

Factor 3: Soundness of Approach (45 points)

a. Proposed Activities (15 points)

As in Delaware's NSP1, for NSP2 DSHA proposes to work with local government sub-recipients, who will carry out direct program implementation with nonprofit partners. This structure takes advantage of existing capacity: planning, administration and monitoring at the state level; detailed neighborhood knowledge, development capacity, and existing nonprofit partnerships at the local level.

Some of the target census tracts are in ZIP codes targeted in Delaware's NSP1, including 19904, 19977, 19801, 19802, 19805, 19701, 19702, and 19720, covering areas in northern Kent County, Wilmington, and the Bear/Newark and New Castle areas in New Castle County. In these areas, NSP2 activities will build upon and contribute to the success of NSP1, allowing for increased volume in some particularly troubled areas and new activities in others. In many of the state's most challenged areas, the condition of housing is of great concern and a barrier to neighborhood stabilization. In these areas where NSP1 is actively acquiring and rehabilitating properties, NSP2 will further support neighborhood stabilization with rehabilitation, helping build a critical mass of rehabilitated, owner-occupied properties which would otherwise be contributing to continued neighborhood decline by their poor condition or vacancy.

Delaware's proposed NSP2 activities will result in stabilization of the housing markets in the proposed areas by:

- Reducing the supply of foreclosed and abandoned homes – taking them off the market and reducing the inventory that pushes down prices and creates vacancies, contributing to neighborhood decline.
- Increasing demand for homes through the availability of financing mechanisms to assist low- and moderate-income buyers to afford homes.
- Helping struggling neighborhoods to maintain or improve their homeownership rates, improve the condition and quality of housing, and reduce vacancies.

Some of these benefits will take effect as soon as activities can begin. The reduction in supply will occur as soon as local government sub-grantees and their partners can begin to identify and acquire homes in the target areas. As the program's financing mechanisms are marketed to and used by potential buyers, the increase in demand will be reflected in key real estate statistics like average days on market, sales volume, and home prices. By working with homeownership counseling agencies, we hope to identify buyers for financing mechanisms quickly from the pool of households already actively engaged in homeownership counseling, allowing this aspect of the program to kick off quickly as well and contribute to market stabilization.

Long-term economic benefits include: increasing homeownership rates in struggling neighborhoods, creating wealth-building opportunities for low- and moderate-income households through homeownership, and much-needed investment in Delaware's older communities and housing stock, ideally acting as a catalyst for further private investment in target neighborhoods

(1) Uses of Funds and Firm Commitments

The chart below provides detail on how DSHA proposes to use **\$13,425,000** in NSP2 funding to make **139** foreclosed houses in at risk neighborhoods homes for low and moderate income households. In addition, DSHA intends to use **\$5.2 million in New Market Tax Credit** equity to return another **46 units** to use, for a **total of 185 units returned to service**.

