

MAYOR & COUNCIL AGENDA COVER SHEET

MEETING DATE:

December 15, 2008

CALL TO PODIUM:

Louise Kauffmann

RESPONSIBLE STAFF:

Louise Kauffmann
Housing and Community
Development Director

AGENDA ITEM:

(please check one)

<input type="checkbox"/>	Presentation
<input type="checkbox"/>	Proclamation/Certificate
<input type="checkbox"/>	Appointment
<input checked="" type="checkbox"/>	Public Hearing
<input type="checkbox"/>	Historic District
<input type="checkbox"/>	Consent Item
<input type="checkbox"/>	Ordinance
<input type="checkbox"/>	Resolution
<input type="checkbox"/>	Policy Discussion
<input type="checkbox"/>	Work Session Discussion Item
<input type="checkbox"/>	Other:

PUBLIC HEARING HISTORY:

(Please complete this section if agenda item is a public hearing)

Introduced	
Advertised Gaithersburg Gazette	12/10/08
Hearing Date	
Record Held Open	12/26/08
Policy Discussion	

TITLE:
An Application to the Maryland Department of Housing and Community Development under its Neighborhood Conservation Initiative Program for Federal Neighborhood Stabilization Funds

SUPPORTING BACKGROUND:
The State of Maryland was awarded nearly \$27 million from the U.S Department of Housing and Urban Development (HUD) under the Housing and Economic Recovery Act of 2008, which appropriated \$4 billion for States and eligible units of local government for the redevelopment of abandoned and foreclosed upon residential properties.
The City was not entitled to these funds as a direct grantee; therefore, we intend to apply through a competitive process to the Maryland Department of Housing and Community Development under its Neighborhood Conservation Initiative Program (NCI). The State will award \$17 million statewide to local governments and eligible non-profit and development organizations.
If awarded funds, the City intends to take a multi-pronged approach to stabilizing communities through closing cost assistance, homeownership counseling, soft-second loans, and by partnering with experienced non-profit organizations to acquire and rehabilitate properties abandoned through foreclosure.
The City submitted a preliminary application on November 5, 2008. Prior to submission of its final application, due January 15, 2009, the City is required to conduct a public hearing and to solicit comments on its proposed NCI Plan. Additionally, the Mayor and Council are required to vote on a Resolution in support of the proposed activities.
Attachments: (1) Preliminary Application (2) Foreclosure Map

DESIRED OUTCOME:
Conduct Public Hearing and Notify Public that the Record will Remain Open until Friday, December 26, 2008 at 5:00 PM. Final Action Anticipated on January 5, 2009.



NOTICE OF PUBLIC HEARING

The Mayor and City Council of Gaithersburg will hold a public hearing on Monday, December 15, 2008 to solicit input from residents on the proposed application for funding from the Maryland Neighborhood Conservation Initiative. These are federal funds from the U.S. Department of Housing and Urban Development's Neighborhood Stabilization Program which was created under Title III of Division B of the Federal Housing and Emergency Recovery Act of 2008. The funds are to be used to assist communities in addressing abandoned and foreclosed homes in neighborhoods that have been affected by foreclosure and subprime lending. The public is invited to present comments on the City's proposed use of these funds. The hearing will be held at City Hall, 31 South Summit Avenue, Gaithersburg, MD at 7:30 pm in the Council Chambers.

Upon request, the City will provide information on the application in advance of the meeting, and copies of the preliminary application are available for pick up at City Hall.

All comments must be received by close of business, December 26, 2008; comments will be considered and summarized in the application prior to its submission to the state.

For further information regarding the hearing, please call Louise Kauffmann at the City Manager's Office at 301-258-6310 during business hours or by email at lkauffman@gaitthersburgmd.gov

To confirm accessibility and in order to accommodate non-English speaking participants, please contact Doris Stokes at dstokes@gaitthersburgmd.gov with 72 hours advance notice

Louise Kauffmann
Housing and Community Development Director
(12-10-08)

