U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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"Legislative Proposals to End Taxpayer Funding for Ineffective Foreclosure Mitigation Programs"

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Chairwoman Biggert, Ranking Member Gutierrez, and Members of the Subcommittee, I am Mercedes Márquez, Assistant Secretary for Community Planning and Development (CPD) at the U.S. Department of Housing and Urban Development. Thank you for the opportunity to testify today on status of the Neighborhood Stabilization Program (NSP) and the continued need for all NSP funding appropriated to date.

In less than three years since its authorization, NSP has progressed through three rounds and is delivering on its intent by assisting states and local governments to stabilize neighborhoods impacted by foreclosures. To be clear, NSP is not a foreclosure prevention program but rather a tool to help communities across our nation address and mitigate the negative effects that vacant, abandoned and blighted properties have upon neighborhoods and property values.

The problems presented by foreclosed and abandoned properties across the nation remain a significant challenge for the country – and certain markets in particular.

Foreclosed homes have a debilitating effect on neighborhoods and often lead to blight, neighborhood decay and reduced property values, feeding a vicious cycle. Back in 2008, the Center for Responsible Lending estimated that homeowners living near foreclosed properties would see their property values decrease $5,000 on average. And while the freefall in home prices was stopped in early 2009 and monthly foreclosure starts are down more than 30,000 per month from this same time one year ago (partially attributed to servicer process reviews in light of foreclosure processing deficiencies), the housing market remains fragile.

While recent increases in foreclosure activity are due in large part to poor lending practices and general economic conditions such as increases in unemployment, the impact of foreclosed homes on surrounding property values creates a negative effect in our neighborhoods. NSP serves as a buffer against further decline by shoring up the equity of homeowners that live on the block where an NSP investment is made. CPD, NSP grantees, and a range of private sector and non-profit partners have worked together since August 2008 to craft distinctive, market-oriented responses that help stabilize and improve target neighborhoods with NSP investments.

Background

As Assistant Secretary for Community Planning and Development, I am responsible for the administration of the three rounds of NSP, known respectively as NSP1, NSP2, and NSP3, as well as the NSP technical assistance effort. NSP1 refers to the initial $3.92 billion program established by the Housing and Economic Recovery Act of 2008 (HERA), which was signed into law on July 30, 2008. NSP2 refers to the $2 billion appropriated in the American Recovery and Reinvestment Act of 2009 (Recovery Act) and the NSP technical assistance effort is a $50 million initiative funded out of the Recovery Act appropriation. NSP3 refers to the $1 billion appropriated by the Dodd-Frank Consumer Protection and Wall Street Reform Act of 2010 (Dodd-Frank Act). Of the NSP3 funds, $20 million will be reserved to supplement the NSP technical assistance effort. The following table provides details with regard to the NSP funds.

	NSP1	NSP2	NSP3
Legislative Basis	Housing and Economic Recovery Act of 2008 (HERA)	American Recovery and Reinvestment Act of 2009 (ARRA)	Dodd-Frank Consumer Protection and Wall Street Reform Act of 2010
Appropriation	$3,920,000,000	$2,000,000,000	$1,000,000,000
Program Format	Formula allocation	Competitive	Formula Allocation
Number of Grantees	307	56	283[1]
Technical Assistance Funds	N/A	$50,000,000[2]	$20,000,000[3]
Administrative Funds	$6,500,000[4]	$20,000,000[5]	$10,000,000[6]

[1] Projected based on allocations.
[2] Recovery Act permitted up to 10% of NSP2 appropriation ($200 million) to be used for technical assistance and capacity building for NSP1 and NSP2 but HUD opted for only $50 million.
[3] Dodd-Frank Act permits up to 2% of appropriation for technical assistance purposes.
[4] P.L. 110-329, Continuing Resolution Act, 2009, provided funds to support 2008 CDBG disaster recovery appropriation and NSP1.
[5] Recovery Act permitted 1% of NSP2 to be used for HUD's administrative purposes.