NSP2 Funds Uses by Target Area and Activity

Responsible Entity	Census Tracts	Number of Units	Financing	Purchase Rehab	Sub Total	Admin	TOTAL
New Castle County	148.06	11	\$105,000	\$902,800	\$1,007,800		
	147.05(T)	3	\$0	\$338,550	\$338,550		
	148.08(T)	3	\$0	\$338,550	\$338,550		
	149.02	11	\$105,000	\$902,800	\$1,007,800		
	149.03	3	\$0	\$338,550	\$338,550		
	139.02(T)	8	\$105,000	\$564,250	\$669,250		
	163.03	3	\$105,000	\$0	\$105,000		
	149.05	11	\$105,000	\$902,800	\$1,007,800		
	107 (T)	5	\$70,000	\$338,550	\$408,550		
	152	3	\$0	\$338,550	\$338,550		
TOTAL NCC	10 Tracts	61	\$595,000	\$4,965,400	\$5,560,400		\$5,560,400
Wilmington	16 (T)	6	\$70,000	\$451,400	\$521,400		
	9 (T)	6	\$105,000	\$338,550	\$443,550		
	6.02 (T)	4	\$35,000	\$338,550	\$373,550		
	8 (T)	5	\$35,000	\$451,400	\$486,400		
	5 (T)	4	\$70,000	\$225,700	\$295,700		
	3 (T)	5	\$70,000	\$338,550	\$408,550		
	7 (T)	5	\$35,000	\$451,400	\$486,400		
	21 (T)	5	\$70,000	\$338,550	\$408,550		
	22 (T)	6	\$35,000	\$564,250	\$599,250		
	23 (T)	6	\$105,000	\$338,550	\$443,550		
TOTAL WILM	10 Tracts	52	\$630,000	\$3,836,900	\$4,466,900		\$4,466,900
Sussex	509	6	\$600,000	\$0	\$600,000		
	512	3	\$300,000	\$0	\$300,000		
	511	3	\$300,000	\$0	\$300,000		
TOTAL SUSSEX	3 Tracts	12	\$1,200,000	\$0	\$1,200,000		\$1,200,000
Kent	402.02	3	\$120,000	\$0	\$120,000		
	405	4	\$120,000	\$235,000	\$355,000		
	418.01	4	\$120,000	\$235,000	\$355,000		
	422.02	3	\$150,000	\$0	\$150,000		
	4 Tracts	14	\$510,000	\$470,000	\$980,000		\$980,000
TOTAL KENT		139	\$2,935,000	\$9,272,300	\$12,207,300		
						\$1,217,700	\$1,217,700
						TOTAL	\$13,425,000

(T) next to census tract number in chart above indicates that census tract is transit accessible - in a census tract with convenient bus service (local bus service every 20 minutes during rush hour or an express commuter bus)

If awarded NSP2 funding, DSHA plans to leverage an additional \$5,200,000 in equity from New Market Tax Credits. These funds will be used to assist additional homes in the targeted neighborhoods. Using NMTC will allow us to be flexible and responsive to the markets in these census tracts. At least 50% of the funds will be invested in census tracts 3, 5, 6.02, 7, 8, 9, 16, 21, 22, 23, 107, 149.05 and 152 which are identified as distressed areas for the purposes of NMTCs. Jurisdictions will use the NMTC funds to complement the NSP2. Funds from NMTC will not be targeted to specific census tracts or regions at this time but will allow us to respond to the market to balance the number of investor/rental properties in an area with affordable homeownership opportunities and to take advantage of opportunities to purchase multiple properties on a block or in a neighborhood. NMTC funds can also be flexible in what activity can be funded. For instance, if we find that financing mechanisms are more effective than purchase rehab we can make adjustments. We would expect to do at least 46 additional homes using NMTC's bringing our total units to 185 and our average per unit cost to \$72,568.00.

(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.

DSHA expects to use most of the NSP funds to assist credit worthy households with incomes at or below 120% of AMI to become homeowners. We expect our financing of soft second mortgages to be at 0% and forgivable as described in section (d) below which describes long term affordability strategies. Most of the people assisted in the 50% of AMI and below income range will be people who are receiving assistance from a non-profit organization that has identified affordable housing as a barrier for their target population. These homes will be managed by non-profit organization as rentals for low-income people.

DSHA intends to make extensive use of the community land trust model using the Diamond State Community Land Trust a statewide non-profit that develops and manages community land trust homes. In addition, DSHA is encouraging jurisdictions to explore the possibility of displacement prevention with NSP2 funds, whereby non-profit organizations would purchase real estate owned properties from the banks and manage them as rentals or community land trust homes after a coordinated foreclosure process where the homeowner lost ownership but not occupancy of the home.

(c) Identify whether the other funds are firmly committed (legally obligated to a specific activity or under your control and budgeted for a specific activity) or not. See II.A.5 and Rating Factor 4.

DSHA has received a letter of commitment from Morgan Stanley New Market Tax Credits Inc. for an allocation of \$18,500,000 if we are awarded a NSP2 grant of \$13,425,000.

