

## Summary:

In this policy brief, we describe the Neighborhood Stabilization Program, which the Department of Housing and Urban Development first authorized in 2008, and the application of the program in Boston. After providing the background, definitions, and implementation context of the program, we proceed to describe the Boston case. A research team at the Federal Reserve Bank of Boston conducted a multi-method study of the impact of the Boston NSP effort. We found that the program properties were slower to be rehabilitated than a comparison group of non-program properties and that the program had very little impact on the physical or social conditions of the block. We conclude by offering some policy implications.

## The Neighborhood Stabilization Program: Background, definitions, and implementation

As the pace of home foreclosures in the U.S. housing market approached crisis levels, Congress enacted the Neighborhood Stabilization Program (NSP). The program sought to offer “emergency assistance for the redevelopment of abandoned and foreclosed homes.”<sup>1</sup> The U.S. Department of Housing and Urban Development (HUD) issued the first of three rounds of funding in 2008. At that time, HUD stated that the program was aimed at “stabilizing communities that have suffered from foreclosures

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1 Division B, Title III of the Housing and Economic Recovery Act (HERA).

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\*\*Views expressed here are those of the individual authors, and do not necessarily reflect official positions of the Federal Reserve Bank of Boston or the Federal Reserve System. The authors will be glad to receive comments on their articles.

and abandonment.”<sup>2</sup> The policy did not, however, explicitly define “neighborhood stabilization.”

In its most narrow interpretation, neighborhood stabilization entails reducing the negative price externalities of foreclosed homes on nearby properties. Properties that sell near foreclosed homes are sold at a lower cost than otherwise identical properties that have no foreclosures nearby.<sup>3</sup> According to Paul A. Joice of HUD, Congress, by providing funds to redevelop abandoned and foreclosed homes, hoped to “restore confidence and allow the market to find equilibrium and resume functioning.”<sup>4</sup>

Neighborhood stabilization, however, is often more broadly defined as “improved physical and social conditions and higher property values.”<sup>5</sup> When they were implementing the NSP funds, it appears that many grantees employed this broad definition. Ranking HUD officials also used the broad definition of neighborhood stabilization. The assistant secretary of HUD, Mercedes Márquez, defined neighborhood stabilization broadly, noting that “the Neighborhood Stabilization Program is hope. It lets communities understand that folks are looking right at their neighborhood. They’re targeting, they’re analyzing, and they’re making critical investments.”<sup>6</sup>

Federal-level administrators anticipated that NSP grantees would implement neighborhood stabilization in a variety of ways. As Joice stated, “NSP does not prescribe particular strategies and will result in a wide variety of interventions across a wide variety of market conditions.” Indeed, subsequent research showed that real estate and general market conditions varied widely by region.<sup>7</sup> However, grantees were required to target the use of funds to the acquisition of foreclosed, abandoned, or vacant properties. Additionally, only lower- and middle-income households—those making less than 120 percent of the Area Median Income (AMI)—were eligible to occupy the

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[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/communitydevelopment/programs/neighborhoodspg](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs/neighborhoodspg).

<sup>3</sup> Immergluck & Smith (2006).

<sup>4</sup> Joice (2011).

<sup>5</sup> Rohe & Stewart (1996).

<sup>6</sup> Building stable communities: The Neighborhood Stabilization Program Orange County, CA [video script]. [https://www.onecpd.info/resources/documents/CaseStudyOrangeCountyCA\\_Transcript.pdf](https://www.onecpd.info/resources/documents/CaseStudyOrangeCountyCA_Transcript.pdf).

<sup>7</sup> Swanstrom, Chapple, & Immergluck (2009).

rehabilitated properties. HUD also required grantees to set aside a subset of funds for lower-income households that were making less than 50 percent of AMI.