Funds Use Deadline	March 2013	50% by February 2012 and 100% by February 2013	50% by March 2013 and March 2014

HERA

NSP1 funding was provided to states and local governments by formula as specified in HERA. Each of the 50 states and Puerto Rico received a minimum award of $19.6 million. Insular areas and the District of Columbia also received direct awards. Ultimately, NSP1 funds were allocated to 309 grantees (North Las Vegas joined with Clark County, NV and Colorado Springs, CO joined with the State of Colorado for a total of 307 grants), all of which applied for their funds by early December of 2008 and received approvals and grant agreements by mid-March 2009.

Because HERA directs that NSP funds be treated largely like Community Development Block Grant (CDBG) funds, CPD was able to quickly establish the NSP1 program requirements on a framework familiar to grantees. Unlike CDBG, NSP funds are restricted to a range of housing activities that affect vacant and foreclosed properties. Grantees may use NSP1 funds to establish financing mechanisms for the acquisition of foreclosed property, acquire and rehabilitate abandoned or foreclosed property, establish and operate land banks for foreclosed residential property, demolish blighted properties and redevelop vacant or demolished properties. All NSP1 funds received by a grantee must be used to benefit individuals at or below 120 percent of area median income (AMI). Further, all NSP appropriations require that at least 25 percent of the funds be expended for housing activities that benefit households at or below 50 percent AMI.

HERA established an 18 month obligation period for NSP1 funds once the funds were available to grantees. Through tremendous efforts by grantees, CPD staff and technical assistance providers, NSP1 grantees achieved an obligation rate of 99.6 percent by September 30, 2010, the point at which NSP1 grantees completed their 18 month obligation period. Grantees were motivated to obligate funds by the announcement in May 2010 that CPD would aggressively move to recapture and reallocate unobligated funds at the close of grantee obligation periods. As of February 28, 2011, NSP1 grantees have expended 57.2 percent of their grant funds.

ARRA

NSP2 was funded at a level of $2 billion by the Recovery Act. The Recovery Act directed HUD to award these funds competitively to states, local governments, non-profit organizations or consortia of these eligible applicants. The Department conducted the necessary competition in the second half of 2009 and announced 56 awards for $1.93 billion on January 14,

[6] Based on applicability of Recovery Act provision for 1% of NSP appropriation for HUD administrative costs.

2010. These awards ranged in size from $5 million to the city of Reading, Pennsylvania, to $223 million to the state of Michigan. These funds were obligated to grantees on February 11, 2010.

Of the remaining $70 million from the Recovery Act appropriation, $20 million was reserved for CPD's administrative cost in managing NSP and, pursuant to a Recovery Act provision; $50 million was reserved for a separate competition for NSP technical assistance purposes to support both NSP1 and NSP2. The Department conducted this competition in the summer of 2009, announced awards on August 26, 2009, and obligated all funds in October 2009. I will discuss the impact of the NSP technical assistance in the Technical Assistance section of this testimony.

In the risk analysis for the NSP appropriations, HUD determined that additional field staff hires were necessary to mitigate the program launch and ongoing management risks, through 2013. With the administrative funds, in 2009 HUD hired 34 temporary NSP staff and stationed them in field offices to support management of NSP grantees. They joined 8 temporary staff hired in an earlier round in 2009, and were supplemented later by two additional term employees as a coverage gap was noted. To increase field support as grantees have ramped up production and to replace staff lost to attrition, HUD advertised 22 temporary positions in early 2011. HUD is currently reviewing applications for these positions, all but two of which will be stationed in field offices.

Dodd-Frank

The Dodd-Frank Act, enacted July 21, 2010, provided an additional $1 billion for the third round of NSP. The language of the Dodd-Frank Act places NSP3 in the context of the Recovery Act provisions but directed the program be allocated on a formula basis to states and local governments. The Department announced $970 million in allocations to 283 jurisdictions on September 8, 2010, and, in subsequent guidance, established March 1, 2011, as the deadline for submission of action plans describing the uses of funds. The Department is in the process of reviewing and accepting these action plans at this time, and expects to obligate these funds by March 31, 2011. The remaining $30 million is allocated for technical assistance ($20 million) and administrative support ($10 million) consistent with provision of the Recovery Act.

