TO: Ms. Katie Ludwig
City of Chicago
Katie.ludwig@cityofchicago.org

FROM: Chicago Rehab Network

DATE: November 22, 2008

RE: **Public Comment on Neighborhood Stabilization Program Substantial Amendment**

We appreciate the opportunity to comment on the City of Chicago's Substantial Amendment to the 2008 Action Plan for the Neighborhood Stabilization Program.

Foreclosures are changing the landscape for every community in Chicago. This increase comes at a difficult time – unemployment rate in Chicago is the highest in almost 15 years. Between 2000 and 2007, households with mortgage payments of $2,000 or more increased by over 650% without a commensurate increase in income for any population. The disparity in housing costs and income levels are only compounded by the continued loss of affordability and a volatile market that has made credit difficult to obtain.

We recognize the success the City of Chicago has achieved in organizing resources to be more impactful—resources from Living Cities and the MacArthur Foundation add significant leverage to new resources from the Neighborhood Stabilization Program. Furthermore, the City has identified a competent and strong partner in Mercy Housing, Inc. to lead this effort. We emphasize that within these partnerships, it is essential that the orientation of decision-making remain local. Each community and neighborhood's real estate market has different characteristics; therefore, local assessment for acquisition and disposition strategies increases the long term sustainability of these foreclosure re-use efforts.

The identification and selection of qualified community partners as "Participating Entities" should prioritize nonprofit community organizations and developers. Using a place-based framework for development, non-profit organizations and developers are best equipped to address the needs of its communities and determine the appropriate use of foreclosed properties—whether homeownership, rental housing or demolition are best suited for their community . Chicago has a network of qualified and capable CDCs who are keenly aware of the challenges of creating and managing affordable housing in difficult markets. Moreover, nonprofit CDCs are driven by a mission based on accountability to the communities they serve and a long-term investment that goes beyond financial gain. Social service agencies in areas not served by a CDC or CBO should be considered as a "currently engaged community partner" when necessary.

The City's goals and leadership is important in applying these funds in a way that can strengthen local organizations and create local jobs. The application criteria established should include some level of prioritization for nonprofit organizations over for profit developers. While there are many prudent reasons to do so, perhaps the timeliest rationale is one of preservation. Nonprofits are more likely to be long-term stewards of housing that is affordable. Beyond the affordability terms and reuse restrictions – nonprofits will take leadership to restructure these properties to avoid displacement of residents. New policies and resources should consider the project-based Section 8 expiration guidelines which did not set ownership priorities to assure long term affordability – which has resulted in a net loss of affordable units in Chicago over the last ten years.

The City should increase the funds targeted at households below 50% of area median income to 40% of all NSP funds from the minimum requirement of 25%. This extension of HUDs minimum requirement responds to the reality of housing need/demand in Chicago.

CRN recommends that the City accept and consider applications for funds proposing mutual housing/shared equity models for this income group. The City should also accept and consider applications for lease to purchase models. These methods are more than just models in Chicago – they exist in practice and succeed alongside scattered site approaches in many neighborhoods.

The pool of capacity and partners is large. The City already invests in projects sponsored, developed, and managed by CDCs that are on the multimillion dollar level. Delegate agencies, supportive housing providers, CDCs, CBOs – all can contribute experience with what does work and what doesn't work. From the complicated multilayered real estate process, to outreach for tenants and homebuyers, to property management and resident services – the knowledge exists. Leadership should focus on corralling those with experience and commitment together.

Bulk purchases may be possible from servicer/banks ---however the assets will not likely be located in an organized footprint. It is unlikely, without federal legislation to compel financial institutions, that REO will be transferred in a systemic and organized fashion. A portion of NSP admin funds should be held as contingency funds to address barriers that creep-up. Nor can a coordinating database be created within the timeline that can improve on the existing systems already used by the market.

