



Department of Planning and Community & Economic Development

Community Development Division

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Child Care
Community Resources
Community Development Block Grant
Madison Senior Center

Memo

To: CDBG Committee

From: Linette Rhodes, Community Development Grants Supervisor

Date: 3/1/2023

Re: Proposed Changes to City's Down Payment Assistance Programs

Recommendation #1:

The Community Development Division (CDD) recommends that, for better stewardship of Housing Cost Reduction Initiative (HCRI) funds and greater clarity around the City's Home Buy the American Dream (HBAD) Program eligibility requirements, **the City should seek HCRI funding from the State in the next application cycle to assist with down payment and closing costs only for real estate transactions involving purchases of properties located within the City of Madison.**

Every two years, the CDD applies to the State of Wisconsin Department of Administration (DOA) for Housing Cost Reduction Initiative (HCRI) Program funds. These funds support the City's Home Buy the American Dream (HBAD) Program, a down payment assistance program offered to both City of Madison and Dane County residents. The City has requested HCRI funds, and made a portion of them available for purchases made in Dane County but outside of Madison because, historically, the County has not administered its own down payment program. HBAD currently provides up to \$35,000 to eligible applicants toward the purchases of homes within the City of Madison, and \$5,000 if the property is located outside of City of Madison boundaries.

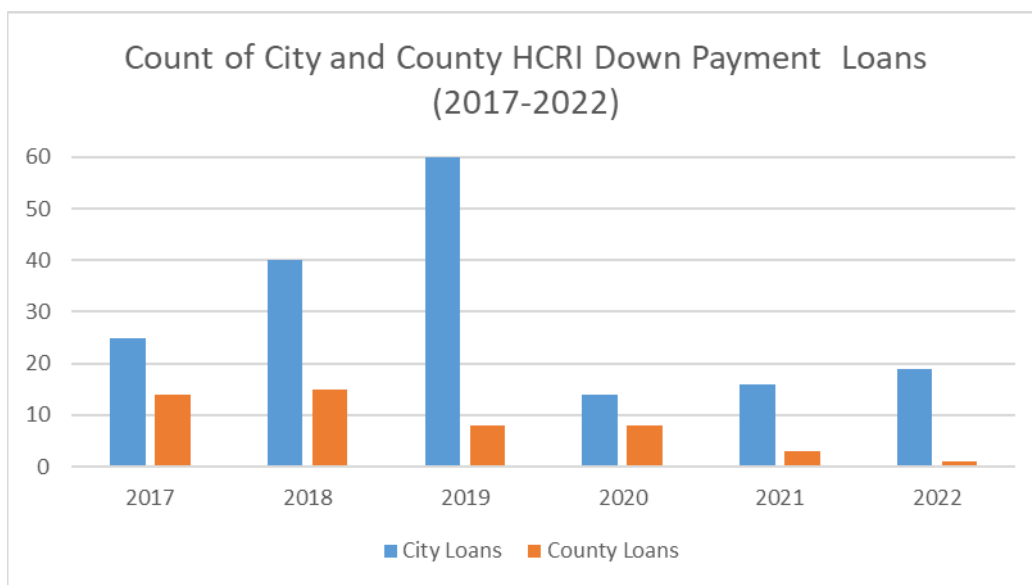
Due to DOA's declining HCRI budget and a state-wide increase in the volume of applications for HCRI, the amount of funding awarded to the City in the last few application cycles has fallen. CDD was awarded \$550,000 for 2017-2018 but received less than \$300,000 in both subsequent program cycles (2019-2020 and 2021-2022). That calculates to only \$150,000 of HCRI revenue annually for the program and less than \$6,000 of eligible administrative support dollars. The reduction in HCRI funding has prompted CDD to compensate by allocating additional City and federal resources to the HBAD program. Each year, a portion of HCRI funds have been set aside for use toward applications received for home purchases outside the City. However, the number of such requests has fallen off significantly. The data showing loan activity since 2017, both within Madison and outside of Madison but within Dane County, is shown in the table below.

