

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

The housing crisis in the United States has wrought changes to communities in every corner of the nation. Back in 2008, Congress's response was to create the Neighborhood Stabilization Program, or NSP, as part of the Housing and Economic Recovery Act (HERA), authorizing \$3.92 billion for the program now known as NSP1 for local governments to mitigate negative impacts of foreclosures and vacancies through acquiring, rehabilitating, demolishing or redeveloping vacant and foreclosed homes. Undoubtedly, NSP1 was a small program compared to the enormous task of neighborhood recovery, and the funds allowed for far less demolition and property rehabilitation than needed. But the actual program implementation also led to partnerships and in some cases supported the institutions, training, and tools that communities needed to provide a longer term response to the crisis. Now, several years after its launch and while phase 3 of the program is still underway, we examine how NSP1 was implemented by some communities to understand in what ways this policy intervention and the communities' response contributed to recovery, and how the NSP experience may shape future policy programs for community development at the state and federal level.

Introduction

NSP1 was Congress's first attempt to tackle the issue of neighborhood stabilization in the wake of the housing crisis. Since 2008, Congress has authorized two additional rounds of funding for neighborhood stabilization, including \$2 billion through NSP2, created by the American Recovery and Reinvestment Act of 2009, and \$1 billion through NSP3, included in the Wall Street Reform and Consumer Protection Act of 2010. In 2008, when NSP1 was enacted, more than 1.2 million properties nationwide went into foreclosure.¹ In the states of the Fourth Federal Reserve District—Ohio, Pennsylvania, Kentucky, and West Virginia—the numbers of delinquencies and foreclosures have stayed at high levels and spread to middle-income neighborhoods, due to the downturn in the economy and high unemployment rates.

In this context, foreclosures often result in property vacancy and abandonment. Deleterious effects of vacancy and abandonment have been widely documented at the block, community, and local government levels. *Properties* themselves suffer from neglect, and sometimes from vandalism and arson as well, and become a blighting influence on a street or block. Foreclosed properties negatively impact the sales prices of proximate houses. This loss in property values erodes homeowners' equity and impedes their ability both to obtain credit for financing repairs and to move. When foreclosures are filed and homeowners leave, *the social fabric of communities* is frayed and children's education is adversely impacted.² More widely, *local governments* eventually feel the pinch from decreased property tax receipts, and are less able to fund services necessary to keep their communities safe and livable.

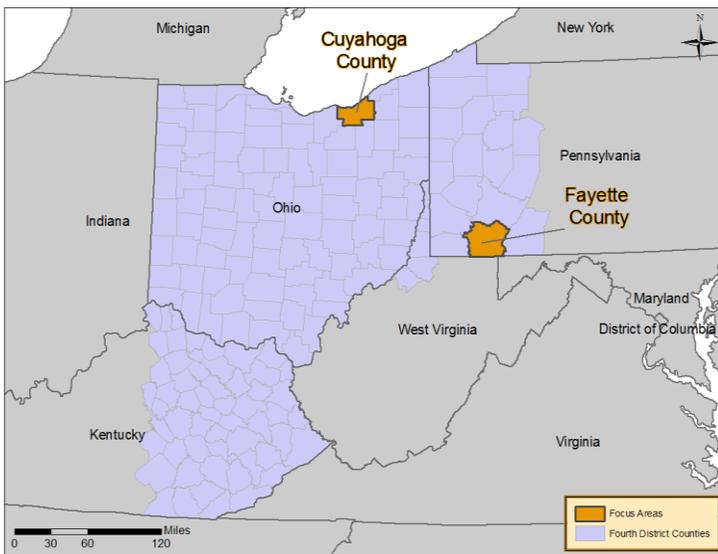
The ultimate solution for neighborhood stabilization is economic recovery, a formidable challenge for many of the weak-market communities in the 4th District that had been experiencing population decline, job loss, and high rates of both vacancy and poverty long before the housing crisis. With its focus on property reclamation, NSP funding alone was never expected to address all community

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

stabilization needs. Yet it is important to understand in what ways this policy intervention contributed to recovery, what challenges were met during implementation, and how the community context mattered. After the program was announced, communities invested heavily in learning guidelines and meeting deadlines in order to plan and implement their strategies. Three years later, by looking back at the successes and challenges of the program to date, we aim to inform future policy interventions for weak housing markets and community development in general.

