplement limited NSP funding, Governor Rell has written to the secretary of HUD to request the agency temporarily modify the regular Community Development Block Grant (CDBG) Program to allow those cities and towns not receiving NSP funds to undertake similar activities and expand income limits to address the subprime crisis within their communities. The state will attempt to further address neighborhood stabilization in small towns through the 2009 Small Cities CDBG funding round. Priority status will be given to communities which seek to address NSP-related activities such as rehabilitation of foreclosed or abandoned properties, within existing CDBG rules and regulations. Connecticut has traditionally received \$12-\$13 Million in CDBG Small Cities Block Grant funds. If HUD acts favorably in this request, our state allocation would be increased significantly.

Governor Rell continues to take proactive measures in an attempt to reduce the increase in housing foreclosures. Most recently the Governor recommended a three-point legislative plan that included a mandatory mediation period for contested foreclosures and a formal notification process for pending foreclosures. The NSP funding complements this legislative plan and other actions the state has already taken by assisting communities to stabilize neighborhoods where foreclosures were not avoidable. Because foreclosures can quickly lead to neighborhood deterioration, steps must be taken to quickly bring housing units back on line.

Thank you for your interest, I would be happy to answer any questions you may have.

SUPPORT MATERIAL

TOP TIER

Bridgeport	\$5,865,300
Hartford	\$2,741,550
Meriden	\$1,785,000
New Britain	\$1,781,850
New Haven	\$3,244,500
Stamford	\$2,909,550
Waterbury	\$3,486,000
	\$21,813,750

SECOND TIER - \$2.6M

(Up to 3 communities – max of \$865,000/each)

Bristol
Danbury
East Hartford
Hamden
New London
Norwalk
Norwich
Stratford
West Haven

Geographic distribution, racial integration and leveraging will be some of the factors used in the selection of the 3 communities