(d) Demolition and preservation.

(i) Market Conditions Leading to focus on Preservation of Housing Units

DSHA proposes to use only two activities in our NSP2 proposal financing mechanisms and purchase/rehab. Only the Wilmington census tracts, and possibly one New Castle tract identified would have a need for demolition and other funds are available to address those needs. However, few dollars have been available in Delaware to provide deep subsidy to make homeownership a possibility for many low and middle income households. NSP2 will provide homeownership opportunities for people such as retail and customer service workers as well as teachers and police officers. These service jobs make up an increasingly large percentage of Delaware’s workforce, but these workers often do not have the income to purchase homes without excessive cost burden. NSP2 will provide opportunities for these people to purchase homes in neighborhoods identified as at risk. Sometimes the risk is obvious, there are vacant housing units, the area is blighted and property values are low. Other times the neighborhood may not appear distressed, but there are increasing numbers of investor owned rentals and the homeownership rate is in danger of slipping. Financing and purchase rehabilitation will allow us to work in a variety of situations to lessen the impact of foreclosures on the neighborhoods in which foreclosures are most common.

(ii) and (iii) No demolition is planned, no exception on demolition activities requested.

a. Project completion schedule. (5 points)

Month	Activity	Metric	Result
1	<ul style="list-style-type: none"> • DSHA signs Contract with HUD • Sub-recipients sign contracts with DSHA • Marketing to potential homebuyers begins 	<ul style="list-style-type: none"> • Signed contracts • No. people enrolling in housing counseling 	<ul style="list-style-type: none"> • Activities begin
2	<ul style="list-style-type: none"> • Sub-recipients begin identifying properties 	<ul style="list-style-type: none"> • No. properties reviewed 	<ul style="list-style-type: none"> • Activities in progress
3	<ul style="list-style-type: none"> • Sub-recipients acquire properties for purchase rehab. 	<ul style="list-style-type: none"> • No properties acquired 	<ul style="list-style-type: none"> • Activities in progress
4	<ul style="list-style-type: none"> • Quarterly report due by 10th of the month • Rehabilitation activities begin • Financing activities begin 	<ul style="list-style-type: none"> • Report timely and correct • No. Houses rehabilitated • No. income eligible households using NSP2 financing 	<ul style="list-style-type: none"> • Activities in progress
5	<ul style="list-style-type: none"> • All NSP2 activities in progress 	<ul style="list-style-type: none"> • All above • No. rehabbed homes sold to income eligible households 	<ul style="list-style-type: none"> • Activities in progress • At least 5 NSP2 homes sold using financing mechanisms
6	<ul style="list-style-type: none"> • All NSP2 activities in progress 	<ul style="list-style-type: none"> • All above 	<ul style="list-style-type: none"> • At least 1 NSP2 purchase/rehabs completed and sold

