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County of Kent

Michigan



Neighborhood Stabilization Program 2
NOFA FR-5321-N01

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b. Narrative Statements Addressing:

Factor 1: Need/Extent of the Problem

a. Target geography

Kent county has elected to target all census tracts within the county with foreclosure or vacancy scores above 18 and select census tracts near this target geography that have foreclosure scores near 18 and are receiving NSP(1) priority. This approach leads to a multi-jurisdictional area encompassing portions of the City of Grand Rapids, City of Wyoming and City of Kentwood and the area near and including the village of Kent City. The selected census tracts are: 0031.00, 0035.00, 0036.00, 0037.00, 0041.00, 0045.00, 0046.00, 0106.00, 0127.01, 0127.02, 0127.03, 0128.00, 0137.00, 0140.00, and 0141.00. This block of tracts has an average combined index score of 18 and meets HUD's areas of greatest need criteria. These tracts have been selected using HUD's NSP need calculation tool (See attached Needs Index Map for the target geography). The proposed target geography is not contiguous but is targeted to areas of the greatest need.

The nature and extent of neighborhood stabilization activities is determined by a variety of factors contributing to the decline of the targeted geography. The local housing market has deteriorated significantly over the past year with foreclosures having a dramatic impact on the real estate market. Home sales volume and prices have shown negative trends with average sale prices at the lowest level in 10 years and the majority of home sales being foreclosures. These trends have been confirmed by realty groups such as the Grand Rapids Association of Realtors (GRAR) and supported by data compiled by the Dyer-Ives Foundation in their 2009 study "The Foreclosure Crisis in Kent County: A Call for a Comprehensive Response." The study found that nearly 2,000 residential foreclosures occurred in Kent County during the first half of 2008, which represents 5.5% of all the homes in the county. The study indicates that foreclosures have impacted the real estate market, where the average home sale price has declined 25% between 2006 and 2008. It also reported "a dramatic upward foreclosure trend that has now spanned five years."

Regarding the city of Grand Rapids, below are some of the critical findings included in this study:

- Nearly 70% of the Grand Rapids area homes sold in December 2008 were foreclosures, compared to 40% in December 2007 and 15% in January 2007.
- The average home sale price for 2008 was \$122,837, the lowest level in ten years. The 2008 figure was down 17% from 2007 and down 25% from a high of \$163,266 in 2006.
- Total home sales for 2008 fell below 10,000, a level last seen in 2000. The 9,507 sales in 2008 marked a 17% drop from 2007 and the fourth consecutive year of declining home sales volume. (Page 15).

The Dyer-Ives Foundation's study describes foreclosures as a continuing negative trend causing adverse impacts on our families, neighborhoods and communities. In Grand Rapids, residential foreclosures increased by 38.2% in the first half of 2008 compared with the same period in 2007. The hardest hit areas include the southeast neighborhoods

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with average foreclosures rates between 13% and 20%. This finding is supported by data released by Foreclosure Response and the Community Research Institute in May of 2009 showing an upward trend in foreclosures in Grand Rapids. Overall, foreclosures increased 10.5% in 2008 as compared with 2007 with a total of 6,028 residential foreclosures for the period 2004-2009 (data collected through March 20, 2009); this is 10.9% of a total of 55,332 homes in the city. According to local experts, home sales touched bottom in 2008, with only 9,507 homes sold in Grand Rapids, a 17% drop from 2007 that also registered the fourth consecutive year of decline (Source: Cami Reister, "Grand Rapids home sales dipped below 10,000 in 2008," The Grand Rapids Press, January 09, 2009; http://www.mlive.com/grpress/business/index.ssf/2009/01/grand_rapids_home_sales_dipped.html.)

The city of Wyoming registered a similar increase in foreclosures during the first half of 2008. Foreclosures increased 44.6% (or 1,571 homes), which represented 7.3% of the total residential foreclosures during Jan 2004-June 2008. (Dyer-Ives's Study, 2009). Data collected by the Foreclosure Response through March 20, 2009 shows numbers in the rise. In 2008, foreclosures increased 12.7% as compared with 2007. A total of 1,987 residential foreclosures have occurred during the period 2004-2009 (this is 9% of a total of 21,539 homes in the city).

Compared to Grand Rapids and Wyoming, the city of Kentwood reported the highest increase of foreclosures during January-June 2008 as compared to the first half of 2007, that is, 44.6% (or 613 homes). This represents 5.1% of the total residential foreclosures during January 2004-June 2008 (Dyer-Ives's Study, 2009). Foreclosure Response's data through March 20, 2009 shows an upward trend. In 2008, foreclosures increased 2% as compared with 2007. A total of 770 residential foreclosures have occurred during the period 2004-2009 (this is 6.4% of a total of 12,106 homes in the city).

The local housing market has shown some signs of recovery during the first two quarters of 2009 with home sales reportedly up, prompted by government incentives, attractive interest rates and lower prices. Though this activity may indicate a positive trend in the housing market; however, prospective homebuyers are still challenged by job losses, the fear of job loss and "being unable to sell their current home" (Reister, 2009, The Grand Rapids Press). Another factor to consider in assessing the housing market is that the majority of these home sales are foreclosed properties. Therefore, foreclosures rates continues to be a critical destabilizing factor that needs to be addressed in the target geography in order to adequately impact the area.

Access to capital is an important component of a stable neighborhood. For instance, HMDA and CRA data shows that access to capital is more limited in the southeast side of Grand Rapids, one of the areas hardest hit by foreclosures.