The declining availability of HCRI funds and dwindling demand for loans from home buyers purchasing properties outside the City boundaries calls into question the value of continuing that aspect of the HBAD program. Moreover, Dane County runs its own down payment assistance program ([Momentum](#)) through Movin' Out. In community feedback sessions focused on lending programs, CDD staff heard that the duplication of efforts for purchases outside of City boundaries is a source of confusion for homebuyers and real estate professionals.

Finally, CDD has confirmed with DOA that a City application for program funds that would limit benefits to transactions within Madison will not affect the City's competitiveness in the next HCRI application cycle. Dane County is eligible to apply directly for HCRI funds and sub-contract the award if desired. Applications for the next program cycle are due March 15th. For all of these reasons, CDD staff believe it appropriate to discontinue the practice of using HCRI funds to support home

purchases outside of Madison. The Mayor and Dane County have been notified of this proposed change and it would go into effect May 1, 2023. Any pre-approvals committed prior to May 1st will be honored outside of City of Madison.

| | City Loans | County Loans | Total loans | % of County loans | HCRI Funds | Program Income |
|-------------|------------|--------------|-------------|-------------------|------------|----------------|
| 2017 | 25 | 14 | 39 | 36% | \$ 550,000 | \$ 114,325 |
| 2018 | 40 | 15 | 55 | 27% | | \$ 107,332 |
| 2019 | 60 | 8 | 68 | 12% | \$ 275,000 | \$ 168,471 |
| 2020 | 14 | 8 | 22 | 36% | | \$ 243,287 |
| 2021 | 16 | 3 | 19 | 16% | \$ 286,666 | \$ 338,940 |
| 2022 | 19 | 1 | 20 | 5% | | \$ 285,604 |



Recommendation #2:

CDD staff recommend increasing the Combined Loan to Value (CLTV) from 103% to 105%. The combined loan-to-value (CLTV) ratio is the ratio of all secured loans on a property to the value of a property. Lenders use the CLTV ratio to determine a prospective borrower's risk of default when more than one loan is used. In the last couple of years, first mortgage products have increased their allowable CLTV limits and CDD want to ensure we are compatible with those standards. Increasing CLTV value will allow households to utilize HBAD for additional assistance with closing cost expenses, if needed.

Recommendation #3:

CDD staff recommend allowing an exception to 12 month liquid asset requirement for households who do not utilize traditional retirement systems, such as 401K or Roth IRAs. According to a study by the U.S. Social Security Administration, Black and Latinx investors on average put the majority of their money in safer assets such as savings accounts, money market funds, certificates of deposit, government bonds, insurance and Treasury bills. White investors were much more likely to own high-yield assets, with 36% of White savers owning stocks and 50% owning IRAs/Keoghs, compared to Black and Latinx savers, who had 9% and 7% ownership of stocks—and 15% and 12% ownership of IRAs/Keoghs—respectively¹

CDD is required by U.S. Department of Housing and Urban Development (HUD) to have underwriting guidelines to calculate

¹ Social Security Administration. "[Racial and Ethnic Differences in Wealth and Asset Choices](#)."

household “need” of assistance. The metrics to analyze “need” is maximum income threshold set by (HUD), housing and debt ratios and 12 month liquid asset (i.e. checking, savings) threshold. If BIPOC households are more likely to keep long term investments in liquid assets rather than retirement, they are less likely to qualify for HBAD due to excess cash on hand after closing.

Summary of recommendations to the HBAD program for 2023. These changes would go into effect for applications received after May 1, 2023. Pre-approvals committed prior to May 1st will be valid.

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| 1. Up to \$35,000 available in City of Madison, remove eligibility of \$5,000 Dane County loan. |
| 2. Increase CLTV from 103% to 105% to be match industry standards. |
| 3. Waiving 12 month liquid asset requirement for households who certify that they do not access traditional retirement systems and rely on liquid assets for future retirement support. |