



City of Philadelphia

Office of Housing and Community Development

# Proposed Neighborhood Stabilization Program (NSP)

Jurisdiction: City of Philadelphia  
Michael A. Nutter, Mayor

Jurisdiction Web Address: [www.phila.gov/ohcd](http://www.phila.gov/ohcd)

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## TABLE OF CONTENTS

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A. Areas of Greatest Need .....	2
Figure One – Foreclosure and Abandonment Risk Score.....	3
Figure Two – U. S. Postal Service Vacancy Data .....	4
Figure Three – Owner-Occupied Properties Scheduled for Mortgage Foreclosure Sale, April-July 2008 .....	5
B. Distribution and Uses of Funds.....	5
Figure Four Percentage of High-Cost Mortgages By Census Tract, Loans Originated 2004-2006.....	6
Figure Five Predicted 18-Month Foreclosure Rate (HUD Data) ..	7
Figure Six Preforeclosure Filings 2007-2008 (YTD) By Zip Code.....	8
Figure Seven Recommended Target Areas (Zip Codes) .....	9
Figure Eight Bank REO Properties Available for Sale, October 2008 .....	10
Figure Nine Foreclosed Properties Sold By FHA in the Past 12 Months.....	11
C. Definitions and Descriptions .....	12
D. Low-Income Targeting .....	12
E. Acquisitions and Relocations .....	12
F. Public Comment .....	12
G. NSP Information By Activity .....	13

## A. AREAS OF GREATEST NEED

To assist in determining the geographic areas of greatest need in Philadelphia, the City has considered the foreclosure and abandonment risk score developed by HUD. This score, on a scale of 1 to 10, suggests the areas of the city where foreclosure and abandonment are most likely to occur. Within Philadelphia, census tract level data was available on

- The percentage of “high cost” loans as reflected in Federal Reserve Home Mortgage Disclosure Act (HMDA) data on loans made between 2004 and 2006.
- Residential units vacant for more than 90 days, as recorded by the U. S. Postal Service as of June 2008.

HUD also used unemployment and price depreciation data in determining the risk score. These data, however, are not available for the city by census tract and so do not affect the risk score within the city.

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## FIGURE ONE – FORECLOSURE AND ABANDONMENT RISK SCORE

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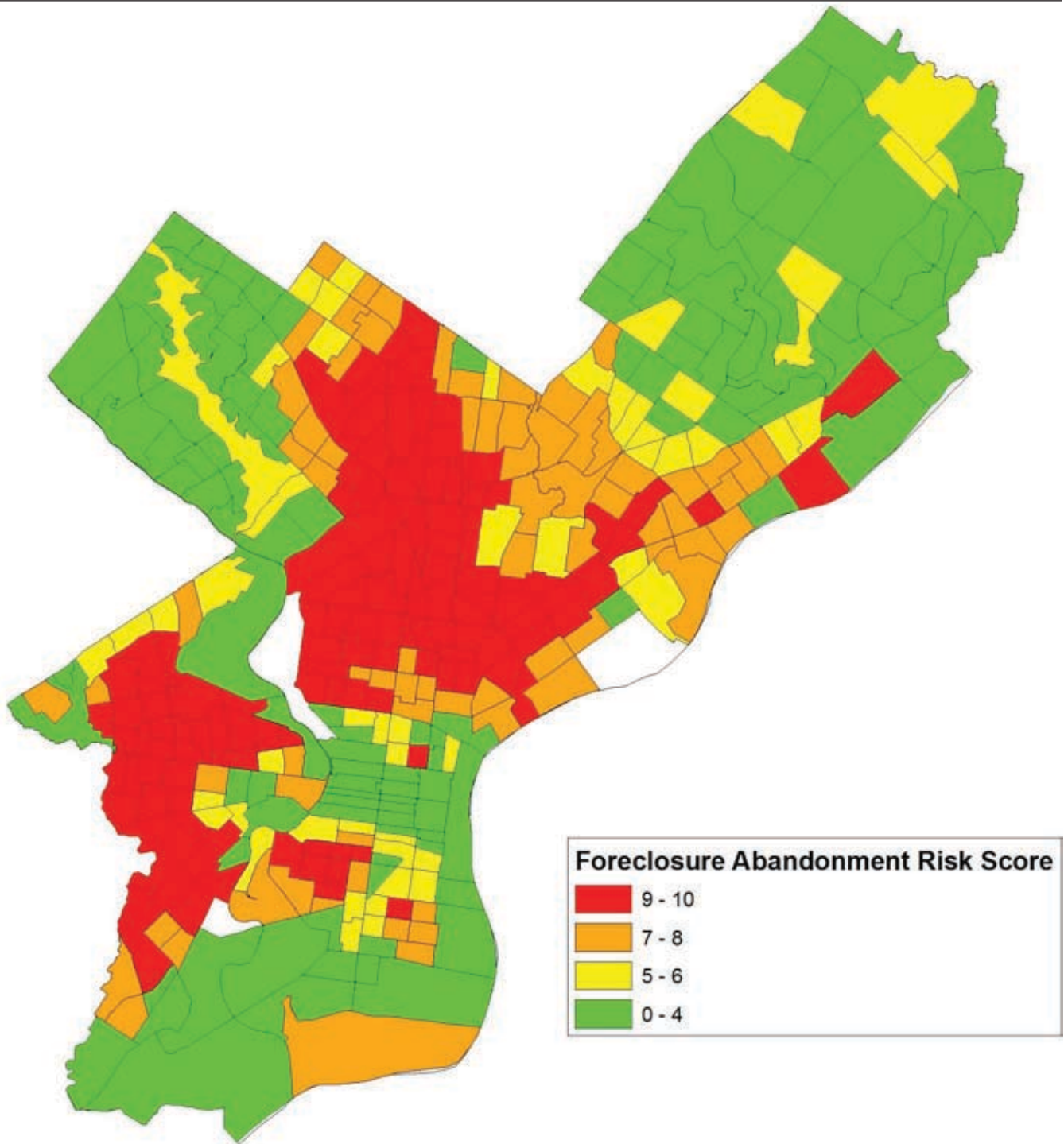


Figure One depicts the Foreclosure and Abandonment Risk Score by Census Tract for the City of Philadelphia, as compiled by HUD. Census tracts with scores of 9 and 10 are coded as red, 7 and 8 as orange, 5 and 6 as yellow and 0 to 4 as green. A higher score indicates a greater risk for mortgage foreclosure or abandonment.

