

**NSP 2 APPLICATION OF HEALTHY NEIGHBORHOODS, INC.,  
LEAD APPLICANT, IN CONSORTIUM WITH THE PRIVATE AND PUBLIC  
NON-PROFIT ORGANIZATIONS OF  
ST. AMBROSE HOUSING AID CENTER, HABITAT FOR HUMANITY OF THE  
CHESAPEAKE, DRUID HEIGHTS COMMUNITY DEVELOPMENT  
CORPORATION, AND THE CITY OF BALTIMORE DEPARTMENT OF  
HOUSING AND COMMUNITY DEVELOPMENT, AND IN PARTNERSHIP  
WITH THE FOR-PROFIT  
TELESIS BALTIMORE CORPORATION**

**APPLICATION OVERVIEW**

Healthy Neighborhoods, Inc., a partnership of foundations, banks, government and community organizations is the lead applicant for NSP2 funds and will be working in consortium with a group of three nonprofit organizations with proven capacity in successful community development, housing redevelopment and neighborhood stabilization efforts, and the City of Baltimore Department of Housing and Community Development. In addition to the consortium of non-profit organizations, the Telesis Baltimore Corporation., a for-profit entity will be a partner. The group is collectively applying for \$26,092,880 in NSP2 funds.

For more than forty years, Baltimore has been devising and implementing strategies and providing funding to stimulate reinvestment in its most troubled neighborhoods – a classic urban renewal model - only to see the number of neighborhoods and blighted areas requiring large scale intervention and renewal, expand and grow. Beginning in the late 90's there was a growing recognition that there also needed to be strategies to protect and preserve the City's middle neighborhoods- to keep them from deterioration and disinvestment and thereby avoid the more costly interventions and drastic renewal efforts that accompany widespread blight.

In 2000, Baltimore's newly elected Mayor, Martin O'Malley, recognized the profoundly weak real estate market in Baltimore, and he announced that his administration would build from strength and upon the functional real estate markets, and invest the city's scarce resources in ways that would produce returns on its investments.

Weak real estate markets have a tremendously negative impact on low and moderate income households. Homeownership is the principal means for Americans to build assets, but in weak housing markets sales prices are too often stagnant or even declining. Instead of building assets, too many households find themselves in an untenable position. They cannot sell because prices are too low to allow a successful move, and they cannot improve their homes because the costs can't be recaptured. As the realization grew that it was crucial to Baltimore's long term health to find ways to retain and grow this middle income, lower middle income and working income strata of homeowners and taxpayers. Baltimore would otherwise risk becoming a community of only the very wealthy and the

very poor without sufficient taxes to deliver the services and maintain the city's infrastructure. This perverse cycle can only be broken by re-establishing confidence in the neighborhoods and strengthening housing prices.

Baltimore foundations, neighborhood organizations and banks stepped forward to work with the City on the creation of a new investment strategy for Baltimore's "in the middle" neighborhoods – those on the precipice of decline that require modest investment to stem decline and build value. Investment in these neighborhoods, it was argued, could not only stem decline but also help all homeowners, especially low-to-moderate income homeowners, retain and increase their equity, as well as increase the tax base. This was, and remains the basis for Healthy Neighborhoods. Based upon detailed analysis of housing conditions and real estate market data, a group of "in the middle" neighborhoods was selected for participation in the HNI program. These communities are the taxpaying backbone of the City; they cannot afford to be lost.

These are the neighborhoods that have suffered from racism (blockbusting), illegal and irresponsible investment, FHA scandals, decrease in population, social issues, competition from welcoming suburbs with fewer problems, and now the impacts of fraudulent home flipping and predatory lending, a declining economy, and lack of credit. It is just this kind of neighborhood targeted for the NSP2 program.

This new neighborhood strategy was aimed at building neighborhood assets, including the value of homes, so homeowners and landlords could view investment in Baltimore's neighborhoods as a good one. While Baltimore's often modest housing values are appealing to many, they can readily discourage continued investment. The modest housing values and limited appreciation prevent homeowners from undertaking major improvements and discourage purchase or renovation by potential homebuyers concerned about low equity growth. It was argued, if housing prices and rents increased, long-term homeowners could build lost equity, new homebuyers could make older homes more modern and viable, and landlords would have additional incentives to renovate and maintain their rental properties.