Through the lens of NSP1 implementation, we observe how three communities in the 4th Federal Reserve District—Fayette County, Pennsylvania, and two suburbs of Cuyahoga County, Ohio: Bedford and South Euclid—operated in times of high distress, and addressed neighborhood stabilization (figure 1).



NSP1 funds allowed for far less demolition and property rehabilitation than was needed. But the actual program implementation led to partnerships and in some cases supported the institutions, training, and tools that communities needed to provide a longer term response to the crisis. We consider the following tiers, to look at the various levels at which NSP1 may have been successful at influencing neighborhood recovery as well as future policy aimed at it:

Figure 1

- blight reduction at the neighborhood level;
- local capacity to respond to the crisis, where capacity is understood as the technical, administrative, and institutional resources for addressing neighborhood recovery;
- ability to leverage public and private monies and partnerships, and
- ability of the federal program to adapt via continuous feedback to changes in community circumstances and needs

We illustrate each tier with a few examples and develop these tiers more fully in section 3. Unsurprisingly, all three communities were able to **reduce blight** to some extent with NSP1 funding, both through demolition and rehabilitation of abandoned, foreclosed properties, and in some cases by having green areas replace vacant lots. But the levels of blight were such that communities needed to be strategic in their approach to blight reduction. **Local capacity** in the form of point-of-sale inspections supported NSP efforts by helping to preserve property values in areas where investments were being made. In Cuyahoga County, NSP1 and NSP2 monies contributed to the initial financing of a

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

much-needed county land bank, broadening the county's institutional capacity to more efficiently administer vacant properties.

NSP recipients found that they were better off by **creatively leveraging grants** with other funding programs as well as with the programs and resources of partner organizations. Suburban NSP grant recipients found that interdepartmental partnerships were key in a time of budget shortfalls and hiring freezes. In Bedford, one administrator described their city's approach to NSP1 as highly collaborative, pointing to the example of an auxiliary police officer contributing to code enforcement by checking on REO properties and rating property conditions. "Where capacity isn't there," she commented, "partnerships have been built to fill the hole."

As the program evolved, HUD provided training and technical assistance to local governments on rule interpretations and reporting systems, and local governments organized themselves to provide feedback to HUD on their challenges. This continuous **feedback allowed HUD to change program rules** and definitions that led to communities being able to adapt solutions to their particular needs.

This introduction is followed by three sections. Section one describes the case study project that provides the basis for this report. Section two expands on our tiered analysis and discusses some of the challenges communities experienced as the housing crisis unfolded and the strategies they used within the context of NSP to overcome these challenges. Section three concludes the report with observations on how the NSP experience may shape future policy programs for community development at the state and federal level.

Section One: Case Study Communities and Their Initial Plans

Shortly after NSP was created, the Federal Reserve Banks of Cleveland and Richmond, in partnership with the National Vacant Properties Campaign, began visits to communities in both districts to learn how they were managing the implementation of NSP1.³ Most of the information from these visits was collected through the summer of 2009, with additional information gathered through follow-up interviews in 2010 and 2011. Through interviews with NSP recipients as well as with key stakeholders in the communities, such as nonprofit partners, information was gathered about the challenges communities were facing in implementing NSP1 and the strategies being used to overcome the challenges. The focus on the three communities we selected in the 4th District—Fayette County, Pa., and Bedford and South Euclid, Ohio—was motivated by the concern that these places might be less experienced than bigger cities in grappling with serious housing issues and large funding programs. Another reason for choosing these communities lay in the fact that both Fayette and the two suburbs of Cuyahoga County represent areas that have not been studied heavily in connection with neighborhood stabilization and foreclosures, yet their experiences would be not unlike other NSP1 communities with weak housing markets.