Figure One indicates the areas of the city most at risk of foreclosure and abandonment using the HUD-derived formula. Most at risk are parts of West and Southwest

Philadelphia, South Philadelphia west of Broad Street, North Philadelphia, East Germantown, Oak Lane, Olney, Lower Northeast and Frankford.

Figure One overstates the risk of foreclosure in areas of longstanding blight and abandonment since U. S. Postal Service (USPS) data does not distinguish vacancy due to foreclosure from vacancy due to longstanding abandonment and disinvestment.

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## FIGURE TWO – U. S. POSTAL SERVICE VACANCY DATA

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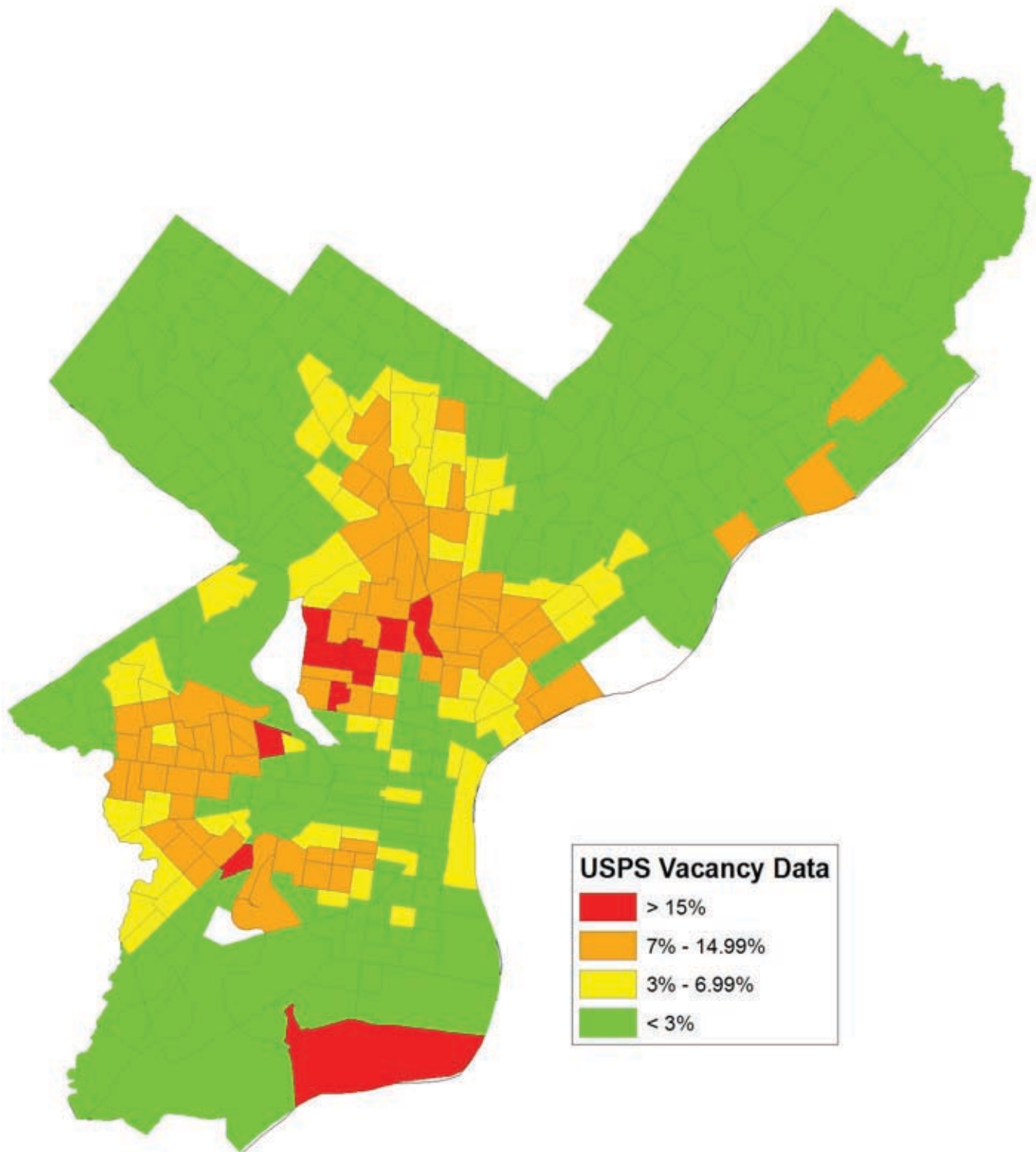
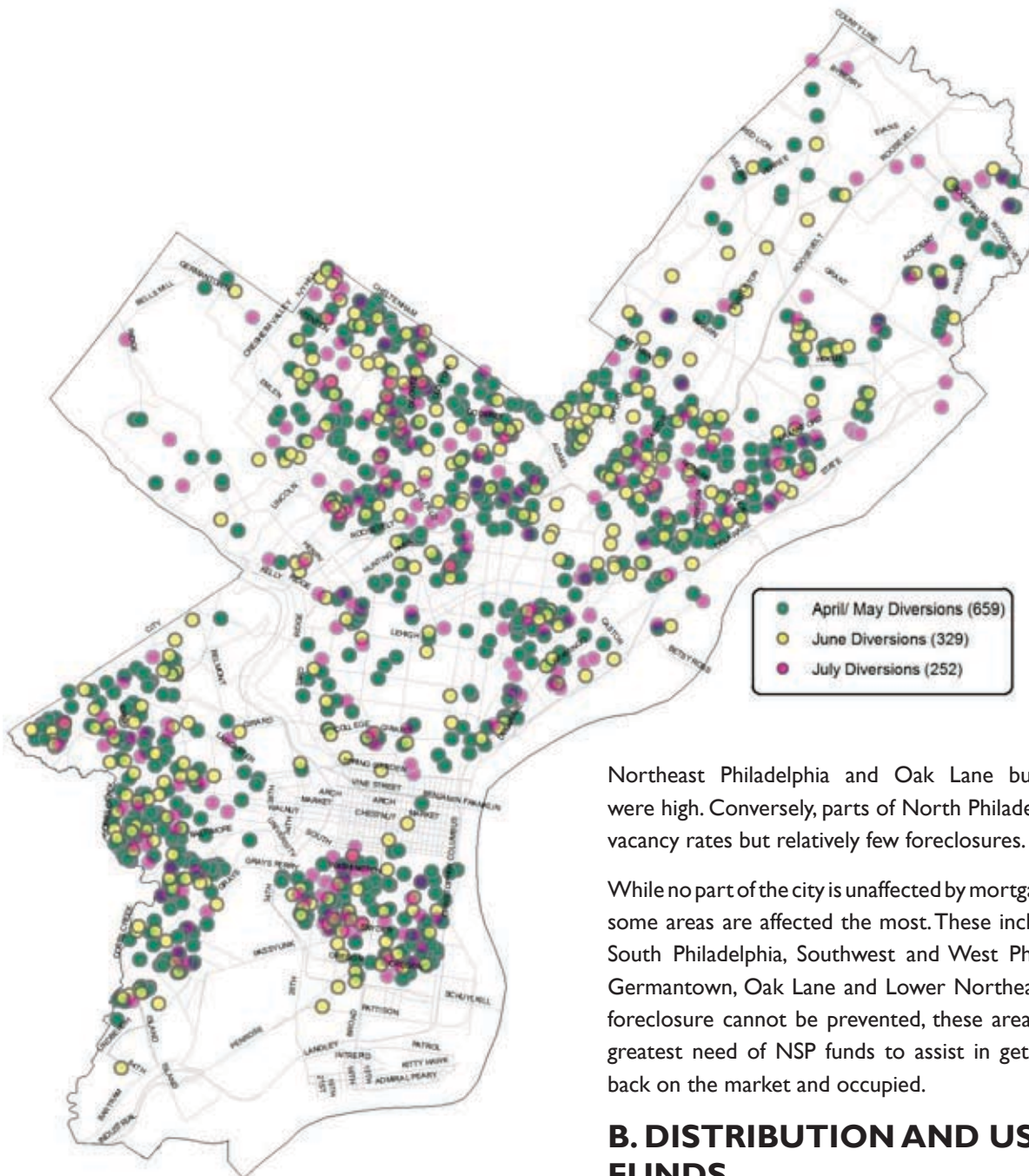


