

**2012 STAFF REVIEW OF PROPOSALS FOR
COMMUNITY/NEIGHBORHOOD DEVELOPMENT RESERVE FUNDS**
(Housing Development Funds, Affordable Housing Trust Funds, Facility Acquisition/Rehab Funds, Futures Funds)

1. **Project Name/Title:** Mosaic Ridge
2. **Agency Name:** Community Development Authority of the City of Madison (CDA)
3. **Requested Amount:** \$180,000
4. **Project Type:** New Continuing

5. **Framework Plan Objective Most Directly Addressed by Proposed Activity:**

One of the objectives of the Affordable Housing Trust Funds, as detailed in the Request for Proposals, is to meet housing needs of lower income households by increasing homeownership opportunities for low income households (less than or equal to 80% of area median income).

Product/Service Description:

The Community Development Authority of the City of Madison (CDA) intends to build 24 single family homes in the Allied Drive Neighborhood subdivision ("Mosaic Ridge"). One third of the homes are to be affordable to families at or below 50% of the area median income. One third are to be affordable to families with incomes between 50% and 80% of the area median income and one third will have no income restrictions.

6.

The CDA is seeking Affordable Housing Trust Funds (AHTF) to partially fund a construction loan fund for low and moderate income buyers at Mosaic Ridge. The CDA (through the Economic Development Division) will originate construction financing for up to three properties at a time, in which funds will revolve once to provide up to six properties with construction financing within a three 3 year period.

7. **Anticipated Accomplishments (Numbers/Type/Outcome):**

The requested \$180,000 in AHTF funds will be targeted to 4 homes affordable to families at or below 60% of the area median income, the CDA will focus on providing 3 of those homes to households who are under 50% AMI. Two (2) additional homes will be targeted to families at or below 80% of the area median income. The goal of Mosaic Ridge is to add opportunities for home ownership with the goal to increase the stability of the Allied community.

Staff Review:

In order to close a financing gap for the project, the AHTF funds will be coupled with CDA cash to provide construction financing for Mosaic Ridge buyers that (1) income qualify, (2) have completed Home Buyer Education and Readiness Training and (3) have obtained a financing commitment from one of the CDA's preferred lenders. To reduce risk, the CDA will be identifying, screening, and contracting with buyers prior to construction of a home. There will be no building of speculative homes in the subdivision.

8.

In the current market low-moderate income buyers would not be able to obtain traditional construction financing. On average a homeowner must provide 20% down payment and have a credit score of 700+ to obtain construction financing. In the development of the Mosaic Ridge project the CDA spoke with community lenders to seek assist in the initial construction financing. The lenders are willing to work with the homeowners for permanent financing once construction is complete but would not change their current underwriting policies for construction. There will be a need for a city assisted construction loan fund for the properties built at Mosaic Ridge.

The CDA is requesting funds be used as a revolving loan. Funds will be used to partially fund the construction of three homes, at the time of sale to the homeowner funds are repaid to the revolving loan account and per the terms of the contract can then to be re-loaned once again for a total assistance to six homes. At the time of completion (sale to homeowners) of the sixth home the Mosaic Ridge project assisted with AHTF will be complete. Funds will be returned to the AHTF at project completion.

Per the AHTF RFP the terms of the loan will be 2.75% simple interest with payments beginning one year after project completion. Since the CDA is asking for a revolving loan account which will be fully paid back at project completion the CDBG office will charge the CDA 2.75% interest during construction for all loans provided to households at 60-80% AMI. This will require payment of \$137.50 per month during construction for these

homes. On average it will take builders 6-8 months to finalize construction which will add \$962.50 of interest per unit constructed. On construction loans for households at 60-80% AMI accrued interest will be returned to the AHTF upon project completion. No interest will be charged to households provided financing with annual incomes at or below 50% AMI. In review of the cost of construction for the homes to add an additional interest cost to the homeowners during construction who are at an annual income at or below 50% AMI would make the homes unaffordable unless additional down payment assistance was added to the project to reduce costs.

The CDA is currently developing marketing material for the Mosaic Ridge development. Outreach will begin with current residents of the Allied area. Once initial interest is determined, the CDA's marketing efforts will extend to other areas of the city for potential participants. The CDA is still working on additional incentives to attract market rate buyers to Mosaic Ridge. Construction of the first home is anticipated to be started in the Spring of 2013. Attached to this review are the current estimated prices and floor plans for the development. The CDA will work with other down payment assistance programs already developed in City of Madison and look into loan forgiveness after a period of ownership for land value. Potentially the forgiveness would be over 5 years and a total of \$30,000 for households at or below 50% AMI; \$15,000 for households at 60%-80%. There is a need to continue discussing possible down payment assistance opportunities for the households as the estimated PITI is still considered high for lower income households. Alternative options include an application to Federal Home Loan Bank of Chicago for Affordable Housing Program (AHP) funds.

The CDA is requesting an exemption from MGO 4.22 where there are no long term affordability requirements on the homes. MGO 4.22 states all assisted homes will have a 30 year period of affordability. This would require the homes built in this subdivision using AHTF financing to carry a re-sale restriction. In the current housing market, such a deed restriction would place a burden on homeowners attempting to sell. Homeowners will most typically use other down payment assistance programs within the City of Madison which will place soft seconds mortgage on the property to make sure the home is owner-occupied during the time of ownership. At the time of sale those soft seconds will be returned to the City of Madison and any new potential homebuyer, if qualified for the program, could obtain down payment assistance to keep the home affordable

Staff recommendation is to fund the CDA for up to \$180,000 to partially fund the construction loan account for the development of six homes in the Mosaic Ridge subdivision, part of the Allied Drive Redevelopment Plan.

Capital Costs

Total estimated Cost/Total Beneficiaries Equals: \$545,000/ 3 households = \$181,666 per unit price

CD Office Funds/CD-Eligible Beneficiaries Equals: \$180,000/3 households= \$60,000

CD Office Funds as Percentage of Total Budget: 33%

9. Staff recommendation:

Technical and Regulatory Issues	Project information
Within unit, capital, mortgage limits	YES
Within Subsidy layering limits/ analysis	YES
Environmental Review issues	NO
Eligible project	YES
Conflict of interest	NO
Church/State issues	NO
Accessibility of program	YES
Accessibility of structure	TBD
Lead-based paint inspection required	NO
Relocation/displacement	NO
Zoning restrictions	NO
Fair Labor Standards	NO
Vulnerable populations	NO
Matching Requirement	NO
Period of Affordability for HOME funds	NO
Site and Neighborhood Standards Concerns	NO
Supplanting issues	NO
Living wage required	NO
M/W/DBE goal required	NO
Aldermanic/neighborhood communication	YES
Section 3 covered assistance project	NO
Developer Capacity	YES
Market conditions acceptable	YES
CHDO certification	NO
Management issues:	NO