

Guide to Marketing and Selling NSP Homes

Description:

This guide provides suggestions for marketing and selling homes assisted with funds from the Neighborhood Stabilization Program (NSP). The intended audience is NSP grantees, sub-recipients, and developers who are implementing an NSP-assisted program designed to purchase, renovate, and re-sell single-family homes, or to build and sell new homes on vacant or cleared lots. The guide includes a sample marketing plan and budget.

How to Adapt this Document:

Only one part of this document is a template – the sample marketing plan and budget. The line item descriptions and budget amounts are only examples. If this template is used, it should be adapted to strategies, market realities, and budget constraints of specific marketing and sales programs.

Source of Document:

This document draws on the *Sample Single-Family Development and Sales Program Manual*, and the *Guide to Completing NSP Income Certifications*. Both can be found on the NSP Resource Exchange website, at www.hudnsphelp.info.

Disclaimer:

This is not an official HUD document. It is provided for informational purposes only. It is shown only as an example for informational purposes, which should only be adapted as described above. Any binding agreement should be reviewed by attorneys for the parties to the agreement and must conform to state and local laws.

Author Organization – Enterprise Community Partners

Contact: Peter Werwath, pwerwath@werwathassociates.com

Guide to Marketing and Selling NSP Homes

Part I: Developing Your Marketing Strategy and Plan

1. Overview

Selling real estate in Neighborhood Stabilization Program (NSP) target areas can be a challenge, even when the newly renovated housing is of much better quality than other homes on the market. Conditions in the neighborhood may deter prospective homeowners, especially prospective buyers new to the neighborhood who may have other choices regarding where they purchase.

While NSP programs can produce high-quality homes at affordable prices and offer attractive financial assistance to qualified homebuyers, buying NSP-funded homes requires buyers to go through steps that are not required for “open market” home purchases. The application, income eligibility, counseling and second mortgage origination processes will be unfamiliar and appear time-consuming to many buyers. Selling NSP-assisted homes, then, will require careful marketing of the home and the neighborhood to point out the advantages but also to disclose the differences from “open market” purchases. A successful sales campaign will also involve help assure buyers that a reputable, experienced organization is redeveloping and selling the homes.

Another major challenge is identifying buyers who meet the income eligibility criteria for NSP assistance and, at the same time, have sufficient income and credit-worthiness to qualify for mortgage financing. It can be especially difficult to qualify buyers with incomes below 50% of the area median. (For that reason, many NSP grantees plan to meet the 25% set-aside for households at or below 50% of area median income through development of rental housing opportunities.) In addition, NSP can assist middle income households up to 120% of area median income, higher than the 80% of area median in more traditional affordable housing programs. Marketing strategies will need to be adapted to reach these potential homebuyers who have not been targeted by previous affordable housing outreach efforts and who may assume they are not eligible for publicly funded homebuyer assistance. Locating qualified buyers who can buy NSP-assisted homes will require active marketing, aggressive outreach and careful screening.

NSP also requires careful documentation and certification of buyer income eligibility, and proper disclosures of program requirements such as resale or recapture provisions. This guide provides suggestions for how to approach these requirements in a way that conforms to NSP guidelines and gives full and timely disclosures to buyers.

Depending upon the program design, a grantee, sub-recipient, developer or contractor may carry out marketing and sales tasks for NSP-assisted homes either by itself or in collaboration with partners. Many grantees have delegated all development functions to developers, which are primarily responsible for marketing and sales. The *Sample Single-Family Development and Sales Program Manual*, which can be found on the NSP website www.hudnsphelp.info, offers a

step-by-step guide for development and sales of single-family homes, along with typical policies and procedures for related tasks such as applicant intake, applications for assistance, certifying buyer eligibility and imposing resale controls or subsidy recapture provisions. NSP grantees, sub-recipients and developers can use the *Manual* as a resource when creating or revising their own protocols and collaborative arrangements for carrying out these tasks.

Throughout this Guide, the terms “you” and “developer” generally refers to the NSP grantee, developer or sub-recipient that owns the NSP homes and is responsible for marketing and selling them. While some or all marketing and sales functions can be contracted out, the owner of record of the homes being redeveloped is ultimately responsible for successful marketing and sales.

2. Organizational Marketing

A. Organizational Brand

One key to marketing NSP-assisted properties is to strongly associate them with the brand name of the NSP developer. This is particularly true if a private organization or public agency already has a presence in the neighborhood and has established a reputation for delivering high quality housing or other assistance. One simple strategy for doing this is to include the organizational logo in all marketing materials, yard signs, forms and other documents that the potential buyers will encounter. Where appropriate, marketing materials should include a brief description of the role the organization is playing in implementing the NSP program and its role in the property development. If the already established brand had been limited to more restricted income eligibility, the NSP developer may need to work to update this association to include all income eligible households.

B. Organizational Marketing Materials

Organizational marketing materials should be up to date and consistent across the board. These include brochures, signage, website, Facebook page, business cards, etc. Marketing materials can often be produced in-house; they do not have to be produced on expensive paper stock, or with multiple colors. However, they should look professional and use consistent fonts, logos, mission statement, etc

Do not underestimate the importance of a website that is up to date and professional in appearance. A well designed website will convey important information about your organization and its mission, and how to contact staff. Prospective homebuyers should also be able to learn about eligibility requirements, obtain application materials, and view homes available for sale either on the organization’s website or through a link to the Multiple Listing Service. Potential buyers expect to have access to lots of visuals for the units so your website or other materials will need to include as many photos as possible.