Within those constraints, the program offered flexibility. Grantees could use funds targeted to foreclosed, abandoned, or vacant properties for many purposes: acquisition and rehabilitation of abandoned or foreclosed homes; demolition of blighted structures; redevelopment of demolished or vacant properties; and financing mechanisms, such as providing down-payment assistance for new home buyers, developing below-market housing, and land banking. Because state and local governments were already familiar with the Community Development Block Grant (CDBG) program, the policy used the same decentralized framework provided by CDBG.<sup>8</sup>

While policymakers left the definition of neighborhood stabilization and its implementation open to interpretation, as the funding rounds progressed, HUD more clearly defined where, geographically, NSP-funded activities should take place. Data indicated a concentration of foreclosures in poor, predominantly minority neighborhoods—ones that typically also suffered from an array of social problems, including high crime, and had other indicators of social disorder associated with concentrated disadvantage.<sup>9</sup> Because of heightened price-contagion risk due to the geographic clustering of foreclosures, the Housing and Economic Recovery Act, which authorized the first NSP funds, included the requirement for the “concentration of investment to achieve stabilization.” While policymakers recognized the logic for a neighborhood-based housing program, “they were also concerned that the neighborhoods likely to be hit hardest by the foreclosure crisis were those least equipped to respond.”<sup>10</sup> In the first round, NSP1, HUD was inconsistent in requiring grantees to concentrate on only a few high-foreclosure neighborhoods. The Recovery

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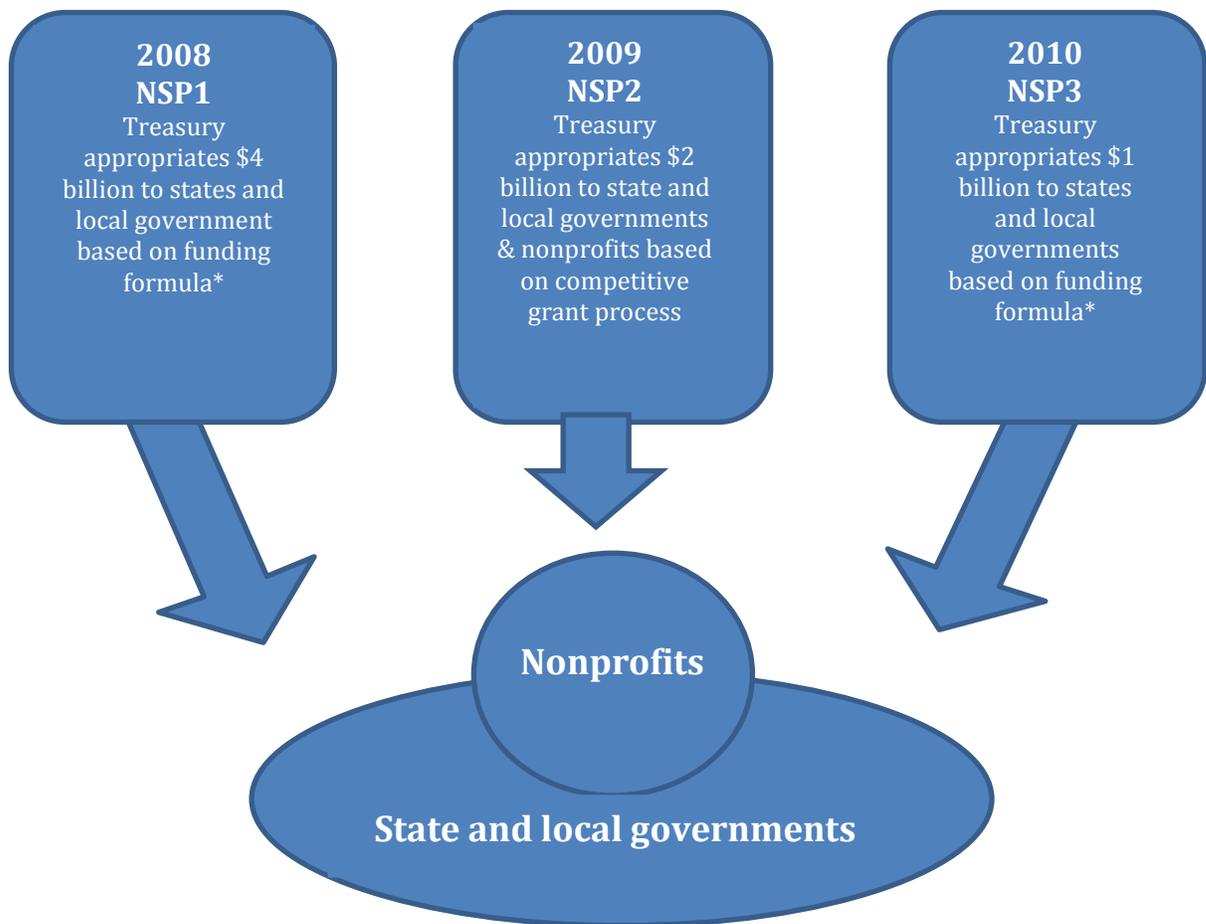
<sup>8</sup> The U.S. Department of Housing and Urban Development describes the Community Development Block Grant (CDBG) program as “a flexible program that provides communities with resources to address a wide range of unique community development needs. Beginning in 1974, the CDBG program is one of the longest continuously run programs at HUD. The CDBG program provides annual grants on a formula basis to 1209 general units of local government and States.”