Figure Two shows USPS vacancy data which was incorporated in the HUD-derived risk score. This figure maps properties that had been vacant for more than 90 days as of June 2008. Areas of the city which have higher risk scores because of the vacancy factor include parts of North Philadelphia, West

Philadelphia and Kensington. These areas, where large scale abandonment and vacancy date to the loss of manufacturing and population over many years, are not the areas most affected by the present mortgage foreclosure crisis.

**FIGURE THREE – OWNER-OCCUPIED PROPERTIES SCHEDULED FOR MORTGAGE FORECLOSURE SALE, APRIL – JULY 2008**



The City’s actual experience with foreclosures indicates a somewhat different pattern. Figure Three shows owner-occupied residential properties which were scheduled for mortgage foreclosure sale from April through July 2008. Through court action, foreclosure of these properties was “diverted” until the owner and lien holder met in a conciliation conference aimed at stopping the foreclosure process. Figure Three shows that USPS vacancy data is not a good predictor of concentrations of mortgage foreclosures in Philadelphia. For example, vacancy is very low in Lower

Northeast Philadelphia and Oak Lane but foreclosures were high. Conversely, parts of North Philadelphia have high vacancy rates but relatively few foreclosures.

While no part of the city is unaffected by mortgage foreclosure, some areas are affected the most. These include clusters in South Philadelphia, Southwest and West Philadelphia, east Germantown, Oak Lane and Lower Northeast. If mortgage foreclosure cannot be prevented, these areas will have the greatest need of NSP funds to assist in getting properties back on the market and occupied.

**B. DISTRIBUTION AND USES OF FUNDS**

As required by statute, the City will target funds to the areas of greatest need, including those with the greatest percentage of home foreclosures, the highest percentage of homes financed by a subprime loan and those identified as likely to face a significant rise in the rate of home foreclosures. In order to make targeting decisions, several sources of data have been examined.

Figure Three indicates the areas of the city presently facing mortgage foreclosure.