Unemployment continues to be a destabilizing factor, particularly for census tracts identified within the City of Grand Rapids. Neighborhoods in the Southeast side of the city have unemployment rates that are higher than the city's or county's average – 13.3%

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for Baxter, 16.3% for Madison, 16.1% for SouthEast (Community Research Institute, Grand Valley State University). These neighborhoods also have a high concentration of low- and moderate-income (LMI) persons. The median income is \$19,605, with about 20% of families earning under \$10,000 (CRI, 2007). Other critical socioeconomic data characterizing these neighborhoods include: 37% of families living in poverty, with over 50% of 18 to 24 year olds with no high school diploma (SMART/Boys and Girls Club Report, 2009). Additionally, the loss of employment and decline in property values also diminishes the ability of property owners to gain access to capital. Foreclosures have increased the number of vacant units in this vulnerable area as 18-23% of single family homes in these neighborhoods have entered foreclosure in the past 5 years.

Although the populations of the other target areas have historically been more stable (homeownership rates of 61% and 67.6%, median incomes of \$45,812 and \$43,164 for Kentwood and Wyoming respectively) this stability is being undermined by foreclosure crisis. The increase in foreclosures among this middle income suburb is a result of increasing unemployment and underemployment among middle-income blue-collar workers as evidence by the 38% increase in foreclosures in Kentwood in 2008. Kent City, has slightly lower income levels than Kentwood and Wyoming (median income of \$35,341) and registered a 133.3% increase in foreclosure during January-June 2008 as compared to the same period in 2007 which represented 12.3% of the total homes in the village.

This data illustrates the increased need for neighborhood stabilization in the targeted geography, particularly in a deteriorating economy that threatens the stability of the neighborhoods as a whole. The increased foreclosures in suburban communities have reduced homeownership rates and are likely to have a continued destabilizing impact if they are not quickly re-occupied by home owners. Tackling the census tracts with the greatest risk of further neighborhood decline due to foreclosed and abandoned homes and properties is one way to contribute to the development and sustainability of viable urban communities. Directing resources to these areas is part of a strategic approach the County has adopted to limit the decline of neighborhoods due to continuing foreclosure trends.

b. Market Conditions and demand factors

(2) Critical factor or most critical factor causing abandonment and foreclosure in the target geography.

The loss of employment coupled with a decrease in property values are the most critical factors causing abandonment and foreclosure in the target geography. Michigan's unemployment rate has surpassed the national average and was reported at 12.9% in April 2009 (Bureau of Labor Statistics). Unemployment in the state jumped from 7.9% in 2007 to 12.9% in 2008, an increase of 5% in only 12 months. This situation has been triggered by the numerous closings of manufacturing companies and jobs being transferred out of state, increasing the vulnerability of the local market and leaving behind hundreds of people faced with foreclosure and other hardships. When assessing

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this data at the local level, it indicated a greater demand for services in the targeted areas. For instance, unemployment rates in the southeast side neighborhoods in Grand Rapids exceed 15%, which is above the city, state, county and national average. As of April 2009, the city of Kentwood had an unemployment rate of 9.1%, the city of Wyoming had 10.5% and the city of Grand Rapids had 13.8%, all exceeding the national unemployment rate of 8.7%. These high unemployment rates are reflected in the increasing foreclosure statistics.

Additionally, as foreclosure rates have increased, property values have decreased. These declining values have reduced homeowner equity, making refinancing or selling homes more challenging and thus further depreciating home values. This has set in motion a downward cycle that requires a large intervention to reverse.

The destabilizing affect of declining property values and increasing unemployment figures requires a rapid and effective response. Creating construction jobs and providing housing are critical responses that will improve the quality of life in our community. It is imperative that quality affordable housing opportunities are created and homes are available for sale to qualified buyers to prevent further deterioration of these target areas.

(3) The income characteristics of households in your target geography and information on housing cost burden for households at the 50 percent, 80 percent, and 120 percent of area median income levels.

In the case of the Grand Rapids' targeted areas, there is a high concentration of low- and moderate-income families and individuals. This is supported by two data sources, data collected by Community Research Institute (CRI) and a neighborhood assessment titled *A Community Development Assessment of Southeastern Grand Rapids, MI* conducted by Community Research Services, LLC in September 2005. This assessment was completed for the Madison Square area. Although this study did not encompass all of the Southtown planning area, it did include a majority as Madison Square has a population of nearly 11,000 people. The following statistical information was compiled from this assessment, unless otherwise indicated.

The median household income in the City of Grand Rapids is approximately 187% higher than in Madison Square neighborhoods (pg 3). This disparity is even greater at the county level where Kent County's median income is 231%. According to the latest census Madison Square neighborhoods had a median income of \$19,605 (pg 33) with approximately 30% of households in the area earning under \$10,000 a year. Only 45% of homes are owner occupied, which is significantly lower than the City (60%) or County (70%).

Between 44% and 56% of homeowners with mortgages in the area are financially overburdened by housing costs (greater than 30% of income for housing), compared to 20% and 16% in the City and County respectively. An additional 18% of homeowners are classified as severely overburdened (greater than 50% of income for housing) which compares to 6% and 2% in the City and County. Due to the low income in the area 30% of homeowners without mortgages are overburdened. Of these persons, approximately 10% are severely overburdened.

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The rate of housing overburden is significantly higher among renters, with over half paying more than 30% of income on housing and nearly 40% paying more than 50%. The rental overburden rate in the City and County are 38% and 32% respectively (pg 53).

(4) Any relevant social, governmental, educational, or economic factors contributing to local market conditions and contributing to neighborhood decline or instability within the target geography.