Program Status

The total appropriation for NSP has been $7 billion, a relatively small amount in the context of the problems that have arisen in the housing markets over the past four years. There were 1.7 million foreclosures completions between April 2009 and December 2010 and we expect NSP will impact 100,000 properties in the nation's hardest-hit markets.

Already, grantees report that more than 36,000 of these properties are either under construction or rehab – better than a third of the way there.

Because this makes up almost 20 percent of the REO over the last 18 months in NSP-targeted areas, we believe these efforts will have “a multiplier effect” that could have a profound impact on our local, regional and national housing markets alike. By investing NSP dollars the other units in the neighborhood will be more likely to be acquired by the private sector because the area is stabilizing.

Indeed, the targeted nature of allocations and awards in conjunction with the statutory requirement that grantees focus their funds on areas having the greatest need has enabled NSP to have a positive effect in those neighborhoods where the funds have been put to work. Grantees have had to make critical decisions on the selection of target neighborhoods to assist and the activities to implement in order to make the best use of their limited NSP resources.

NSP grantees continue to make great strides in production. The fact that most communities started their NSP programs in the midst of the mounting fiscal distress facing local governments over the past three years cannot be ignored when evaluating their resources (or lack thereof) to quickly implement a new program, especially one that requires expertise they may not have had in-house. To ensure that grantees have sufficient resources to implement NSP, HUD permits up to 10 percent of the grant to be for administrative costs. In most cases, NSP grantees have responded to this challenge in a positive and creative manner, are producing units, housing families and reducing vacancy rates to stabilize neighborhoods. In weak markets such as Michigan and Ohio, many weighted their program mix toward land banking and demolition and clearance of blighted, vacant units that depreciated neighborhood property values. In California and Florida, direct homeownership and purchase/rehabilitation projects are more common.

NSP is singular among grant programs in CPD in that the income of the beneficiaries ranges up to 120 percent of area median income, or middle class. Grantees for NSP1 and 2 are projecting, conservatively, treatment of over 100,000 units or properties; this figure includes significant demolition of blighted property, particularly in Michigan and Ohio. Currently, NSP1 and 2 communities are projecting direct benefit to more than 86,000 households, meaning those households will be able to live in housing affordable to them. With NSP3, the total projected households benefiting from NSP would rise to 100,000. The data projecting the number of persons to benefit from stabilized neighborhoods is not as refined as the production projections, but it is clear from grantee estimates that several million persons live in the neighborhoods in which NSP is active.

The 99.6 percent obligation rate for NSP1 grantees at the 18-month deadline speaks to the commitment and tenacity of communities across the country, and to CPD’s NSP technical assistance effort, which helped many grantees to assess their markets, re-design their programs, and successfully meet their obligation deadline.

As of February 28, 2011, NSP1 grantees have obligated $4.01billion or 103% of the original formula allocation amount, an amount of funds that exceeds the original grant amounts because of the program income beginning to return to the program as treated units and properties return to the markets. To date, including program income, NSP1 grantees have expended $2.24 billion, or 57.2 percent of the original grant allocations. As of the last quarterly performance reports, for the quarter ending December 31, 2010, communities using NSP1 have produced more than 5,300 households in rehabilitated or newly constructed units, more than 6,000 households have received direct homeownership assistance to acquire formerly foreclosed or abandoned properties, and more than 9,700 blighted properties have been demolished and cleared.

Communities are making good progress in meeting the statutory requirement to use 25 percent of each NSP grant to produce housing affordable to households with incomes at or less than 50 percent of area median income (AMI). In NSP1, grantees report committing more than $1.3 billion for such activities, over 33% of the total; more than $680 million has been drawn. So far in NSP2, grantees have set up activities in the online reporting system totaling $494 million to meet this requirement and of this amount have drawn down about $48 million.