MARYLAND NEIGHBORHOOD CONSERVATION INITIATIVE Preliminary Proposal

1. Name of Applicant: The City of Gaithersburg									
2. Address: 31 South Summit Avenue Gaithersburg, MD 20877									
3. Name & phone number of person to contact regarding this proposal (include email address and Fax #): Louise Kauffmann, Housing & Community Development Director 301-258-6310; 301-948-6149 (fax)									
4. If you are a County government, please identify potential municipal and non-profit partners: If you are a municipal government, please identify potential non-profit partners: Montgomery Housing Partnership (MHP) HomeFree USA Family Services Agency If you are a public housing authority, please identify municipal partners:									
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">5. NCI request:</td> <td style="text-align: right;">\$ <u>2,000,000</u></td> </tr> <tr> <td>Local funds</td> <td style="text-align: right;">\$ <u>100,000</u></td> </tr> <tr> <td>Other funds</td> <td style="text-align: right;">\$ <u>100,000 (CDBG)</u></td> </tr> <tr> <td>Total costs</td> <td style="text-align: right;">\$ <u>2,200,000</u></td> </tr> </table>	5. NCI request:	\$ <u>2,000,000</u>	Local funds	\$ <u>100,000</u>	Other funds	\$ <u>100,000 (CDBG)</u>	Total costs	\$ <u>2,200,000</u>	6. U.S. Congressional District No. <u>8</u> State District Nos. <u>17</u>
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Local funds	\$ <u>100,000</u>								
Other funds	\$ <u>100,000 (CDBG)</u>								
Total costs	\$ <u>2,200,000</u>								
7. Did you include maps? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Did you include photos? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	8. Date: 11/05/2008								

MARYLAND NEIGHBORHOOD CONSERVATION INITIATIVE

Preliminary Proposal

PART A **NEIGHBORHOOD CONSERVATION STRATEGY:**

- 1. Identify prospective Neighborhood Conservation target area(s) by neighborhood/subdivision name, zip code(s), census tract and other relevant boundaries.**
- 2. Describe proposed housing investment strategy and anticipated outcomes.**
 - (a) What activities are proposed for use of NCI funding and other federal, state or local funding you are dedicating to these activities?**
 - (b) What are the anticipated outcomes of these activities with respect to new homeownership or rental opportunities?**
 - (c) Specifically describe how the investment strategy will assist households at 50% or below of 120% of area median income.**
- 3. Describe other proposed neighborhood investments (public or private programs) that will contribute to a comprehensive approach to revitalization in prospective target areas.**

NEIGHBORHOOD CONSERVATION STRATEGY

I. NEIGHBORHOOD CONSERVATION TARGET AREAS

The City of Gaithersburg has identified several specific areas within its boundaries containing significant concentrations of foreclosed-upon properties. While foreclosures have occurred throughout the City, including in higher-income neighborhoods such as the Kentlands and Lakelands, the highest percentage of foreclosure events have occurred in neighborhoods populated by low and moderate income families as demonstrated by the Nov. 2007 - July 2008 Foreclosure Map attached hereto as Exhibit A. Specifically, significant foreclosure activity has occurred in Census Tract 7008.16 which falls in the 20878 zip code and which includes Brighton West, an area with one of the highest foreclosure rates in the City. According to data compiled by the City, 15 foreclosure events occurred in Brighton West out of a total of 255 units during the November 2007-July 2008 period, resulting in a 5.9% foreclosure rate. At nearly 6%, this foreclosure rate is more than five times higher than the 1.13% citywide rate calculated by City staff. In light of this data, the City has targeted NCI funding for this area, a community in which 63% of households earn less than 80% of Median Family Income for Montgomery County.

II. HOUSING INVESTMENT STRATEGY AND ANTICIPATED OUTCOME

The City of Gaithersburg anticipates implementing a multi-pronged approach to help revitalize communities affected by disproportionate foreclosure events. Specifically, the City seeks to develop programs that will bolster homeownership among low to middle income families while, at the same time, offering affordable rental opportunities to those for whom rental housing is the most viable housing alternative. With the assistance of NCI funding, the City plans the following programs:

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(a) Proposed Use of NCI Funding and Other Funding