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

Fayette County, located in southwestern Pennsylvania some 75 miles from metropolitan Pittsburgh, is known for its scenic beauty and coal mining history. At the same time, the area has been grappling with social and economic impacts from longstanding blight and abandonment. The county has 42 municipalities, including the County's three NSP1 target communities—the borough of Masontown and the cities of Connellsville and Uniontown. Like many parts of rural Appalachia, coal mining was Fayette County's primary industry for decades. With the exit of coal mining and its supporting businesses in the early 1970s, people left Fayette County in search of jobs, and the residents who remained became increasingly impoverished. Job and population loss continue to plague the county's urban centers, and the losses have resulted in increasing numbers of vacant homes and abandoned storefronts. Between 1990 and 2000, the number of vacant housing units in Fayette County increased by 21 percent, which resulted in 5,000 vacant properties (8 percent of the total housing stock).⁴ Fayette remains one of Pennsylvania's most impoverished counties, with a median household income almost a third less than the statewide median of just over \$50,000.⁵

"We have a beautiful county, but there is no shortage of blight," Andrew French, executive director of Redevelopment Authority of Fayette County (RAFC), said. "It's been accumulating over decades of neglect." According to French, the county has an oversupply of housing, an aging population, and the presence of investors in the market who buy estate properties and convert them into poorly maintained rental properties.

RAFC, the principal agency responsible for implementing NSP, administers other community development and affordable housing activities in Fayette County. RAFC received \$1.8 million in NSP1 funds through the Pennsylvania Department of Community and Economic Development for purchasing and demolishing foreclosed properties in Uniontown, Connellsville, and Masontown. In developing its NSP plan, French said they focused on what he called "tipping-point neighborhoods." These are the neighborhoods, he explained, that could be negatively affected from one more property falling into disrepair. But if blight were addressed for that property, there was a better chance of containing further deterioration. For example, to complement Connellsville's downtown revitalization efforts, RAFC planned to use NSP1 funds to acquire and demolish vacant, foreclosed, and mixed-use properties. In Masontown, NSP1 funds were planned for use in developing new homes for low-, moderate-, and middle-income families. In Uniontown, RAFC and the Uniontown Redevelopment Authority planned to use NSP1 funds to implement a comprehensive redevelopment plan in the Gallatin Avenue and East End neighborhoods, including demolition of blighted properties.

In neighboring Ohio, the Cuyahoga County Department of Development (CCDOD) was awarded more than \$11 million in NSP1 funds as a direct HUD recipient and received an additional \$1.3 million from the State of Ohio. CCDOD decided to award \$2.5 million of its NSP1 funds to the City of Cleveland's inner-ring suburbs through a competitive RFP process, and in the end awarded grants of \$500,000 to each of five towns, including South Euclid and Bedford. Like many of Cuyahoga County's older inner-ring suburbs, South Euclid and Bedford are now experiencing increasing signs of neighborhood deterioration, including aging infrastructures and a growing inventory of vacant and abandoned

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

properties. Both have been historically stable communities but had over time begun to lose population. Between 2000 and 2010, South Euclid's population dropped by about six percent and Bedford's fell by nearly eight percent.⁶ Over this same period, the percent of vacant housing units grew in both of these communities, from three to seven percent in South Euclid and from six to 10 percent in Bedford. At the time of the case study (summer 2009), city officials expected more than 760 additional homes in South Euclid—of approximately 9,900 total housing units in the suburb—to go into some stage of foreclosure between December 2009 and spring 2010.⁷ In Bedford's Presidential District,⁸ where the city had targeted its NSP1 funding, nearly 20 percent of the properties were the subject of foreclosure actions or had already been sold at sheriff's sale and were vacant.⁹

