

# Memo

**TO:** CDBG Committee  
**FROM:** Barb Constans, Grants Administrator  
**SUBJECT:** Operation Fresh Start Program Income Request  
**DATE:** June 23, 2010

Operation Fresh Start has requested a modification to their program income contract to allow them to sell properties in which we have invested their program income funds and at the time of sale provide us with security on the loan amount in that particular property with an assignment of mortgage on a different property. This would mean that they would not return the program income at the time of the sale of one particular property but at the time of sale of a property on which they hold a second mortgage given to them by the buyers of that property at the time the property was originally sold.

## Background

Operation Fresh Start is and has been in financial difficulties for several years. As we know, the housing market and the credit crunch for low income buyers has made it difficult for them to sell properties. In addition, the drop in the appraised value of their homes has forced them to use their operating reserves to pay off the bank construction financing loans and CDBG program income loans when homes do sell. As an example, when OFS contracted with us to buy, renovate and sell the foreclosed property at 913 Northport Dr. the after rehab appraised value was \$152,00. This property was recently sold for \$141,000, its current appraised value. In total OFS has had to bring over \$100,000 to closing that happened in 2009 and 2010 to cover the change in the market value of properties. This cash loss has put OFS in jeopardy of not being able to continue to provide the service to young people and our community that we have come to rely upon.

Their request to use the equity they hold on other properties to provide collateral for loans we currently have on houses would mean that for future sales they would not have to use their cash reserves to sell a property. We have accepted assignments of mortgage as collateral on other projects, most commonly the lease purchase units owned by Common Wealth where they assign their mortgage from the buyer to us at sale. We have also agreed to these assignments of mortgages and loans as collateral from Urban League of Greater Madison for their Single Family Rent to Own Program.

This request would mean that we would be able to assist OFS with their immediate cash flow concerns without having to use new funds to do so. We would not be investing HOME or other funds in units already assisted so we would be able to continue to fund new affordable housing units per our Framework.

Because OFS would be using existing contractual resources we would not be returning to the CDBG Committee or Council for approval of additional funds but would be able to provide the assistance they have been requesting for some time. The impact would be most keenly felt by OFS since they would have fewer program income funds to work with however, they have indicated that in response to the housing market they will be seeking funds for fewer units for 201. They will also continue the collaborative methodology of doing projects as ways to reduce their potential liability position at sale of a unit, which in turn will reduce their immediate need for their revolving fund. By the time the housing market recovers they would hope to have the program income funds available for their use as usual.

One potential issue for our office would be the loss of the program income funds in our base for administrative funds. Over the past 5 years program income has averaged \$95,503 per year for a PI Admin available to us of \$19,100. While this amount will impact on our administrative budget, allowing OFS to use their program income as requested would result in the CDBG Office being able to positively impact the agencies financial well being without a significant new cash injection and without a large negative impact on our administrative funds balance.

I have since asked the Assistant City Attorney if the City can take an assignment of mortgage on another property rather than requiring immediate repayment of the loan on the assisted property. The response was that this would be a material change in the terms of our contract and would require Committee and Council approval. Each assignment of mortgage should be based on an analysis of the current assessed value of the properties at the time of sale and assignment, vis a vis the value of the existing mortgages, including the assigned mortgage, to assure that there is sufficient value to cover the mortgage being assigned to the City by OFS.

#### Recommendation:

Approve the modification to the OFS program income contract to allow OFS to, at the time of sale of a property with program income revolving loan funds to provide the City with an assignment of mortgage on an alternative OFS property that has built sufficient equity to cover the existing first mortgage and the one being assigned.

Require that assistance be limited to a maximum of \$125,000, of their outstanding program income loan balance on 5 or more properties, with a maximum of \$25,000 of assignment per property; properties to be approved by the City.

