Summary of the Neighborhood Stabilization Act of 2008, H.R. 5818
(As reported by the Committee on Financial Services)

H.R. 5818 establishes a $15 billion loan and grant program for the purchase and rehabilitation of owner-vacated, foreclosed homes. HUD allocates funds to States. $7.5 billion of the funds would be for loans, and the other $7.5 billion would be for grants.

Distribution Formula: Each State's loan and grant authority is based on the State's percentage of nationwide foreclosures and the number of subprime loans delinquent over 90 days over the last four calendar quarters, adjusted by a HUD-established index to account for the State's relative median home price. However, the median home price factor may not increase any State's share by more than 25%.

Suballocation Requirement: States must allocate grants and loan authority to (1) the 100 largest cities, (2) the 50 largest urban counties in the nation, and (3) any other city with a population over 50,000 with a foreclosure rate at or above 125% of the statewide rate, based on relative foreclosure and subprime loan delinquency rates. However, if a suballocation would be less than $10 million, the State may allocate less than that amount to the city or county.

Loan Program: Loans are non-recourse and zero-interest to finance acquisition and rehabilitation costs. The federal government would be paid back from resale or, in the case of rental properties, refinance proceeds. Loans for homeownership properties must be repaid within 3 years. For rental properties, the maximum loan term is 5 years. In addition, the federal government would receive up to 50% of any appreciation a property owner realizes at resale.

Grant Program: Grants may be used to pay property taxes and insurance during the pre-occupancy phase; operating costs such as property management fees; administrative and planning costs; incidental costs involved in acquiring qualified foreclosed housing such as reasonable closing costs; rehabilitation costs; and, in limited circumstances, demolition costs. However, funds may not be used to demolish any public housing.

Income Targeting: Homes purchased for resale must be sold to families at or below 140% of area median income (AMI). Rental properties must serve families at or below AMI. At least 50% of the grant money must be targeted to house families at or below 50% of AMI, and not less than half of this money must target families at or below 30% of AMI (HUD may waive the latter requirement).