Increasingly, young adults are relying on the web and on social media to obtain information, rather than on newspapers, radio, or paper brochures. If your organization is not already using social media, consider something like Facebook which is increasingly used by older adults. (The

35 to 54-year-old age range, the prime home buying demographic, now represents 29% of all Facebook users, up 328% from 2009).¹

C. Professional Marketing Assistance

According to the American Marketing Association (AMA), a brand is a "name, term, sign, symbol or design, or a combination of them intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of other sellers." Your brand helps to inspire confidence in your customers that they are dealing with an entity that is professional, has their interests at heart, and is best-positioned to provide the solution to their needs.

One option is to hire a marketing and public relations firm to help sharpen the brand and create consistent and effective messages and style, and help determine the most cost-effective marketing channels. Keep in mind that expenses such as these, which are not specific to an NSP project, must be funded from sources other than NSP. It is often a good starting point to look at how unsubsidized housing is being marketed in your area and adopt as many of their good ideas as possible. You are in competition for potential buyers with the rest of the market, so your materials need to provide at least the same level of information and appeal as your competition – particularly to market units in neighborhoods often “branded” by the cycles of foreclosure and abandonment.

D. Board and Senior Staff Role in Marketing

In advance of a major marketing campaign to sell homes, your board members and senior staff should reach out to community organizations, churches, and other neighborhood institutions to let them know of the marketing campaign. This is simply to help set the stage; the staff responsible for marketing the homes should handle the day to day details of the campaign.

3. Researching the Market

The first step in planning a marketing campaign for the sale of NSP-assisted properties is to conduct market research. Study recent sales in the same neighborhood, analyzing who bought the homes, at what price, and in what condition the homes were in. Also look at current listings, including volume, listing times and any pricing changes. This research tells you what kinds of homes are selling, at what exact locations and at what prices. You may be able to find recent sales on websites such as www.zillow.com. The Multiple Listing Service (MLS) is another source of information regarding recent sales and properties on the market. Obtaining information about actual sales may require that you are a member of the MLS service or that you get the information from an MLS subscriber.

Another way to obtain information about the market is to interview one or more real estate professionals. Your purposes might be two-fold; first to interview brokers for a possible role in marketing and selling homes, and second, to find out what they know about your market area(s). The best sources will be brokers who have sold homes in the area during the past year.

¹ According to Facebook, more than half of users log on to Facebook on any given day. The average user has 130 friends, and is connected to 60 pages, groups, and events.

Ask how long properties were on the market before they sold, how many buyers looked at them, characteristics of the buyers who looked at the homes, how they found out about the properties and why they ultimately purchased (or did not purchase) a home in the community.

If possible, interview a few recent homebuyers who purchased homes in the community. Find out where they lived previously, how they learned about the homes, what they liked about the community, what they were concerned about, and what motivated them to buy the homes. This market research will be invaluable as you develop the marketing plan for the NSP-assisted units.

In determining the level of investment in rehabilitation, NSP grantees should keep in mind what amenities the buyers expect in the local market. A part of your analysis will be to establish how the NSP units compare to other units on the market. The marketing strategy and materials will need to identify why the NSP unit is a better choice for the buyer. The more you understand about recent sales and the units currently available, the better you can sell the strengths of your properties and also identify any challenges your units will face within the local market.

4. Marketing NSP-Assisted Homes, In General

Marketing is all about messages, modes, and presentation.

A. Messages

A good strategy is to come up with two to four clear and very brief message points about why people should buy your homes. These may relate to the excellent “value for the dollars” that the NSP homes offer, their role in restoring the neighborhood, the quality of the renovation and ease of maintenance, and so on. For communities that have included energy efficiency and green elements into their program design, these may also be important elements to highlight in marketing materials. It is important to use the same messages in all marketing modes; print, web, radio, posters, and so on.

It is also important to be clear about who is selling the homes. Program names come and go. It is often tempting to come up with a catchy new name for the program (such as “I’m Home”), or to refer to a program name by its initials, such as “NSP Homes.” However, it may be more effective to simply use the name of your organization (assuming it is already well recognized), so that your core message is something simple and direct, like “Prospect Heights CDC is selling great homes at affordable prices.” Buyers tend to be focused only on homes available to buy, not program names. Again, if the organization is already known for offering a particular kind of home or serving a specific sector of the eligible market, the marketing campaign will need to highlight any new features of the homes and changes in income eligibility.

B. Marketing Modes

Marketing modes are the means by which you get your message across. Examples include brochures, face-to-face outreach, website, Multiple Listing Services, print ads, radio talk show appearances, community fairs, site signs etc. Some home sellers are putting links on their site

signs to their website or a social media site to provide a potential homebuyer additional information on each property. Linking the modes will allow an interested buyer to access all phases of your outreach.

