



Department of Planning & Community & Economic Development

## Community Development Division

Madison Municipal Building, Suite 225  
215 Martin Luther King, Jr. Boulevard  
P.O. Box 2627  
Madison, Wisconsin 53701-2627  
Phone: (608) 266-6520  
Fax: (608) 261-9626  
[www.cityofmadison.com](http://www.cityofmadison.com)

Child Care  
Community Resources  
Community Development Block Grant  
Madison Senior Center

November 5, 2015

To: CDBG Committee

**Request:** Community Development Authority (CDA) is requesting to amend the repayment terms of \$180,000 of Affordable Housing Trust Funds (AHTF) awarded by RES-12-00793. These funds were approved in October 2012 to partially finance construction costs for up to 6 affordable single family homes in the Mosaic Ridge subdivision of Allied Drive.

**Background:** City of Madison has approved the development of Mosaic Ridge subdivision in Allied Drive with the intention for it to be a mixed income community. One third of the homes are to be affordable to families at or below 50% of area median income (AMI), one third are to be affordable to families with incomes between 50%-80% and one third are to have no income restrictions. AHTF funds were targeted to provide construction financing to four of the homes listed above to families at or below 60% of AMI and two homes for families at or below 80% of AMI.

The current repayment terms as outlined in the Resolution state CDA agrees to pay 2.75% simple interest during construction for all units built for 60-80% AMI families. No interest will accrue during construction for households at or below 50% AMI. CDA shall repay the full amount of principal and interest accrued at the time of project completion. Project completion is defined as the transfer/sale of six homes or the expiration date of the contract.

**Amendment:** Prospective homeowners who are currently interested in purchasing in Mosaic Ridge are single women with a household income below 50% AMI. These individuals are credit ready and able to get permanent private financing. However, the amount they must borrow to purchase the home includes funds needed to repay the construction loans financed with AHTF funds. As a result, participants must borrow more than private lenders are willing to offer.

This is true despite the fact that affordability is not an issue. For example, some households will be able to convert Section 8 rental assistance to homeownership assistance, while others will be paying less in housing costs once the home is acquired than they had paid in rent. Housing assistance payments and reductions in housing costs are not mitigating factors when underwriting for private mortgage financing. Lenders have restrictions for required ratios that do not consider housing assistance reductions (e.g. Section 8) in the monthly payment. This has caused a financing gap between the permanent financing available to these households after construction and the actual construction costs for the homes.

**Proposal:** Additional long term deferred financing is required for homebuyers at or below 50% AMI to obtain financing. Instead of repayment at the time of sale, CDA proposes to amend repayment terms to allow some or all of the AHTF funds to remain in the property after construction as a long term deferred loan. Any unpaid loan would be repaid when the homebuyer sells or when the unit is no longer owner-occupied. The amount of deferred loan for a participant will be dependent upon the gap in financing based on lender review.

**Example of financing gap for household of one at \$19,836/year**

Construction Costs	\$155,000.00
Closing Fees	\$3,520.00
<b>Total Need</b>	<b>\$158,520.00</b>

Maximum 1 <sup>st</sup> Mtg Loan Amt.	\$60,400.00
Borrower Contribution	\$3,000.00
FHLBC AHP/Movin Out	\$8,000.00
CDD Loan approved via Summer funding process	\$50,000.00
<b>Total Available</b>	<b>\$121,400</b>

PITI...\$639.92

<b>Total Gap in Financing</b>	<b>\$37,120.00</b>
-------------------------------	--------------------