**FIGURE FOUR – PERCENTAGE OF HIGH-COST MORTGAGES BY CENSUS TRACT, LOANS ORIGINATED 2004-2006**

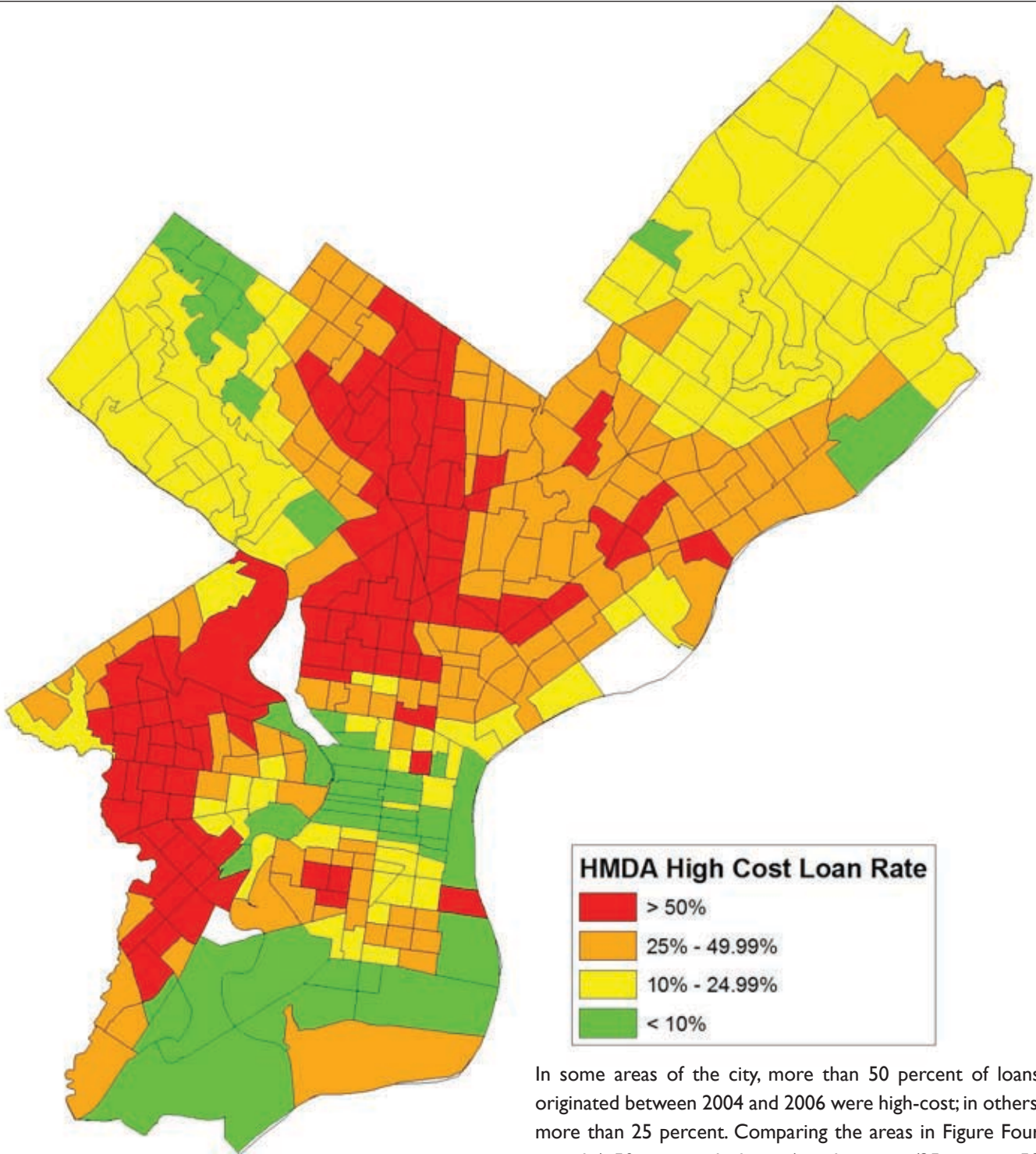


Figure Four indicates the areas with the greatest percentage of “high-cost” mortgages made between 2004 and 2006. This map uses data provided by HUD from the Federal Reserve’s Home Mortgage Disclosure Act (HMDA). It shows the percentage of all loans made between 2004 and 2006 that are high-cost: those with interest rates more than 3 percent above a standard loan rate. This data is a proxy for subprime loans.

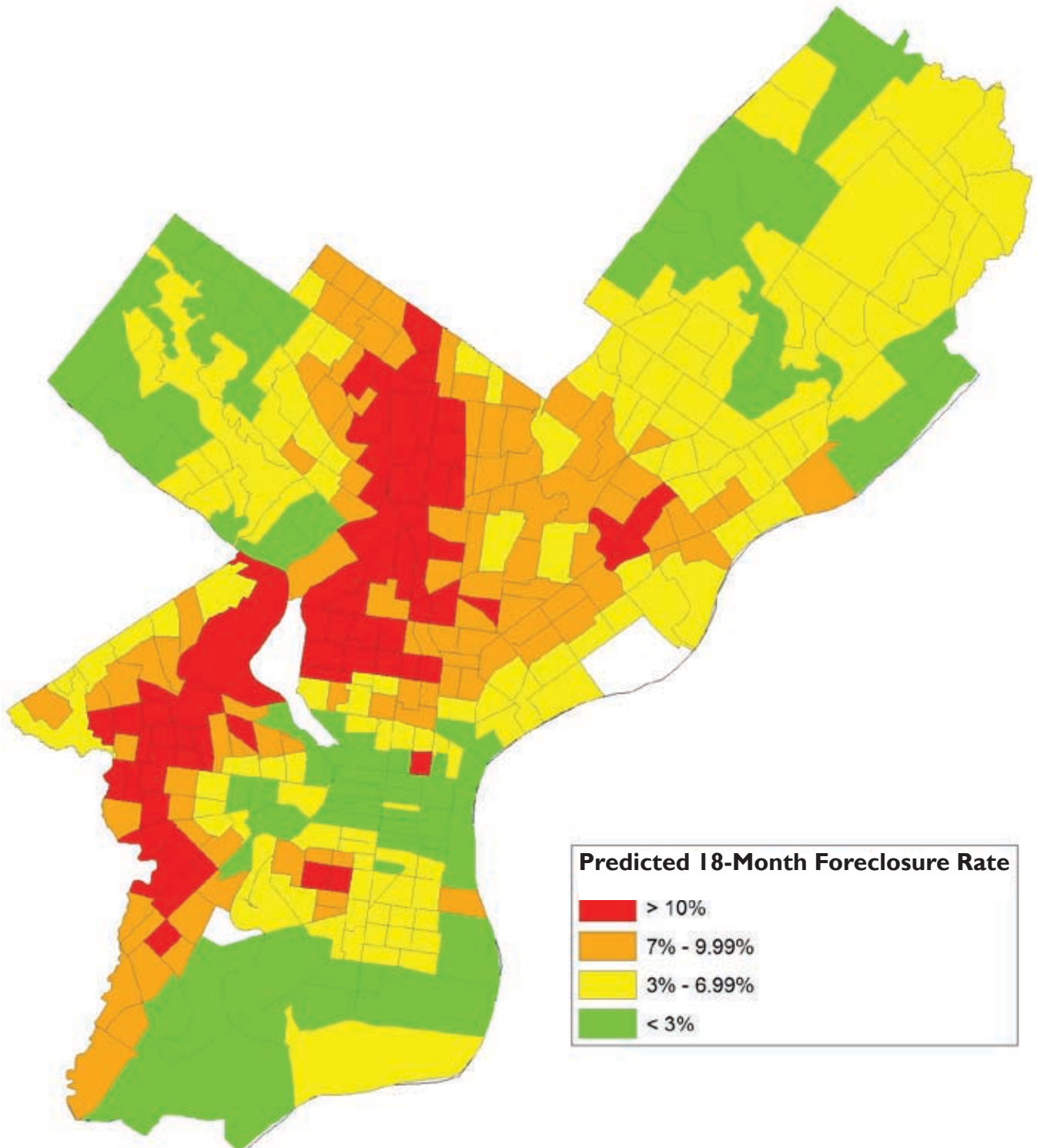
In some areas of the city, more than 50 percent of loans originated between 2004 and 2006 were high-cost; in others, more than 25 percent. Comparing the areas in Figure Four in red (>50 percent high cost) and orange (25 percent-50 percent high cost) with the areas actually undergoing high numbers of foreclosures (Figure Three) indicates that high-cost loan rates are a good predictor of mortgage foreclosure.

These areas include West and Southwest Philadelphia, Point Breeze, Upper North Philadelphia, East Germantown, Oak Lane, Olney, Frankford, Kensington and Lower Northeast.

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**FIGURE FIVE – PREDICTED 18-MONTH FORECLOSURE RATE (HUD DATA)**

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Using data prepared by HUD, Figure Five indicates the likelihood of foreclosures in the coming 18 months. It addresses the third required factor to be considered in distributing funds, areas “likely to face a significant rise in the rate of home foreclosures.”

The map indicates that portions of West and Southwest Philadelphia, Point Breeze, North Philadelphia, east Germantown, Oak Lane, Olney and Frankford have a very high risk of foreclosure in the future. Areas in orange are also highly likely to experience foreclosures in the next 18 months. These are generally adjacent to the red areas and in particular include portions of Lower Northeast Philadelphia.