For NSP1 and 2, grantees report that, as of December 31, 2010, 2101 low-income (50% of AMI or below) rental households occupied completed units. As of February 2011, grantees were projecting that a total of 14,515 low-income households, 5,224 moderate-income (51-80% AMI) households, and 4,435 middle-income (81-120% of AMI) households will occupy rental units assisted with NSP1 and 2.

And in some places, data is emerging to show all this effort is working to stabilize neighborhoods. Our data shows that concentrated targeted investment by grantees arrests decline and reduces vacancy rates. Witness the dramatic reductions in long-term vacant properties in target neighborhoods in Youngstown and Cleveland, Ohio. In

Case Study: Cleveland, Ohio

Tools like NSP aren't just critical to our economic recovery -- they're essential to reimagining the future of our communities...and our economy. We've seen how true that is in Cleveland, where despite an estimated 18,000 vacant properties, tools like NSP have helped local leaders like Mayor Jackson reduce the vacancy rate in one East Side neighborhood by nearly 40 percent in the last two years. Having recently earned her Master's Degree in Urban Planning from Cleveland State University, Millie Davis was living in a small apartment outside of town, paying exorbitant monthly utility bills where, as she put it, she "had to drive to do anything."

Millie had her eye on a home not far from here in the Detroit Shoreway neighborhood. The home had been long-vacant and fire-damaged, an eyesore on this block for more than three years -- but was being rehabilitated to green standards by the Cleveland Housing Network using NSP funds as part of a cross-sector partnership called Opportunity Homes. Opportunity Homes not only rehabbed the home itself -- it provided Millie with the financial counseling and assistance she needed to purchase it last November, closer to where she worked.

North Reno, a neighborhood with fast rising vacancies saw them fall quickly with NSP investments.

Not only was NSP2 competitive, HUD tightened the targeting requirements and enhanced the data support for the program, providing more detailed foreclosure and vacancy data via an online mapping tool (which was again enhanced for NSP3). The only neighborhoods eligible for NSP2 were among the hardest hit in the nation – applicants had to select neighborhoods that scored an average of at least 18 on a 1-20 scale, with 1 the fewest vacancies and foreclosures and 20 the most, to be eligible to participate in NSP2. All NSP2 grantees received their grant agreements in February 2010.

Starting about one year behind NSP1 with about half the funds, as of February 28, 2011, NSP2 grantees have obligated about $475 million. NSP2 grantees have expended $200 million, or 10.4 percent. NSP2 grantees project serving 11,000 households through rehabilitation and new construction and more than 5,200 households through direct homeownership support, and about 3,800 blighted properties cleared.

NSP 3

For NSP3, HUD enhanced the NSP mapping tool to support the requirement (the first of its kind for a CPD formula program) that NSP3 grantees should only target neighborhoods that met a certain standard of need. The tool was enhanced to allow a grantee to draw online the shape of a proposed target neighborhood. The tool calculated the stabilization need in the neighborhood, providing the grantee not only the need score, but also other data about the area including an estimate of how many properties would have to be treated to achieve neighborhood stabilization and, where the data were clear, recommendations for the most appropriate NSP activities for the area. Grantees were not required to accept HUD's recommendation. They were however, required to include the data with their proposed plan for public comment. Moreover, as grantees have already launched and designed NSP1 and/or NSP2, they will be move quickly to implement their NSP3 plans.

Given the projections for NSP2 and the actual production for NSP1, CPD estimates that at least 6,000 households will benefit from NSP3 through purchase/rehabilitation of foreclosed or abandoned residential property or new construction on redeveloped lots. About 3,000 households will benefit from direct homeownership assistance.

Estimated Total NSP3 Households Served for Selected Activities

Activity Type	Projected NSP1 and 2	Projected NSP3 (program total)
Acquisition – general	17,775	2,666
Clearance and Demolition	3,568	535

Construction of new housing	8,384	1,258
Disposition	1,403	210
Homeownership Assistance	19,933	2,990
Housing Counseling	2,928	439
Rehabilitation/reconstruction	31,766	4,765
Estimated Total	**85,757**	**12,863**

NSP also contributes to a community's overall well-being by providing employment opportunities across the nation. Based on NSP1 activity budgets, the Department estimates that NSP will support more than 93,000 jobs nationwide.

