

## 2007 STAFF REVIEW OF REQUEST for CONTRACT CHANGE

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1. **Project Name/Title:** Housing Rehabilitation / Employment Training
2. **Agency Name:** Operation Fresh Start
3. **Requested Amount:** \$51,000
4. **Project Type:**                      New      or      X                           Continuing

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

Goal 1, Objective B: Increase opportunities for homeownership for low- and moderate-income households

6. **Product/Service Description:**

OFS is requesting that we allow them to advertise and sell 3 existing HOME assisted units, which have been for sale for some time, for less than the appraised value and retain the amount of funds that would have been passed on as second mortgage funds to families in order to reduce the amount of funds that they lose in the sale of the properties.

They also request that the City not take a mortgage for the value of the CD capital which OFS will retain, but instead take a longer land use restriction from the buyers as a way to prevent a windfall to the buyers and assure continued affordability for the properties.

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

OFS will be able to sell 3 properties that have been on the market for more than a year.

8. **Staff Review:**

This request allows OFS to advertise lower sale prices for the units, cover existing costs which they have incurred on the units and reduce their financial problems.

It does not however meet the CDBG Office requirement of having 50% of the capital assistance provided to a unit be repaid by the family acquiring the unit at the time of sale so the unit can be purchased by another LMI family during the period of affordability required by the Land Use Restriction. In our discussion with Ms. Ferris Bailey we agreed to waive the mortgage requirement based on her statement that taking a mortgage for funds not loaned would violate a truth in sales requirement for sale of real estate.

We have since asked the Assistant City Attorney if advertising a unit for sale at a price below appraised value and then requiring that the buyer enter into a mortgage for the difference between the advertised sale price and the appraised value to secure the City's investment in the property is in violation of any truth in sales or truth in lending requirements. We were told that it does not violate any rules as long as notice of the requirement that the family enter into such a mortgage and accompanying promissory note is provided before an offer is accepted on the property.

By taking a mortgage on the property for the difference between appraised value and sale price, with a note that requires repayment at the higher amount of the face value of the note or the % value that the loan represents in the appraised value of the unit at the time of purchase we help assure the affordability to the next buyer and we leave open the possibility of waiving the LURA requirement which we are finding may hamper the ability of a low income family to sell a property and move if some future circumstance requires this.

Our recommendation is reflective of the desire to assist OFS in meeting their immediate needs of selling the 3 units, paying them back for costs incurred in holding the units for a longer period than normal, and reducing their future debt service costs for holding these units until they are actually sold; while still meeting our program framework requirement of a repayment of CDBG provided capital assistance for properties.

**Total Cost/Total Beneficiaries Equals:** **\$51,700 of assistance in total for each of 3 units**

**CD Office Funds/CD-Eligible Beneficiaries Equals:**

**100% for the three existing properties**

**CD Office Funds as Percentage of Total Budget:**

**9. Staff recommendation:**

1. Approval of request to amend the contract to sell the 3 properties ( 4723 Freese La., 4805 Freese La. and 100 Morningside) for less than the appraised value of the unit
2. Approval of the request to amend the contract to allow OFS to retain the amount of HOME assistance in each property as an offset for costs rather than passing these funds on to the families as loans that write down the cost of the unit from the appraised value purchase price.
3. Approval of a short term deferred loan of HOME Match funds in the amount of up \$207,000 including principal and interest to the time of repayment, which will be used to pay off the existing bank loans on the 2 Freese Lane, properties, thereby reducing the holding costs for those units until they are sold. Said loan to be repaid in part at sale of each unit at face value of the note with no interest. A mortgage and promissory note will be required on each property to secure the loan.
4. Require that the buyers of three assisted units provide the City with Land Use Restriction for the amount of time required by the HOME regulations based on the amount of HOME and HOME Match funds provided for each unit.
5. Require that the buyers of the units provide a mortgage to the CDBG Office for the amount of HOME loan assistance now approved as a grant to OFS ( \$16,150 on each of the Freese Lane units and \$18,700 on the Morningside unit ), said mortgage to be secured by a promissory note that requires repayment of the amount of the loan or the percent of value that it represents in the current (at time of sale) appraised value of the property, which will be determined by an appraisal to be provided by the first mortgage lender on behalf of the buyers. Approve a waiver of the 100% Loan to Value requirement for first time borrower loans if the appraised value of the properties has decreased since OFS has the appraisals done for each property.

<b>Technical and Regulatory Issues</b>	<b>Project information</b>
Within unit, capital, mortgage limits	yes
Within Subsidy layering limits	yes
Environmental Review issues	yes
Eligible project	Eligible
Conflict of interest	None reported
Church/State issues	Not applicable
Accessibility of program	OK
Accessibility of structure	NA
Lead-based paint issues	NA
Relocation/displacement	NA
Zoning restrictions	NA
Fair Labor Standards	NA
Vulnerable populations	NA
Matching Requirement	NA
Period of Affordability for HOME/HOME Match funds	Will meet applicable requirement.
Supplanting issues	None
Living wage issues	Will need to comply
B.A.D. building process	NA
MBE goal	NA
Aldermanic/neighborhood communication	NA
Management issues:	None