As mentioned above, job loss, closing of businesses and declining property values have contributed to the deterioration of the local market conditions, thus causing instability in the target geography. This is particularly true in the neighborhoods of Garfield Park and Alger Heights, located in southeast Grand Rapids. Traditionally strong neighborhoods with high ownership rates are now threatened because of declining property values and the high concentration of foreclosures. This is also the case in Kentwood and Wyoming, which have had high homeownership rates and medium incomes over \$40,000, but have seen a dramatic increase of foreclosures and vacancies. These factors contribute to other conditions such as crime, blight and abandonment. The governmental and educational sectors have not been immune to this situation. Local governments and schools are experiencing larger budget cuts, reducing personnel and social service programs. These funding cuts have put a strain on the community and add to the instability of the neighborhoods.

(5) Description of NSP2 activity categories that are most likely to stabilize the target geography and why

The proposed strategy for stabilizing the target geography was designed in light of the issues causing foreclosure and absorption problems. As described in (2) above, the primary cause of foreclosures in the service area is a negative change in economic conditions that resulted in reduced wages and increased unemployment. Additionally, consistent reductions in property values over the previous 24 months have made many potential home-owners hesitant to purchase a home for fear of continued declines in property values. The foreclosures that have resulted from these conditions have increased the vacancy rates and decreased home ownership rates in the neighborhood. Due to the age of the housing stock and negative impact of vacancy on a home, most foreclosed property are in need of repairs to bring them up to safe and marketable conditions. To effectively address this, an approach must center on the acquisition and redevelopment of foreclosed and abandonment residential properties that results in re-occupancy of the home. Neither public opinion, nor empirical data supports an argument for dramatic reductions in the number of homes in the market through large scale demolition however, in some cases, when renovations are not practicable, Kent County Community Development Department will actively reduce blight from neighborhoods that are experiencing high vacancy through the deconstruction of homes.

The strategy developed to address both declining incomes and fear of declining property values is four fold: to provide Down Payment Assistance (DPA) to

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purchasers to increase affordability; to utilize a lease-purchase program model to serve credit challenged customers; to provide long term affordable rentals. These three occupancy (absorption) strategies expand the market and increase the likelihood of successfully occupying acquired property. A fourth strategy for stabilizing the neighborhood will be the deconstruction (demolition) of blighted property.

DPA directly addresses the issues of affordability caused by decreasing income by reducing the mortgage debt buyers will need to service. The NSP2 program will provide a soft second loan equal to approximately 20% of purchase price. This product therefore reduces the debt load to be serviced by the low/moderate income family. It also increases affordability because the lower loan to value ratio of the first mortgage often allows the family to qualify for a lower interest rate. By reducing both debt loan and cost of funds, the DPA expands the market for home buyers by making more homes affordable to low/moderate income families. The strategy further improves affordability by removing the burden of needing to save large amounts of limited income in order to provide a down payment and qualify for a quality mortgage thus allowing families to enter, or return, to homeownership faster.

Lease Purchase Programs improve absorption of single family homes by expanding the market of potential occupancy beyond mortgage ready buyers to allow people who are not yet able to qualify for a mortgage to occupy a home and receive many of the benefits of home ownership. Lighthouse Communities' lease purchase program, has developed a plan through NSP2 which allows lessee's to pay rent at a rate equal to their projected mortgage as a means of ensuring long term affordability but provides temporary reductions in rent to allow occupants to more aggressively reduce debt, therefore increasing the success rate of lessee purchasing a home. A lessee will meet with a financial counselor monthly and together they will develop a plan to ensure the client is ready for ownership by the end of their lease period. When the counselor and the client agree upon a debt reduction strategy, rent can be reduced by \$1 for every \$1 in debt reduction the tenant achieves in a month. This reduced rent model significantly expands the market for purchasing homes by allowing low and moderate income families to effectively become mortgage ready and allowing them to occupy homes during this preparation stage.

This Lease Purchase strategy also removes the risk of property value decline by providing lessee's a purchase option at move in. This option allows occupants the ability to purchase the home 24 months after occupancy for the appraised value at the time of move in or for the appraised value at the time of occupancy. This transfers the risk of declining values over the next 24 months away from the family while still allowing them to realize the benefits if property values increase.

Rental is also a significant component of the proposed occupancy strategy. Due to concerns about unemployment or/or mandatory reductions in hours or pay, many people currently working are unable or unwilling to purchase a home. These

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families continue to need a quality and affordable home. The third prong to the occupancy strategy is to establish permanent affordable housing in neighborhoods well serviced by public transportation, retail and other amenities but that currently have high vacancy rates due to foreclosure. This housing may be developed through the redevelopment of vacant land or renovation of foreclosed single family (1-4 unit) residential structures.

A fourth means of stabilization will be the deconstruction of blighted units. The housing stock in the targeted areas consists mostly of older (built between 1920 and 1950) homes many of which have experienced significant decay caused by deferred maintenance or abandonment. Structures whose costs of renovation exceed the post rehab value of the home will be considered for demolition. This strategy will consider the overall integrity of the home, its historic characteristic as well as the overall quality of the end product. If it is determined that renovation is not the best option for neighborhood stabilization demolition will occur.

2. Rating Factor 2: Demonstrated Capacity of the Applicant and Relevant Organizational Staff

a. Past Experience of the applicant

This section highlights the organizational capacity of Kent County, as the lead applicant, and Lighthouse Communities, Inc., a nonprofit development corporation, as co-applicant.

