

**CITY OF MERCED
THE NEIGHBORHOOD STABILIZATION PROGRAM (NSP3)
SUBSTANTIAL AMENDMENT TO HUD FISCAL YEAR 2010 ANNUAL PLAN**

**INFORMATION TO BE SUBMITTED WITH
APPLICATION WITH U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

DRAFT

NEED/EXTENT OF THE PROBLEM

The City of Merced has consistently ranked nationally as one of the community's hardest hit by the housing foreclosure crisis. RealtyTrac, the online marketplace for foreclosure properties in its July 2008 report listed Merced at number 2 in the nation with one in every 73 households receiving a foreclosure filing during the month, about 7 times the national average. According to RealtyTrac, this number was one in every 78 in June 2009, which ranked Merced at No. 5 in the nation. The report on foreclosures for the first quarter of 2009 by RealtyTrac said the highest foreclosure rates were found in Las Vegas, Merced, California, and the Cape Coral-Fort Myers area in Florida.

Foreclosure in the City is widespread and October 2008 data provided by HUD and other foreclosure data showed the City of Merced had an estimated foreclosure rate of 12.2% compared to the average of 6.7% for the State. ForeclosureRadar.com April 2009 data shows the City has a total of over 1,300 foreclosures. Based on newly released information in June 2009, the total inventory of available homes in the Merced, CA market in June 2009 stood at 2,603 homes. Foreclosures made up the majority of the homes for sale. This accounted for 2,431 real estate properties or 93% of the Merced, CA real estate market. All census tracts in Merced have a foreclosure score of 20.

The Annual Area Median Income for Merced (HUD, 2008) is \$47,400. The unemployment rate in Merced was 20.2% in March and 18.1% in April 2009. Merced is amongst the top 5 cities in the state for jobless rate. The average market value for a home in Merced, CA for in June 2009 was \$124,906. This average was \$125,606 in May 2009, down .07% from April 2009. Home sales recorded for April 2009 for Merced was 176. Absorption rate will depend on the state of the economy and it might take anywhere between 2 to 4 years for the housing market to recover.

Target area includes the entire Low/Mod eligible census tracts in the City: 10.02, 10.03, 10.04, 12, 13.01, 13.02, 14.01, 14.02, 15.01, 15.02, 15.03, 16.01, 16.02 and 17. All these census tracts have foreclosure scores of 20.

CAPACITY

The City of Merced has funded over 770 first time homebuyer loans in excess of \$6.5 million in CDBG, HOME, program income, and RDA funds since 1993. The City has also used above-mentioned funding mechanism to operate rehabilitation and reconstruction loan programs with about 500 owner-occupied rehab, reconstruction, and rental

rehabilitation projects. As an entitlement jurisdiction for CDBG and HOME, the allocation for the 2009/2010 fiscal year is \$1,255,239 for CDBG and \$669,720 for HOME. Being an entitlement jurisdiction and using CDBG and HOME funds we fully comply with Federal requirements.

In addition to Housing Rehabilitation and first time homebuyer programs, the City has been involved with the development of affordable rental housing. Since 2003, the City has provided over \$7 million in financial assistance for two major affordable rental unit projects totaling of 320 units. In the past 3 years, the City has also been awarded close to \$2 million in Workforce Housing, CalHome, and BEGIN programs.

Our current core staff is composed of a Housing Program Manager, a Housing Finance Specialist, a Housing Rehabilitation Specialist, a Secretary, and support staff in Planning and Building Divisions. Since the initiation of the City of the Program, Housing staff has been responsible for processing all loan applications and loan documents. We have established relationships with local lenders. Fannie Mae, FHA, and CHFA have approved the City of Merced's loan documents. As an Entitlement Jurisdiction we are well aware of all HUD and HCD requirements and comply with all requirements.

SOUNDNESS OF APPROACH

The following numbers are based on the City is receiving \$1,196,182 and returning a minimum of 10 abandoned or foreclosed homes back to productive use and assist additional 10 homebuyers for the purchase of their homes.

A maximum of 10% of the funds or \$119,618 will be used for administrative costs. This amount will be for indirect costs of the City of Merced to run the NSP3 program.

A minimum of 25% of the grant (\$299,046) will be used for housing those with income of 50% or below Area Median Income (AMI). These funds will be used to house that targeted population by acquisition, rehabilitation, and re-sale of foreclosed properties, providing down payment assistance toward purchase of those properties, and/or construction or rehabilitation of multifamily rental units for those clients.

Approximately \$127,518 will be used for first time homebuyer financing for the purchase of foreclosed homes. This program will help taking about 8 foreclosed homes off the market (the program will include necessary rehabilitation from the rehab account) and situate qualified households in these units.

The program will also assist first time homebuyers and/or other income qualified buyers for the down payment assistance on the purchase of foreclosed homes that are not in need of rehabilitation.

