

**Draft 11/21/2023**

**Purpose**

The goal of the **City of Madison Rental Rehabilitation Loan Program (RRLP)** is to provide financial assistance to property owners and investors, to improve the conditions and quality of rental housing in the community. This program strives to address the urgent need for safe, habitable, and well-maintained rental housing in order to protect the health, safety, and welfare of tenants. By offering low-interest loans, the program offers an incentive to for property owners to restore, renovate, and rehabilitate their rental properties. The ultimate goal is to ensure that renters have access to affordable, safe, and healthy housing options, part of a broader strategy to foster stable and sustainable communities.

Through this program, property owners will gain access to financial resources needed to make major repairs, implement energy-efficiency upgrades, and comply with building codes and regulations. The resulting rehabilitation efforts will help prevent the deterioration of rental properties, reduce the risk of safety hazards, and extend the life of aging buildings.

This program also aims to address the socioeconomic disparities that often arise from substandard housing conditions within low-income communities. By targeting properties in underserved areas, the program promotes equitable access to decent housing, regardless of income level or social background. It will contribute to the revitalization of neighborhoods and help strengthen Madison’s overall rental market. Investments in properties will foster a sense of pride amongst property owners, increase property values, reduce blight, and improve living conditions for tenants.

The Rental Rehabilitation Loan Program will promote a sustainable, inclusive, and thriving rental housing sector in Madison, benefitting both property owners and tenants. It will help improve the quality of life for renters, promote community development, and contribute to the overall economic growth of our society.

**Loan Amount**

The minimum award amount will be \$10,000, the maximum loan amounts will be based on the number of housing units within a property, as follows:

1-6 housing units	Up to \$75,000
7-12 housing units	Up to \$150,000
13-20 housing units	Up to \$200,000

The City’s Community Development Division will underwrite each application and approve a loan amount that is the lesser of the cost to complete the scope of work or the maximum award for the relevant number of housing units, as shown above.

If the estimated cost to complete the scope of work exceeds the maximum allowable award, the applicant must demonstrate that they have sufficient funds to complete the scope of work, either in the form of cash or additional financing that will reside in an escrow account

for the duration of the project.

### **Loan Terms and Compliance Requirements**

- Installment loan: principal and interest payments will be due monthly over 20 years
- 4% interest; Interest rate set annually based on City's Borrowing Rate, rounded up to the next .5%
- Property owners will submit an annual self-certification by February 15<sup>th</sup> during the repayment period confirming that rents charged for affected units are within Fair Market Rent (FMR) levels.
- The City may conduct annual inspections of properties

Failure to meet the program requirements will result in a default in the loan agreement and repayment of the balance of the loan.

To address housing challenges and promote stable, healthy, and sustainable communities targeted areas will be selected by demographics, age of housing stock, population (number of rental units), income level, and property code violations. These targeted areas will receive favorable loan terms for a period of time and will be reviewed by the staff and CDBG Committee on an annual basis.

### **Targeted Areas: Census Tracts 6, 14.01, 21 (*link to map will be set up*)**

- 0% interest
- Rents of the assisted units must remain at or below the Fair Market Rents for the life of the loan (20 years) or until the loan is paid in full. Property owners will be required to file an annual self-certification that rents charged did not exceed FMR
- Units and tenant documentation must be available for an annual inspection if requested by City/CDD staff

### **Program Requirements**

#### *Eligibility Criteria*

- Property is located in the City of Madison and is eligible for rental occupancy. Properties for which units are not available for occupancy at the time of application, but would become available following the described improvements, are considered eligible.
- Property is in need of repairs or improvements eligible under the program, as described below.
- Property meets applicable zoning ordinances and land use guidelines.
- Property is insured including, if applicable, for flood coverage.
- Property taxes, assessments and other liens on the property are current.
- The performance of improvements will not cause any existing tenants to be permanently displaced.
- There is quality property management in place.
- Lead based paint inspection will be conducted on all properties built prior to 1978 in accordance with the Lead-Based Paint Poisoning Prevention Act 42 USC 3535 (d), 4821 and 4851, and its implementing regulations in 24 CFR 35, as well as State of Wisconsin Code HFS 163 and City of Madison MGO 7.49. The City of Madison contracted inspector will provide the

lead based paint inspection and clearance test for the property. If the work being done is disturbing the lead-based paint (scraping it or painting over it), the contractor needs to be **“Wisconsin Department of Health Services” lead-paint certified**. EPA Lead Paint certification is not enough in Wis. The link to find those contractors that are Wis Dept of Health certified to deal with lead base paint is <https://dhsgis.wi.gov/dhs/clara/index.html>