Since the inception of the Kent County Community Development program Kent County has kept a primary focus on owner-occupied housing rehabilitation and repair. The Community Development Department manages CDBG and HOME grants that provide the ability to assist home owners through the single family homeowner rehab program as well as new home ownership through the Home down payment assistance and new construction program.

Special care and attention is given to home owners during this process to ensure their housing needs are the primary factor in design and development. This fact, along with the combined efforts of the Kent County Community Development Department and the 33 Local units of government in marketing the owner-occupied housing rehabilitation program is the reason that The Kent County Community Development Department has a waiting list of homeowners wanting to participate in the owner-occupied housing rehabilitation program. Additionally, through the Kent County Home grant, working in conjunction with the YWCA of West Central Michigan and Dwelling Place of Grand Rapids Inc, the Kent County Community Development Department has completed rental acquisition and rehabilitation. These units are 100% occupied by victims of domestic violence.

Additionally, The Kent County Housing and Community Development Department manages a Section 8 program. Within the Section 8 program Kent County also operates a Family Self Sufficiency (FSS) and Homeownership Program. The FSS program is

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designed to enable Section 8 recipients to become self sufficient through referrals to job training and employment, child care, transportation and other services within the community. Currently Kent County has 120 clients who participate in the Family Self Sufficiency Program. These clients attend classes on responsible homeownership, money management, refinancing, credit repair and debt reduction, consumer protection, home maintenance and minor home repair. These clients are excellent candidates for our home ownership program as well as the current and proposed Kent County NSP programs.

Having combined Community Development Block Grant, HOME and Section 8 programs all in one office makes the Kent County Housing and Community Development Department uniquely connected to a broad array of community services and agencies focused on empowering low and moderate income residents of Kent County to become self sufficient through homeownership.

Lighthouse Communities, Inc. is a community development corporation that provides services to Kent County specializing in the renovation of single family homes for low-moderate income families. In the past seven years, Lighthouse Communities completed renovations to approximately 500 units of housing through its various programs. In addition to its experience renovating single family homes, Lighthouse Communities is a HUD and MSHDA HomeLinks-certified housing counseling agency, owns low-income rental apartments, mixed use real estate developments and performs community organizing services.

The following are examples of recent experience managing similar neighborhood stabilization activities:

(2) Acquisition and disposition of foreclosed real estate

Lighthouse Communities has 5 years of experience in acquiring and re-developing foreclosed properties to be sold to low- and moderate-income individuals and families. This has been done through 2 primary programs. As a CHDO Lighthouse has been able to participate in a program offered by the City of Grand Rapids to purchase and redevelop foreclosed upon residential and commercial property. Additionally, Lighthouse has utilized a HOME funded acquisition, development and resale (ADR) program, to address key properties in its neighborhood. This has provided it extensive experience purchasing foreclosed and abandoned residential property. Lighthouse currently participates with the City of Grand Rapids in the implementation of HUD's Good Neighborhood program that allows it to acquire and dispose of foreclosed HUD owned real estate. In April 2008 Lighthouse acquired a two-story foreclosed facility to create a 10,000 sq. ft. business incubator and community center. Lighthouse is an active developer in NSP (1) programs with both the City of Grand Rapids and Kent County.

(3) Rehabilitation of housing

Working in collaboration with our many non-profit partners, the Kent County Community Development Department has completed 386 unit modifications to include,

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moderate rehabilitation, minor home repair and access modifications in the last 24 months as well as 7 new single family constructions with Home funding. The Kent County Community Development Department has skilled staff who manage the process from initial planning and collaborative work with 33 local units of government to requests for qualifications, writing specifications and the sealed bid process all the way through to the project completion and monitoring.

As a CHDO that has been involved with the development of affordable housing for over seven years, Lighthouse has completed improvements to nearly 500 homes to date. Its familiarity with Lead Based Paint regulations and overseeing renovations of severely blighted homes will aid in the successful implementation of an NSP2 award. Lighthouse has completed renovations to over 200 units in the last 2 years.

(4) Redevelopment of vacant property

As referenced above, Lighthouse's programs allow it to target homes that are either vacant or in need of substantial repairs and cannot be maintained by their owners. In addition to its experience addressing vacant single family homes Lighthouse also has experience developing larger vacant properties, two examples of vacant property redeveloped by Lighthouse over the last two years include: (a) Uptown Village, a \$5.6 million 46,000 sq. ft., mixed-use complex located in uptown Grand Rapids that added 24 housing units and 7,500 sq. ft. of commercial space, completed in late 2007, and (b) Roosevelt Park Lofts, a \$4.5 million 35,000 sq. ft., mixed-use development located in Grandville Ave SW that added 21 units of loft-style affordable rentals, completed in the summer of 2008.

(5) Program marketing and management of waiting lists for potential residents

Kent County Community Development Department's (KCCDD) success in marketing can be demonstrated by the waiting list it maintains for its homeownership programs. This success represents the combined efforts of the Kent County Community Development Department and the 33 Local units of government in marketing the owner-occupied housing rehabilitation program. This marketing includes the production and distribution of brochures, flyers, informational fact sheets and advertisements in newspapers, radio and minority and women owned publications. KCCDD will continue to utilize this effect marketing strategy to promote its NSP2 program.

Lighthouse has used a diverse marketing strategy for all of its programs and services and continues to make strides to improving the marketability of its products to reach and better inform its clients. Lighthouse recently re-launched its website to offer more information on its programs and services. This site was particularly designed to enhance marketing and intake for the sale of NSP homes as well as better inform contractors of opportunities to bid on NSP homes Lighthouse is renovating. Square One, a local and well-reputed marketing firm, was recently hired by Lighthouse to help market the NSP program.