For nine years (a two year pilot and the following seven years of full program operations) the innovative Healthy Neighborhoods partnership to revitalize older neighborhoods through rebuilding real estate markets and re-establishing active resident involvement has had a profound impact upon middle neighborhoods. Healthy Neighborhoods offers innovative tools and strategies in partnership with non-profit community organizations:

- (1) offering below market rate bank homeownership financing for acquisition/rehab refinance/rehab and home improvement loans
- (2) providing below market rate bank financing at up to 120% of after rehab value to enable new buyers to rehab their new homes to a greater than code standard to encourage market building value;
- (3) grants for small block projects and larger capital projects to help to create connections among neighbors and, at the same time, lead to visible improvement of the neighborhood;

- (4) building on neighborhood strengths, rather than preoccupation with its problems;
- (5) orienting community organization staff toward community marketing and assisting residents to understand and be marketers as well;
- (6) emphasizing the importance of communicating a positive image and marketing this image to key audiences such as realtors, lenders and target markets; and
- (7) focusing initially upon the strongest blocks in a community to build upon the strengths and values of the neighborhoods.

This partnership has generated \$50 million of funding - \$40 million of below market innovative financing and \$5 million of foundation grants to support community marketing and organizing and \$5 million of federal and city capital grant support. Healthy Neighborhoods is now active in thirty-seven identified communities, seven of which are part of this application. Of those, four were also included as part of the City's NSP1 targeted neighborhoods.

The Healthy Neighborhoods philosophy of building upon the strength of middle neighborhoods, building homeowners' equity, positive actions by neighborhoods and requiring measurable outcomes has made a difference in Baltimore. Where it has worked and provided resources over the past seven years, real estate values are up, days on the market are down, and the number of rehabilitation permits has risen indicating owners were investing in home improvements, and vacant houses were declining or stable. Equally important, neighborhood confidence and positive activism is apparent in Healthy Neighborhoods' communities. Many homeowners experienced market appreciation for the first time.

However, as the economy and housing markets began to falter, these neighborhoods began to feel the immediate effects. Credit got tighter, values and sales dropped, days on the market increased, foreclosures became more prevalent, and eventually more houses met the City's criteria for a vacant house violation notice – blighted, uninhabitable and open to casual entry. Gains made during the past seven years are at risk.

All twelve of the census tracts selected for this application are at least partially included within the overall Healthy Neighborhoods program areas where market intervention activities have been underway under the auspices of Healthy Neighborhoods, Inc. (HNI) The NSP2 targets are neighborhood-based and do not in all cases match up fully with an entire census tract, although most do.

Six of the seven neighborhoods selected – Patterson Park/McElderry Park, Reservoir Hill, Belair Edison, Ednor Gardens, Better Waverly and Coldstream-Homestead-Montebello, have average homeownership rates, meet the need criteria of NSP2 and have scattered vacancies and increasing rates of foreclosure in the HNI areas that are not highly concentrated. These are classic neighborhoods “in the middle” – not fully stable, yet not showing signs of widespread blight and disinvestment either. These are communities which in prior housing market upturns did not share in market improvements enjoyed by more stable communities in Baltimore with stronger markets. But in five of the last seven years through the efforts of the communities in concert with

Healthy Neighborhoods, these neighborhoods were able to show real market improvement until 2006 or 2007. Thereafter, there are evident declines in numbers of sales and in median prices, and houses remain on the market for extensive periods of time. Coupled with increased foreclosures, the available unsold housing inventory is growing substantially.

The seventh neighborhood, the Barclay/Old Goucher community, has weaker real estate fundamentals and conditions, but also adjoins neighborhoods to at its western, northern and southern edges which bring stronger real estate assets. The neighborhood itself has a higher degree of blighted, uninhabitable housing, much of it owned by the Housing Authority of Baltimore which has now taken a lead in identifying a developer, Telesis Baltimore Corporation, to rebuild the community as a mixed income, mixed tenure destination. The NSP2 program intends to focus on building eastward from the strong western edge on gateway streets and Healthy Neighborhoods target blocks as part of the first and second phase of the planned redevelopment.