Management of NSP

The Department began implementation of NSP1 immediately and met the legislative deadline of 60 days to issue implementing regulations. These took effect on Sept. 29, 2008. Grantees immediately received training in the form of regional briefings on the program. The 309 potential grantees developed their applications and all submitted them on or before the December 1, 2008 deadline. Two grantees joined with nearby communities in joint programs, resulting in a total of 307 grantees. CPD provided support in the form of an e-mail Hotline and a website with Frequently Asked Questions and other supporting information. The initial assistance was limited by the existing staff capacity in the Department, yet all applicants were able to develop programs that met the requirements.

<u>Technical Assistance (NSP TA)</u>

The technical assistance effort is proving to be a tremendous support to NSP grantees. As I noted earlier, HUD used $50 million in Recovery Act funding to create NSP TA. This competitive program distributed $50 million to regional and national technical assistance providers. With NSP TA, we are making CPD's TA, not only about program compliance, but about capacity building. For many years, technical assistance at the Department primarily focused on compliance – filling out the right forms and checking off the right boxes. Now, we are moving to provide technical assistance in a more holistic manner to truly meet the needs of grantees. The overall $7 billion NSP effort is targeted at communities that have suffered the most through the foreclosure crisis.

Through NSP technical assistance (NSP TA), we are assisting these communities by conducting individual needs assessments, particularly for grantees who are struggling to meet the goals of the program, and following up with customized direct practitioner assistance plans. In addition, all HUD OIG findings are reviewed and considered as CPD deploys the NSP TA resources. We plan to continue this effort with NSP3 to help create and increase the capacity of whole communities across the country to address this crisis responsibly. From the resource exchange where CPD, communities, and nonprofits share tools for effectively implementing neighborhood stabilization projects, the NSP TA resources are creating affordable housing expertise at the local level that will last after the NSP1, NSP2, and NSP3 programs are closed out. Problem solving clinics, NSP term employees – who were hired from their communities using Recovery Act funds– weekly technical webinars, and frequent feedback in the form of data snapshots increase the likelihood that the practitioner skills formed in carrying out the NSP programs will translate into new or enhanced community ability to use other resources.

As the term employees came on board and technical assistance firms were engaged, the range of available services expanded substantially. By early 2010, CPD and its team were developing needs assessments in 102 of the 307 grantee communities which were deemed vulnerable because of weak administrative capacity, difficult market conditions, prior audit or monitoring findings and similar indicators. CPD also launched a very popular series of sixteen Problem-Solving Clinics across the country, where grantees could receive face-to-face assistance, ask questions, and attend workshops.

The NSP group also created a much-expanded website (www.hud.gov/nspta) where grantees can find resources, ask questions, and request technical assistance. The technical assistance providers have developed nine toolkits for different program types (e.g. acquisition-rehab, lease-purchase, land banking) which enable grantees to easily adapt procedures manuals and document templates. The Department also produced training for new grantees and is offering on-site direct technical assistance through the providers.

NSP First Look

The Department has actively sought non-profit and private sector partners in its effort to make NSP successful. The *National First Look Program* is a first-ever public-private partnership agreement between HUD and the National Community Stabilization Trust (Stabilization Trust). In collaboration with national servicers, Fannie Mae, Freddie Mac and our FHA colleagues, the First Look program is intended to give communities participating in NSP a brief exclusive opportunity to purchase bank-owned properties in NSP target neighborhoods so these homes can either be rehabilitated, rented, resold or demolished.

Case Study: Montgomery County, Ohio

Montgomery County in Ohio is an example the effectiveness of NSP resources and the First Look program. In the Huber Heights, a suburb outside of Dayton, property values have declined by 30 percent. These are middle-income neighborhoods with one or two vacant, foreclosed homes on virtually every block.