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/communitydevelopment/programs](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs)

<sup>9</sup> Kirk & Hyra (2012).

<sup>10</sup> Joice (2011).

Act did provide some guidance for a targeted approach by requiring that grantees give priority emphasis to the “areas of greatest need” (which HUD refers to also as target areas). Some grantees countered that their entire city, county, or state constituted an area of greatest need. Due to the explicit mandate from the Recovery Act, HUD increased the emphasis on geographic targeting for NSP2. The targeting requirement continued for NSP3, with slight modifications to increase flexibility. Please see Figure 1 for an illustration of the timeline, allocations, and methods for each NSP funding round.



**Figure 1: Neighborhood Stabilization Program timeline and requirements**

Source: Federal Reserve Bank of Boston

HUD focused on four recipients of NSP funding as case studies in order to “highlight NSP grantee success stories and best practices”<sup>11</sup> for program implementation. These recipients included applicants in Lake Worth, Florida; Columbus, Ohio; Orange County, California; and Tuscan, Arizona. We analyzed the case studies that HUD presented as NSP best practices and found three themes common to the selected case studies: (1) recipients employed the broad definition of “neighborhood stabilization”; (2) recipients engaged in a range of activities beyond the acquisition and rehabilitation of foreclosed homes; and (3) the geography of foreclosure intervention varied according to the recipients’ interpretation of areas of need and likely impact. Our analysis of best practices suggests that successful NSP grantees, as determined by HUD administrators, sought to improve a broad range of physical and social conditions rather than maintain an exclusive focus on physical rehabilitation of foreclosed properties.

Employment of the broad definition of neighborhood stabilization, the first of the three themes common to the best-practice grantees, seeks to effect change well beyond physical rehabilitation. Sharon Ellis, executive director of Habitat for Humanity in Orange County, California, indicated that agencies there used NSP to help “stabilize communities so that families can live and work in a setting that they can afford, and that they know is going to be beneficial to their family.”<sup>12</sup> In Tucson, Arizona, Peggy Hutchison, chief executive officer of Primavera, an NSP partner organization, explained that the organization’s mission was “to provide pathways out of poverty through safe, affordable housing, workforce development, and neighborhood revitalization.”<sup>13</sup> In Lake Worth, Florida, recipients took a comprehensive approach in their stabilization efforts, connecting stabilization to broader economic development and revitalization initiatives and “really spending a tremendous amount of money on housing and infrastructure,

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<sup>11</sup> NSP Learning Center. <https://hudnsphelp.info/index.cfm?do=viewLearningCenter>. Accessed November 13, 2013.

<sup>12</sup> Building stable communities: The Neighborhood Stabilization Program Orange County, CA.