One issue that Cuyahoga County administrators confronted was the fact that some neighborhoods that scored high on HUD's NSP funding formula were not the areas the county wanted to invest in with its limited NSP dollars. In its NSP plan, the county likens its strategy to that of combating a contagious disease outbreak, where "the medical professionals not only treat those already afflicted but also attempt to stop the further spreading of the disease by working in areas of newly increasing cases."¹⁰ In other words, the county did not want to focus solely on the most distressed areas; rather, they wanted to focus on areas that were beginning to show signs of distress. When CCDOD officials met with neighborhood representatives from the suburbs, they made a priority of identifying "spot" blight, or individual foreclosed houses in such advanced states of disrepair that they were affecting property values on entire streets. Following this strategy, Bedford planned to use its NSP funds to purchase and renovate older properties in their historic residential district, not only preventing the blight but also making the area more attractive and appealing to homebuyers through the use of more energy-efficient and safety features. Likewise, South Euclid planned to use NSP monies to acquire and rehab foreclosed properties, and to promote the use of green building standards.

The next section discusses the experiences NSP administrators had in implementing the program, the challenges they encountered, and the strategies they used to accomplish their objectives.

Section Two: Meeting the Challenges

Blight Reduction

Within the parameters of NSP, blight can be most immediately addressed in two ways: through demolition and through rehabilitation of abandoned foreclosed properties. In Fayette County, the RAFC's NSP plan called for using 20 percent of funding for demolishing 25 vacant and blighted residential properties in Uniontown and Connellsville. In Cuyahoga County, the CCDOD was able to pool non-NSP resources for demolition, freeing its suburban grantees to focus on acquisition and rehabilitation. Both RAFC and CCDOD would have liked more resources for demolition. Due to the limitations of the initial NSP guidelines, they weren't able to address the blight caused by long-term vacant properties because the properties, despite being abandoned and in disrepair, had never actually been foreclosed. Yet they also agree that demolition through NSP prevented further blight and vacancy. According to Andrew French, without NSP funding Fayette County would look the same

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

as it has for decades, although more properties would have been acquired by investors or would be sitting vacant and blighted. Demolition was chosen as an NSP activity, said French, because “our target communities have a number of dilapidated homes that negatively affect the rest of the neighborhood.” Without this demolition, he added, subsequent redevelopment, including new construction of several houses in Masontown, may not have occurred. CCDOD administrators believe that NSP helped their communities address blight and, in some communities, NSP-funded demolition kept residents from moving to other cities and contributed to recent increases in housing prices. At the block and neighborhood level, South Euclid used NSP funds to reduce blight by building two community gardens.



Figure 2: While resources and funding are scarce, there is no lack of creativity in communities' efforts to overcome blight.

Local Capacity

The slow buildup of blight in Fayette County and the longstanding nature of the housing crisis in Cuyahoga County meant that both counties already had some capacity to manage neighborhood stabilization when NSP was created.

Officials from both Fayette and Cuyahoga counties consider code enforcement an important tool for preventing deterioration of properties and neighborhoods. In fact, NSP administrators tended to provide funds to communities with point-of-sale ordinances and other code-enforcement tools. Nevertheless, supporting code-enforcement activities was not an eligible use of NSP1 funds.¹¹

NSP did, however, provide funding for the

establishment of a land bank in Cuyahoga County. To date that land bank has initiated landmark agreements with local and federal agencies and with at least one national bank to acquire distressed properties, and has provided technical assistance to communities considering a similar strategy. Furthermore, because of its ability to acquire large amount of vacant properties, the land bank has been able to realize economies of scale in demolition costs, which have declined from an average of \$10,000 to an average of \$6,500.¹²

RAFC provides another example of a community using NSP funds to build upon existing capacity. The infrastructure of programs and expertise within the county encouraged a higher level of efficiency in providing smaller cities with community revitalization resources and technical assistance. This enabled RAFC, which did not receive its NSP1 funds until mid-summer 2009, to engage in pre-funding development planning work to prepare its partners to acquire, rehabilitate, and demolish properties. It secured interim financing from the County Affordable Housing Trust Fund and continued to review