1. Soft Second Loan Program Working in conjunction with participating lenders, the City intends to develop a soft second loan program whereby eligible participants would be able to borrow funds to close the gap between the amount of a primary mortgage and the purchase price of a foreclosed-upon home. Qualified homebuyers would be able to secure a loan equal to a percentage of the purchase price of the home up to a certain maximum, the amount of which will be determined by City staff. The soft second loan would be a zero percent deferred loan that would have to be repaid upon the sale, transfer, rental, or refinancing of the property. In exchange for receiving the loan at zero percent and in order to maintain the long-term affordability of the property, the borrower will be subject to a Resale Restriction Agreement that will be recorded against the property, providing the City an option to purchase the home at a restricted sales price to keep the home affordable for another buyer. Should the City decline to exercise that option, the seller will be required to share with the City a percentage of the sale price of the property, the amount of which will be contributed to the City's Affordable Housing Fund to be used to generate other affordable housing opportunities in the City.
2. Partner with A Local Non-Profit to Purchase Foreclosed Properties in Brighton West: In addition to offering soft second loans to eligible purchasers of foreclosed properties in the Brighton West community, the City intends to collaborate with a local non-profit, such as Montgomery Housing Partnership, to purchase foreclosed-upon properties in that area, particularly those in need of substantial rehabilitation. Subsequent to rehabilitating a property, the non-profit will either offer the unit for resale to an eligible purchaser or rent it at a restricted rent.
3. Partner with Housing Counseling Agencies: To support those who will be purchasing foreclosed-upon units, the City intends to offer housing counseling services to all participants. The City currently partners with HomeFree USA to offer foreclosure counseling in the City and will consider an expansion of the program to include housing counseling for homebuyers, a well established area of HomeFree USA expertise. In addition, the City currently supports housing counseling for City residents at Family Services Agency through a position that focuses primarily on eviction prevention. With the implementation of a soft second loan program, the City intends to explore the possibility of expanding that portfolio to include homebuyer training. In addition, housing counseling and financial literacy training for homebuyers and tenants alike will be made available through the City's wide network of other non-profit organizations.
 - a. Other Funding: The City has dedicated City funds to support a down payment and closing cost assistance program for tenants displaced from their homes as a result of pending redevelopment plans. These funds can be leveraged to support the purchase of foreclosed-upon properties. In addition, the City intends to dedicate CDBG funds to support a closing cost and down payment

MARYLAND NEIGHBORHOOD CONSERVATION INITIATIVE

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assistance program for any City household earning at or below 80% AMI, making an additional stream of funds available for the purchase of foreclosed-upon properties.

(b) **Anticipated Outcomes:**

In targeting a discrete community for these funds, the City anticipates that the full inventory of 15 properties will be transferred from foreclosure to productive use, with a combined outcome of home ownership and rental use.

(c) **How Investment Strategy Will Assist Households At 50% AMI**

The City has conducted preliminary discussions with Montgomery County regarding potential disposition of NCI funds and ways in which the City and County can forge partnerships so as to serve the greatest number of people earning at or below 120% of AMI. Initial discussions suggest that the County intends to target households earning below 50% of AMI through the acquisition and subsequent rental of properties by the Housing Opportunities Commission ("HOC") while the City intends to introduce a homeownership element through a soft second loan program that will likely affect households with higher incomes. While the City does not anticipate that its homeownership program will serve many households earning below 50% of AMI, households at that income level are likely to benefit from the County's program as well as from the rental of affordable units through the City's partnership with MHP or other local non-profit.

III. **OTHER PROPOSED NEIGHBORHOOD INVESTMENTS**

The addition of NCI funds will enhance the comprehensive efforts toward neighborhood revitalization and community preservation already underway in the City of Gaithersburg, particularly in areas populated by low to moderate income households. The Brighton West target area is located within close proximity of the City's Olde Towne neighborhood, a community that has been a focal point of City efforts to promote economic vitality and growth among the low to moderate income population living there. An infusion of NCI funds would help bolster efforts already in place, allowing the City to:

1. Further develop partnerships with HomeFree USA, Family Services Agency, and other local non-profit agencies;
2. Use its newly awarded Enterprise Zone status to stimulate economic vitality in communities affected by high foreclosure activity;
3. Leverage CDBG funds to promote economic and community development by investing funds in these communities; and
4. Partner with Montgomery County to maximize effectiveness of programs and funding opportunities.