## FIGURE SIX – PREFORECLOSURE FILINGS 2007-2008 (YTD) BY ZIP CODE

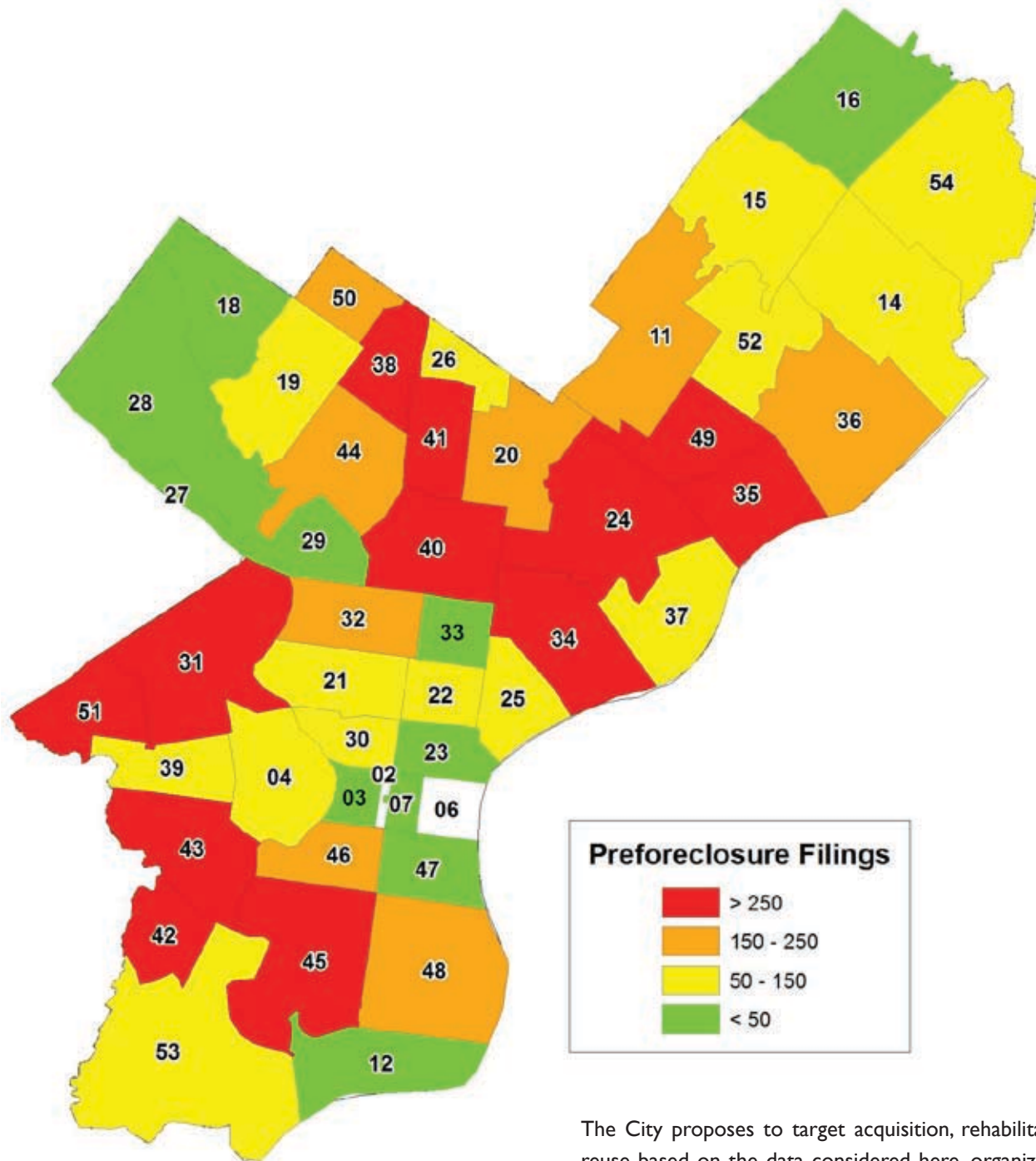
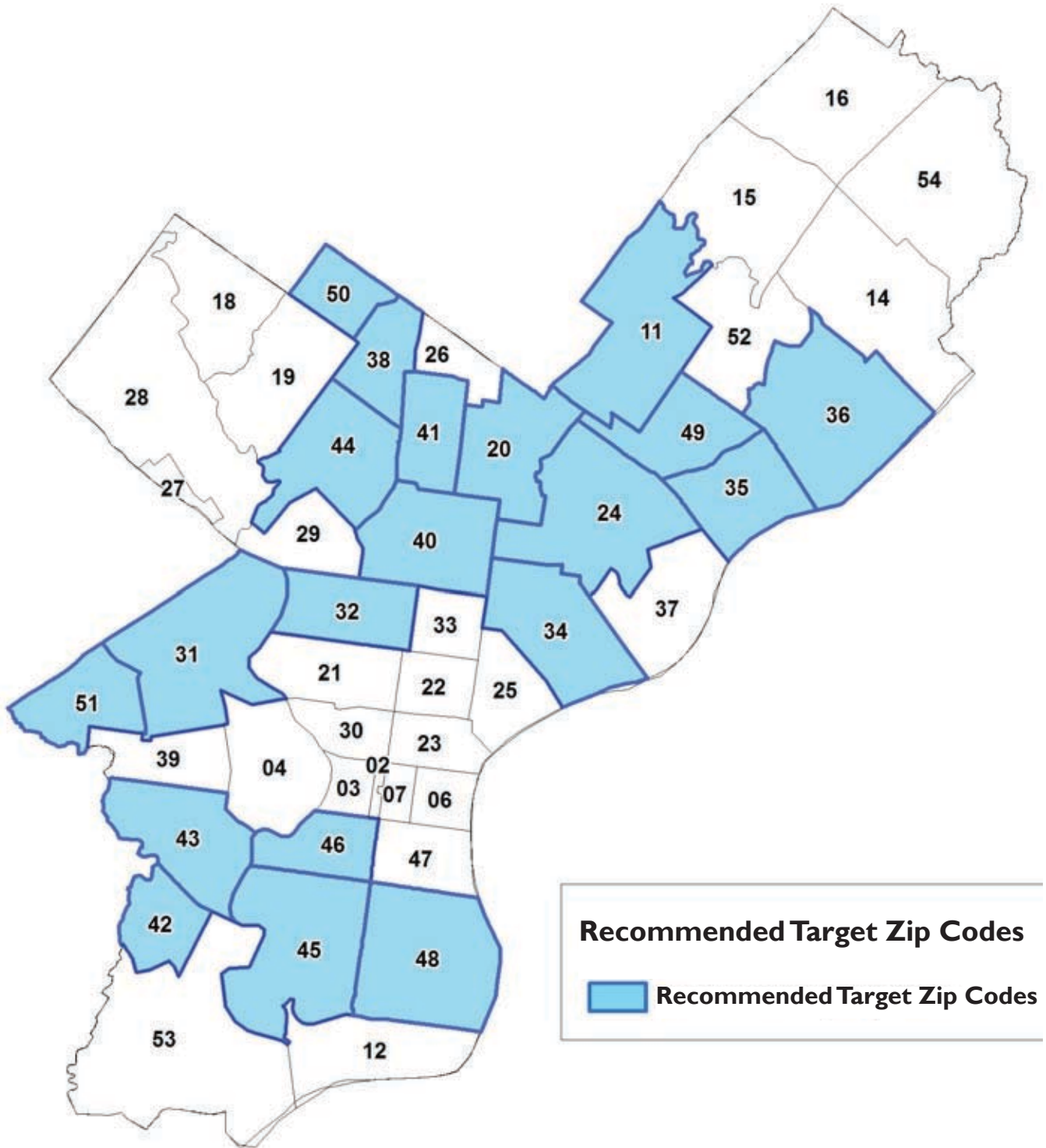


