

**CITY OF OLATHE
NEIGHBORHOOD STABILIZATION PROGRAM SUMMARY
OCTOBER 15, 2019**

The City of Olathe currently owns eight (8) properties purchased with federal Neighborhood Stabilization Program (NSP) grant funds enabled by passage of the Housing and Economic Recovery Act of 2008. This program is administered by the U.S. Department of Housing and Urban Development (HUD) to support state and local efforts to stabilize neighborhoods with high numbers of abandoned and foreclosed-upon homes. Properties purchased with NSP funds must be either sold or rented to low-income families. HUD allows NSP fund recipients sell NSP rental homes to current NSP tenants if they have lived there for at least a year with no neighbor complaints, meet income eligibility and financing requirements, and take an 8-hour homebuyer education and counseling class. One NSP rental property – 407 S. Ridgeview – is ready to be sold to the current tenant, who is interested in and able to purchase the property. Another NSP rental property – 110 S. Chambery – has a tenant who is interested and may be able to purchase. Staff is recommending that the City Council authorize the sale of any current NSP rental property to a HUD-approved buyer.

As background, in 2010, the City used NSP funds to purchase and rehabilitate eleven (11) homes in Olathe. Three (3) were rehabilitated and immediately sold to low-income families (income below 120% area median). After sale of the houses, the sale proceeds went to the State of Kansas, as required under the NSP regulations. The remaining purchased homes were rehabilitated and then converted to NSP rentals. The City's eight (8) NSP rental homes are subject to NSP affordability periods during which tenants must be income-qualified at the time of rental and the rent is restricted to HUD Section 8 fair market rent amounts. Four properties are subject to a 10-year affordability period (expires 2020), and the other four have a 15-year period (expires 2025).

The sale of NSP rental homes to eligible and educated low-income families is consistent with several positive outcomes that the Olathe Housing Program (OHP) strives to achieve. First, one of the OHP's core purposes is to help low-income families purchase homes. Second, the OHP is committed to mentoring its tenants toward achieving self-sufficiency and future success. Finally, selling NSP rental homes also returns these rehabilitated properties to the property tax rolls.

Any NSP rental home sale to a tenant during the NSP affordability period must satisfy several HUD requirements: 1) buyers must be income-qualified, 2) HUD calculates the appropriate sales price which includes a discount (around 5% of appraised value) and a forgivable second mortgage (15%-35% of purchase price, depending on income), and 3) all sale proceeds must be turned over to the State of Kansas. Under NSP rules, the forgivable second mortgage remains in place during the affordability period. If during that time the property is sold to a buyer who fails the NSP income qualifications, then the mortgage must be repaid to the City, who forwards the proceeds to the State. Provided the property is not sold the mortgage will be forgiven at the end of the affordability period. Alternatively, the property could be sold to another income-qualified buyer if that buyer

will agree to take on the forgivable second mortgage for the remainder of the affordability period. This is a similar requirement as applied to the NSP homes which were rehabilitated and immediately sold.

The City currently has a success story with the NSP rental at 407 S. Ridgeview whose tenant is eligible to take advantage of the NSP purchase price discount. The tenant is income-qualified and has also succeeded in obtaining financing to purchase the home. Staff has worked with HUD to determine the discounted sale price and “soft second” mortgage amount, and HUD has approved the sale. Staff recommends that the City Council authorize staff to complete this sale and convey the property to the HUD-approved buyer.

In addition, the NSP rental property at 110 S. Chambery has a tenant who is interested and may be able to purchase. Because there may be future opportunities to sell other NSP rental homes to a HUD-approved buyer at a HUD-approved price, staff recommends that the City Council authorize the sale of any of the other NSP rental homes during the NSP affordability period pursuant to any applicable NSP and HUD requirements. The attached resolution provides that authority.