



Department of Planning and Community & Economic Development

Community Development Division

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Child Care
Community Resources
Community Development Block Grant
Madison Senior Center

Memo

To: CDBG Committee

From: Linette Rhodes, Community Development Grants Supervisor
Terri Goldbin, Community Development Specialist

Date: 7/1/2022

Re: CDD Underwriting Modifications

Home-Buy the American Dream (HBAD) is a down payment assistance program, administered by the City of Madison's Community Development Division (CDD). The program objective is to provide financial assistance to low-moderate income households, thereby reducing first mortgage obligations. This results in greater affordability to participants in purchasing a home. Eligible households may receive up to \$20,000 in assistance and are required to own and occupy the dwelling. To date, the HBAD program has provided assistance to 1,298 households totaling approximately \$9.1 million.

Loan Summary:

Year 2018	Year 2019	Year 2020	Year 2021
55 Loans	68 Loans	23 Loans	19 Loans
\$792,600	\$1,235,000	\$322,750	\$323,900

During the COVID-19 pandemic, the housing market tightened considerably. Surging demand and shrinking supply combined to make home buying more difficult, especially for households seeking to utilize down payment assistance programs.

HBAD is primarily funded with a combination of State Housing Cost Reduction Initiative (HCRI) funds and Federal HOME Investment Partnership/Community Development Block Grant Program funds. These funding sources carry State and Federal regulations that create barriers for those that utilize them that the City cannot waive. For example, per State and Federal regulations, properties accessing HBAD must be inspected and meet Madison's Minimum Housing Code Standards at the time of occupancy, a condition typically placed in an offer to purchase. Such conditions are especially problematic in a competitive housing market, in which offers with few or no conditions gain favor with the seller.

While the City cannot waive requirements created by State and Federal regulations and remove these competitive barriers, we do review our underwriting guidelines annually to ensure the program remains responsive to changing market conditions. With that goal in mind, CDD proposes the following program modifications to begin August 1st, 2022:

Current CDD Underwriting Policy	Modified CDD Underwriting Policy
A property must be identified for an applicant to receive commitment of funds.	CDD will pre-approve applicants, and reserve funds for up to 90 days, in order to allow a purchaser to submit an offer without the contingency of securing approval of an HBAD loan application.
Maximum debt to income ratio (total debt divided by gross income) is limited to 45%, with exceptions granted case by case.	Increase the allowable debt to income ratio to 55% to align more closely with current market trends. (First mortgages are approved as high as 50% in today's market.)
No cash reserves required after closing.	HUD now requires a minimum cash reserve for buyers in case of emergencies after closing. The policy will be updated to require \$50 cash reserve or a written statement describing how a buyer would handle emergency repairs upon closing.
Maintenance and utility expenses not included in any debt to income ratio reviews.	HUD now requires evaluation of the impact of all housing-related monthly recurring expenses. To estimate this expense CDD will multiply the dwelling unit's square footage by 14 cents. The ratio will be capped at 75% unless an exception is granted.
Eligible households may receive up to \$20,000 in assistance	Eligible households may receive up to \$35,000 in assistance

Historically, only 20% of CDD's down payment assistance loans have been awarded to black households. In reviewing the underwriting guidelines through an equity lens, CDD set out to avoid creating additional barriers for households that utilize the City's program. HUD's requirement for cash reserves and a third ratio may be waived to fulfill the mission and vision of the Racial Equity and Social Justice Initiative.

More generally, CDD is interested in furthering the City's goal to support more BIPOC households interested in homeownership. Toward that end, the following initiatives are underway:

- Put forth modifications to underwriting guidelines that improve access to HBAD funds
- Partner with community groups like Voices of Faith group to better engage the public
- Create new and better marketing materials and enhance our social media presence
- Cultivate partnerships with developers and non-profits, and provide additional resources to expand available homeownership programs
- Create a preferred list of first mortgage providers that have experience using down payment resources

CDD staff recommends approval of the proposed underwriting modifications and looks forward to continuing to work with the CDBG Committee on homeownership initiatives.