C. Presentation

As with organizational marketing, you should use clear and simple design and text in all printed materials so that they get your messages across professionally and effectively. No matter what marketing mode you are using, your materials should all have the same look and feel. One way to do this is to use the same organizational logo and slogan in all your materials. Make sure to translate brochures, posters, or print ads into other languages, and to have multi-lingual staff or translators available, if you wish to reach out to buyers who have limited English proficiency.

D. Fair Housing and Affirmative Marketing

Fair housing requirements are an important part of meeting your NSP obligations. All marketing materials should use the Fair Housing logo, which can be downloaded from HUD's website at <http://www.hud.gov/library/bookshelf11/hudgraphics/fheologo.cfm>.



Materials should also include a Fair Housing statement, such as:

It is the policy of the [*insert name of agency*] to provide services without regard to race, color, religion, national origin, ancestry, age, sex, familial status, physical handicap or disability.

You should also prominently display the Fair Housing logo and statement in your office and require that any sub-recipients do the same.

Finally, marketing must be done in a way that is compliant with Section 109 of the Civil Rights Act. Section 109 can be found at <http://www.hud.gov/offices/fheo/library/part109.pdf>. This covers many aspects of advertising, including terms to avoid or to incorporate, use of photos, translation into other languages, media used, and so on.

5. Preparing the Marketing Plan

To expedite the marketing and sales of NSP-assisted housing, come up with a concrete, specific marketing plan with all crucial tasks assigned to staff or contractors, a budget, approximate timeframes, and methods of tracking success. See the Appendix for a sample format for a marketing plan that describes the key components of a marketing campaign and sets budget amounts for each step.

The marketing plan and budget that you develop will be based on a number of considerations, including the number of homes you have to sell, where they are located (e.g., clustered in a single neighborhood or spread out city wide), your marketing budget, and your understanding of the best way to reach your target market. For example, if your target market does not subscribe to the local paper then buying newspaper space will not be cost-effective; perhaps they are more likely to respond to radio ads or flyers put up in neighborhood stores, churches,

and other public places. In some neighborhoods, word of mouth is effective primary communication strategy so outreach to community groups, faith-based organizations, or open houses may be most effective.

Keep in mind that marketing tasks, responsibilities and allowed costs may be (and ideally should be) spelled out in the agreement between the NSP grantee and the sub-recipient or the developer. Any work in this area should follow the terms of the agreement. If the agreement is silent on some or many issues related to marketing, sales and related expenses, the developer should strongly consider preparing a detailed plan and requesting that the grantee sign off on it. If the NSP grantee has established a brand or established a centralized marketing plan, your own marketing plan will not need to spell out the required participation or standards for all marketing materials.

Finally, buyers receiving NSP assistance will be subject to recapture or resale provisions. The grantee is required to establish which provisions will be used, and to detail how they will be structured as a part of the funding agreement. These provisions have an impact on the terms of sale for the potential buyer and the marketing plan will need to identify the recapture or resale provisions that will be tied to each of the NSP units. The marketing materials will need to include a strategy to disclose these conditions to buyers early in the process in an easy-to-understand format. Since the competing homes in your market will not include these restrictions, it will be important to effectively explain the provisions that apply and why the NSP unit is still a wise choice for the potential buyer. The marketing plan should articulate how this is explained to buyers.

6. Engaging a Sales Representative

If you have little experience in selling homes, consider hiring an experienced, licensed real estate professional to handle this important activity, either by bringing that person onto your staff part- or full-time, or contracting for services. You may initially flinch at the fee, but consider the broader context in which you are working. You may have many other responsibilities that will compete for the time you need to conduct an ongoing marketing campaign. Unless you have previously worked as a real estate professional you may lack key skills and knowledge needed to do the work efficiently and effectively. Failure to sell the homes quickly will mean covering their monthly carrying costs, which may quickly erase any cost savings you might have realized from selling the homes yourself. Finally, NSP homes are located in challenging neighborhoods that may discourage interest from a wide swath of the home buying public. It may require the concerted effort of an experienced real estate professional to sell your homes.

Marketing costs and realtor fees are eligible uses of NSP funds. Build a realistic fee into the budget. If the homes are very low priced, you may decide to offer a higher percentage commission than the normal six percent in order to give an incentive for a substantial effort from your real estate professional. For example, six percent of a \$40,000 price is \$2,400—an amount that may not be sufficient for a broker to provide the advertising, open houses and other efforts that may be necessary to sell the home. Make sure your program records justify any higher-than-normal percentage fees, as HUD requires that costs be reasonable. The NSP

program should consider doing outreach directly to the real estate professionals in advance of the start of sales to let them know about the coming availability of the units, the pricing and affordability structure, and to let them know about your policy on sales commissions.

NSP programs may also benefit from having their own marketing budget for ads, more elaborate site signs, and other marketing efforts that go above and beyond what brokers typically provide. The total amount of that marketing budget should be included in your total development cost budget, or allocated to each home if there is no combined budget.

