



Department of Planning & Community & Economic Development  
**Community Development Division**

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## MEMO

To: Common Council

From: Community Development and Economic Development divisions

Date: May 22, 2012

RE: City of Madison owner-occupied short sale policy

The Community Development (CDD) and Economic Development (EDD) divisions have been asked to create a short sale policy for City of Madison owner-occupied properties that have outstanding debt to City of Madison. The current instructions given to property owners inquiring about short sale is to contact their Alder to be a sponsor of a Council resolution, authorizing approval of the short sale request and loan write-off. The Alder then must contact city staff in either division and decide if they are interested in becoming a sponsor. A resolution would then be drafted by staff and introduced to the Council for referral to the Board of Estimates, discussed and voted on for each property at the Common Council meetings. This has been seen as a tedious process for property owners and for Alders, as there is a lack of coordinated effort to process the information and provide consistent good service in a timely manner for all City of Madison residents.

Staff reviewed common short sale procedures in the current market with private lending institutions and determined five areas of hardship that could determine if a homeowner is in distress and needs to sell the property at a loss. Similar to the underwriting policies that have been approved by the Council to allow city staff to issue loans on behalf of the City of Madison we ask that staff be allowed to negotiate between lenders and homeowners any potential losses from sale.

City of Madison has approximately \$20 million invested in owner-occupied properties. This covers 1246 individual loans into 988 properties. Loans range from \$1,200 to \$128,223 with an average loan balance of \$21,000. The foreclosure rate for both CDD and EDD is below 2%. Underwriting guidelines for all programs are used to ensure conservative lending practices are followed.

The objective of allowing City of Madison to consider short sale requests is to deter possible foreclosure actions against property owners. Homeowners who are experiencing hardship are requesting to sell their properties in a distress sale at a loss to their investment as well as the investment of the lender. In most cases they are asking for a request to sell in order to avoid a foreclosure judgment. In 2011, CDD wrote off a total of \$104,889 and EDD wrote off a total of \$50,175 due to foreclosure actions. City of Madison Attorney's office files a claim of surplus for funds from the sheriff's sale, however the auction amount is

generally the balance of the amount owed to the first lender. We generally lose all investment if the property is sold in foreclosure. In the event a homeowner is able to get an accepted offer and the homeowner is in hardship, the city would like to be able to negotiate and provide alternative options to the homeowner.

In the past three years, both CDD and EDD have received a total of five known short sale requests for all programs. Of the five requests, two of the properties did ultimately go into foreclosure. Staff does not anticipate that this policy will have any greater impact to the city's financial situation than current foreclosures may, but rather see it as a tool that can be in place to avoid foreclosure for distressed homeowners.