<sup>13</sup> Building Stable Communities: The Neighborhood Stabilization Program Pima County, AZ [video script]. [https://www.onecpd.info/resources/documents/CaseStudyTucsonAZ\\_Transcript.pdf](https://www.onecpd.info/resources/documents/CaseStudyTucsonAZ_Transcript.pdf).

and providing services people need.”<sup>14</sup> Bonnie Conrad, division director of Housing Services at the Housing Partnership Incorporated in Lake Worth, further suggested that “a neighborhood is stabilized when the vibrancy comes back to the neighborhood. It’s when the neighborhood people want to interact with each other, seeing it as a positive place to raise families, to go to school, to do their businesses, and to be part of the community. That’s when a neighborhood is stabilized.”<sup>15</sup> In Columbus, Ohio, Kim Stands, assistant housing administrator for the city, argued that the NSP-funded program “not only created better housing, but worked with the people who are in this neighborhood to become better neighbors and work together to continue to have a sustainable effort.”<sup>16</sup>

The second theme we found among the best-practice recipients was that they engaged in a wide range of activities that extended far beyond acquisition and rehabilitation but fit with the broader neighborhood stabilization framework. Several recipients used NSP funds to offer home buyers counseling and home-purchase assistance. In Orange County, grantees used the funds in neighborhoods with lower concentrations of foreclosures. Glenn Hayes, president of Neighborhood Housing Services of Orange County, indicated that they used NSP funds in historically strong markets to prevent further decline and “to provide affordable housing to working families.”<sup>17</sup> Some recipients also used NSP funds to provide housing for developmentally disabled people. In Tucson, one use of funds was for “kinship families,” multifamily housing projects for grandparents raising grandchildren.<sup>18</sup> In Lake Worth, NSP funds were used to support artists’ housing as part of a Cultural Renaissance Program.<sup>19</sup>

Given HUD’s changing geographic targeting requirements, it is not surprising that our third common theme was that the geographic scale of implementation for NSP

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<sup>14</sup> Building Stable Communities: The Neighborhood Stabilization Program Lake Worth, FL [video script]. [https://www.onecpd.info/resources/documents/CaseStudyLakeWorthFL\\_Transcript.pdf](https://www.onecpd.info/resources/documents/CaseStudyLakeWorthFL_Transcript.pdf).

<sup>15</sup> Building Stable Communities: The Neighborhood Stabilization Program Lake Worth, FL.

<sup>16</sup> Building Stable Communities: The Neighborhood Stabilization Program Columbus, OH [video script]. [https://www.onecpd.info/resources/documents/CaseStudyColumbusOH\\_Transcript.pdf](https://www.onecpd.info/resources/documents/CaseStudyColumbusOH_Transcript.pdf).

<sup>17</sup> Building Stable Communities: The Neighborhood Stabilization Program Orange County, CA.

<sup>18</sup> Building Stable Communities: The Neighborhood Stabilization Program Pima County, AZ.

<sup>19</sup> Building Stable Communities: The Neighborhood Stabilization Program Lake Worth, FL.

recipients in the best practices varied from very large target areas to intensely focused ones. Recipients in Orange County considered the entire county to be their target area. In Tucson, recipients focused on 30 census tracts covering 70 square miles in the city. In the Lake Worth program, administrators estimated that there were approximately 1,800 addresses in the target area; 130 of those homes were rehabilitated. Administrators in Columbus targeted just one city block.

If the case studies are any indication, the Neighborhood Stabilization Program appears to be a series of locally informed and implemented initiatives that anticipate a variety of outcomes beyond the stabilization of home prices. These initiatives share a common feature: they seek to affect neighborhood stabilization, broadly defined. Importantly, however, the case studies did not establish whether or not the recipients met their broad-based goals.

### **The Boston case**

Our research on the Neighborhood Stabilization Program involved studying properties acquired by the City of Boston as well as a set of comparison properties. We tested the impact of the intervention using the broad definition of neighborhood stabilization and, in this case, found that the intervention failed to have an impact on the social or physical environment immediately surrounding the target property. This appears to be due both to implementation problems and false assumptions about the role of physical revitalization in neighborhood stabilization broadly defined.