If you hire a licensed real estate professional, that individual's role is to market the property by posting the listing on the MLS, placing advertising, conducting open houses, showing the homes, helping buyers determine if they will qualify, executing sales contracts, and helping buyers obtain a first mortgage. When negotiating a broker agreement, interview candidates to determine their experience and success in selling real estate, their knowledge of the community(ies) in which your homes are located, and their commitment to working with low to moderate and middle income buyers. Also ask how many days and hours they will be on-site selling homes, how many open houses they will hold and how often, and what kind/how much advertising the broker will pay for in anticipation of earning a fee. The broker should agree to provide weekly or monthly reports on the number of inquiries, showings, open houses, ads placed, etc. The terms you agree on should be reflected in a detailed scope of work attached to the broker contract.

7. Setting Up Relationships with Lenders

It is crucial for you or your sales broker to set up relationships with local lenders in advance of marketing your homes, in order to help the mortgage process go more smoothly for buyers. This is especially true if you are expecting lenders to handle the process of pre-qualifying buyers.

A successful NSP home sales program will have relationships with FHA lenders and understand FHA underwriting requirements. For example, FHA lenders' typical minimum credit score at this writing is 630 for low-down- payment loans, and the bare minimum is 580 for higher down payments. At the intake and application stage, it is highly advisable to obtain a credit report for each client. If a client's score is below 630 (or other lender benchmark), the client's application for assistance may have to be denied unless credit clean-up can occur quickly. Selling NSP homes often requires completing 10 or more intakes for every home sold.

In addition to FHA insured mortgage loans, you should research what financing options may be available for buyers. For example, many states have mortgage revenue bond programs which provide very competitive interest rates and underwriting standards. Some municipalities or counties have down payment or closing cost assistance programs that may work with NSP funding.

It is vital to know the options available in your market so that you can screen applicants based on eligibility requirements and help potential buyers to link with suitable options for obtaining first mortgages. You may be able to develop innovative partnerships with lenders that can expedite mortgage application and processing.

Part II: Implementing Your Marketing Plan

8. Advertising and Listing Homes

Another consideration is where and how to list the homes that you have available for sale. This decision will be influenced in part by whether you have elected to sell the homes yourself or with the assistance of a real estate professional. (If you do a great deal of real estate development it may be cost-effective to have a licensed real estate broker on staff.)

If you elect to sell the homes without a real estate professional, several options are available to you:

- In most states you can pay a flat fee to a broker or intermediary to list the property with the local MLS; this may run from \$300 to \$400, a reasonable price for the wide exposure you will receive. The flat fee typically buys at least a six-month listing, the opportunity to upload photos and other information regarding the properties, and the ability to make changes to the listing. You retain the right to sell on a “For Sale By Owner” basis. See www.flatfeelistings.com.
- Advertise on the Craig’s List page for your city or state. These listings are free, and allow you to upload photos.
- Advertise in local real estate circulars, in newspapers, or through radio spots.
- Post listings on your own webpage.
- Remember that all advertising materials should include the Fair Housing logo. Also, make sure to use an affirmative approach to marketing available properties (see section 3 for more guidance on this.)

9. Showing Homes

How you plan to show homes will be determined in part by the number of homes you have to sell, whether you are constructing new units or rehabilitating existing homes, and whether you have a real estate professional or a dedicated staff person available.

If you are marketing a large number of units in one place, for example in a subdivision or a condo development, there is benefit to having a qualified sales agent present at set hours (such as 10 a.m. to 3 p.m. on weekend days) and other times by appointment. Scattered-site homes may require open houses to generate enough interest. Remember that the potential buyer will typically be working during your normal business hours. If you are not able to provide access to homes during the hours convenient to the buyer, you are not able to be competitive in the market. This cannot be “business as usual” for local government and non profit staff if you are going to sell these units yourself; you may have to adjust staff schedules and hours in order to maximize access to the properties by potential buyers.

In new construction of multiple units, it is often beneficial to build one or more model units that are nicely furnished, and conduct sales operations from there.

10. Intakes and Applications

Before prospective buyers are referred to counseling or to execute a sales agreement for NSP-assisted homes, it is a good practice to have them complete an Application for NSP Assistance. The information obtained in the application will be used--along with verifications--to determine their eligibility to purchase NSP homes and to receive NSP financial assistance. While online and paper forms may be filled out in advance by prospective buyers, it is best to require that the application be completed in a face-to-face meeting with a homebuyer counselor or a qualified representative of the developer.

If your program has rehabbed or new homes that are ready to sell, you will unfortunately not have the luxury of doing extensive credit clean-up with potential buyers or waiting for buyers to save for their down payments. You will have to attract a lot of potential buyers and quickly determine who is ready to purchase. If you are selling from model homes, there may be time to help some buyers with limited credit clean-up and encourage savings for down payments while the unit is being constructed.

11. Prequalifying Buyers

The goal of the prequalification process is to determine whether or not home buyers have sufficient income, cash for down payment and closing costs, and the credit history needed to qualify for the mortgage financing required to buy an NSP-assisted property.

There are several ways to accomplish this. You can allow banks to determine the household income, employment status and credit status of potential buyers. In this approach, the buyer is told to get a prequalification letter from a bank—assuming that either before or after this step, you will certify the buyer’s income as qualifying for the NSP program. See Section 7, above, for more suggestions about this. If you have a large number of apparently qualified buyers coming in the door this can work well, but many NSP developers are taking a more hands-on approach.