The County has targeted 2,000 homes in this community -- about 200 of which were vacant when NSP dollars first hit the ground. The County has purchased 35 homes -- over a third of the total it expects to purchase in the next three years with NSP funds-- rehabilitating these homes to green and energy efficient standards. Instead of working with a dozen mortgage servicers to purchase these properties, the County purchased these through First Look's REO Match -- a fully automated, free mapping and property management tool which allows grantees to know what properties are available and who owns them.

Based on a pilot forged by the National Community Stabilization Trust and the nation's leading financial institutions, First Look gives NSP grantees an exclusive 12-to-14 day period to evaluate and bid on properties before others can do so.

It's based on a simple idea: that instead of the "retail" strategy so many communities resort to when it comes to neighborhood stabilization--establishing individual relationships with financial institutions, negotiating the best price one house at a time--we should be creating a wholesale strategy -- and market power. Since the program was announced in early September, NSP grantees have had the opportunity to view over 20,000 properties through the first look program and purchased 553. On average, these properties were purchased at an average discount of 13% below fair market value.

With the country's leading financial institutions participating in First Look, accounting for more than 75 percent of the REO inventory, we expect First Look will cut the traditional 75-to-85 day REO process in half. Moreover, grantees selectively pick the most strategically important properties, whether they are REO, short sale or deed-in-lieu. In addition, the system is extremely cost-effective because instead of using a staff intensive, one-off property acquisition approach, our partners have access to automated, state of the art mapping and property management tools -- so communities can spend more time targeting their efforts and optimizing their limited NSP resources.

<u>Interagency Partnerships</u>

An interagency effort at the Federal level should be noted as well. The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision recently published a joint final rule (Final Rule) expanding the category of community development activities that qualify for Community Reinvestment Act (CRA) credit to include loans, investments and services to support NSP activities in communities with HUD-NSP plans. These investments must be in NSP target areas and mirror the NSP program requirements, which allow assistance to household up to 120% of AM. The final rule, published on December 19, 2010, and effective January 19, 2011, further supports the soundness of the NSP strategy.

Program Monitoring

Complementing the added capacity and program support, CPD continues to monitor and communities for progress, performance and compliance. CPD field offices monitored 146 NSP1 grantees in the first year and have undertaken reviews of NSP2 grantees. Relatively few significant problems emerged, although numerous communities still struggled. CPD continues to build capacity in those locations with on-site and other technical assistance.

The HUD Office of Inspector General (OIG) instituted an aggressive audit program focused on NSP shortly after its enactment in 2008. To date, the OIG has completed 42 NSP audits nationwide and 10 more are currently in progress. I would like to note two evaluations completed by HUD's OIG that speak to the effectiveness of CPD's implementation of NSP2. The first evaluation, issued in September 2009 (Memorandum NO. 2009-AT-0801), addressed the front end risk assessment that CPD prepared for NSP2. A front end risk assessment (FERA) is a management tool required by OMB Circular A-123 and is used to minimize the Department's exposure to fraud, waste and abuse in the administration of its programs and is required for new program such as NSP. In its report, the OIG made no recommendations with regard to the NSP2 FERA and provided a positive review, stating:

- "Our review determined that the factors of general control environment, risk assessment, control activities, information/communication, and monitoring were adequately addressed and the major program objectives of timeliness, clear and measurable objectives, transparency, monitoring, and reporting were adequately emphasized in the assessment. "(p. 3-4)

The second OIG evaluation to note is one that assessed CPD's competitive review and award process for $1.93 billion in NSP2 funding (Audit Report 2010-AT-0001). This competition was administered by CPD's Office of Block Grant Assistance, which traditionally manages formula grants under the CDBG program. Nonetheless, HUD carried out the evaluation and selection process in accordance with all applicable requirements by reviewing 482 applications requesting more than $15 billion in funding. After performing its due diligence, the OIG did not issue any recommendations because there were no reportable deficiencies with the NSP2 evaluation and selection process. The following excerpts from the OIG report clearly make that point:

- "What we found: HUD followed the applicable requirements during the evaluation and selection process and included special conditions in the grant agreements as required." (p. 2)
- "HUD properly evaluated and selected the applications for the NSP2 funding. It followed the requirements and procedures in the notice and employed quality control procedures to help ensure that its decisions were correct and supportable. In addition, it properly included special conditions in grant agreements for high risk grantees." (p. 8)
- "Our audit did not identify any reportable deficiencies, and, therefore, there are no recommendations." (p. 8)

The results of these two reviews well characterize CPD's efforts to implement and manage NSP. Overall, CPD continues to work with the OIG on audits of NSP, most of which focus on program implementation and oversight at the state and local grantee levels. In the cases where these audits have identified program deficiencies, we have used these as opportunities to target technical assistance funding and to improve local capacity.

In December 2010, the Government Accountability Office completed a report on NSP1 (GAO-11-48). The report examined CPD and NSP1 grantee performance in the following areas: (1) meeting HERA obligation time frames and income-targeting criteria; (2) actions HUD has taken to mitigate program risks and ensure grantee's compliance with key NSP1 requirements; and (3) HUD's efforts to collect program data and to assess the reliability of the data. As part of this effort, GAO analyzed data, interviewed selected grantees and HUD staff in Washington, DC and at 15 sites across the United States. It was noted that data on program outputs could be improved and we at HUD are actively working to make those improvements. In the end, GAO concluded that HUD and NSP1 grantees are taking actions to comply with program requirements as reflected by the following comment:

- "NSP 1 provided a mechanism for state and local governments to mitigate the destabilizing effects of mortgage foreclosures, but HUD and grantees faced a number of implementation challenges, including the program's tight time frames and the limited capacity of some grantees to undertake real estate activities. HUD took actions to help grantees meet these challenges though guidance, training, and technical assistance. Additionally, HUD established internal control procedures to mitigate risks and promote compliance with program requirements. Our work suggests that these efforts helped grantees obligate funds in a timely manner, adopt strategies appropriate to their communities, and follow program rules." (p. 41)

The Recovery Act enabled CPD to use 1 percent of the NSP2 appropriation for administrative purposes and this resource enabled the hiring of more than 30 temporary NSP Specialists, to visit grantees and monitor their programs, and it also funded improvements to the Disaster Recovery Grant Reporting (DRGR) system, which is used by grantees to budget, draw funds and report NSP program outputs to HUD. Many of these temporary hires were displaced real estate professionals who were impacted by the housing crisis so they were capable of "hitting the ground running," supporting grantees with program compliance and program implementation issues. Today, these temporary hires serve as the first line of support in CPD field offices responding to grantee needs, alerting HUD Headquarters when problems arise and track grantee performance in DRGR. ARRA Administrative funds make it possible for them to visit grantees and monitor their programs on a regular basis. These visits help CPD establish relationships with our grantees and identify problems before they become serious hindrances to program implementation.

While DRGR was built to serve CDBG disaster recovery grants, it did not have all of the metrics needed to track NSP program outputs. The Recovery Act administrative funds made it possible to improve the DRGR platform and it is those improvements that enable me to share NSP program accomplishments with you today. Additional DRGR improvements are proposed to be funded with Recovery Act dollars to assist NSP grantees in deploying more complex program techniques and CPD track their program outputs and accomplishments.

In closing, the Neighborhood Stabilization Program is being effectively implemented by HUD's Office of Community Planning and Development consistent with the purpose of assisting state and local governments in addressing the negative effects of abandoned and foreclosed properties. NSP grantees are gaining traction at the local level as they build capacity and expend funds, thereby helping to stabilize still fragile housing markets. While $7 billion is a substantial sum to invest in this purpose, it pales in comparison to the overall size of the problem. But a program targeted to areas of high need coupled with a flexible programmatic approach, extensive technical assistance, and aggressive management on the part of CPD, has yielded some remarkable progress in the 30 months that NSP has been in existence. To rescind the final $1 billion in NSP funding at this time would stall that progress and remove critically needed investments from the hardest hit housing markets in the country. For these reasons, Secretary Donovan and I urge the Committee not to move any legislation that would rescind the NSP3 funding.