The census tracts which comprise the target geography of this application are shown in the Appendices along with a map of the targeted areas covered by the HNI program. These communities have an average combined higher of the two indices score based on HUD data of 18.5. The neighborhoods can be aggregated into two interrelated groups:

- *Patterson Park, Reservoir Hill, and Barclay* are on the edge of Baltimore's established central core and harbor oriented housing markets. Housing activity made tremendous gains in Patterson Park and Reservoir Hill prior to the recession driven particularly by acquisition and rehabilitation by young homebuyers.. However, as a result of the recession many projects being developed by small investors are stalled or partially complete and facing foreclosure by their lenders. What were to be community assets have turned these improvements into failed, unfinished or postponed projects, bankruptcies, foreclosures and abandonment. Barclay, bordering stable communities to the north and west was the subject of extensive planning for renewal and a ten year plan was developed. NSP2 funds will be used to stabilize the improvements made in Reservoir Hill and Patterson Park and stimulate new ones there and in Barclay, while rebuilding healthy real estate markets in these neighborhoods by acquiring, renovating and reselling foreclosed upon and vacant homes through a variety of mechanisms.

In Reservoir Hill and Patterson Park we anticipate acquisition and renovation by urban pioneer homesteaders and homebuyers with HealthNeighborhoods providing management, financing and design assistance with and the neighborhood based community organizations already at work in these neighborhoods. This model has enabled more than 40 families to buy and improve homes under the auspices of Healthy Neighborhoods. Also in Reservoir Hill we will utilize the acquisition and development expertise of the Druid Heights Community Development Corporation to purchase some of the numerous foreclosed units in multifamily buildings, primarily condominium structures, for rent of purchase by households with income under 50% of area median.

Building on its prior activities in the McElderry Park portion of the Patterson Park community, Habitat for Humanity of the Chesapeake will employ its model of volunteer services and sweat equity by prospective purchasers to complete more housing for eventual resale to households under 50% of area median.

In Barclay/Old Goucher, Telesis Baltimore Corporation has been promised site control of the Housing Authority and City-owned vacant property and will purchase outright other blighted, vacant units for its program of renovation for resale, complementing a companion effort to create mixed income rentals.

- *Belair Edison, Coldstream-Homestead-Montebello, Ednor Gardens and Better Waverly* are at the center of the predatory lending and sub-prime financing that destabilized the improving housing markets in these neighborhoods. As property values improved, they were targets of promotions for home equity loans or refinancing with cash out. Some loan products were aggressive, others simply predatory. As values dropped, the economy slowed and jobs were lost, many owners found themselves in over their heads and under water with their mortgages. Foreclosures have increased. The St. Ambrose Housing Aid Center, a member of this consortium, has a successful history of working in most of these communities which are part of an FHA Asset Control Area, by acquiring FHA foreclosures, renovating the homes and reselling them to new homeowners with household income below 115% of area median. The NSP2 funds will enable St. Ambrose to expand its activity in these neighborhoods both in the acquisition of a larger number of vacant and foreclosed homes and serving a broader range of income eligible buyers, including some buyers below 50% of AMI in renovated formerly foreclosed properties.

The nonprofit consortium members and for-profit partner all have substantial demonstrated experience and sufficient capacity to carry out the proposed activities described in our application, and we are confident that together we can meet the expenditure requirements of the NSP2 program.

Our program strategy is to acquire, renovate and resell as many foreclosed and abandoned, or vacant and blighted structures as we can, to restore them to good condition and to attract new homeowners to these neighborhoods. At a minimum, we are proposing to intervene in 349 properties across the seven neighborhoods. We will meet the requirement for 25% of NSP2 funds to be utilized in abandoned and foreclosed properties that will serve households under 50% of area median. This should provide housing for 71 such households. The remainder of the properties will serve a range of income groups from under 50% of area median up to 120% of area median.

We will do so with a variety of entities (as identified above) and various mechanisms. However, the basic program is the same: to obtain site control of foreclosed and vacant homes, and to do high quality, energy efficient renovations, and then resell or rent to income-eligible purchasers utilizing secondary financing mechanisms as necessary to

make homes affordable and to help preserve affordability over time. This will occur for the most part one property at a time.

