



# Memo

To: CDBG Committee  
From: Julie Spears, Grants Administrator  
Date: October 29, 2013  
Re: Waive Loan-to-Value Limit for CWD 2013-2014 SW Rental Acquisition & Rehab Projects

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Common Wealth Development (CWD), a non-profit affordable housing developer, will soon make offers to purchase on at least 12 units of rental housing on the City's Southwest side in late 2013 and 2014. CWD, which has been closely monitoring several vacant properties in the area currently in protracted foreclosure processes, plans to target these properties immediately upon listing.

CWD will use up to \$648,000 in previously authorized HOME Rental Development funds (\$216,000 remaining from 2013 and \$432,000 in 2014), leverage first mortgage and some of their own equity on these projects. After rehabilitating these units, CWD will provide safe, decent, affordable and well-managed rental housing for low-income households as part of a targeted revitalization effort in one of the City's high priority areas.

CWD and staff anticipate significant rehabilitation may be needed to address high levels of deferred maintenance typical with foreclosed properties that sit vacant for extended time periods. This kind of rehabilitation typically increases the estimated value of the property only modestly (e.g., \$200,000 in rehab may only improve the appraised market value by a \$100,000). Foreclosed properties may attract multiple offers to purchase, therefore making atypical financing requirements, such as the City's LTV ratio limit, a barrier to a successful competitive process.

CWD is currently rehabilitating the 8-unit rental housing project which they acquired with the City's HOME funds in September 2013 (2005-2009 Leland Dr.). Earlier in 2013, CWD's appraiser found no comparable sales; only listings. Distressed sales and foreclosures in this volatile market have impacted appraised values. Common Council granted a waiver of the 115% loan-to-value ratio in July 2013 for this project. Based on CWD's experience with this project, knowledge of the area, knowledge of the markets, and necessity to move quickly with foreclosures, CWD and staff anticipate that the secured loan-to-value ratio needed to undertake future projects in this area will exceed the 115% limit in the 2013-2014 CDD Program Goals and Objectives.

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Child Care

Community  
Resources

Community  
Development  
Block Grant

Madison Senior  
Center

Green Madison

For these reasons, CWD is requesting a waiver of the 115% loan-to-value ratio limit, as referenced in their letter dated October 21, 2013.

While staff recognizes that this is a higher risk than the CDBG Office typically assumes, this risk is greatly minimized by the following factors:

- Common Wealth Development has a strong record of performance and responsibly using public funds to increase the stock of affordable housing for low-income people while revitalizing and stabilizing distressed neighborhoods;
- CWD has worked extensively on the Southwest side over the past year, including hiring a Housing Community Organizer in 2012, which increases the likely success of these projects;
- Property values are likely to increase if the planned Southwest side projects and revitalization efforts are successful;
- CWD is in a unique position to provide much needed quality property management practices and community development expertise to this challenged set of properties and neighborhood; and
- The project would not likely be undertaken but for the City's commitment of funds, resulting in a lost opportunity to advance neighborhood stabilization efforts while adding affordable rental housing.

**Recommended Action:**

Staff recommends that the CDBG Committee approve a waiver to the 115% loan-to-value limit in the 2013-2014 CDD Program Goals and Objectives under which this funding was originally authorized and allow an upfront loan-to-value ratio of up to 130%.