



Department of Planning & Community & Economic Development

## Community Development Division

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Child Care  
Community Resources  
Community Development Block Grant  
Madison Senior Center

December 22, 2015

To: CDBG Committee

From: Jim O'Keefe, CD Director

### Issue

The Urban League of Greater Madison (ULGM) is requesting an extension of Community Development Block Grant (CDBG) loan terms on a loan used to acquire properties under the agency's Home Ownership Program, and to subordinate the repayment of that debt to first mortgage financing.

### Background

The Urban League of Greater Madison administered a Home Ownership Program from 1995-2007. The program, which received financial support through the CDBG Program, was designed to help larger, low-income families build financial independence through home ownership and financial counseling.

Under the program, ULGM used CDBG funds to purchase and rehabilitate a total of 56 single-family homes in various neighborhoods throughout the city. The homes were made available to families through a 15-year lease-to-purchase arrangement with rents set at affordable levels, subsidized with federal low income housing tax credits. Families received group and individualized counseling throughout the duration of their lease periods. After 15 years, participants were given the option to purchase the properties with no down payments. Sales prices would reflect ULGM's costs in acquiring and rehabbing the properties, including the CDBG loans. At the time of closing, any appreciation in property values during the lease period was used to reduce the mortgage amount. To date, half of the 56 homes purchased by ULGM under the program have been purchased by program participants.

In 2007, the Wisconsin Housing and Economic Development Authority (WHEDA), the agency responsible for administering federal low-income housing tax credits in Wisconsin, notified ULGM that its lease-to-purchase program would no longer receive tax credit support. Nonetheless, ULGM moved ahead and, with the aid of CDBG funds awarded that year, purchased three single-family homes. At the time, it was hoped the program could proceed with a shorter (5-year) lease term and that families might still be in a position to purchase the properties at the end of that period.

The housing recession that followed ULGM's acquisition and rehabilitation of these properties caused dramatic declines in their values. Eight years later, those values have not rebounded to pre-recession levels. Not surprisingly, the decline in values has hindered program participants' abilities to obtain mortgage financing to purchase their homes. One family was able to take ownership during the lease term; however, securing financing for the purchase required the

buyer to also assume, from UGLM, responsibility for repayment of the CDBG loan. The two remaining properties continue to be leased by Home Ownership Program participants. Still hampered by the effects of reduced property valuations, the houses are considered “underwater” at a combined loan to value ratio of 111%, a situation that will make it very difficult for buyers to obtain first mortgage financing.

Both the first mortgage loans to Forward Community Investments and the CDBG loans for the two remaining properties (at 3 Montana Circle and 1401 Wyoming Way) have matured beyond their repayment dates. ULGM is seeking to refinance the first mortgage with Johnson Bank and is requesting an extension (and continued subordination) of the CDBG loans. Though it is routine to subordinate CDBG loans, the fact that the loans are currently beyond their due date warrants particular attention by the Committee.

**Recommendation**

Given the situation described above, staff recommends extending the repayment date for the CDBG loans to February 1, 2026 which would match the loan terms that had been offered for other acquisitions under ULGM’s Home Ownership Program, and agreeing to subordinate repayment of the loans to the first mortgage financing.