Demolition is not a viable strategy for these neighborhoods. Baltimore is a rowhouse city, and demolition of selected properties does not solve problems, it creates new ones and is expensive to carry out. Homes in three of the neighborhoods, Reservoir Hill, Ednor Gardens and Patterson Park have historic designations.

We will track, as we already do through the Healthy Neighborhoods program, the results of these efforts as well as the overall real estate trends in the targeted neighborhoods to assure success and report results. We have a standard set of metrics which are tracked and reported upon quarterly to the Healthy Neighborhoods Board of Directors. The Commissioner of the Baltimore City Department of Housing is a member of the Board along with other governmental representatives, and prominent business and bank executives, foundation and real estate industry leaders. This data is provided to our neighborhood partners and made available on the Healthy Neighborhoods website quarterly.

Some buyers of renovated homes and some homesteaders will qualify to utilize the Healthy Neighborhoods purchase or purchase/rehab loan program, and a below market (currently 4.1% interest) rate loan. No mortgage insurance is required. The low interest rate will widen the affordability window substantially for those qualified buyers which should help reduce in some cases, the amount of write-down or subsidy that might be necessary to reach a lower income buyer, leveraging and stretching the impact of the NSP2 funds.

Recent dramatic increases in electric rates in the State of Maryland have made consumers very conscious of energy conservation and the need for energy efficiency. There has also been a recent increase in the City's water rates. HUD's mandate for energy efficient features in NSP2 housing will, we believe, be a very positive marketing tool for homes that are renovated. Furthermore, the central urban locations of these neighborhoods assures their accessibility to the City's public transportation system, and in some communities to the rail commuting system, an important factor in attracting Washington, DC workers who see Baltimore almost as a Washington, DC suburb.

The availability of high quality housing at an affordable price, preferred financing, the continuing efforts of the community-based groups working in Healthy Neighborhoods on organizing, block improvement and small capital projects, school improvement, better policing, and improving neighborhood commercial strips in some cases, will all contribute to reinvigorating the markets in these neighborhoods. They will help bring them back to greater health during the three year NSP2 effort and will well-position them for the eventual economic recovery. Without intervention, the declines we have seen will only continue to grow, likely to a point where much more dramatic renewal efforts could be necessary. This is the history of Baltimore neighborhood decline. And, as we know, boarded vacant homes and evident destabilization as a result of posted foreclosure

auction notices on properties, undermines confidence of both prospective new purchasers and existing owners.

