



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  
 PH 608 266 6520  
 FAX 608 261 9626

## MEMO

To: CDBG Committee

From: Linette Rhodes, Grant Administrator

Date: 02/20/12

Re: Underwriting waiver for potential OFS home buyer

### **Underwriting Waiver Request:**

A potential homebuyer is looking to purchase a property that was rehabbed in 2009 by Operation Fresh Start's Youth Build program. The project was funded with \$51,000 of HOME funds. Of these funds, \$29,325 was used as a grant to OFS as a developer fee and to fund the Youth Build program. The remaining \$21,675 was used for construction costs and can now be passed on to the homeowner as a deferred payment down payment assistance loan.

The homebuyer is requesting that the CDBG Committee waive the liquid asset restriction of \$15,000 and authorize CDD staff to commit \$21,675 of the HOME funds to down payment assistance for the purchase. The homebuyer has attached a detailed letter to demonstrate his need for this particular affordable housing unit.

### **Background Information:**

Prior to selling a unit, a CDD funded agency must do underwriting to determine the amount of assistance that is reasonable and necessary for a household according to HUD. The CDD has established underwriting guidelines for homeownership activity to clearly document expectations of "need" in a household. Underwriting guidelines are reviewed and approved each year by the CDBG Committee. The three thresholds reviewed are:

Income: Household must have a gross income that does not exceed the current 80% household median income set by HUD each year.

Ratios: Households must not have a total debt ratio over 40%. Any ratio below 30% must be approved by the Grants Supervisor and will be reviewed on a case by case basis. HUD's recommend housing payment for affordable housing is at least 30% of an individual's gross income.

Liquid assets: Household cannot have more than the greater of \$15,000 or 12 months of PITI in liquid assets (this does not include retirement accounts) after closing.

Using these thresholds we can clearly define for HUD why federal assistance is needed for a purchase that is partially funded through the Community Development Division.

**Underwriting Review:**

Gross Compliance Income: \$41,265.68  
 Underwriting Income: \$39,134.40  
 Ratio Limits: 21.1% Housing ratio and 24% Total debt ratio  
 Liquid Assets after closing: \$94,886  
 Potential PITI with purchase \$690.71  
 Current housing payment \$600

Sources and Uses

Purchase Price: \$126,000  
 Closing Costs: \$2,353  
 Total Funds \$128,353

First Mortgage: \$95,000  
 Down Payment: \$21,675  
 Borrower Funds: \$11,678  
 Total Funds \$128,353

**Staff Recommendation:**

Staff recommend granting the waiver based on the need outlined in the attached letter. In addition, this is an OFS property that has been on the market for a substantial amount of time.