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Lighthouse maintains active waiting lists according to its policies. Among other things, policies give priority to serve applicants in the order of receipt of their complete application (first come-first served) and require staff to renew interest from waiting list applicants on a regular basis.

(6) Accessing operating and investment capital

Lighthouse has a great ability to secure and leverage additional resources whether for operations or investment capital as proven by its track record in housing and commercial development production. Lighthouse's current annual budget utilizes government, philanthropic and lending support to allow it to impact 187 units. This impact is realized utilizing a variety of lines of credit and mortgage loans from 9 different banks and lending institutions. Lighthouse will utilize these relationships with lenders and the local philanthropic community to maximize the impact of an NSP award.

(7) Working productively with other organizations

Kent County Community Development Department implements its various programs utilizing the strength of 33 Local units of government it also partners with many non-profit organizations to maximize impacts despite limited budgets.

Lighthouse Communities has demonstrated capacity for effectively utilizing partnerships to implement housing and commercial developments as well as community organizing activities. It maintains formal (signed MOU/contracts) with over a dozen resident driven organizations, non-profit groups and churches not including multiple agreements with various government agencies. It has also demonstrated a spirit of partnership in less formal arrangements while working productively with other faith based, housing and economic development organizations, including banks, government agencies, and the philanthropic sector. This approach of collaboration has made many projects and services possible, created new opportunities and partnerships, while maximizing its resources, energies and impact.

The Get the Lead out Collaborative is one example of Lighthouse's collaborative nature. Lighthouse assists in implementation of a citywide Lead Remediation Program, a federally funded program launched in 2003. Lighthouse just recently signed two contracts with the City of Grand Rapids to implement the renewed \$4.5 million program over the next 2 years. This grant includes participation of the Kent County Health Department, City of Grand Rapids, the Healthy Homes Coalition and other non-profit organizations.

Lighthouse's collaborative work with Home Repair Services around foreclosure counseling is another example of productive joint efforts. This relationship uses a shared scheduling system to allow both organizations to reduce the waiting time for people to access foreclosure counseling and better respond to the demand for these services.

3. Rating Factor 3: Soundness of approach

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a. Proposed Activities

(1) Description of the overall Neighborhood Stabilization Program it proposes to undertake, including any coordinated components that will not be directly funded with NSP.

The proposed NSP2 programs include the acquisition and rehabilitation of homes and residential properties that have been abandoned or foreclosed upon in order to sell, rent, or redevelop such homes and properties. Also included, is the demolition of blighted structures and the redevelopment of vacant properties as housing.

KCCDD along with its non-profit partner, Lighthouse Communities, are proposing to implement an array of NSP eligible activities to stabilize and reinvest in the areas within our jurisdiction hardest hit by foreclosure. We will make available affordable quality rental properties aimed at persons below 50% AMI within our GREEN INITIATIVE program through the redevelopment and demolition of blighted structures or foreclosed upon residential properties. In addition, we will stimulate housing sales, in those areas of Kent county that have seen an up-tick in home sales by offering down payment assistance on NSP homes that were acquired and rehabilitated under the proposed program. Finally, through our lease-purchase program, we will address the numerous of households within the state of Michigan that are experiencing falling incomes by offering an alternative approach to home ownership that allows time for credit repair and income enhancement.

The proposal by Kent County along with its non-profit partner Lighthouse Communities also would allow for the continuation of current NSP1 activities as allowable by the provisions set forth in the American Recovery Act of 2009 (Public Law 111-005) (Recovery Act).

The proposed programs will impact the hardest hit areas within our counties. This proposal will impact areas across several jurisdictions of Kent County. Areas such as Southtown located in the Southeast section of Grand Rapids. Southtown was one of the first neighborhoods to be hit and feel the destruction of the foreclosure due to the high prevalence of predatory loans and unregulated lending practices that were common in the early 2000s. A recent study released by GVSU's CRI (Insert exact CRI info) shows this neighborhood with a population of about 20,000 people has seen over 1800 foreclosures since this phenomenon began in 2004 creating average foreclosure rate in Southtown is over 21%. While only representing 16% of total housing properties (8782 of 55332 structures) within the city of Grand Rapids, approximately 30% of the total foreclosures within the city's limit occurred within Southtown's borders.

In Southtown, NSP2 resources would build upon a Neighborhood Revitalization Strategy Area established by the City of Grand Rapids that is currently in year 4 of its 5 year implementation. This plan has secured funding from the City of Grand Rapids Street Enhancements, Michigan Department of Transportation, Michigan State Housing Development Authority's Neighborhood Preservation Program, Community Development Block Grants, HOME funds, LIHTC as well as private sources to

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implement a broad community revitalization effort designed by residents and non-profit organizations in 2005. Combined these programs have already invested over \$20 million in revitalization activities. NSP2 funds will complement these activities by demolishing properties where rehab is not practicable. We will then reconstruct the homes according to LEED Standards. Using the design set forth in the 'Green Initiative', KCCDD proposes to rebuild the demolished properties into the areas first sustainable neighborhood and Michigan's first certified LEED ND area. Additionally, foreclosed upon homes will be renovated, implementing energy efficient components, for rent or resale using lease purchase as a key occupancy strategy.