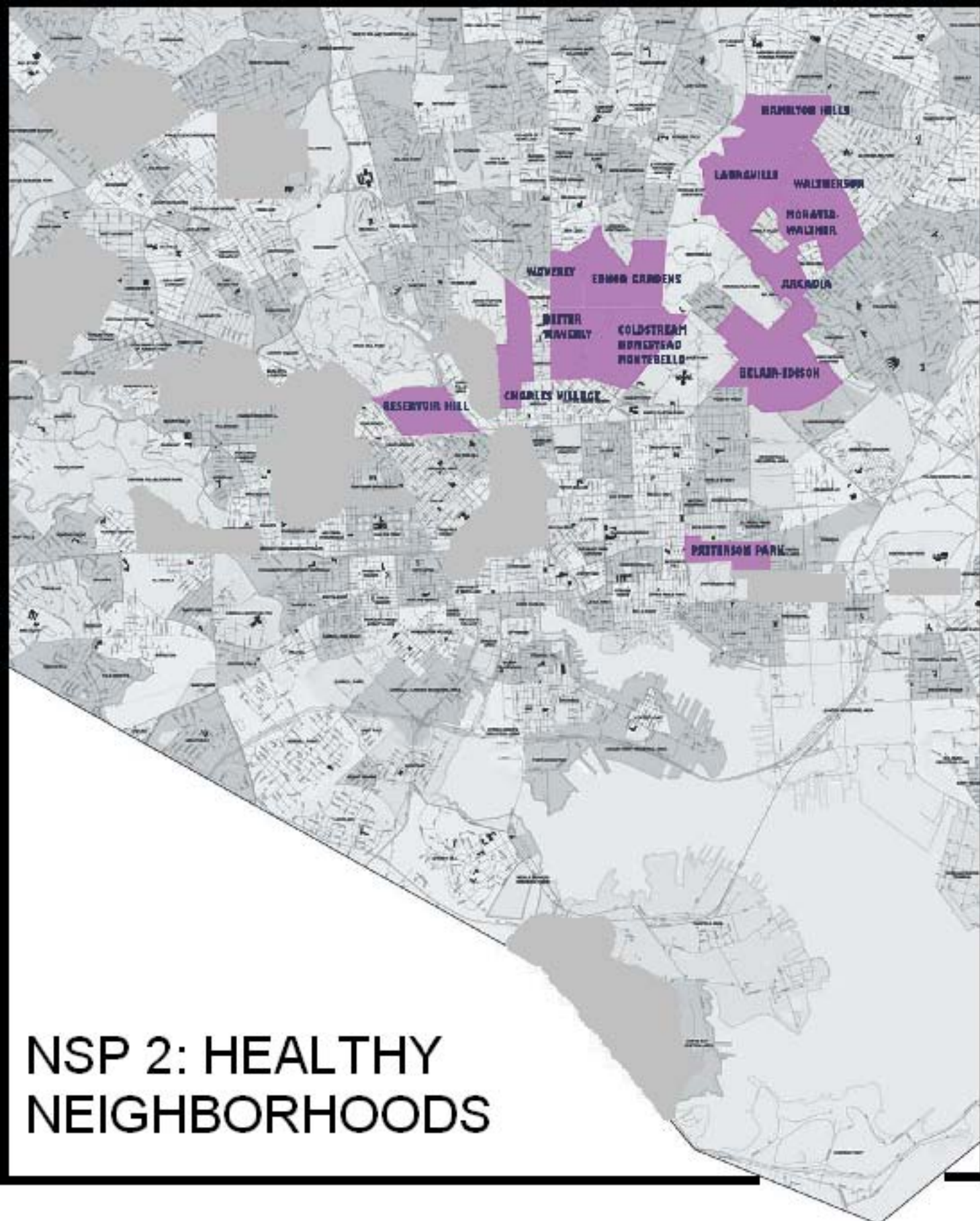
HNI's experience in qualifying and lending to new and existing homeowners in these neighborhoods and underwriting City-funded matching rehab grants indicates that there is adequate demand to purchase homes from buyers who were priced out when the market was at its height. This experience provides confidence that by using NSP2 funds to subsidize the cost of acquisition and renovation using a variety of financing options for both development and purchase, we will be able to make these homes affordable to the buyers with incomes below 50% of AMI and below 120% of AMI. HNI has the systems in place to disburse funds to the Consortium members and Partner on a timely basis.

Because there is a programmatic infrastructure already in place serving these targeted neighborhoods, and a network of community development entities with experience and capacity, we are well-positioned to move quickly into implementation and to provide the necessary supports to be successful in attracting buyers and stabilizing the housing market through new investment. All HUD required housing counseling will be provided to new buyers. There are existing HUD-certified counseling organizations providing services in the Healthy Neighborhoods communities. Where there is no counseling organization, such as in Barclay, St. Ambrose has agreed to provide the buyer counseling.

The City will oversee the program by monitoring for compliance and will do HUD environmental reviews as required. Healthy Neighborhoods, Inc. has a strong finance and auditing system as required to assure all members of the consortium can implement the program in accordance with requirements and in conformance with all applicable rules and regulations..

The NSP2 funds will be value-added to commitments already made to program initiatives and financing for homes in these neighborhoods, and will allow for greater removal of the destabilizing influences of vacant foreclosed properties and vacant and blighted properties. Without NSP2, it is likely the destabilizing influences will grow to a point where they may overwhelm the market and contribute to an accelerated decline which will be much more costly and perhaps impossible to reverse.

Given the existing ongoing nature of efforts at neighborhood stabilization supported by the City and various community plans that already exist, these NSP2 activities will only further support and increase the effectiveness of those plans and efforts and will be wholly consistent with the City's Consolidated Plan.