- NSP eligible use: Section 2301 (c)(3)(A)
- CDBG eligible activity: 24 CFR 570.201 (n)

The program will provide downpayment assistance to first time homebuyers for a maximum of to \$20,000 for a down payment and closing costs for the purchase of

foreclosed homes that are in move-in condition. The foreclosed homes can be purchased in all low/mod eligible census tracts within the City. Funds will be used to benefit households at or below 120% of Area Median Income (AMI) and those at or below 50% AMI according to the guidelines. Depending on the housing market condition, the City might revise the amount of the downpayment; extend the program to include all qualified homebuyers; and/or make all foreclosed home eligible for this program.

About \$650,000 will be allocated for the acquisition, rehabilitation, and resale of foreclosed homes; demolition of blighted structures; and redevelopment of demolished or vacant properties. This program will restore about 10 foreclosed homes in the areas with the greatest needs and will place qualified applicants in those homes. The City has adopted the latest California Energy Code. All NSP3 constructions, where applicable, will be required to exceed Energy Star. The City will also implement Green Building Standards if required.

Acquisition and rehabilitation of foreclosed or abandoned homes for resale may include additional downpayment assistance.

- NSP eligible use: Section 2301 (c)(3)(B)
- CDBG eligible activity: 24 CFR 570.201

The program will consist of purchase and rehabilitation of abandoned and/or foreclosed homes. The City may also work with its non-profit agencies and affordable housing developers that are interested in purchasing and rehabilitating foreclosed or abandoned homes. The houses will be sold to qualified buyers. Should an affordability gap exist, the City, at its option, will provide a first time homebuyer down payment assistance to the buyer.

The foreclosed homes can be purchased in low/mod eligible census tracts within the City limits. All funds will be used to benefit households at or below 120% of area median income and those at or below 50% AMI according to the guidelines. The City will make no profit in the turnover of the property to a new homeowner. This activity will take place in all census tracts in the City. The City's goal is to utilize NSP funds as quickly as possible in order to help stabilize neighborhoods significantly impacted by blight issues caused by foreclosures.

Acquisition/Rehabilitation/Sale: Year 1, **5** units; Year 2, **5** Units, Total **10** units

Financing Mechanisms: Year 1, **5** units; Year 2, **5** units; Total **10** units

Redevelopment of demolished/Vacant: Year 1, **1** unit; Year **1** unit; depending on NSP3 budget.

To ensure affordability of NSP3 assisted housing, the City of Merced will require any housing funded through the program to have an affordability covenant. All NSP3 activities will be implemented within the next 2 years. City staff will monitor the programs and also screen income eligibility requirements.

The City has established monitoring procedures for its subrecipients in order to ensure compliance. Those procedures include written contracts with subrecipients before funds

are disbursed and workshops with applicants and all new subrecipients to ensure that they understand all reporting requirements. In addition, annual reports are required of each subrecipient. City staff also conducts site visits at least annually and verifies that subrecipients are keeping required records and meeting eligibility requirements. If discrepancies are found, the subrecipient is informed immediately and a formal letter is mailed. The subrecipient is then given 30 days to correct the problem or provide a timeline for correction. The City will work with the organization to understand requirements and to achieve compliance. Once compliance has been achieved, the subrecipient receives a closure letter from the City. The City Council is informed of any unresolved problem.

LEVERAGING OTHER FUNDS

No leveraging at this time. The City is, however, considering options to leverage its Redevelopment Agency (RDA) Housing set-aside, if necessary.

NEIGHBORHOOD TRANSFORMATION AND ECONOMIC OPPORTUNITY

The Merced Vision 2015 General Plan envisions a growing community that has improved economy, adequate public services, cultural facilities, and a good overall quality of life for its residents. Parks and open spaces will link residential, commercial, and employment centers with public transit systems to serve these areas. The future of Merced includes the 10th University of California (UC) campus and connection to an improved rail system. The Merced Vision 2015 anticipates these developments and contains policies and strategies for maximizing the benefits that they will bring to our community.

The General Plan seeks to build an environmentally and economically sustainable city. It addresses transportation, economic revitalization, and sustainable development including a city designed, constructed, and operated to efficiently use land and other natural resources, minimize waste, and manage and conserve resources for the use of present and future generation. All NSP3 projects are consistent with the City's General Plan.

In accordance to its Consolidated Plan, the City of Merced undertakes annual evaluations of the housing programs included in the Plan. To ensure that the City is meeting the long-term comprehensive planning requirements, a Consolidated Annual Performance and Evaluation Report (CAPER) is compiled each year, which subsequently is submitted to HUD for review and approval. When bidding and performing work financed by CDBG and HOME funds, it is the adopted policy of the City of Merced to conduct outreach efforts to provide an equal opportunity for the participation in all activities.