			<ul style="list-style-type: none"> • At least 5 NSP2 homes sold using financing mechanisms
7-9	<ul style="list-style-type: none"> • Quarterly report due by 10th of the 7th month 	<ul style="list-style-type: none"> • All above 	<ul style="list-style-type: none"> • At least 13 NSP2 purchase/rehabs completed and sold • At least 10 NSP2 homes sold using financing mechanisms
10-12	<ul style="list-style-type: none"> • Quarterly report due by 10th of the 10th month 	<ul style="list-style-type: none"> • All above 	<ul style="list-style-type: none"> • At least 23 NSP2 purchase/rehabs completed and sold • At least 19NSP2 homes sold using financing mechanisms
13-15	<ul style="list-style-type: none"> • Quarterly report due by 10th of the 13th month 	<ul style="list-style-type: none"> • All above 	<ul style="list-style-type: none"> • At least 33 NSP2 purchase/rehabs completed and sold • At least 27 NSP2 homes sold using financing mechanisms
16-18	<ul style="list-style-type: none"> • Quarterly report due by 10th of the 16th month 	<ul style="list-style-type: none"> • All above 	<ul style="list-style-type: none"> • At least 43 NSP2 purchase/rehabs completed and sold • At least 35 NSP2 homes sold using financing mechanisms
19-21	<ul style="list-style-type: none"> • Quarterly report due by 10th of the 19th month 	<ul style="list-style-type: none"> • All above 	<ul style="list-style-type: none"> • At least 53 NSP2 purchase/rehabs completed and sold • At least 43 NSP2 homes sold using financing mechanisms
22-24	<ul style="list-style-type: none"> • Quarterly report due by 10th of the 22nd month • Month 24 50% of NSP2 funds expended 	<ul style="list-style-type: none"> • All above 	<ul style="list-style-type: none"> • At least 63NSP2 purchase/rehabs completed and sold • At least 51 NSP2 homes sold using financing mechanisms
25-27	<ul style="list-style-type: none"> • Quarterly report due by 10th of the 25th month 	<ul style="list-style-type: none"> • All above 	<ul style="list-style-type: none"> • At least 73 NSP2 purchase/rehabs completed and sold • At least 59 NSP2 homes sold using financing mechanisms
28-30	<ul style="list-style-type: none"> • Quarterly report due by 10th of the 28th month 	<ul style="list-style-type: none"> • All above 	<ul style="list-style-type: none"> • At least 83 NSP2 purchase/rehabs completed and sold • At least 67 NSP2 homes sold using financing mechanisms
31-33	<ul style="list-style-type: none"> • Quarterly report due by 10th of the 31st month 	<ul style="list-style-type: none"> • All above 	<ul style="list-style-type: none"> • At least 93 NSP2 purchase/rehabs completed and sold • At least 75 NSP2 homes sold using financing mechanisms
34	<ul style="list-style-type: none"> • Quarterly report due by 10th of the 34th month 	<ul style="list-style-type: none"> • All above 	<ul style="list-style-type: none"> • At least 103 NSP2 purchase/rehabs completed and sold • At least 82 NSP2 homes sold using financing mechanisms
36	<ul style="list-style-type: none"> • 100% funds expended 	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • 185 foreclosed homes occupied •

c. Income targeting for 120 percent and 50 percent of median (5 points)

All NSP2 funds will be used to benefit persons and households whose income does not exceed 120 percent of area median income. A minimum of 25% of any awarded funds will be used for the purchase and redevelopment of abandoned or foreclosed upon homes or residential properties which will be used to house individuals or families whose incomes do not exceed 50% of area median income. DSHA and its local government partners will meet these requirements by:

- Targeting some homeownership to households below 50% of AMI, via partnerships with the Diamond State Community Land Trust. The land trust model provides additional affordability and additional support for homeowners, which is a particular concern when targeting homeownership to very low-income households.
- Partnerships with local nonprofit service providers to provide rental housing for populations with special needs. Homes will be acquired, rehabilitated, and turned over to the nonprofit for use as rental housing or group homes for individuals who are homeless or with disabilities as permanent supportive housing. Delaware has a strong community of several highly experienced nonprofit providers of these services.

These strategies are both also in use in Delaware's NSP1, so structures and partnerships are already in place for these activities.

d. Continued affordability (5 points)

In its NSP1, DSHA has strongly encouraged local jurisdictions to also ensure that homes assisted through the program remain affordable for the longest feasible period, with the minimum restrictions of the HOME program set as a threshold. All jurisdictions have tailored their continued affordability restrictions to meet their unique housing markets and neighborhoods, within the HOME minimum restrictions. DSHA and all of the participating jurisdictions have experience in the use and administration of such restrictions through HOME, local funding sources, and NSP1. The main mechanisms used in Delaware's NSP1 are:

- 1) Soft second mortgages requiring prorated recapture of NSP1 subsidies at resale, or transfer to a new qualified buyer;
- 2) Permanent affordability through the community land trust model, working with Delaware's statewide community land trust, the Diamond State CLT; and
- 3) Transfer of rehabilitated units to local nonprofit service providers for permanent use as supportive housing for individuals who are homeless or who have disabilities.

