



**City of Phoenix
Neighborhood Stabilization Program (NSP2) Substantial Amendment
Amendment #2**

Executive Summary

Through this Substantial Amendment, the City of Phoenix proposed and the US Department of Housing and Urban Development (HUD) approved the following changes:

1. Change the allocation of dollars and beneficiary goals between eligible uses to reflect market changes.
2. Add one new activity and expand another:
 - a. add financing mechanisms and related activities under Eligible Use A
 - b. expand Redevelopment to add public service activity within an existing Eligible Use E

1. Amendment: Change the allocation of dollars and beneficiary goals

The following changes to budgets and their related projected units are based on program progress to date, and in some cases lack of progress, and market conditions.

**Proposed Use of Funds
NSP-Eligible Use**

	Funds Budgeted in Application	Projected Units in Application	Proposed Funds Budgeted	Proposed Projected Units
Single-Family Strategies	\$32.4 million	514	\$34,941,810	203
Financing Mechanisms	0	0	TBD*	TBD*
Home Improvement Program (Down Payment Assistance with rehab)	\$13 million	197	\$1,588,024	8
Move-In Ready Program (Acquisition/Rehab/Resale)	\$16.6 million	147	\$29,258,158	168
Redevelopment	\$2.5 million	160	\$3,440,868	14
Demolition	\$300,000	10	\$684,960	13
Multi-Family Strategies	\$21.6 million	308	\$22,811,558	889
Acquisition/Rehabilitation	\$12.96 million	186	\$18,078,644	368
Preserve Affordable Units Created with Federal Funding	\$8.64 million	122	\$4,732,914	521
Program Administration	\$6 million		\$2,246,632	
TOTALS:	\$60 million	822	\$60 million	1092

*Finance Mechanisms to be developed in the future from program income.

Factor	Sub Factor	
1: Need	Target Geography	No Change
1: Need	Market Conditions	Needs have not substantively changed while market conditions have. See below
2: Demonstrated Capacity	Past Experience	No Change

2: Demonstrated Capacity	Management Structure	No Change
3: Soundness of Approach	Proposed Activities	Shifts the percentage of funding between single-family and multi-family strategies and moves the single-family strategies from buyer-driven to strategic development.
3: Soundness of Approach	Project Completion Schedule	No change. 100% of funds will be expended by Feb 2013.
3: Soundness of Approach	Income Targeting	No change. Over 55% of funds will benefit households at or below 80% AMI.
3: Soundness of Approach	Continued Affordability	No Change
3: Soundness of Approach	Consultation, Outreach, Communications	No Change
3: Soundness of Approach	Performance and Monitoring	No Change
4: Leveraging	Leveraged Funds	No Change
4: Leveraging	Rubric	No Change
5: Energy Efficiency	Transit Accessibility	No Change
5: Energy Efficiency	Green Building Standards	No Change
5: Energy Efficiency	Re-use of Cleared Sites	No Change
5: Energy Efficiency	Deconstruction	No Change
6: Neighborhood Transformation		No change. Targeting for single family strategies remains.

Need/Market Conditions: HIP buyers are unable to compete against investors and other homebuyers under the required 1% discount such that we must revise our strategies to the more expensive but highly effective MIR program. The average days on market for a MIR home is approximately 20 days less than the city wide average and our developer partners receive multiple offers for most homes.

HIP buyers are unable to compete due to shifts in the composition of the inventory with a dramatic increase in short sales to over 40% of sales and foreclosed homes representing approximately 10%. Listings of for sale homes have decreased by 34% since 2011 and sales have increased by 113%. The Phoenix housing market is still unstable but improving. Phoenix still ranks in the top five to ten large cities in the country for pending foreclosures.

