



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

Child Care
Community Resources
Community Development Block Grant
Madison Senior Center

November 25, 2015

To: CDBG Committee Members

From: Linette Rhodes

Date: November 25, 2015

The City's Community Development Division provides down payment assistance to low- to moderate-income households with the goal of expanding their opportunities for homeownership. As part of each down payment assistance transaction, a mortgage and promissory note specifying the terms of repayment are executed.

The CDD's repayment terms were initially developed by staff and then reviewed and approved by the CDBG Committee. For many years repayment terms for the CDD's federally-funded down payment assistance loans have included a shared appreciation provision requiring that the borrower repay a portion of the increase in value (appreciation) of the property based on the percent of value the City CDD loan represented at the time the original loan was made.

The specific language in promissory notes prior to 2014 reads as follows:

".... Borrower promises to pay to the order of the CITY OF MADISON, a Wisconsin municipal corporation, at its offices located at 215 Martin Luther King Jr. Boulevard, Madison, Wisconsin, 53703, the greater of (i) the sum of [amount of loan], or (ii) an amount equal to [percentage of CDD funds invested in the property] of the current fair market value of the Property as determined by an appraisal acceptable to the City at the time of repayment, immediately upon the earliest of the sale, transfer, or change or discontinuance in the permitted use of the Property located at [address] and further described in Exhibit A, which is attached hereto and incorporated herein by reference (the "Property")."

The CDD recently received a request from Sarah Kraus to review the terms of repayment for her down payment assistance loan. Ms Kraus believes the appraisal used to establish her repayment amount did not use appropriate comparables to justify the sales price. The property was placed on the market on 7/14/15 at \$154,000. The Realtor supplied CDD with comparable houses in the Twin Oaks subdivision to justify his recommend listing price. On August 27th (approximately 45 days on the market) an initial offer of \$148,000 less a \$2500 seller credit was received. After a couple of counter offers the agreement reached was a sales price of \$150,000 with a \$2500 seller credit.

On September 14, 2015, a appraiser completed an assessment of the property and of comparable properties in the area. The appraisal was requested by the buyer's mortgage lender and paid for by the buyer. The three comparables were within one mile of the subject property and were the closest the appraiser could find to the subject property's gross living area. It was noted by the appraiser that

the comparables had to receive high adjustments in price due to quality differences of the properties.

	Subject Property	Comparable #1	Comparable #2	Comparable #3
Sales Price	\$150,000	\$192,000	\$183,000	\$175,000
Sq Footage	630 sq ft	816 sq ft	1,008 sq ft	1,120 sq ft
Gross Adj		-\$27,600	-\$17,800	-\$16,900

Using the Sales Comparison Approach, the appraiser's final analysis stated Fair Market Value of the property was \$164,000. CDD staff reviewed the appraisal and has determined that the comparable properties required high gross adjustments and had higher quality improvements than the subject property.

It is CDD's recommendation that Fair Market Value in this transaction be based on the sales price negotiated between the buyer and seller rather than appraised value. The seller was required to complete the closing transaction on October 21, 2015 in order to comply with the Offer to Purchase. Repayment was sent to the City of Madison for \$26,732, The seller is requesting \$2,282 included in the repayment, based on the appraised value, be returned.

	Fair Market Value	CDD Investment	Repayment
Appraisal	\$164,000	16.3%	\$26,732
Sales Price	\$150,000	16.3%	\$24,450