Permanently affordable owner-occupied homes under the CLT model remain affordable from generation to generation, dramatically increasing the benefit of public investments like NSP2, HOME, and CDBG. Over the 99-year time span of a CLT ground lease, the CLT model saves over \$500,000 in demand for continuing investment of public funds for a single affordable home. The CLT model produces over seven times the amount of affordable housing than traditional short-term affordable housing methods given the same public investment.

All three of these mechanisms will also be used in Delaware's NSP2. To promote continuity with the existing NSP1 neighborhood stabilization activities and administration, Delaware's NSP2 will again use the HOME Program standards as the minimum requirements for continued affordability and encourage jurisdictions to tailor restrictions to their markets and target neighborhoods.

Recognizing that in many cases, purchase/rehab activities in NSP2 will require high levels of subsidy, for units with subsidies above \$75,000, longer-term, less lenient recapture provisions will be promoted. For example, instead of forgiving 100% of the subsidy amount over 15 years, the program may forgive only 50% of the subsidy amount over a longer period of time. Particularly in the Coastal Sussex resort areas and other higher-cost areas (such as newer subdivisions in Kent County and some areas of New Castle County) where homes are more likely to subsequently be attractive to higher-income households and affordability lost, long-term restrictions that promote resale to qualified buyers will be preferred.

At least 25 % of the funds will be used for producing units that will be affordable to people at 50% of AMI and under. These units will require the highest levels of subsidy, but in all cases retain permanent affordability. DSHA and its sub recipients intend to use a combination of land trust and rental opportunities to make homes affordable to people with these very low incomes.

(1) Consultation with units of local government

DSHA began discussing the NSP2 with the local government and non-profit partners involved in NSP1 in our bi-weekly NSP conference call on **May 6, 2009**. Everyone was encouraged to review the HUD **May 4, 2009** NSP2 notice and provided an overview. DSHA staff understood that several local governments were interested in applying. On **May 27, 2009** DSHA coordinated a meeting to discuss Delaware's need for NSP2 and how to develop a competitive application. At our NSP conference call on **June 3, 2009**, it was agreed that as DSHA had set up an infrastructure for managing NSP1 and had the best access to statewide data, that DSHA should be the lead applicant. DSHA asked that one person from each jurisdiction be designated the application contact and that this team would write the application together with DSHA serving as the lead. The application team has met weekly through June and has input into every aspect of the application.

The local government's interested in the NSP2 application included City of Wilmington, New Castle County, Kent County and Sussex County. Each of these received an allocation of NSP1 funding from DSHA through a competitive request for proposals process (RFP) and each participates in the Community Development Block Grant Program. If DSHA is provided an NSP2 allocation, we will consult with these local governments much as we have done under NSP1. We have an NSP coordinator dedicated to the program and constantly available to the local governments through e-mail and phone. In addition, DSHA hosts bi-weekly conference calls and coordinates training for those implementing the program.

(2) Proposed Outreach and Affirmative Marketing Actions

DSHA, along with those funded by DSHA to implement the NSP1, have implemented a comprehensive marketing campaign as a part of NSP1. This marketing campaign was designed to inform income qualified families to contact DSHA about NSP and our staff directs them to the qualified housing counseling agencies in their area. Marketing efforts were designed to ensure affirmative marketing. T.V. and radio ads are being run on a variety of channels and at a variety of times. We are also using billboards placed on busy commuter routes and in low-income neighborhoods to make people aware of the program. In addition we have developed flyers and a NSP website to inform people about opportunities under the NSP.

The primary purpose of this effort was to develop interest in the NSP early on in our timeline to ensure that households received housing counseling and were mortgage ready during the program timeframe. The effort which began on May 18, 2009, has generated much interest in the first month, generating over 50 calls and 809 unique hits to the NSP website in the month of June.