Figure Six indicates the geographic distribution of “Preforeclosure” or initial mortgage foreclosure filings in the City of Philadelphia, by zip code, for 2007 and the first nine months of 2008. This map is very similar to the map of foreclosures in the mortgage diversion program (Figure Three). Organizing by zip code is useful in targeting properties for acquisition, rehabilitation and resale through NSP. Bank REO (Real Estate Owned) properties, properties listed by brokers and by the Federal Housing Administration (FHA) are more easily identified by Zip Code than by census tract.

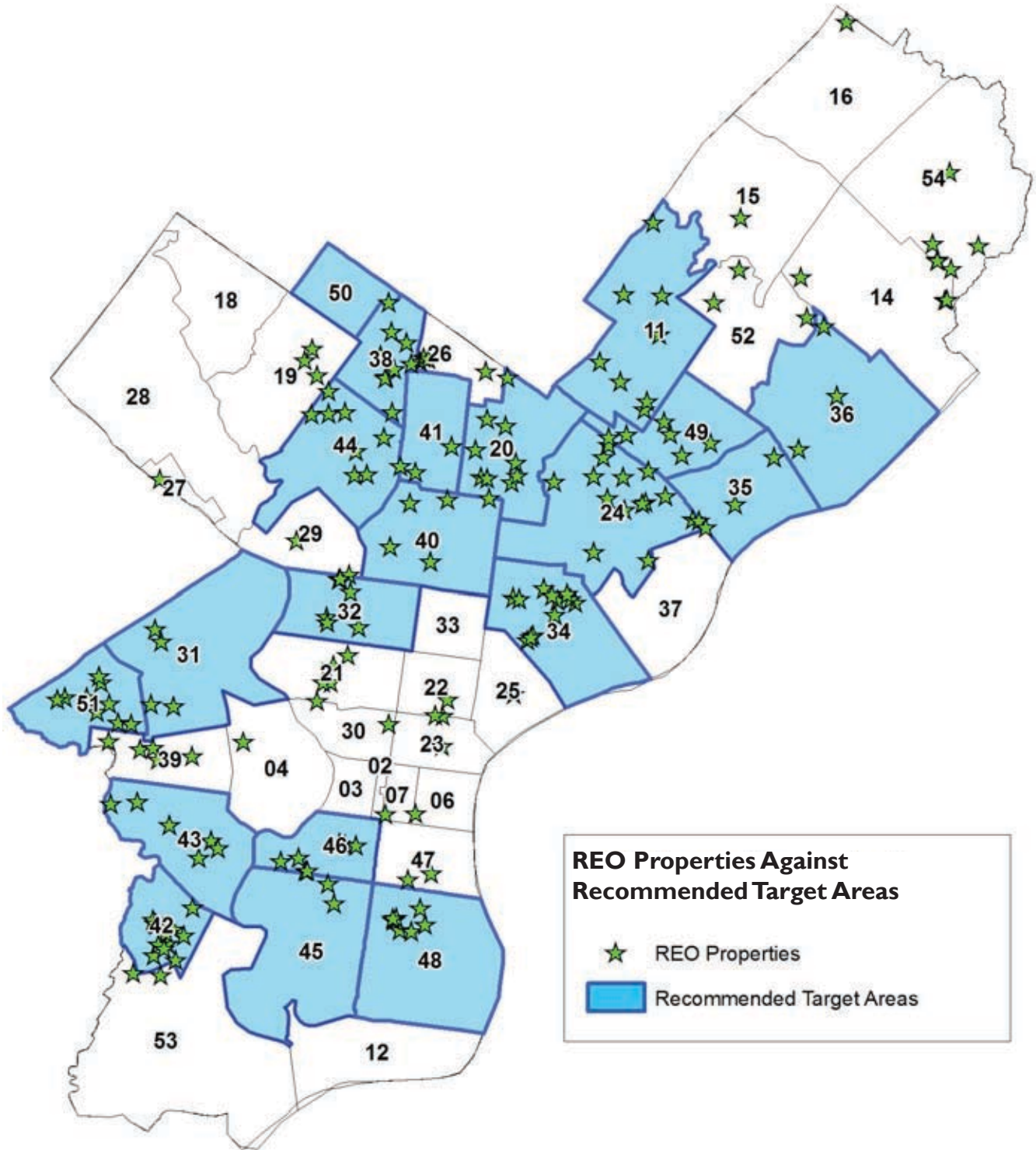
The City proposes to target acquisition, rehabilitation and reuse based on the data considered here, organized by zip code. Twelve zip codes (19124, 19131, 19134, 19135, 19138, 19140, 19141, 19142, 19143, 19145, 19149 and 19151) had more than 250 preforeclosure actions filed in 2007 and 2008. These zip codes represented 55 percent of all preforeclosure filings. In Figure Six, these zip codes are shaded red. Eight other zip codes (19111, 19120, 19132, 19136, 19144, 19146, 19148, 19150), which are in orange on Figure Six, had between 150 and 249 filings. These represented 23 percent of preforeclosures. Together, these 20 zip codes represent 78 percent of all preforeclosure actions from 2007 and 2008 to date.