In its NSP application, the City of Boston referenced its goal to achieve both the narrow and broad definitions of neighborhood stabilization. The plan outlined in the NSP application indicated that the agency sought to restore equilibrium to the housing market, or, as the application stated, “ensure that those vulnerable, high-risk neighborhoods where foreclosures are prevalent receive help from the City and its

partners to renew and reoccupy properties before blight and decline set in.”<sup>20</sup> The application also referenced the greater goals of neighborhood stabilization; in addition to concerns about property values, there was a focus on improving physical and social conditions. The application detailed how the mayor “convened the Foreclosure Intervention Team (FIT), a cross-cabinet, inter-agency effort that not only looked at the rate of foreclosure in the neighborhood but also assessed the street-level impact of such disinvestment on the safety and well-being of remaining residents and owners. The DND’s [Department of Neighborhood Development’s] efforts in the NSP initiative build off the FIT model.”<sup>21</sup> Thus, in using NSP funds, the City aimed to stabilize the property market and have an impact on neighboring residents’ well-being.

Following NSP geographic targeting guidelines, Boston directed its NSP funding for the acquisition of foreclosed, abandoned, or vacant properties “within specific NSP high need target areas.” The target area for the City’s Neighborhood Stabilization Program included 43 census tracts located in neighborhoods that had the largest declines in market values, a high score on HUD’s Foreclosure Risk Score, a high number of foreclosed properties, and a high percentage of high-cost loans. These 43 census tracts comprised nearly one-quarter of the City’s total census tracts but “contained nearly three quarters of the City’s foreclosed properties.” In addition to containing a disproportionate number of foreclosed properties, the target area was also among Boston’s highest-crime, lowest-income, and most racially segregated areas.<sup>22,23</sup>

We identified 16 blocks in the target area, each of which contained an abandoned and foreclosed two- or three-family property. Eight of the 16 properties had been acquired by the City with NSP funds. The other eight were foreclosed properties that remained in the private market. Because there was a high rate of foreclosure in the

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<sup>20</sup> City of Boston NSP Application, [http://www.cityofboston.gov/dnd/PDFs/NSP\\_Rehab\\_Funding\\_Applicant\\_Packet.pdf](http://www.cityofboston.gov/dnd/PDFs/NSP_Rehab_Funding_Applicant_Packet.pdf)

<sup>21</sup> City of Boston NSP Application.

<sup>22</sup> See Boston Police Department (2008) Annual Crime Summary Report [http://www.cityofboston.gov/Images\\_Documents/2008Crime%20Summary\\_tcm3-8952.pdf](http://www.cityofboston.gov/Images_Documents/2008Crime%20Summary_tcm3-8952.pdf)

<sup>23</sup> See Boston Redevelopment Authority (2010) Foreclosure Trends 2010, City of Boston. [http://www.cityofboston.gov/images\\_documents/Foreclosure\\_Trends\\_2010\\_tcm3-23790.pdf](http://www.cityofboston.gov/images_documents/Foreclosure_Trends_2010_tcm3-23790.pdf)

Boston neighborhoods targeted by the NSP, numerous eligible properties existed in these neighborhoods that were not acquired by the City for rehabilitation. The limited nature of the NSP funds and the neighborhood selection criteria for NSP properties therefore created a unique opportunity: we were able to investigate program impacts on properties purchased by the City of Boston using NSP funds by comparing those properties with similar properties in the same neighborhoods that did not receive municipal intervention but rather became real estate-owned (REO) through the foreclosure process. The fact that NSP-intervention properties and REO foreclosures were present in the same neighborhoods was key to helping us understand possible outcomes for REOs in the neighborhoods absent the NSP intervention.

## **Methods**

In our study we employed a mixed-method longitudinal approach to investigate the impact of the foreclosed home rehabilitation policy on neighborhood social and physical conditions on the block where an NSP intervention took place. We compared these homes with a quasi control group of similar abandoned, foreclosed neighborhood homes in the target area that were not included in the program. Throughout the rest of this brief, we use the phrase “NSP properties” when referring to the treatment properties acquired with NSP funds; “control properties” when referring to the abandoned, foreclosed homes that remained in the private market; and “target properties” when referring to both the NSP and control properties versus “abutting properties,” which were the properties surrounding the target properties. The term “parcel” refers to the physical properties, regardless of occupancy or treatment status.