# NSP 2: HEALTHY NEIGHBORHOODS

Target Geography for NSP2-Healthy Neighborhoods Application								
Neighborhood	Census Tract	Foreclosure Score	Vacancy Score	Higher of Two Score	Implementation	HUD Est. Foreclosures	USPS Est. Vacancy	City 6/6/09 Vacants
Patterson Park/ McElderry Park	601	15	20	20	Homesteading	22	206	92
	602	15	20	20	Chesapeake Habitat	25	374	164
Reservoir Hill	1301	16	19	19	Druid Heights CDC	14	158	64
	1302	13	13	13	Homesteading	18	155	89
Belair Edison	2603.01	19	19	19	St. Ambrose	64	95	21
	2603.02	20	14	20	St. Ambrose	79	63	9
	801.01	17	15	17	St. Ambrose	37	33	17
	2602.02	18	13	18	St. Ambrose	58	41	13
Ednor Gardens	903	17	17	17	St. Ambrose	46	99	15
Coldstream/Homestead/ Montebello	906	17	20	20	St. Ambrose	23	159	133
Better Waverly	905	16	18	18	St. Ambrose	14	58	24
Barclay	1204	12	19	19	Telesis Baltimore	4	153	242
Total All Tracts		183	188	220		404	1,594	883
Average				18.3				

Neighborhood Stabilization Program 2									
Application of Healthy Neighborhoods, Inc.									
NSP2 Budget by Consortium Member and Neighborhood									
And Eligible Activity									
	Serving HHDs <50% AMI	Average NSP Funding Per Unit	Total NSP Funds	Serving HHDs < 120% AMI Subparts A, B & E # Units	Average NSP Funding Per Unit	Total NSP Funds	Total Units	Total for NSP Funds All Activity	
	Subparts A & B # Units			Foreclosures, vacant & abandoned structures					
<b>Patterson Park/McElderry Park</b>									
<i>Habitat for Humanity of the Chesapeake</i>									
Acquisition/rehab/resale	15	\$50,000	\$750,000	60	\$50,000	\$3,000,000			
Buyer closing cost assistance		\$6,000	\$90,000		\$6,000	\$360,000			
Homesteading (acq/rehab by individuals)				25	\$35,000	\$875,000			
Buyer closing cost assistance					\$6,000	\$150,000			
<b>Total All Activity</b>							<b>100</b>	<b>\$5,225,000</b>	
<b>Reservoir Hill</b>									
<i>Druid Heights CDC</i>									
Purchase/rehab units for rent	18	\$225,000	\$4,050,000						
Homesteading (acq/rehab by individuals or developer)				10	\$154,000	\$1,540,000			
Buyer closing cost assistance					\$6,000	\$60,000			
<b>Total All Activity</b>							<b>28</b>	<b>\$5,650,000</b>	
<b>Belair Edison, Ednor Gardens, Better Waverly, Coldstream-Homestead Montebello</b>									
<i>St. Ambrose Housing Aid Center</i>									
Acquisition/rehab/resale	36	\$35,600	\$1,281,600	150	\$38,100	\$5,715,000			
Buyer Closing Cost Assistance		\$6,000	\$216,000		\$6,000	\$900,000			
<b>Total All Activity</b>							<b>186</b>	<b>\$8,112,600</b>	
<b>Barclay/Old Goucher</b>									
<i>Telesis Baltimore Corporation</i>									
Acquisition/rehab/resale	2	\$215,600	\$431,200	33	\$124,000	\$4,092,000			
Buyer closing cost assistance		\$6,000	\$12,000		\$6,000	\$198,000			
<b>Total All Activity</b>							<b>35</b>	<b>\$4,733,200</b>	
<b>GRAND TOTAL HOUSING ACTIVITY</b>	<b>71</b>		<b>\$6,830,800</b>	<b>278</b>		<b>16,890,000</b>	<b>349</b>	<b>\$23,720,800</b>	
<b>Administration @ 10%</b>								<b>\$2,372,080</b>	
<b>TOTAL NSP2 REQUEST</b>								<b>\$26,092,880</b>	