MARYLAND NEIGHBORHOOD CONSERVATION INITIATIVE

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PART B

COMMUNITY NEED:

1. Describe how your jurisdiction has been impacted by foreclosure and sub-prime lending using local data or data provided by DHCD. What foreclosure prevention activities does your jurisdiction have underway? (Foreclosure prevention is not an eligible use for these CDBG funds; however, we would like to understand your jurisdiction's strategy.)
2. Considering the community context noted above, describe why your jurisdiction has chosen its NCI target area(s) ?

COMMUNITY NEED

I. Impact of Foreclosure and Sub-Prime Lending on Gaithersburg and Foreclosure Prevention Activities in Place

The City of Gaithersburg, like many jurisdictions across the State, has seen a consistent pattern of foreclosure events during the course of the past year to 18 months. As illustrated in the map attached hereto as Exhibit A, 246 foreclosure events occurred in the City from November 2007 through July 2008. From November through December 2007, a total of 105 foreclosure events occurred in the City with an additional 54 events in the first quarter of 2008 and 87 from April through August 2008, resulting in a 1.13% citywide foreclosure rate according to City estimates.

What is more, almost two-thirds of City foreclosure events occurred in areas where more than 50% of the population is of low to moderate income, earning below 80% of Median Family Income for Montgomery County. See Map at Exhibit A. In fact, as demonstrated by the November 2007- July 2008 Foreclosure Events Map containing data about foreclosures in areas with households earning at or below 120% AMI (attached hereto as Exhibit B), it is worth noting that the vast majority of City households qualify under the 120% ceiling established for receipt of NCI funding.

The City did not collect such foreclosure data prior to late 2007, making a specific comparative analysis of previous foreclosure rates difficult. However, information gleaned from the State's Homeownership Preservation Task Force and the quarterly reports on property foreclosures in Montgomery County issued by DHCD indicate a dramatic increase in the number and percentage of foreclosures in the County and State, reflecting trends clearly also at work in the City of Gaithersburg. In the first quarter of 2007, Montgomery County saw 183 foreclosure events. That figure rose steadily over the course of 2007, with 607 foreclosure events in the second quarter, 853 in the third, and 1310 in the fourth. In 2008, the number of foreclosures continued to climb, reaching a high of 1644 in the first quarter followed by a decline to 1314 in the second quarter. Moreover, reliance on sub-prime loans had a clear negative impact on foreclosure rates. Although sub-prime loans accounted for only 7% of all loans in Montgomery County in 2007, 47% of foreclosures in that timeframe involved sub-prime products.

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Although the City is relying on data generated by the City, County, and State to target areas for this funding, this data generally comports with HUD's estimated foreclosure analysis by Census Tract, summarized in the Estimated Foreclosures October 2008 Map attached hereto as Exhibit C.

The City has taken a number of steps to respond to the increase in foreclosures in Gaithersburg. City staff has met regularly with their counterparts in Montgomery County to develop a comprehensive and coordinated approach to maximize resources and avoid duplication of service and effort. The City and County have joined together to sponsor several foreclosure workshops in which participants have been able to learn about a variety of foreclosure prevention resources in addition to receiving one-on-one counseling from trained professionals. Furthermore, the City has partnered with HomeFree USA to offer more intensive individual foreclosure counseling to City residents. Of the 43 City residents served by HomeFree to date, 36 households, or 84%, earn less than 50% of AMI. An additional 6 households (14%) earned between 50 and 79% of AMI while only one household earned between 80 and 100% of AMI. Of the 26 households with an identifiable outcome to date, 3 have been foreclosed upon while the remaining 23 have received a loan modification, brought their mortgage current, participated in a short sale, or established a repayment plan.

II. Why Brighton West is Targeted for Neighborhood Conservation

The City intends to target the Brighton West community as a Neighborhood Conservation Area because that community has witnessed a high rate of foreclosure when compared to the overall rate in the City and compared to HUD's estimated foreclosure rates illustrated in Exhibit C. As indicated above, 246 foreclosure events have occurred citywide from November 2007 through August 2008 resulting in a 1.13 foreclosure rate. In Brighton West, 15 of 255 housing units have been foreclosed-upon, amounting to a 5.9 percent foreclosure rate, more than 5 times the citywide figure. In addition, Brighton West represents a discrete community where the City can concentrate its efforts and is an area identified by the City's Neighborhood Services Division as most in need of intervention to forestall neighborhood deterioration. While 15 properties is not a large number when taken in isolation, the City believes that, with NCI funding, it can make a real difference in this community. As such, the City plans to direct efforts in Brighton West not only toward foreclosure mitigation, but toward neighborhood revitalization, overcrowding reduction, and quality of life improvement. An area with a significant number of low to moderate income households, Brighton West will benefit from the infusion of NCI funds to support economic revitalization efforts and community development.