An allocation of NSP2 funds in early 2010 would likely benefit from these earlier marketing efforts. Housing counseling agencies will be monitoring what percentage of their clients take advantage of the NSP and demographic information about them related to fair housing to ensure that no protected class appears to be excluded from participation. Our monitoring systems for NSP1 will be used with NSP2, if we find that certain protected classes appear to be under represented among NSP beneficiaries, we can adjust our marketing strategies to more effectively target that population.

In addition, subgrantees under the NSP2 will be required to complete a Fair Housing and Equal Opportunity Self Assessment questionnaire which will assist DSHA in ensuring that all NSP2 activities are conducted

(3) Communication

Communicating to the public

DSHA has developed a website www.nspdelaware.org which has information about the NSP1 program design, opportunities and in the future will report progress and results. DSHA has marketed this website address broadly using T.V. and radio ads featuring Delaware's Governor, Jack Markell. We have also used billboards and flyers to inform people about opportunities under the NSP and to provide citizens information about the program.

Communicating to HUD

DSHA has had one update call with our Philadelphia field office on our NSP1 and plan to have such calls or visits on a quarterly basis. Our HUD representatives have expressed interest in touring neighborhoods where we have NSP activities and in meeting with people benefiting from the NSP. We would include NSP2 in this regular communication with HUD on NSP activities.

Handling Complaints

Complaints may come from many sources in the NSP2. It is expected that most complaints will be resolved with the sub recipients or grantees using their internal grievance or complaint process. Complaints not resolved at that level may be directed to DSHA. DSHA will require that complaints are in writing detailing information about previous efforts at resolution. DSHA will review the complaints and consult with HUD, DSHA attorneys and other experts as needed to resolve the complaint. If the complaint appears to be of a fair housing, EEO or violation of fair labor standards, DSHA will direct the complainant to the appropriate agency to resolve the issue.

f. Performance and Monitoring (10 points)

(1) Describe your Monitoring Plan

DSHA staff will do a combination of desk monitoring and on-site monitoring to ensure compliance with HUD requirements. Draws will require detailed information about the location of the property, including address and census tract, as well as information about the homebuyer and their income. DSHA will also require detailed quarterly reports and will do annual monitoring visits at the sites which were staff will review NSP2 files and financial records.

Each grantee will be expected to collect and report information about the uses of funds, including, but not limited to:

- Project name
- Activity
- Location
- National objective
- Funds budgeted and expended
- Funding source and total amount of any non-funds
- Numbers of properties and housing units
- Beginning and ending dates of activities
- Numbers of low- and moderate-income persons or households benefiting
- Purchase amount for each property
- Appraisal amount for each property
- Sales amount for each property
- Discount amount
- Data needed to support performance measures
- Subsidy Amount

Quarterly Reporting

Each grantee must submit a quarterly performance report, as DSHA prescribes, no later than 15 days following the end of each quarter, beginning 30 days after the completion of the first full calendar quarter after grant award and continuing until the end of the 15th month after initial receipt of grant funds.

Monthly Reporting

In addition to this quarterly performance reporting, each grantee will be permitted to draw funds on a monthly basis provided documentation on obligations and expenditures has been provided.

Record Keeping

The address, appraised value, purchase offer amount, and discount amount of each property purchase must be documented in the grantee's program records.

(2) Describe how you will meet the internal audit requirement. Specifically identify the position(s) and agency responsible for internal audit.

DSHA will develop an internal control document that will govern the internal audit of DSHA's NSP2 program. This internal control document will identify internal control processes for DSHA, as well as identify staff responsible and frequency of an internal audit. The internal audit will occur once a year and will review that internal control practices are in compliance with the processes outlined in the internal control document for NSP2. DSHA's Financial Analysis and Reporting Section Manager will be responsible for ensuring that an NSP2 internal control document is completed and that the internal audit is completed.