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

all federal and state NSP1 rules and requirements as they evolved during this time period. It also completed the required review of the environmental impacts of its NSP activities, to be in compliance with the provisions of Federal environmental law and regulations. Internally, officials at RAFC revised their administrative policies, such as lien and mortgagee documents, procurement policies, approvals, blight determination, and homebuyer requirements. From this review they devised checklists and forms for project certification and authorization, blight determination, and payment request forms. The diligent preparatory work paid off—by October 2009, they were closing on their first properties. These experiences illustrate that capacity, in the form of tools, programs, and resources, facilitated the use of NSP funds, and that, according to local administrators, building upon existing capacity (e.g., point-of-sale inspections) made for more productive NSP investments. However, the lack of funds and administrative resources to acquire and manage REO property continues to be a challenge for both Fayette and Cuyahoga counties. Like many weak-market communities, municipal governments and nonprofits lacked this form of capacity to compete with private investors that offer to buy properties in bulk from banks. Additionally, the NSP requirements to purchase REO at a discount and to comply with federal regulations, along with communities' lack of ready cash, put nonprofits and cities at a disadvantage compared to private investors. Clouded and tangled title issues also made it difficult for municipalities and nonprofits to identify owners, much less to acquire foreclosed properties from servicers and financial institutions.

Leveraging Resources and Partnerships

Both RAFC and Cuyahoga County relied heavily on their previously established network of partners, both formal and informal, to overcome NSP challenges. RAFC, for example, had strong relationships with local redevelopment authorities as well as nonprofit housing developer partners in Connellsville, Masontown, and Uniontown. In Fayette County, French tapped relationships built through the years with developers and other professionals who knew their neighborhoods well and could point him to the neediest areas. He also used informal relationships with local real estate brokers to help identify houses in foreclosure and the banks that held them. With that information, county officials were able to plot on a map those foreclosed properties on which its plan of action was based.

In Cuyahoga County, CCDOD had relationships with suburban municipalities through previous administration of other HUD programs. CCDOD has found their partnerships with suburbs to be important. At the outset of NSP, CCDOD convened approximately 75 stakeholders to ask for their input on how the funds should be used and how best to target the activity. CCDOD also worked with the First Suburbs Development Council, an organization comprising Cleveland's older inner-ring suburbs that strives to maintain, preserve, and redevelop communities as well as foster regional cooperation, and with members of Neighborhood Housing Services of Greater Cleveland and the state historic preservation office in developing an acceptable mitigation strategy for demolition in historic districts.

Additionally, suburban NSP grant recipients found that interdepartmental and their own local partnerships were key in a time of budget shortfalls and hiring freezes. South Euclid went to the

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

private sector and partnered with a local real estate agent, who helped expedite short sales and tracked REO property transactions. Real estate agents also helped the city better understand the local housing market, sell rehabbed houses, and promote neighborhood amenities.

Initially, the primary barrier to developing further partnerships was NSP's short time frames. To ease this burden, Cuyahoga County went through a process of identifying and screening contractors that could provide quality rehab for the suburban communities. This step reduced the time and improved the quality of rehabilitation activity. In both Cuyahoga and Fayette counties, however, NSP programs have been hampered by homeowners' and investors' inability to secure credit to purchase the rehabbed homes.

NSP recipients found that their programs had more potential impact if they leveraged grants with other funding programs as well as with the programs and resources of partner organizations. In Pennsylvania, NSP funds were targeted in areas already designated Elm Street neighborhoods, Weed and Seed neighborhoods, or that had received other state funding.¹³ Fayette County redevelopment authorities leveraged resources from different funding streams. The redevelopment authority in Masontown, for example, used state and CDBG funds to acquire properties and used NSP funds to build or rehabilitate homes. RAFC leveraged private financing in Uniontown and Connellsville from banks and USDA programs for mortgage financing. In Uniontown, city labor was used for demolition. Uniontown's strategy was to leverage Weed and Seed funding with NSP funds to address safety issues and blight simultaneously. Uniontown also leveraged streetscape funds that enhanced the downtown commercial district.¹⁴

In Cuyahoga County, South Euclid's Green Neighborhood Initiative has leveraged public-private partnerships including City Architecture, Cleveland Green Building Coalition, Cleveland Restoration Society, Cleveland State University's Levin College of Urban Affairs, and Environmental Health Watch. It has also leveraged NSP funding with First Suburbs Development Council's Vacant Residential Property Fund and combined NSP projects with existing code enforcement programs. Bedford and its neighbor Maple Heights leveraged NSP with CDBG funds, Maple Heights using them to pay for repairs to damaged sewer lines that had caused basement flooding and which could impact future home sales. Richmond Heights, another inner-ring suburb to the north of South Euclid, used NSP funds to extend a sewer line, the lack of which had stalled development for years.