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PART C

CAPACITY & READINESS TO PROCEED:

- 1. Describe your agency's capacity to administer anticipated funds and complete proposed activities. Please describe experience with CDBG grant administration.**
- 2. Describe the capacity and experience of key partners to execute proposed activities.**
- 3. As you would have only until June 2010 to commit the funds, please describe your readiness to execute the specific activities and provide an estimated timeline.**

CAPACITY AND READINESS TO PROCEED

I. CAPACITY TO ADMINISTER FUNDS

As a direct CDBG entitlement community for the past 5 years, the City of Gaithersburg has developed the infrastructure and expertise to administer federal funds to accomplish a variety of community development, public service, and economic development objectives. In addition to administering public service grants to a wide variety of grantees, City CDBG staff has managed millions of dollars in funding for capital projects and economic revitalization. As such, staff is conversant with the requisite budget management, reporting requirements, and timeliness restrictions that accompany the receipt of federal CDBG funding. Well experienced in CDBG program requirements and administration, City staff will be able therefore to rely upon this foundation to support the administration of the anticipated NCI funds.

In addition, the City currently has in place a Closing Cost and Down Payment Assistance Program that will be used as a model for the soft second loan program envisioned for the purchase of foreclosed-upon properties in the Brighton West community. Under the current program, eligible applicants are entitled to receive a zero percent deferred loan up to \$20,000 to be used toward down payment or closing costs. As contemplated for the soft second loan program under development, the loan must be repaid upon the sale, transfer, or refinancing of the property. City funds are available for applicants earning above 80% AMI while CDBG funds are used to support loans for those earning 80% of AMI or below. Given its experience in developing this deferred loan assistance, the City is well positioned to tailor the elements of that program to implement the soft second loan under consideration. Many elements of the planned program would parallel the program currently in place, which will permit the City to fast track implementation.

II. CAPACITY AND EXPERIENCE OF KEY PARTNERS

The City has held preliminary discussions with a number of non-profit agencies in an effort to explore a viable mechanism for the development and implementation of a strategy to purchase and/or redevelop foreclosed-upon properties. The City expects to conduct a formal RFP process to solicit proposals from all qualified agencies, but has

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identified several potential organizations that have expressed an interest and capacity to implement these types of programs. Those agencies are:

- A. **HomeFree USA:** Founded in 1995, HomeFree USA is a HUD-approved, nonprofit homeownership organization devoted to facilitating the transition to homeownership, particularly among underserved, low-to-moderate income and otherwise needy populations. HomeFree USA prepares its clientele to understand the home buying process, teaches financial literacy, ensures mortgage loan approval, helps prevent default situations, and provides foreclosure counseling and mitigation. In addition, HomeFree assists clients to correct credit and savings issues as a preliminary step toward homeownership and identifies down payment and closing cost assistance programs. A copy of a letter of interest from HomeFree USA is attached hereto as Exhibit D.

- B. **Montgomery Housing Partnership.** Montgomery Housing Partnership (MHP) is a community-based, nonprofit organization whose mission is to preserve and expand affordable housing in Montgomery County and to strengthen neighborhoods through housing and community revitalization activities. MHP is the largest non-profit developer, owner and manager of affordable housing in Montgomery County and has over 1,000 properties in its portfolio. As such, it is well suited to partner with the City to target the foreclosed upon properties in the Brighton West community in order to purchase, rehabilitate, and resell or rent them as necessary. Preliminary meetings with MHP staff to explore the implementation of such a program confirmed MHP's interest in, and capacity to execute, a partnership with the City on this project. A copy of a letter from MHP is attached hereto as Exhibit E.