The Green Initiative by Lighthouse Communities will transform the southern portion of Southtown neighborhood into the first L.E.E.D certified Neighborhood in the state of Michigan. This will be accomplished through the re-development of approximately 10 acres of blighted and foreclosed properties in the urban core of Grand Rapids, and tying that new development into the current strengths that the community already has to offer. Through the use of environmentally friendly design, the resulting sustainable neighborhood will include major street enhancements, a year round Farmers Market, and over 20000 square feet of Greenhouses. The residential component will include 31 single-family homes, 18 stand alone condos, 5 duplexes, 26 units of row housing and over 31 apartment units, along with improvements to current homes on Madison Ave. All structures will be built to L.E.E.D certified standards and will include alternative energy features such as solar panels, wind turbines, and green roofs. This transformation will stabilize the neighborhood by attracting new blood and serving as the catalyst to improve the conditions for the current residents.

Over the next 24 months, the \$35 million development will leverage public and private resources such as Brownfield Credits, Low Income Housing Credits, NSP funds with monies generated from pre-sales of single family homes and commercial condos. By building on the strengths of the area (local grocery store, medical center, library...), a sustainable neighborhood design, and high environmental standards (LEED) we will ensure long term affordability to the areas residents and result in neighborhood stabilization.

While demolition/reconstruction makes sense in some of our older areas, it simply would not be a good approach in other areas of the county. That's why our proposal is designed to have the flexibility in it to address the diverse communities within Kent County. In some areas, such as Kent City (Census tract 106) with homeownership rates over 80%, foreclosures have resulted in housing vacancies in a market with historically solid absorption. In these areas vacancies are cause by the unavailability of quality affordable mortgages rather than lack of demand. It is our intent, in these areas, to acquire, rehabilitate and sell properties through lease-purchase or conventional sales with down payment assistance. Due to the underlying strength of these areas, combined with an intentional block by block acquisition strategy neighborhood stabilization (as measured by property value stabilization and decreasing vacancy rates) will occur within 12 months of launch the program in a given census tract.

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These areas are just a couple examples of the wide reach the proposed NSP activities will have throughout Kent County. The proposed plan put forward by Kent County and our non-profit partner Lighthouse Communities as submitted has the flexibility to reduce the effects caused by foreclosure in these diverse jurisdictions within the county. It will once again give the people of the community hope and opportunity which will lead to better retention in our communities at a time in which Michigan simply can't afford to lose another resident to other states.

(2) Uses of funds and firm commitments

(a) Indicate how you will use NSP2 funds by providing a list or table showing the amount of funds budgeted for each eligible use and CDBG eligible activity

NSP Eligible Use	Activity	Grant Amount / Planned Units
Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon in order to sell or rent such homes and properties to families at or below 120% AMI	-24 CFR 570.201 (a) Acquisition (b) Disposition (i) Relocation, and (n) Direct homeowner assistance -570.202 eligible rehabilitation and preservation activities for homes and other residential properties	\$8,000,000
Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon in order to sell or rent such homes and properties to families at or below 50% AMI	24 CFR 570.201 (a) Acquisition (b) Disposition (i) Relocation, and (n) Direct homeowner assistance -570.202 eligible rehabilitation and preservation activities for homes and other residential properties	\$5,000,000
Demolish blighted structures	-24CFR 570.201(d) Clearance for blighted structures only	\$2,000,000
Redevelop demolished or vacant properties as housing	24 CFR 570.201(a) Acquisition, (b) Disposition, (c) Public facilities and improvements, (e) Public services for housing counseling, but only to the extent that counseling beneficiaries are limited to prospective purchasers or tenants of the redeveloped properties, (i) Relocation, and (n) Direct homeownership assistance (as modified below). 24 CFR 570.202 Eligible rehabilitation and preservation activities for demolished or vacant	\$5,000,000

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	properties. 24 CFR 570.204 Community based development organizations. HUD notes that any of the activities listed above may include required homebuyer counseling as an activity delivery cost	

(b) Briefly describe the proposed activities in a narrative, including the range of interest rates (if any); duration or term of assistance; tenure of beneficiaries (e.g., rental or homeownership); and location or address information.

Kent County along with its Non-Profit Partner Lighthouse Communities proposes to acquire and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop. Properties to be acquired will be selected by Kent County, Lighthouse Communities or other community partners such as neighborhood associations. Efforts will be made to purchase properties in such a manner as to stabilize neighborhoods that have been devastated by the effects of foreclosure. It is our intent to also utilize HUD listings and Bank REO properties for bulk purchases.

Lighthouse Communities or selected developers will be responsible for preparing work specifications to ensure compliance with all applicable building codes and energy efficiency standards provided in this proposal. Lighthouse Communities will be responsible for completing rehabilitation of the property, marketing of the property, and identifying qualified households to occupy NSP-assisted units. NSP-assisted properties must comply with applicable building codes, lead-based paint and asbestos abatement requirements.

Redeveloped properties may be used for either homeownership or rental. Kent County along with its Non-Profit partner anticipates using the following methods for occupancy: 1) homeownership with conventional financing and down payment assistance where possible; 2) lease-purchase option to eligible occupants; 3) rental.

The affordability periods specified in the HOME regulations will be used as a minimum standard. The HOME program requires that a property assisted under a homeownership program be used as the owner’s principal residence for a designated time period known as the period of affordability. The period of affordability is based on the amount of HOME assistance that enabled the homebuyer to purchase the house, regardless of source.