In order to determine the impact of the intervention, we visited all of the target and abutting properties before and after the intervention. In order to assess the impact of the NSP on neighborhood social conditions, we sampled residents of buildings who could see the target property from their front doorstep. Most often that included all buildings (two- and three-family residences) that were next door to and one house away

from the abandoned house and all buildings directly across the street from the house. Figure 2 illustrates a typical block and the dwellings considered in our sample. The number of parcels per block ranged from five to nine. In certain instances we expanded these criteria. This occurred if, while visiting the block, we noted that residents of a building outside this immediate area had a clear view of the house and thus would be aware of and potentially affected by the abandoned building. We focused on this limited set of respondents, as we expected the NSP to have the greatest impact on residents living closest to the abandoned buildings. We also excluded residents who abutted the target property from the rear, because in most cases, the rear abutters did not have clear views of the target properties.

Figure 1: Typical Study Neighborhood



Source: Federal Reserve Bank of Boston

The research team visited every street, assessed the condition of every parcel, and attempted to conduct at least one in-person interview at every unit. Across the 16 blocks, a total of 138 parcels were included in the sample and approximately 300 units (this varied due to vacancies from year to year). Parcel condition was assessed using 12 items rated by observers and drawn from standard forms in the urban planning field.

To document our findings, we formally assessed the physical condition of the foreclosed property and nearby parcels, administered a Sense of Community survey to neighboring residents, and interviewed neighbors about the impact of the foreclosed home on neighborhood stability. We then returned one year after the rehabilitation was planned to take place, reassessed the physical condition of the nearby parcels, readministered the Sense of Community survey, and reinterviewed residents for their reaction to the intervention. Through these methods, we were able to reach about 125 of the residents each year, including 60 of whom we surveyed in both years. We found no statistical differences between survey respondents who participated in both years or in only one. In general, sample demographics did not differ significantly from year to year, and sample demographics also did not differ on the basis of NSP status.

## **Findings**

Quantitative and qualitative results from those assessments indicated that the rehabilitation of a foreclosed home had no impact on the physical conditions of nearby homes and a marginally significant *negative* impact on social conditions. That is, resident sense of community decreased slightly following the intervention. Based on our qualitative interviews, this seemed to be due to a high level of mistrust the neighbors described feeling toward the new residents and to the lack of information provided to neighbors regarding the NSP intervention. We also found no evidence—despite the language used in the City’s NSP application—that the City or its nonprofit partners had attempted to engage neighbors in the rehabilitation process. No neighbor to whom we

spoke could recall being approached by program participants regarding the NSP intervention.

Qualitative results further indicated that the affected residents believed that social conditions would have benefited more from programs that aimed to increase neighborhood levels of social cohesion and social capital. Residents suggested that interventions such as block parties and neighborhood watch groups could have increased social cohesion because they would have provided neighbors with direct opportunities to meet one another and discuss neighborhood issues.

Our assessment of the physical condition of the nearby properties found similarly little program effect. We found no differences between the neighboring program properties and the control properties in terms of physical conditions, except that the privately owned properties were rehabilitated more quickly. Further, there was only a slight difference in parcel conditions observed from Year 1 to Year 2, suggesting that renovations to the target properties had limited impact on the overall physical condition of the block. Nonetheless, when we examined only low-cost parcel conditions items (e.g., presence of flowers, front porch tidiness), we found that Year 2 parcel scores were significantly better than Year 1 scores for abutting properties. This change may indicate that although neighbors did not make major improvements to their properties, some trend toward greater upkeep was happening on these blocks from 2011 to 2012. However, this trend of greater upkeep on lower-cost items did not correspond to NSP status and was also observed in the control group and even on blocks where no major renovation had taken place. Thus, even this small trend could not be attributed to the policy intervention.