If you are doing the prequalification work, either directly or through an arrangement with lenders or a housing counseling agency, you can ask buyers to schedule an application interview. Prospective buyers are typically asked to bring to the interview evidence of employment, current residence, income, assets and liabilities in order to fill out an application and provide enough information to make an initial determination of eligibility. It is a common and effective practice for a qualified homebuyer counselor to conduct the interview. Typically, the counselor obtains an online credit report during the interview (with the written permission of the applicant). The counselor then reviews the report with the applicant and explains any positive or negative data that affects the applicant’s ability to qualify for purchase of an NSP home.

See the *Sample Homebuyer Assistance Application Form* in the NSP Resource Exchange at www.hudnsphelp.info for an example of a spreadsheet-based application form that has built-in

underwriting functions. This spreadsheet or a similar tool can be used to determine if a buyer can qualify for a first mortgage loan that is sufficiently large to finance one of your NSP homes.

Applicants with FICO scores below the threshold level established for the program may be rejected—or have their applications put on hold pending credit counseling—unless there is compelling evidence that the program’s counseling and training can help the applicants bring their scores up to qualify for a first mortgage loan in a reasonable period of time. (As mentioned, at this writing, most first mortgage loans being made to buyers of low- and moderate-price homes are FHA loans, typically with a minimum credit score requirement of 630 for loans with very low down payments.)

During the initial interview, the counselor should also determine if an applicant has sufficient income to obtain a first mortgage loan in the minimum amount necessary to purchase an NSP home—taking into account any financial assistance that can be provided by the NSP program.

This process will need to include the affordability standards set as a part of the local NSP program design and any minimums or maximums of NSP homebuyer financial assistance such as soft second mortgage loans. These loans—typically at 0% and due only on resale of the property—often are used to reduce the amount of the first mortgage loan required and thus the monthly payment on that loan—and can also be used to fund down payment and closing costs

NSP program requirements do not impose maximum subsidy limits per household so you will have flexibility in offering financial assistance that makes the purchases affordable to buyers at different income levels.

A complete discussion of NSP homeowner financial assistance is beyond the scope of this marketing guide. For more information on second mortgage financing, down payment assistance and closing cost assistance, search for documents in the NSP Resource Exchange, at www.hudnsphelp.info.

Applicants who do not meet the program’s established prequalification standards should receive a written notice advising them of the reason(s) for their denial. Even if an applicant does not qualify at the time of the intake and receives a denial, they can be encouraged to improve their credit and get a better understanding of the home-buyer process by enrolling in a homebuyer training and counseling program. (Keep in mind that NSP funds cannot be used to provide counseling and training for individuals whose applications have been rejected. NSP-funded counseling and training must be limited to clients who are on track to buy an NSP homes.)

12. Certifying Incomes

Prospective buyers must be certified as having incomes at or below 120% of area median income (AMI), or no more than 50% of AMI if the NSP funding of a home is intended to qualify for the NSP “25% set-aside” for households in that very low income range. Required documentation (copies of driver’s licenses, paystubs, asset verification, etc.) should be kept in your files. The income certification may be no more than six months old at the time that the

buyer and developer enter into a purchase agreement; if older, the buyer must be recertified prior to committing the assistance.

There are several options for certifying applicant's incomes as qualifying under NSP. The NSP grantee will have established which of the three allowable definitions of income will be utilized for the local program. The most typical definition follows the "Part 5" Section 8 program definitions, but others are allowed. The definitions govern how income information is collected, counted and verified. For more information about these definitions and the advantages of using the Part 5 definition in home sales programs, see the "*Guide to Completing NSP Income Certifications*" in the NSP Resource Exchange at www.hudnsphelp.info.

Be aware that if an NSP-assisted household was later determined to be over-income, the total amount of the NSP investment would be due back to HUD. If the developer is not experienced in completing income documentations it may be wise for the NSP grantee to review the income certifications completed by the developer prior to the official determination. Once the NSP grantee is confident that the developer this extra review could be discontinued.

The careful collection and verification of income data is important not just for complying with NSP income-eligibility rules, but is also crucial to determining if a prospective buyer prequalifies for a first mortgage loan. While the Part 5 guidelines are in some cases more stringent than the CDBG regulations that underlie NSP, they represent practices that help assure better collection of current and accurate information and also the types of information (for example, assets) that are crucial to pre-qualifying buyers for first mortgage financing.

13. Homebuyer Education and Counseling

NSP buyers are required to complete eight hours of homebuyer education and counseling in order to qualify for a purchase. Following are suggested practices for managing the training and counseling process, whether carried out internally or in cooperation with another organization.

Upon notification of approval of an application for assistance, refer buyers to a grantee- and HUD-approved program that offers at least eight hours of pre-purchase education and counseling. If buyers have already completed such a program, you must determine if the program meets grantee and NSP requirements, and verify completion by obtaining and filing a certificate of completion. If the pre-purchase counseling and education does not meet NSP requirements, buyers will have to complete training delivered by a HUD-approved agency. No buyers are allowed to sign a purchase agreement for an NSP home unless the completion of counseling and education has been verified and a copy of the verification inserted into their application files.