Adapting Policy via Interactive Feedback in a Rapidly Changing Environment

Continuous feedback from community administrators and the extent to which HUD was able to respond to it through flexing program rules and definitions enabled communities to adapt solutions to some of their particular needs. By the time funds eventually reached local governments and nonprofit housing entities, housing markets and neighborhood dynamics had changed and continued to do so more rapidly than communities could respond to with NSP1 funds. HUD did allow NSP1 recipients to submit amendments to their original plans if, for example, there were changes in the real estate market that necessitated a shift in target areas. HUD also showed flexibility by making some important

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

concessions to program regulations, including a decreased requirement for a discount in purchase price, an allowance for grantees or their partners to enter into conditional contracts prior to completion of environmental review, a broadened definition of properties considered to be abandoned, and allowing properties to be purchased prior to being foreclosed upon. These changes made it possible for communities to be more selective and strategic in acquiring properties where rehabilitation could make the most difference. However, while many of these changes were welcomed by grantees, they nevertheless found the revising of budgets and adjusting of plans to abide by the changing rules cumbersome and time-consuming.

On a broader level, local governments were able to build partnerships with HUD national and local office staff. According to Cuyahoga County, HUD's provision of technical assistance, albeit late, helped



Figure 3: Before and after: Officials in Fayette County, Pa., targeted this home in Uniontown for rehabilitation using NSP1 dollars.

local and regional HUD staff to interact more with local grantees. According to Cuyahoga County's NSP manager Paul Herdeg, the interactive technical assistance is something they had not experienced previously with HUD. CCDOD officials, including Herdeg, think NSP1 helped improve relationships between HUD overseers and local communities.

Another particularity of NSP was that state agencies, as direct recipients, were allowed to provide additional rules for use of NSP funds. These rules in some cases helped and in other cases hampered sub-grantees' efforts. For example, RAFC had hoped to use NSP funds to develop park space and to demolish a commercial structure, but the state chose not to fund either, despite the view that, according to French, both would have contributed to the overall health of the neighborhood.

On the other hand, NSP allowed local governments to be creative about meeting the needs of their markets. NSP rules required that at least 25 percent of the funds be used for the lowest-income households. Cuyahoga County pooled money to fulfill these low-income set-aside requirements,

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

allowing their suburban grantees to focus on rehab and development in areas that were beginning to show signs of distress.

Section Three: Lessons Learned for Future Approaches

As of Summer 2011, although the recovery is showing signs of strengthening almost two years into the post-recession period, persistent weakness in the housing sector remains a drag on economic growth. The large inventory of foreclosed, seriously delinquent, or bank-owned properties continues to exert downward pressure on home prices and recovery in our communities. With unemployment rates still elevated, many more homes are moving into foreclosure, and we estimate it will take well over a year before the number of bank-owned properties begins to decline significantly.¹⁵ Falling home prices are even constraining small business owners' access to credit, as many rely on the value of their homes to obtain financing.¹⁶ Clearly, neighborhood stabilization is a long-term problem that requires long-term solutions.