- Properties built prior to 1978 must comply with Madison General Ordinance 7.49- Standards For Exterior Painting and Remodeling.
- Applicant is willing to take an online landlord education course. Education resources are located here <https://www.readynest.com/homebuyer-resources/landlord-test>
- Applicant must have an approved [Individual Developer Affirmative Action Plan](#) on file with Madison Department of Civil Rights.
- The Applicant will comply with all applicable local, State, and Federal environmental laws and regulations, and obtain and maintain necessary permits, licenses, approvals or reviews.

#### *Eligible Uses*

- Improvements necessary to meet City of Madison minimum housing code.
- Improvements deemed necessary to enhance the livability and curb appeal of the property.
- Upgrades of major building components such as roofs, windows, and HVAC, plumbing and electrical systems
- Energy-related repairs or weatherization improvements.
- Improvements required to facilitate use of the property by persons with disabilities.
- Energy Star Rated Appliances that will stay within the unit(s).
- Landscaping work, including ground cover, which reduces flood risks by correcting poor grade around the foundation walls and trimming of tree branches that interfere with the structure of the building
- Abatement/reduction of lead based paint and other environmental hazards, such as asbestos, radon, etc.
- Installing or repairing fences that enhance security.

#### *Ineligible Uses*

- Refinancing existing loans
- Furniture, or other personal items
- Hot tubs, whirlpool baths, or saunas
- Reimbursement or payments for any work completed and/or materials purchased made prior to the receipt of a signed funding agreement from the City. Sweat equity payments for the owner’s labor as well as any equipment or tools purchased by the owner to complete improvements

### **Loan Approval Process**

#### *Application*

Program funds will be available on a continuous basis, until funds are used up. Applications will be processed on a first-come, first-served basis. Requests for assistance for emergency repairs will be prioritized. The application and check list of required documents is posted on the City's Community Development Division website at [www.homeloans.com](http://www.homeloans.com)

A completed application must include all of the following:

- A completed application form
- A non-refundable application fee of \$75 (check or money order made out to City of Madison)
- Signed W9 Form
- Tax Returns from the last two (2) years with all Schedules (??)
- Bank statements or evidence of cash to close
- Copy of rehabilitation bids
- Completion Certificate of Landlord Education course (prior to closing)

#### *Underwriting Criteria*

All loans will be underwritten by CDD staff. The financial strength of the applicant and the anticipated success of the project will be assessed based on the following eligibility guidelines:

- The ability to repay the loan and maintain the property
- The absence of delinquent property taxes, utility bills or other outstanding or delinquent accounts on any property within the City of Madison of which the applicant is a principal owner
- A bid from a credible contractor, or other reasonable plan to complete the proposed work

Prior to loan approval, CDD staff will conduct an inspection of the property. Compliance with minimum housing code standards and, if relevant, lead paint remediation must be prioritized in the scope of work.

#### *Loan Approval*

Final approval of loan funds will be made by the City of Madison's Community Development Block Grant Committee for loan amounts that exceed \$50,000. The specific timeline for a commitment of funds is contingent upon the Committee's schedule; the Committee meets monthly.

Upon approval, the applicant will receive a Commitment Letter from the City of Madison. A closing date will be scheduled with the applicant by First American Title.

The applicant will need to sign a Promissory Note, Mortgage, Terms and Conditions and Escrow Agreement prior to commencing with improvements. **Please note that project expenditures made prior to the execution of these documents cannot be paid for with Program funds.** Funds will be held in an escrow account at First American Title and invoices will be paid from that account. The applicant will be required to include additional fees in their loan amount, fees to include Mortgagee's Title Insurance Policy and a Recording Fee.

#### *Loan Repayment and Compliance*

Following completion of the work for which funds are awarded, and close out of the escrow account with First American Title, the loan will be transferred for servicing to US Bank. US Bank will supply the loan recipient with payment processing information at the time of transfer. Payments will then be made to US Bank.

The submission of information necessary to comply with the terms of the loan will be sent annually to the City's Community Development Division at [cdd@cityofmadison.com](mailto:cdd@cityofmadison.com) as described in the Terms and Conditions of the loan.