The periods of affordability for the NSP funds are as follows: <\$15,000 5 years, \$15,000 – \$40,000 10 years, >\$40,000 15 years. Properties assisted with NSP funds will be subject to resale restrictions or recapture provisions, as cited in HOME regulations 92.254(a)(5) for the period of affordability; or other provisions consistent with NSP rules. The amount of NSP funds that remain in the project (i.e., homebuyer assistance) would

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be secured by a silent second mortgage and promissory note. If the homebuyer sells the NSP assisted property during the applicable period of affordability, Kent County will recover the amount of NSP assistance remaining in the property from total net proceeds of the sale.

Homebuyer assistance for the NSP program will be administered to provide down payment and reasonable closing costs incurred in the purchase of property in NSP target areas. However, for NSP properties, an amount up to \$30,000 of the home purchase price will be available to each eligible household; and there will be no restriction of being a first-time homebuyer.

Program subsidies will be provided as zero-interest forgivable loans which are secured by a promissory note and mortgage subordinate to those of the primary lenders. Although there are no restrictions on the type of mortgage that can be used as a first mortgage in conjunction with the Program, it is anticipated that mortgages approved by the Federal Housing Administration (FHA) will be widely used.

(d) Demolition and preservation.

Kent County along with its non profit partner Lighthouse Communities is dedicated to the preservation of the strong communities within our boundaries. As explained under 3 (a) we are committed to establishing housing programs that will be successful. In order to be successful we understand the commitment to quality housing stock and affordability is key to making that happen. In certain circumstances, it is in the community's best interest to demolish qualified structures. In addition some rehabs are not economically feasible and the surrounding area would be better served with new housing or green space for community enjoyment. When these limited situations present themselves, Kent county will demolish or deconstruct the properties. By establishing a quality stock of homes and residential structures, built to energy efficient standards, in areas hardest hit in the city of Grand Rapids we are assuring that the units be absorbed on the backend. At the same time, we will reduce the stock of older, unaffordable homes that account for the massive amount of vacancies in the area. This will also add to making them affordable over a long period of time since the unit will be cheaper to inhabit.

However, in other areas demolition is not the best approach. That is why we are limiting demolition to only 10% of the activities. As explained in 3(a), this proposal will also serve areas in the county that have a good housing stock but the median income has fallen. In these areas a lease-purchase or down payment assistance program would be prudent. By creating more accessibility to future homeowners, we will be able to eradicate the vacancy issues and transform these jurisdictions. This approach will only be taken in communities and cities within Kent county where we feel that home sales are still possible. Or, by identifying individuals who have the capacity to be future home owners after the expiration of the lease-purchase program. In all circumstances, the market will dictate which program is implemented within the jurisdiction. Kent County along with its non-profit partner will utilize all available resources and data to substantiate these decisions.

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c. Income targeting for 120 percent and 50 percent of median

All activities will provide benefits to persons whose income does not exceed 120% of AMI. KCCDD will further target its allocation to ensure that at least 25% of its grant is targeting to families whose incomes do not exceed 50% of AMI. This will be done through the acquisition and redevelopment of foreclosed upon single family homes. Although efforts will be made to utilize down payment assistance from NSP2 and other sources to allow families below 50% AMI to enjoy the benefits of homeownership, it is anticipated that a majority of this commitment will be realized through the rental of single family (4 units or less) homes. Homes selected for rental will generally contain more than one unit, be well served by public transportation, near grocery stores and other services and contain other characteristics that make them suited to host lower income families.

d. Continued affordability

Kent County and its non-profit partner Lighthouse Communities will adopt the HOME definition of “affordable rents” at 24 CFR 92.252 (a), (c), and (f).

HOME programs standards will be adopted for ensuring continued affordability as defined at 24 CFR 92.252 (e) and CFR 92.254. Kent County will primarily use the recapture provisions but reserves the right to use the reuse provision at its discretion. . To ensure that homes remain affordable to persons whose income do not exceed 120% AMI (or 50% as applicable) the amount of NSP2 funds that remain in the project (i.e., homebuyer assistance) would be secured by a silent second mortgage and promissory note. All projects assisted with NSP funds will be subject to the following affordability restrictions:

Investment per Unit Minimum Length of the Affordability Period

- Less than \$15,000 5 years
- \$15,000 - \$40,000 10 years
- More than \$40,000 15 years
- New construction of rental housing 20 years

e. Consultation, outreach, communications

(2) Description of proposed outreach and affirmative marketing actions

KCCDD will continue using its relationships with other local units of government to market the program. In addition to this it will work with its co-applicant to ensure that qualified families are available to occupied NSP2-assisted units and that all individuals and companies are given equal opportunity to receive program benefits – be they housing, jobs or other. Fliers, brochures and handouts will be produced and distributed through partners and referral agencies. Information will be disseminated through local newspapers, TV, and radio adds with intentional efforts to utilize broadcasts and publications that reach minority populations. Program materials will be generated in English and Spanish. Additionally, KCCDD will ensure program print materials are

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placed at locations, such as the Hispanic Center and the Minority Contractors Association, that are likely to reach minority populations. Lighthouse will use all the tools at its disposal to affirmatively market and reach out to qualified contractors, individuals and families including its online platform (website, e-news, emails).

(3) Describe how you will continually communicate program design, progress, opportunities and results; process any complaints in a timely manner (respond within 15 working days, if feasible); and ensure that local citizens and other interested parties are informed about program policies.

The Kent County Community Development Department will follow its Citizen Participation Plan as one way of ensuring that local citizens and other interested parties are informed about program policies. Kent County also uses avenues such as news letters and brochures distributed County wide through the 33 Local Units of Government. The Citizen Participation Plan is an adopted practice of ensuring good communication with citizens and includes public notices, public hearings, public comment periods, and access to plans, reports, and other Kent County Community Development records. Continuing to utilize this proven plan will ensure good communication.