NSP was conceived as a temporary emergency program. Communities were faced with having to comply with an intensive 18-month obligation time frame and learn a relatively complex program, all while adjusting to rapidly changing—and increasingly negative—housing market conditions. These initial challenges prompted frustrated communities to raise concerns that encouraged HUD to eventually revise some of its rules. Further along in the implementation, HUD became more active in soliciting feedback from NSP communities and agencies.¹⁷ **Future programs for community development ought to consider the value of continuous feedback and adaptability when operating under rapidly shifting conditions.**

The acquisition and demolition of blighted property provided some discrete relief to communities in the reduction of declining properties alone. Given the high levels of current and expected mortgage distress, case study communities also saw an opportunity in NSP to more strategically focus their dollars not only on properties in need, but also on building their capacities to deal with vacant and distressed residences in their communities. In Cuyahoga County, for example, **one of the main contributions of NSP1 and 2 was to help strengthen the region's institutional capacity to manage vacant properties, by providing financing for the establishment of a county land bank.**

Recent neighborhood stabilization policy has already incorporated lessons learned from NSP1 about the value of partnerships in the face of under-capacity. Congress recognized the importance of partnerships in the creation of NSP2, which awarded \$2 billion in funds on a competitive basis and encouraged collaborations among local governments, nonprofits, and private sector partners. These relationships can be classified as both horizontal (occurring between city departments and across private, public and non-profit entities) and vertical (occurring among federal, state, and local offices) levels. At the horizontal level, Cuyahoga County administrators claim that the relationships they built with suburbs during NSP1 definitely eased the process of implementing NSP2 and helped to build a

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

model of regional cooperation for the future. In regards to REO property disposition, however, further relationships could be developed among private and public entities that would make more efficient use of federal dollars and improve overall neighborhood stability. At the vertical level, local governments in the case study communities were at times frustrated by differences in the federal and state NSP program requirements. In other instances, however, administration of NSP by the county facilitated the implementation of monies in their communities. Coordination of program goals, objectives, and priorities in the future would help to support more targeted and efficient use of resources.

In addition to providing incentives to build partnerships, new policies recognize the importance of leveraging private capital with public funds. For example, a new CRA rule that became effective in January 2011 expands opportunities for banks to leverage private investments with federal resources to stabilize communities affected by high levels of foreclosures. The new rule expands the definition of community development activities eligible for CRA credit, which include loans, investments, and services that support, enable, or facilitate projects that are conducted in designated NSP target areas, approved by HUD and under HERA.

It has been documented that higher levels of productivity emerge from the churning of job destruction and creation that takes place during recessions.¹⁸ In a similar fashion, the experiences of the case study communities collected in this report hint at the increased feedback, coordination, and partnerships by communities and local and federal governments that have occurred in response to the housing crisis. These changes may potentially become standards of renewed models of community development, with comprehensive interventions that could focus simultaneously on human capital and place.

¹ Alan Mallach, "Stabilizing Communities: A Federal Response to the Secondary Impacts of the Foreclosure Crisis," Feb. 2009, p. 2.

² See "The Impact of the Mortgage Crisis on Children and their Education," Phillip Lovell and Julia Isaacs, First Focus, April 2008.

³ Report forthcoming by the Federal Reserve Bank of Richmond.

⁴ Fayette County, Pennsylvania Housing Market Analysis, available at <http://www.racfpa.org/Fayette%20County%20Housing%20Market%20Analysis%20-%20Final%20Version.pdf>.

⁵ U.S. Census Bureau, 2006–2008 American Community Survey.

⁶ NEO CANDO data system, Center on Urban Poverty and Community Development, MSASS, Case Western Reserve University (<http://neocando.case.edu>). Data extracted on May 27, 2011.

⁷ U.S. Census Bureau, 2006–2008 American Community Survey.

⁸ The Presidential District in Bedford is an area with streets named after U.S. Presidents.

⁹ NSP Grant Application for the City of Bedford, to CCDOD, p.7.

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

¹⁰ From a December 1, 2008, Amendment to the Cuyahoga County NSP plan submitted by the Cuyahoga County Board of Commissioners. Available at http://www.clevelandfed.org/Community_Development/topics/NSP/Plans/CuyahogaCountyNSP.pdf.

¹¹ See <http://www.hud.gov/nsp>.

¹² Fitzpatrick, Thomas J., and O. Emre Ergungor, "Slowing Speculation: A Proposal to Lessen Undesirable Housing Transactions," *Forefront*, Vol. 1, Issue 1, April 2011. Available at http://www.clevelandfed.org/forefront/2011/winter/ff_2011_winter_11.cfm.