There is a great advantage in closely coordinating the marketing, intake and sales tasks with the education and counseling process—regardless of whether the counseling is being performed by the developer's staff or by another organization. This reduces the likelihood that clients will end up in a frustrating paper chase in which they have to fill out similar applications or information forms and provide documentation more than once. Smooth-running programs have procedures in place for sharing forms and other data gathered from clients internally and with partner organizations—of course, with appropriate privacy protections firmly observed.

The HUD approved counselors in your market area may be able to identify participants who have completed the required counseling but have not yet purchase homes. A listing of these households would be a perfect way to target marketing efforts to qualified households who have already taken the first steps to becoming homebuyers and may need the unit and affordability subsidy the NSP program can provide.

14. Sales Agreements and Disclosures

Every NSP homes sales program should have a standard form of sales agreement. While not expressly required by NSP, many NSP developers require buyers to obtain a fixed-rate, 30-year first mortgage loan (or deed of trust loan) from a conventional or government-insured third party lender. This policy, of course, bars the use of subprime loans, which—though rarely being made at the time this guide was written—historically have been more costly to buyers and have had looser underwriting standards that too often permit loans to be made to buyers who cannot afford them.

Prior to executing a sales agreement, you should provide the NSP buyer with a disclosure statement. The statement should list the requirement that buyers attend pre-purchase education and counseling, with a check-off indicating whether developer has a certificate of completion on file. The statement should also describe the availability and terms of NSP financial assistance, obligations for repayment of those subsidies, resale controls on homes sold (if any) and a good faith estimate of settlement costs (if any) that your program will charge buyers. During the intake interview or subsequent face-to-face meeting, the counselor should review these disclosures with buyers and be available to answer questions about them. No applications for NSP assistance should be approved, or sales completed, unless disclosures are made as required. This is both a prudent business practice and ensures compliance with applicable federal truth-in-lending requirements. You should consult a real estate attorney regarding the legal requirements for the timing and form of disclosures. For example, if the NSP program is offering financial assistance along with the sale of the home, the terms of this assistance must be disclosed at an early stage in the sales process.

In a scenario in which the NSP grantee has adopted the HOME affordability standards and chosen the recapture provisions rather than resale controls, the sales agreement or attached disclosure form will need to clearly define the applicable affordability period and the specific terms of the recapture provisions. The affordability term under the HOME recapture provision is based on the total amount of direct assistance provided to the buyer. This direct assistance is typically equal to the amount of the NSP financial assistance secured by a second mortgage lien. As mentioned, this NSP loan can represent funding provided for “gap” financing as well as payment for down payment assistance and closing costs. However, NSP direct subsidies might come from several sources – for example, gap financing from you and down payment assistance from the grantee.

15. Committing NSP Financial Assistance to Buyers

Simultaneous with executing sale agreements, it is a good practice (but not required by NSP) to issue a commitment letter to the prospective buyer that specifies the amount and terms of the NSP financial assistance that the buyers will be provided if the sale is completed.

The commitment letter is intended, in part, to help buyers obtain a first mortgage loan. Buyers can provide a copy of the commitment to potential first mortgage lenders, who may vary in their understanding of the terms and benefits of NSP financial assistance—such as reducing the amount of first mortgage needed and improving the first mortgage’s loan-to-value ratio. Second mortgage assistance can also substantially reduce the monthly payment, if it is non-amortizing and due only on sale or transfer. Many NSP programs are helping buyers meet part of their cash down payment requirements through NSP financial assistance. Whatever financial assistance is offered by an NSP home sales program, a commitment letter makes the terms clear to lenders.

If buyers have not met all of the requirements for purchase, commitment letters should be conditional upon meeting such requirements. Commitment letters should also be conditional upon no substantial changes occurring in the buyers’ employment or financial status at the time of closing.

For more guidance on how much NSP financial assistance to give look at Section XI of the *Sample NSP Single-Family Development and Sales Program Manual*, available at the NSP website www.hudnsphelp.info.

16. Closing the Sale

At minimum you should retain a closing agent—typically a title company—and you would be well-advised to retain an attorney to conduct a legal review of closing documents on your behalf. In addition, attorneys can help ensure compliance with other contractual requirements that may be applicable. Creating standard, pre-approved forms of promissory notes and deeds of trust complying with NSP rules will simplify this process and reduce legal costs.

Be sure that NSP legal documents are recorded and received after closing, including (but not limited to) those related to long-term affordability controls as described in the next section.

17. Long-Term Affordability Controls

NSP grantees are required, at a bare minimum, to use the HOME program affordability standards and procedures; alternatively, they can submit another approach to HUD for approval. The HOME affordability regulations require that the grantee (either directly or through its contract with the developer) impose resale controls or recapture some or all of the NSP subsidies. Most NSP grantees and developers working in distressed, lower-priced home markets are using recapture mechanisms. Programs operating in higher-cost and gentrifying markets may be well-advised to use resale controls to maintain affordable pricing of assisted homes over a longer period of time.