HIP will be transitioning down with completion of 8 properties acquired by homebuyers and provided with rehab assistance. This program has a number of benefits that will continue to be perused with limited funding through future revolving proceeds or program income. Staff has worked with lenders, real estate professionals, service providers and others to modify the program to address the market changes of fewer foreclosed properties and greater competition. We propose to incorporate life cycle considerations in property eligibility and eliminate the requirement that the property fail housing quality standards as more and more REO sellers are bringing properties to this minimum standard. This change permits FHA 203b lending and reduces the need for FHA 203K loans and their requirements which have been challenging to meld with NSP funds. This change will result in more lenders participating, more qualified properties for buyers to select from and less time and complexity of the transaction. The buyer, their chosen home and the neighborhood will benefit from improvements that add value to the neighborhood, are sustainable and help ensure the buyer's long success. We wish to note that we are processing a minor amendment to the plan to reflect this adaptation.

Proposed Activities: The original application envisioned serving 822 households. The amendment will permit Phoenix to serve a net increase of 264 more households (30% more) or 1092, primarily by expanding multifamily rental units from 308 to 889. See market conditions for single family strategies above.

Funding for Redevelopment is proposed to increase to provide for a construction loan to the developer recognizing that a development subsidy is necessary to revive the project under current market weakness (insufficient sales price support against development costs) such that private construction funds are not possible given the small size of the project and the imbalance of price to cost. Acquisition of any additional subdivision(s) would be using future revolving proceeds or program income.

Income Targeting and Beneficiaries: Over 55% of the funding will benefit approximately 940 households at or below 80% of the Average Median Income (AMI); 33% of the funding will benefit 584 households at or below 50% of the AMI, exceeding the 25% requirement.

2. Amendment: Add two new activities

At the time of the NSP2 Application, the City of Phoenix did not plan to offer a Financial Mechanism activity, eligible use 'A'. In addition while the application included eligible use 'E' Redevelopment, it did not specify the sub-activity of Public Service. Both of these uses are included in this proposed Substantial Amendment.

Factor	Sub Factor	
1: Need	Target Geography	No Change
1: Need	Market Conditions	No change
2: Demonstrated Capacity	Past Experience	No Change
2: Demonstrated Capacity	Management Structure	No Change
3: Soundness of Approach	Proposed Activities	Adding two new activities to better serve the needs of the program and its beneficiaries.
3: Soundness of Approach	Project Completion Schedule	No change
3: Soundness of Approach	Income Targeting	No change. Over 55% of funds will benefit households at or below 80% AMI.
3: Soundness of Approach	Continued Affordability	No Change
3: Soundness of Approach	Consultation, Outreach, Communications	No Change
3: Soundness of Approach	Performance and Monitoring	No Change
4: Leveraging	Leveraged Funds	Allows for increased leverage and beneficiaries served.
4: Leveraging	Rubric	No Change
5: Energy Efficiency	Transit Accessibility	No Change
5: Energy Efficiency	Green Building Standards	No Change
5: Energy Efficiency	Re-use of Cleared Sites	No Change
5: Energy Efficiency	Deconstruction	No Change
6: Neighborhood Transformation		No Change

Proposed Activities:

Financial Mechanism: We wish to include loan loss reserves or other eligible credit enhancements under Eligible Use “A” to support leveraging and interim financing. We also wish to include providing loans to buyers at or below 50% of AMI to purchase MIR homes. This will provide flexibility to meet our LH25 requirements of program income in conjunction with MIR.

Public Service: We wish to add a public service activity under Eligible Use “E”. When we submitted our application we inadvertently did not include the description of public service. In adding this category we reflect that there will be costs related to education and housing counseling services for homebuyers who begin the qualification process and are found ineligible or do not qualify for a mortgage.

Income Targeting and Beneficiaries: Over 55% of the funding will benefit approximately 940 households at or below 80% of the Average Median Income (AMI); 33% of the funding will benefit 584 households at or below 50% of the AMI, exceeding the 25% requirement.

Leveraged Funds: Adding the Finance Mechanism will increase the number of units served, based on available program income.

Public Comment

The City of Phoenix advertised in the *Arizona Republic* that a substantial amendment document would be available for review beginning Friday March 16 at the Neighborhood Services Department, 200 W. Washington St., fourth floor, Phoenix and at www.phoenix.gov/residents/stabilization/nsp/funding/index.html. In addition, the public was invited to submit comments on the proposed amendment during that time period by calling the department’s hotline or by email.

The public comment period was open from March 16, 2012, through March 26, 2012 and no were comments received.