¹³ The Elm Street Program was created to bolster the older historic neighborhoods located within walking distance from our revitalized Main Streets. Along with the physical changes they make to the properties, these grants also help create a positive image for the community. Weed and Seed, a community-based strategy sponsored by the U.S. Department of Justice (DOJ), is an innovative, comprehensive multiagency approach to law enforcement, crime prevention, and community revitalization. CCDOD oversees the Weed and Seed initiative. Weed and Seed is foremost a strategy—rather than a grant program—that aims to prevent, control, and reduce violent crime, drug abuse, and gang activity.

¹⁴ Funds through U.S. Department of Transportation for infrastructure improvements, lighting, benches, and other amenities.

¹⁵ Venkatu, Guhan, "Out of the Shadows: Projected Levels for Future REO Inventory," Economic Commentary, October 19, 2010, Federal Reserve Bank of Cleveland. Available at <http://www.clevelandfed.org/research/commentary/2010/2010-14.cfm>.

¹⁶ Schweitzer, Mark, and Scott Shane. The Effect of Falling Home Prices on Small Business Borrowing. Available at <http://www.clevelandfed.org/research/commentary/2010/2010-18.cfm>.

¹⁷ In fact, among these meetings was one held with the Cleveland and Richmond Feds, along with the Board of Governors. The meeting, with others, led HUD to broaden the definition of "abandoned" to include houses for which the owner hadn't made any mortgage or tax payments for three months, or code inspectors deemed to be uninhabitable.

¹⁸ "Firm Dynamics and Productivity Growth in the U.S. Manufacturing Sector," John Haltiwanger, University of Maryland and NBER (presentation available at http://www.clevelandfed.org/research/Conferences/2011/5-6-2011/Haltiwanger_slides.pdf).

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

CR Report

Community Reinvestment Report is published by the Federal Reserve Bank of Cleveland's Community Development Department. Reprinting allowed with permission; contact the Managing Editor.

Managing editor:

Anne O'Shaughnessy

Written by:

Lisa Nelson

Mary Helen Petrus

Francisca G.-C. Richter

Contributing writer:

Doug Campbell, Public Affairs, Federal Reserve Bank of Cleveland

This report is based on fieldwork conducted under the direction of, and case study summaries written by, Joe Schilling of the Metropolitan Institute of Virginia Tech.

The views expressed in *CR Report* are those of the authors and are not necessarily those of the Federal Reserve Bank of Cleveland or the Board of Governors.

Members of the Community Development team:

CLEVELAND

Ruth Clevenger

Vice President & Community Affairs Officer

216.579.2392

Ruth.m.clevenger@clev.frb.org

Donna N. Brooks

Project Administrator

216.579.2309

Donna.n.brooks@clev.frb.org

Thomas J. Fitzpatrick

Economist

216.579.3087

Thomas.j.fitzpatrick@clev.frb.org

Matthew Klesta

Research Analyst

216.579.3166

Matthew.klesta@clev.frb.org

Lisa Nelson

Senior Policy Analyst

216.579.2903

Lisa.a.nelson@clev.frb.org

Written by Lisa Nelson, Mary Helen Petrus, and Francisca G.-C. Richter based on case studies by Joe Schilling
Produced by the Community Development Department of the Federal Reserve Bank of Cleveland
For additional work on NSP, go to www.clevelandfed.org/Community_Development/topics/nsp/

Neighborhood Recovery and NSP1: Implementation in Select Fourth District Communities

CR Report, Summer 2011

Anne O'Shaughnessy
Communications Project Manager
216.579.2233
Anne.o'shaughnessy@clev.frb.org

Mary Helen Petrus
Outreach Manager & Senior Policy Advisor
216.579.2443
Mary.h.petrus@clev.frb.org

Francisca G.-C. Richter
Research Economist
216.579.2474
Francisca.g.richter@clev.frb.org

PITTSBURGH
Joseph Ott
Senior Policy Analyst
412.261.7947
Joseph.c.ott@clev.frb.org