## FIGURE SEVEN – RECOMMENDED TARGET AREAS (ZIP CODES)



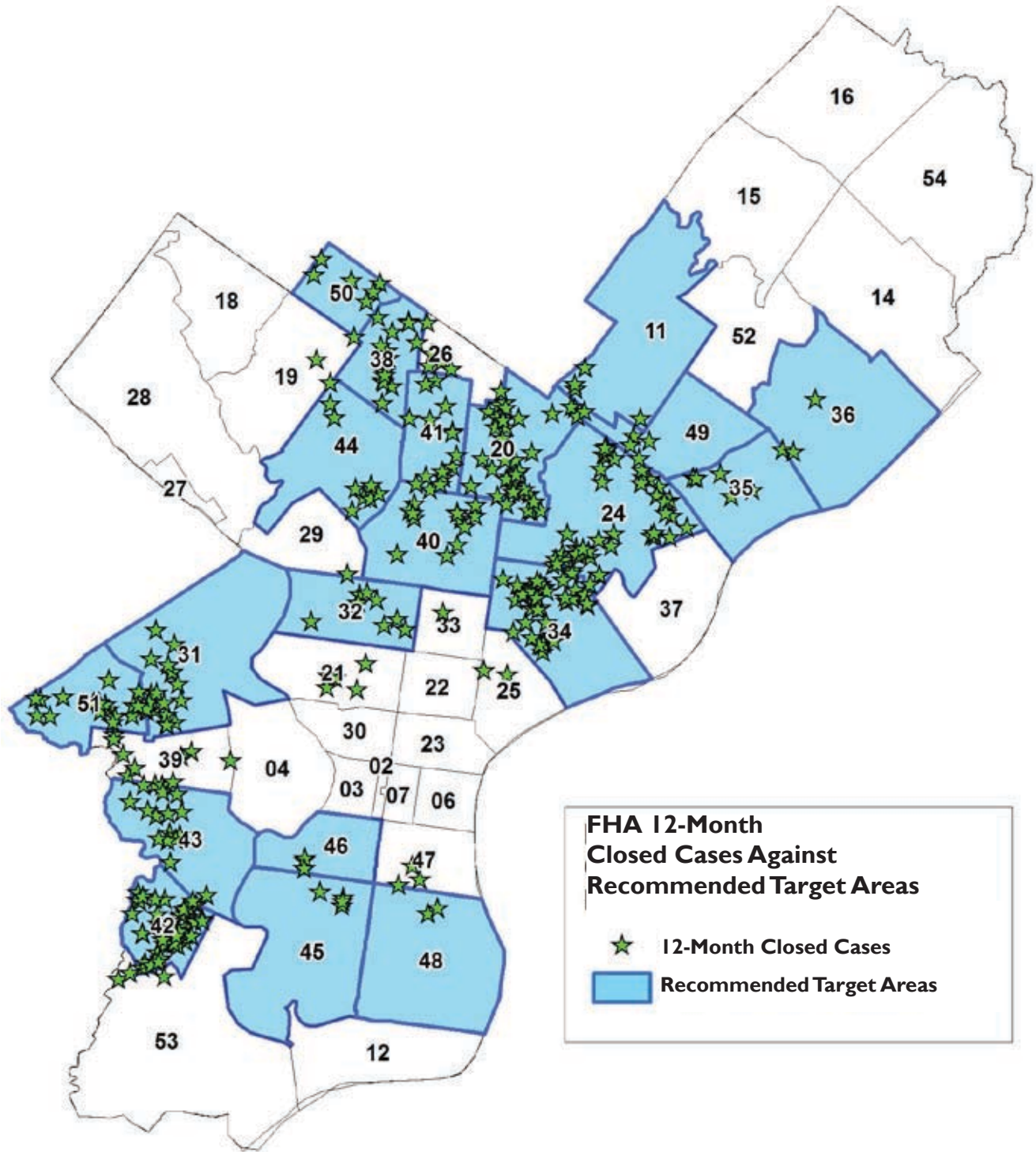
The City proposes to target approximately 78 percent of all NSP funds to purchase, rehabilitate and reuse as housing eligible properties in these 20 zip codes, shown in blue on Figure Seven. The remaining 22 percent of funds will be available citywide, with special attention given to areas adjacent to the targeted zip codes such as 19139 and 19126.

**FIGURE EIGHT – BANK REO PROPERTIES AVAILABLE FOR SALE, OCTOBER 2008**



The City has carried out initial research which indicates that the supply of foreclosed properties available for purchase is consistent with the proposed target zip codes. Figure Eight maps 187 properties available for sale from eight bank REOs, as listed on the Internet.

# FIGURE NINE – FORECLOSED PROPERTIES SOLD BY FHA IN THE PAST 12 MONTHS



In addition to properties for sale by bank REOs, FHA maintains an inventory of foreclosed properties for sale. FHA properties will be one source of properties to be acquired by the City for NSP. Figure Nine maps FHA properties which were sold in the past 12 months.

Figure Nine indicates an extraordinarily good fit between FHA-foreclosed properties and the City’s proposed target zip codes, shown in blue. The City’s proposed target zip codes will address the areas of greatest need as required in the NSP regulations.

## C. DEFINITIONS AND DESCRIPTIONS

1. **Blighted Structure.** Pennsylvania Urban Redevelopment Law contains the following criteria for establishing the presence of blight in a particular area:

- a. Unsafe, unsanitary, inadequate or overcrowded conditions
- b. Inadequate planning
- c. Excessive land coverage
- d. Lack of proper light, air and open space
- e. Faulty street and lot layout
- f. Defective design and arrangement of buildings
- g. Economically or socially undesirable land use

Criteria a, c, d, e, f and g are relevant to the determination that a structure is blighted. Since the City does not intend to demolish properties as part of its use of NSP funds, the definition of Blighted Structure is of limited relevance.

2. **Affordable Rents.** Affordable rental housing means housing for which the household spends no more than 30 percent of its income on housing-related expenses, including rent and utilities, as defined under the Section 8 Housing Assistance Payments programs in 24 CFR part 813.