- C. **Montgomery County Government:** The City and County have a long track record of working in close collaboration to provide needed services and programs to residents in a way that is cost effective, maximizes resources, and reaches the broadest cross section of the population as possible. With respect to the potential allocation of NCI funds, City and County staff have consulted on how best to maximize the effectiveness of this funding so that a number of objectives can be achieved. Specifically, the City and County have discussed the need to offer complementary programs through which both homeownership and rental needs are addressed. Early discussions suggest that the City's proposed homeownership program will offer a needed alternative to the County's current plans to focus more of these resources on the population earning below 50% of AMI, a constituency that will more likely be seeking affordable rental opportunities rather than homeownership. The City and County have committed to continue a dialogue as the application process proceeds in order to ensure these funds are put to optimal use.

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III. READINESS TO EXECUTE AND PROPOSED TIMELINE

The City is prepared to execute these programs in a timely fashion and is confident awarded funds will be committed by the June 2010 deadline. With respect to the design and development of a soft-second loan program, the essential elements have previously been developed for the City's current Down Payment and Closing Cost Assistance Program. By employing a similar financing mechanism that can be readily refined to meet the specific needs of the new program, the City will be able to implement a soft-second loan program in a timely manner so as to comply with the limited timeframe imposed on recipients. Furthermore, by partnering with well established non-profit organizations, the City anticipates a smooth implementation phase in which the funds will be committed and expended in a timely manner. To ensure appropriate disposition of these funds, the City proposes the following timeline:

November 2008-January 2009:	Program Design and Development Final Application Submission
January 2009-March 2009:	Issue RFP to Solicit Partners Prepare Program Application Prepare Marketing Materials Prepare Community Outreach Roadmap Collaborate with Local Partners
March 2009-April 2009:	Market Program Receive and Process Applications
May 2009-June 2010:	Commit Funds to Eligible Purchasers

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PART D

PARTNERSHIPS, LEVERAGE & COORDINATION:

- 1. Describe the roles of the key public and private partners that are important to implementing your strategy.**
- 2. Describe the matching funds or resources that your strategy could leverage for these activities.**
- 3. Describe how you will coordinate with local and state partners to focus various investments and approaches and, therefore, maximize impact in target areas.**

PARTNERSHIPS, LEVERAGE & COORDINATION

I. Role of Public and Private Partners

The City intends to work closely with Montgomery County to develop a comprehensive strategy for the successful and effective use of these funds. Preliminary discussions with County officials have laid the groundwork for future cooperation and collaboration. In addition, the City has developed longstanding relationships with local non-profit organizations capable of partnering with the City to provide the expertise necessary for the successful implementation of a foreclosure mitigation program.

II. Matching Funds and Resources to be Leveraged

Federal CDBG funds will leverage NCI funding so that the greatest number of foreclosed upon properties may be purchased. In addition, City funds allocated for the Down Payment and Closing cost Assistance Program may be leveraged for the purchase of properties in the Brighton West community the City intends to target for NCI funding.

III. Coordination with Local Partners

As indicated above, the City has already reached out to local partners, both in the non-profit community and in Montgomery County government, to begin the collaborative process necessary for the rapid and effective deployment of these funds. The City has ample experience coordinating efforts with Montgomery County and with non-profit organizations and will build upon these well established relationships to provide a coordinated use of NCI funds.

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PART E

BUDGET: Please provide estimates of total costs associated with proposed activities and projects. Break down costs by type of activity. For estimating purpose only, please provide us with potential amount of leverage and applicable funding sources for these activities.

Example:

Acquisition of houses	\$750,000	\$200,000	City Funds
Rehabilitation of acquired houses	\$300,000	\$100,000	USDA-RHS
Settlement costs	\$600,000	\$200,000	County CDBG Funds

Activity	NCI Funds	Leverage	Other Funding Sources
Acquisition and Rehabilitation of Houses	\$1,400,000		Local Non Profit
Soft Second Loan Program	\$350,000	\$100,000	City Funds/Down Payment & Closing Cost Program
		\$100,000	CDBG Funds
Homeownership Counseling	\$50,000		Local Non Profit
Project Administration Costs:	\$175,000		
General Administration Costs:	\$25,000		

Nov 2007 - Sep 2008 Foreclosure Events

Percent of Families with income ≤ 120% of Median Family Income

2000 Median Family income for the County is \$84,035

Foreclosures Nov 2008 - income.mxd • 12-Nov-2008 • jke



MD State Plane
HPGN NAD 83/91

Property boundaries and planimetric basemap ©2008 M-NCPPC and City of Gaithersburg. All rights reserved.

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