Our field work also indicated the presence of confounding factors, such as high levels of crime and gun violence and low levels of social control, that perhaps superseded the impact of the intervention. As foreclosure studies have established, quite often those areas of greatest need in terms of foreclosure intervention are also areas of greatest need in a whole host of social and economic dimensions. The forces contributing to social, physical, and economic decline preceded and likely contributed to

the intensity of foreclosures. In our interactions with residents in the Boston study it became clear that resident concerns about high levels of violence, and gun violence in particular, overshadowed their concerns about foreclosed homes or the potential negative impact of foreclosed homes on neighborhood physical, social, or economic conditions.

Because the NSP participants engaged in little to no street-level outreach to neighbors abutting the foreclosed property, our study became a test of the physical and social impact of a housing-only intervention. It is not surprising that the social impact was negligible, since the social investment by the City and its NSP partners was negligible as well. This pattern is also evident in the parcel-condition data, which suggest there were no major improvements to physical conditions on the blocks aside from the target properties. Further, given the large number of renters on these blocks (roughly 50 percent), major improvements to parcels aside from the target properties may not have been up to community members, and this fact may also contribute to indifference about foreclosures. It is possible that our analysis was undertaken too early for the effects to have materialized. Yet with added time come added external influences. If we had delayed our evaluation, we would have run the risk of having intervening circumstances dilute the programmatic impact.

### **Policy implications**

First, just as one should not generalize from this case in terms of findings, one should not generalize about the policy implications either. In the Boston case, the residents of a high-foreclosure and, importantly, a highly disadvantaged neighborhood indicated that neighborhood stability, broadly defined, on their block would increase from programmatic attempts to increase the level of social capital and home ownership in the neighborhood. They asked for institutional assistance in forming block groups and neighborhood watch committees and help in advocating for neighborhood-level issues with city officials.

Those entrusted with public funds to implement community development policies need to know more about how the targets of those policies view local problems and how they envision their resolution. That does not mean that implementers should uncritically pursue the locally informed proposed interventions. But understanding and engaging with the people whom the programs affect should be the basis of more community development strategies. Thus, from the Boston case and the others, a few policy implications follow.

If the goal of housing policies has been and continues to be neighborhood stabilization—meaning improved physical and social conditions and higher property values—then there should be increased accountability to this goal during all stages of planning and implementation. While the City of Boston in its HUD application referenced incorporating broader neighborhood stabilization activities, HUD did not require follow-up on proposed activities. Instead, dollars spent and numbers of units produced the primary metrics.

On the planning and application front, applicants should be held accountable to understand and describe the needs of the population in a systematic fashion. Applicants should demonstrate that they have assembled a needs assessment from a representative sample of people potentially affected by the proposed policy. Because programs are using public funds, implementers have an obligation to talk to the targets of policy intervention prior to making changes that will have the most direct impact on them.

Additionally, applications could require that applicants make explicit how the proposed interventions are going to lead to the desired outcomes, and describe the methods through which they are going to evaluate their efforts. Funders might ask recipients to provide something like a logic model explaining how the proposed intervention is going to address the issues that the applicants and policy targets seek to confront. The forms of logic models vary from graphical representations to tables dense

with text, but they share a core purpose of communicating the intended relationship between planned activities, delivery processes, and targeted outcomes.<sup>24</sup>

Subsequent to this research, we engaged in outreach to community development staff in New England. Our conversations with these community development professionals suggested a need for earlier and more intense technical assistance to track and assess outcomes. While recipients of funds are well versed in how to report housing-based outcomes such as units produced, the task of measuring how their efforts contribute to producing the broader goals of neighborhood stabilization, especially social and economic outcomes, requires a specialized skill set. Determining how to robustly and reliably measure the non-housing outcomes that community development agencies aim to achieve is a discipline unto itself. Community development practitioners have reported that designing such an intervention is outside their area of expertise. Therefore, if funders made technical assistance available at the planning stage, implementers might be able to run rigorous tests, such as randomized controlled experiments or conduct surveys, like the one highlighted here, which seek to understand the responses of people affected by a policy intervention.

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<sup>24</sup> See Frechtling (2007); Julian (1997); Kaplan & Garrett (2005); Millar, Simeone, & Carnevale (2001); W.K. Kellogg Foundation (2004).