When using the recapture method the amount of NSP financial assistance provided to buyers is typically secured by a promissory note and mortgage. These documents are often referred to as a “lien” and the NSP grantee as the “lien holder.” A common form of NSP financial assistance is the deferred payment loan (DPL). With this form of assistance, no interest is charged and all payments of principal are deferred until the buyers sell the home, transfer it, or violate the terms of the lien. The obligation may also be forgiven over time, following the HOME program rules.

Alternatively, NSP financial assistance can be provided in the form of an amortizing second mortgage, with a low interest or zero interest rate. However, making a payment on a second mortgage reduces the amount of income that buyers have available to pay a first mortgage, and thus reduces the amount of a first mortgage they can qualify for. Unless underwritten carefully, this model can result in buyers paying a larger-than-affordable percentage of their income for their total monthly housing payment. These factors should be weighed against the benefits of an NSP program getting immediate cash flow from recapture liens, which can be used to fund additional program activities.

Regardless of which method is used, it is important to ensure that appropriate written disclosures regarding the purpose, structure, and effects of the resale or recapture mechanisms be provided to the buyer at the closing, or better yet, during a meeting in advance of the closing. Many buyers don’t fully understand conventional loans, let alone non-conventional second mortgage loans or resale controls.

Part III. Evaluating and Adjusting Your Marketing Program

18. Tracking Progress

To manage a successful marketing and sales effort, it is crucial to identify and track performance data to measure the success of your campaign. Obviously, given NSP obligation and spending deadlines, the most important performance measure is the number of home sales closed during certain periods of time. Setting and tracking specific goals for each month is a standard practice that can help you monitor your progress.

Keep in mind that there are some other steps that are easy to identify and track which also lead to sales: these include the number of inquiries, home showings, intakes, applications, pre-qualifications, income certifications and sales contracts executed. To make sure the marketing and sales effort is working, it is important to track the number of potential buyers who complete these steps every week or month. Generally speaking, marketing efforts such as outreach and home showings lead to inquiries. Some but not all inquiries will lead to intakes and applications, which are needed to determine if a potential buyer is qualified, and some but not all applications will lead to a sales contract being signed.

If sales are lagging, it is important to look at these fine details of program activity to see where the blockages are. For example, if inquiries drop month-to-month from 30 to 10, outreach and other marketing efforts will have to be stepped up.

One of the most effective ways to find out why sales are lagging is to conduct what home builders call a “lost buyer” survey. For example, any NSP home sales program can benefit from conducting brief phone surveys of applicants who qualified for NSP assistance and a conventional first mortgage, but declined to buy a home.

The lost buyer survey form can be a simple checklist of issues such as location, quality, features, price and financing. Open-ended questions elicit the most informative answers. For example, a yes/no question such as, “Did you like the locations of the homes?” provides little useful information. Instead, ask, “What did you like or not like about the locations of the homes?” If the “lost buyer” has purchased another unit it will be informative, to know some details of the location, amenities, and price of their new home. If the “lost buyer” is still in the market to buy a home, the information might allow you to bring them back to the table if their concerns can be addressed.

Other data can tell what kinds of marketing efforts are most effective. The simplest and most effective method is to add a question on the application form: “How did you hear about our homes for sale?”—and then tabulate and review these answers regularly. This may tell you, for example, whether newspaper advertising is an effective use of marketing dollars.

Your marketing and sales staff, both in-house and contractors (such as real estate brokers), should meet monthly or more often to review marketing and sales activity data and decide whether to continue the campaign as originally planned or to make modifications. For example, if advertising and MLS listings are not bringing in enough prospective buyers, more effort might be put into neighborhood outreach and less in paid advertising. During this same period, you should continue to track the overall market performance and track the sales of the other units within your market. If sales of non-NSP units continue while your sales lag, it may indicate an issue with your units, pricing, or marketing efforts as opposed to a general lack of prospective buyers in your market area. Markets continue to experience rapid changes in foreclosure rates, vacancies, seller incentives and other factors that might change your competitive edge. The marketing strategy will need to adapt over time if the expected sales are not being completed on schedule.

19. Addressing Barriers to Sales

If an NSP program’s marketing and sales effort is generating a sufficient number of inquiries and qualified applicants, and homes are still not selling, other potential barriers to sales should be considered. Some of these are listed below:

Pricing: If a home is not attracting offers, it is possible that the asking price—even if based on an after-construction appraisal—was set higher than the current market. For example, if a home does not sell after 60 days of strong marketing and sales efforts, it may be necessary to lower the price in modest steps, such as five percent reductions every 30 to 60 days. However, a price reduction is generally not justified unless the marketing and sales effort has been consistent and diligent. Developers and sub-recipients may need the grantee’s approval of a price reduction policy.

A primary purpose of NSP is to get foreclosed, vacant, and/or abandoned units back into use. While NSP funding permits price reductions, you do not want to hurt the market by dropping prices too quickly. On the other hand, you also do not want to hold inventory for very long. Rather than dropping the price, consider adjusting the NSP financial assistance, as addressed below. Especially if the NSP subsidy is forgiven over time, this could help stimulate sales without having the market impact of reducing price.

Buyers unable to get financing: If this is a barrier to sales, the overall program design should be re-evaluated. At this writing, a majority of sales of low- and moderate-priced homes—and most sales involving low down payments—are being financed with FHA-insured mortgage loans. Interview your lender partners to learn what obstacles may exist from their perspective, and to help brainstorm strategies for addressing them.