The City should prepare to fund localized property identification, research, and negotiation efforts. Given the urgent nature of need and the short timeline, it is likely that sparking local involvement in property identification will blaze the path forward. The city should require the subgrantee to have several avenues for property identification and distribution in a fluid relationship with Participating Entities. Success will likely be found within a combination of top-down administration and bottom-up practice.

Non-development related services may be needed to support production/development efforts. Likely areas requiring financial support: technical assistance and specific "just in time" training; outreach for qualifying renters and/or homebuyers; land scouts and researchers to aid in predevelopment tasks; and advocacy efforts to exert organized pressure from CBOs and elected officials for release of bank-owned properties.

Layering of other housing resources with funding from HOME, TIF and Trust Fund allocations will be critical. The City should recognize the utility of The Illinois Donation Tax Credit as a complementing resource. The LIHTC program may be viably applied in certain frameworks and the City should encourage and signal their readiness for such proposals.

The City of Chicago has determined that some properties will be targeted for affordable homeownership. However the draft does not include a definition of "affordable home for-sale". Given the difficulty of selling New Homes for Chicago units, overlap between New Homes subsidies and NSP should be considered in order to cover the gap for buyers at or below 120% of the area median income. We recommend that when NSP funds are used in conjunction with other sources and income requirements conflict, the city should be serving households under 100% which make up the bulk Chicagoans.

The uncertainties of the market and the difficulty in acquiring credit may make the initial determination of use (homeownership or rental) unreliable. The City should not limit its use strategies and consider other use innovative disposition strategies such as lease-to-own models to allow greater flexibility to occupy units.

Because foreclosures have had a more profound effect in certain communities, NSP activities will be concentrated in these areas more than others. The City should actively engage these community groups and residents and ensure that they are made aware of the status of foreclosed properties in their neighborhood. Since communities often go into informal boundaries, communities groups outside of jurisdictional borders must also be taken into account.

We commend the City for recognizing the urgency in recovering 2-6 unit multifamily buildings. Renters are especially vulnerable to displacement as a result of foreclosures. Once rehabilitation is finished however, operating costs, especially property taxes, can place a heavy financial burden that could threaten the sustainability of a rental property. There should be mechanisms in place to ensure that property taxes do not negatively impact affordability on NSP rental properties.

Also, affordable mortgages must be provided which will allow lower rents in these multiunit properties. Government could convert project-based rental authority from the CHA to apply to multifamily buildings. Properties with existing subsidies or housing assistance such as Section 8, Low Income Housing Trust Fund as well as Class 9 incentives should be given priority. The City of Chicago's Affordable Housing Preservation Ordinance (AHPO) should be applied to all NSP-assisted rental housing as a circuit breaker to recapture investment.

In certain cases, the City will be identifying properties for demolition. The City should make sure that Landmarked and Red or Orange-rated buildings are given the proper review per the city's Demolition Delay and Landmarks Ordinance. Obviously hazardous properties which require rehab at a cost which would exceed new construction should not be considered for rehab. In these cases, the vacant parcels should be held in trust for future affordable housing development when the funds become available.

We assume that the City will provide quarterly reports on NSP activities. The report should include property addresses, disposition strategy, income targets, units created, amount of assistance, participating entities, financing details, and other pertinent information.

The City can allocate CHDO operating funds out of its HOME allocation in order to provide support to eligible organizations for the immense amount of labor that will be needed to acquire, rehab, market, and/or manage these properties.

An important obstacle to consider is the appraisal process which is integral to any reuse strategy. The City ought to consider issuing refined guidelines to effectively and efficiently govern REO property appraisals. This oversight will be necessary due to the over-appraised homes that have been reported in the last several years and which have contributed to the current crisis.

Finally the City must provide strong leadership in establishing a below market product for construction financing as well as encouraging financial institutions to open its lending for the end financing that will be needed for all NSP products. Without these financing products in place, the NSP funds will not be utilized as they are intended by the spirit or the letter of the program.