Kent County has an adopted complaint procedure that ensures timely responses (less than 15 days) to any states concerns. This process allows for complainants to express concerns to the Director of the Department and is designed to ensure potential issues are appropriated, heard and responded to.

f. Performance and monitoring

(1) Monitoring plan

As a recipient of NSP1 funds, Kent County will employ a similar monitoring system that includes ensuring compliance with all program requirements, including meeting HUD's national objective and eligibility, conformance with the NSP2 agreement, record keeping and reporting, financial management, auditing, insurance, procurement, nondiscrimination, equipment and property acquisition measures, and fair housing practices (Kent County Community Development Department Monitoring Report and Guide for Review of Equipment and Equipment Disposition form for HOME Program). This system includes the use of an internal audit to be conducted on all project files to ensure conformity with local and federal compliance requirements.

Lighthouse's monitoring plan includes measures for handling NSP2 resources, ensuring compliance with program requirements and meeting project timelines. Lighthouse will use a monitoring plan for the project that will include (a) creating a management team (see below), (b) program checklists for the development of properties and (c) and second review of all files prior to choice limiting actions. Step (c) is a compliance best practice implemented by Lighthouse that requires its compliance officer to review and approve continuation of projects at key milestones such as: acquisition, project bidding, contract signing, sale or occupancy. By requiring that a compliance officer review files at each of

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these milestones ensures that staff do not inadvertently miss an important aspect of compliance during project implementation.

(2) Internal audit requirement

Kent County will have perform its internal auditing function, as it will be established in the agreement between Kent County and HUD and between Kent County and Lighthouse Communities, should NSP2 funds be allocated. The times and goals for such audit will de determined by Kent County according to NSP2 and CDBG regulations.

In the case of Lighthouse Communities, given the scope of NSP2 activities proposed, a management team will be established and perform an internal audit function. This team will be made of the Grants Administrator, Director of Housing Services, President, Executive Director, and Rehab Supervisor who will meet monthly to assess the program, identify risk areas, provide direction and courses of action for the program. However, the Grants Administrator will perform ongoing review of the program and monitor all steps of the process to ensure compliance and effective implementation of program requirements, as follows.

4. Rating Factor 4: Leveraging other funds, or removal of substantial negative effects

The data gathered for the purposes of this proposal demonstrates the devastating impact the deterioration of the local economy and declining housing market have had on the neighborhoods. At present 1,277 vacant properties exist in the target geography. KCCDD will address 160 vacant units through acquisition and rehab and another 40 vacant units via demolition through a NSP2 award.

Score calculation:

$$1.5 \times (160 \text{ rehabbed units}) + (40 \text{ demolished units})/1277 = .22$$

6. Rating Factor 6: Neighborhood transformation and economic opportunity

HUD will award the points under this factor if you:

(1) Certifications

KCCDD certifies that the proposed NSP2 activities are both part of and consistent with an established comprehensive revitalization plan known as the Southtown NRSA, as described above (See NRSA plan online at http://www.ci.grand-rapids.mi.us/download_upload/binary_object_cache/community_NRSA%20Revised%20March%202007%20for%20Printing.pdf). It is worth mentioning that the Southtown NRSA is an economic empowerment strategy. It seeks to revitalize our commercial corridors by providing technical and training assistance to businesses in our commercial corridors, helping start new businesses and expand the current business base, create and

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retain jobs, retain and attract new businesses to the area, and leverage additional investment to boost the impact of this revitalization and stabilization efforts. The Southtown NRSA has been integrated into the City of Grand Rapids' Consolidated Plan 2006-2011 (See plan online at: http://www.ci.grand-rapids.mi.us/download_upload/binary_object_cache/community_7093epie05a.pdf)

NSP2 activities are also consistent with local and countywide transportation and sustainable development (Urban Growth) plans to create vibrant, strong communities. These plans seek to enhance the quality of our public infrastructure (roads, streets, sidewalks), promote more walkable communities, create open green space and areas that foster public health and activities such as trails and bike paths. The proposed NSP2 activities are also consistent with a local plan being implemented by the City of Grand Rapids namely Green Grand Rapids. This is a “citywide green infrastructure master planning process that will focus on quality of life and the physical development of community infrastructure as it relates to greening, connectivity, natural systems, the Grand River, recreation and public health” among other important factors for making our city more sustainable (See more information on this site: http://www.grand-rapids.mi.us/index.pl?page_id=7074).

(2) Describe how your proposed NSP2 activities relate to and increase the effectiveness of that established plan.

The proposed NSP2 activities are closely aligned and will not only increase the effectiveness of the established revitalization plans, but also help us exceed our goals, which have been hindered by the staggering economy and deteriorated housing market over the past year. By providing a mechanism to address increasing vacancies in the target area, the NSP2 goal will assist the Southtown NRSA goals of enhancing homeownership and the construction jobs created through NSP2 goals will enhance minority and local contractor development efforts underway as part of NRSA objectives. Additionally, the NSP2 activities will play a catalytic role in taking each of these plans to the next level by serving as the stepping-stone to creating the first LEED neighborhood in Michigan. NSP2 funds will also allow Lighthouse to leverage the financial resources and institutional support needed to realize that project over the next 3 years by providing funding for a portion of the demolition of a blighted industrial building as well as funding costs associated with the redevelopment of vacant property. The development of sustainable neighborhoods, such as a LEED ND, is the vision driving the Green Grand Rapids Initiative and a NSP2 award will quicken the pace in which it can be realized.