Location, quality and features of homes: If prospective buyers repeatedly express concerns about any of these issues, the program design should be re-evaluated. The market analysis needs to include a review of the other units within the buyer’s potential market area. That will include not only units within the NSP target area, but also all units affordable to your target market of buyers. If the location of the NSP unit is a concern of the buyer, the quality and features of the home along with affordability of the unit will need to offset the location factor. If you are having difficulty selling units, you might consider buying homes or lots in stronger “mini-markets” within your NSP target areas.

NSP financing offered: Obviously, the homeowner financial assistance (including down payment assistance) offered by the NSP program can be a crucial factor in making purchases affordable. If sales are lagging, the amounts and kind of NSP financial assistance offered might be re-evaluated. Buyers may react to the sale price without fully understanding the financial assistance that comes with the home. The marketing materials and sales efforts will need to establish for each household what their actual monthly costs will be for the NSP unit. You may also benefit from having brochures and other marketing materials that compare the monthly cost of buying your homes as compared to other homes in your target areas.

IV. Conclusion

A well-designed and well-run marketing and sales program is essential to generating sales, reducing carrying costs for unsold homes, and meeting production goals and spending deadlines.

An effective marketing effort is also crucial to rebuilding confidence in neighborhoods that have been hard hit by the foreclosure crisis, which is a central goal of the NSP program. It sends a positive message about community revitalization not only to potential buyers but to a broader audience.

The realities of NSP spending deadlines and the necessity of quickly selling completed homes dictate that developers have to focus their marketing and sales campaigns on attracting and assisting mortgage-ready buyers or those who clean up credit problems and save for a down payment in a relatively short period of time. Clients who are not currently mortgage-ready can

be encouraged to enroll in homebuyer education and counseling programs if they are determined to become a homeowner. It is possible that some clients referred to counseling will become mortgage-ready in time to qualify for a NSP home purchase in a later phase of the project.

Even the best-designed and executed NSP marketing and sales campaigns will not succeed if other parts of the NSP program design turn out not to be working as well as expected. For example, you may learn that certain locations are undesirable to buyers or that buyers demand certain features in a home that you are not presently offering.

Of course, there are practical constraints to how much an NSP program can be changed—including budget limits, NSP rules and firmly-held policy decisions of the grantee's or developer's governing body. Nonetheless, even while respecting those kinds of constraints, successful NSP home development and sales programs tend to continually refine the program design. This means learning from experience, being willing to abandon what is not working, testing new approaches, and adopting new approaches that data show are more effective.

Redeveloping and selling homes is hardly a predictable business in any market, let alone neighborhoods hard-hit by vacancies and foreclosures. Success requires disciplined planning and program management but also the ability to adapt to market realities.

Appendix: Sample Marketing Plan and Budget

Major Goals

1. Sell 32 homes that will be completed between Oct. 1, 2010 and Sept. 20, 2011
2. Ensure honest representations and good service to an estimated 350 prospective buyers
3. Comply with all NSP requirements and lending laws

Tasks	Responsible Party	Timeframe	Budget
Update /reprint organizational brochure	Marketing Mgr. Director and Ajax Design	By 5/15/10	\$2,000 -Not NSP eligible
Update general portion of website	Marketing Mgr. & WebMagic	By 5/15/10	\$1,000 – Not NSP eligible
Add NSP home listing section to website	NSP Program Mgr. and WebMagic	8/1/10	\$1,500 – project budget line item
Maintain listings on website – estimated 40 hours total	Program Assistant		Est. \$10,000 effort to be recouped in developer fee
Engage real estate broker for listings and sales	TBD	RFP by 5/1/10 - work 8/1/10 to 12/31/11	\$8,000 per home flat commission in project budget (\$256,000)
Fabricate 8 yard signs for homes under construction - rehab contractors required to erect on sites	TBD	Bids by 5/1/10; done by 7/15/10	\$1,600 – project budget line item
Furnishings and signage for model home (assuming multiple new homes in one area)	Program Manager	By 10/1/10	\$2,000 – furnishings not NSP-eligible
Place newspaper and radio ads in addition to broker's advertising	Marketing Mgr. and NSP Program Mgr.		\$8,000 – project budget line item
Prepare forms of disclosures, promissory note and mortgage deed for NSP financial assistance	Corporate attorney	By 7/15/10	\$1000 – project budget line item
Conduct community outreach – 200 hours total	Outreach Specialist	6/1/10 to 10/31/11	Est. \$50,000 effort recouped

Tasks	Responsible Party	Timeframe	Budget
			in developer fee
Draft, negotiate and sign MOU with HUD agency for prequalifying, counseling and training buyers	Program Manager	RFP by 5/1/10 – work	\$85,000
Set sales goals to ensure the completion of sales process by the end of NSP grant period	Program Manger	5/1/10	
Track sales, market days per unit, and marketing outreach such as demographics of sales contacts, mode of marketing mentioned by contact	Program Manager	10/2010 to 9/2011	
Continue to evaluate progress and make changes to marketing, outreach, unit prices as needed to match potential market	Program Manager	10/2010 to 9/2011	