



August 8, 2008

Nearly \$4 Billion to Restore Foreclosed Homes Included in Landmark Housing Bill

On July 30, President Bush signed into law \$3.92 billion in emergency Community Development Block Grants for the acquisition and rehabilitation of foreclosed and abandoned homes as part of the broader Housing and Economic Recovery Act of 2008. The purpose for these funds is to stabilize neighborhoods threatened by rising vacancies. The President had threatened to veto the entire bill because of his opposition to these neighborhood stabilization funds but relented because he supported other parts of the bill he deemed more important. Here are the main features of these funds.

- **Fast Distribution.** By September 28, HUD must set a distribution formula among states and localities with the greatest needs based on the number and percentage of subprime mortgages, mortgage defaults and delinquencies, and foreclosures in such jurisdictions. HUD will make the funds available within 30 days of setting the formula. HUD intends to meet these deadlines. It is not yet clear how many localities will receive funding or how funds will be split between states and localities. However, each state will receive at least 0.5% of the funds.
- **Use of Funds.** Funds are generally used in accordance with CDBG rules unless the bill provides otherwise or the HUD Secretary specifies and notifies Congress.
 - **Timeliness.** States and localities will have 18 months to use the funds to “purchase and redevelop abandoned and foreclosed homes and residential properties”. It is unclear what will happen to “unused” funds.
 - **Geographic priorities.** States and localities must give priority emphasis and consideration to funding geographic areas with the greatest need, including areas with the greatest percentage of home foreclosures and subprime-financed homes and areas likely to face a significant rise in the rate of home foreclosures.
 - **Eligible uses.** (A) Establish financing mechanisms, including soft second mortgages, loan loss reserves, and shared equity loans; (B) purchase and rehabilitate abandoned or foreclosed homes for sale, rent, or redevelopment; (C) establish land banks for foreclosed homes; (D) demolish blighted structures; and (E) redevelop demolished or vacant properties. HUD could also permit other related uses.

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- **Limitations on Use**
 - **Purchase price limits.** Home purchase prices must be discounted from the current market appraised value.
 - **Rehabilitation standards.** Rehabilitation shall comply with applicable laws, building codes, and other requirements regarding safety, quality, and habitability. Rehabilitation may increase energy efficiency or provide renewable energy.
 - **Income limits.** All funds must be used for families and individuals with incomes up to 120% of the area median, and at least 25% for those with income up to 50% of the area median. The housing must remain affordable for the longest period practicable, as determined by HUD.
 - **Sale to homebuyers.** The sales price to homebuyers must not exceed the cost of acquisition and rehabilitation or redevelopment up to a decent, safe and habitable condition.
 - **Reinvestment of profits.** Profits generated by 7/30/11 must be returned to the state or locality and used according to this program. Subsequent profits and other revenues must be returned to the U.S. Treasury.
 - **No eminent domain.** Funds may not be used to fund any project seeking to use eminent domain, except for a public use. Economic development primarily benefiting private entities is not a public use.
 - **No election law indictees.** Funds may not be distributed to an organization if it or an employee or contractor has been indicted for violations of federal election laws.
- **Other Issues.** HUD is expected to address a number of issues not explicitly addressed by the legislation. In some cases, these issues arise because they are part of the CDBG program, which the new law directs should generally be the basis for implementing the neighborhood stabilization funds.
 - **Action plan.** HUD may require states and localities to submit a plan for using the funds and consider public input. Given the imperative to expedite the use of funds, these requirements may be limited.
 - **Administrative funds.** The bill does not address administrative funds. The CDBG program allows up to 20% for program administration.
 - **Other CDBG requirements.** It will determine the applicability of the Uniform Relocation Act and historic preservation reviews. HUD cannot waive labor, environmental, fair housing, or nondiscrimination rules.