3. **Continued affordability for NSP-assisted housing.** The City adopts the requirements for affordability under the HOME program at 92.252 (Rental Housing) and 92.254 (Homeownership Housing), as summarized below:

Rental Housing Assistance NSP amount per unit	Minimum period of affordability in years
Under \$15,000	5
\$15,000 to \$40,000	10
Over \$40,000	15
Homeownership Assistance NSP amount per unit	Minimum period of affordability in years
Under \$15,000	5
\$15,000 to \$40,000	10
Over \$40,000	15

Continued affordability will be ensured by the recording of liens, deed restrictions or covenants running with the land. The HOME Program Guidelines on pages 158-59 of the *Year 34 Consolidated Plan* will be the basis for ensuring continued affordability in the NSP. Since NSP may benefit households with incomes up to 120 percent of Area Median Income (AMI), the household income for a new purchaser under Option I is changed from 75 percent to 115 percent for NSP-assisted units with household incomes up to 120 percent of AMI. Any unit sold to a household with an income of less than 50 percent AMI and which was counted as part of the City's requirement to spend at least 25 percent of its NSP funds on households with incomes less than 50 percent AMI must be resold to a household at less than 50 percent AMI if Option I is selected.

4. **Housing Rehabilitation Standards.** For housing rehabilitation using NSP funds, the City will enforce its building and property maintenance code for existing buildings. The City adopted the 2006 International Existing Building Code through the enactment of Council Bill 060850 on Dec. 20, 2006. This is known as the Philadelphia Existing Building Code (2007 edition).

## D. LOW INCOME TARGETING

The City will make available 25 percent (\$4,208,218) of its total NSP award of \$16,832,873 for housing individuals and families whose incomes do not exceed 50 percent of AMI. It is anticipated that most of this amount will be used for affordable rental housing. Housing units affordable to households with incomes not greater than 50 percent of AMI that are sold to this income group will be counted as satisfying the 25 percent set-aside requirement.

## E. ACQUISITIONS AND RELOCATIONS

The City does not intend to demolish or convert any low- and moderate-income dwelling units as a direct result of NSP-assisted activities. No relocation is planned.

## F. PUBLIC COMMENT

(To be provided after the required 15-day comment period.)

## G. NSP INFORMATION BY ACTIVITY

### 1. Activity Name:

Purchase and rehabilitation to sell, rent or redevelop

### 2. Activity Type:

NSP Eligible Use and CDBG Eligible Activity

NSP Eligible Use	Correlated CDBG Eligible Activities
(B) Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent or redevelop such homes or properties.	<p>24 CFR 570.201 (a) Acquisition (b) Disposition (n) Direct homeownership assistance</p> <p>24 CFR 570.202 Eligible rehabilitation and preservation activities, including homebuyer counseling for those taking part in the activity</p>

### 3. National Objective:

Low, Moderate, or Middle Income (LMM) Housing.

### 4. Activity Description:

The City proposes to use its NSP funding to acquire, rehabilitate and reuse as housing properties which have been foreclosed upon. The Redevelopment Authority (RDA) will purchase, at a discount, properties from the FHA or bank REOs or other foreclosed properties and make the properties available to redevelopers (either nonprofit or for-profit) to rehabilitate. The redeveloper will sell the properties to homebuyers or hold the properties as rental housing. Upon resale to a new homeowner, the City will recover as program income the sales proceeds, with the rehabilitation and related costs (soft costs, developer fees, etc.) remaining in the deal as a program cost or grant.

This activity will address the areas of greatest need, identified as areas which have had substantial foreclosure activity and which are expected to have substantial foreclosure activity in the future. These areas, based on the analysis of data presented in Sections A and B, are identified as 20 targeted zip codes. Funds for this NSP activity (purchase and rehabilitation to sell, rent or redevelop) will be used to meet the low-income housing requirement for those below 50 percent of AMI.

### 5. Location Description:

Specific addresses and blocks have not been identified. Specific addresses will be selected as consistent with the areas (zip codes) of greatest need as identified in the overall narrative. Approximately 78 percent of funds will be used in 20 targeted zip codes shown in Figure Seven. The remaining funds will be available for use citywide with priority to locations adjacent to the targeted zip codes.

### 6. Performance Measures

Activity	Units <50 Percent AMI	Units 51-80 Percent AMI	Units 81-120 Percent AMI
Acquisition	45	70	65
Rehabilitation	45	70	65
Demolition	0	0	0

The performance measures are based on an average acquisition price of \$50,000 per property. This figure is based on a 15-percent discount from the listed sales price of 447 properties in targeted zip codes which are currently offered by bank REOs (Figure Eight) or which were sold in the previous 12 months by FHA (Figure Nine). Rehabilitation costs (including soft costs, developer fees, counseling fees, etc.) are estimated at \$34,000 per unit.

**7. Total Budget:**

The budget for this activity is \$15,149,585, which is 90 percent of the total allocation to the City of \$16,832,873. The remaining 10 percent will be used for administrative costs as allowed by regulation.

Reserved for Acquisition, Rehabilitation and Reuse <50 percent AMI:.....	\$4,208,218
Balance available for activities benefiting households up to 120 percent AMI:.....	\$10,941,368
Administrative (Administration and Planning).....	\$1,683,287
<b>Total funding:.....</b>	<b>\$16,832,873</b>

Program income received from the resale of properties will increase this budget and the number of housing units produced within the allowed five-year period.

The initial budget (before earned program income) will allow the purchase, rehabilitation and reuse of approximately 185 housing units. No private funding is anticipated.

**8. Responsible Organization:**  
Philadelphia Redevelopment Authority

The Philadelphia Redevelopment Authority (RDA), acting for itself or through selected redevelopers, will carry out this activity under contract to the Office of Housing and Community Development. RDA is a quasi-governmental body organized under state law. Name, location and administrator contact information:

Terry Gillen, Executive Director  
Philadelphia Redevelopment Authority  
1234 Market St., 16th floor  
Philadelphia PA 19107  
215-854-6603

**9. Projected Start Date:**  
Jan. 15, 2009

**10. Projected End Date:**  
July 14, 2010

**11. Specific Activity Requirements:**

■ **Discount Rate for Acquisition**

City adopts the 15-percent overall portfolio discount standard with no single property to be acquired at less than a 5-percent discount from current market value, determined through an appraisal not less than 60 days old..

■ **Duration or Term of Assistance**

As stated, the City is adopting the federal HOME requirements for long-term affordability. Since new construction is not anticipated, the maximum period of affordability will be 15 years.

■ **Tenure of Beneficiaries (Homeownership or Rental)**

It is anticipated that approximately 75 percent of units will be redeveloped as homeownership units. Approximately 25 percent of the units produced will be redeveloped as rental housing, income restricted to serve beneficiaries with household incomes of no more than 50 percent of AMI. The City expects to meet the 25 percent of funding to households up to 50 percent AMI primarily through the production of rental housing units. Some units that are redeveloped may be sold to low-income buyers (<50 percent AMI).

■ **How Continued Affordability Will be Ensured**

As stated, long-term affordability will be ensured through the recording of liens or covenants running with the land, consistent with the federal HOME program.