



Legislation Text

File #: 01141, **Version:** 1

Fiscal Note

This resolution authorizes the CDA to create and administer a new loan program, utilizing \$1,600,000 of a \$4,100,000 Fannie Mae line of credit as the financing source. In 2004, the CDA incurred closing costs of \$18,250 and currently pays a standby fee of \$2,400 per year to maintain the availability of this \$1,600,000 variable rate line of credit extension.

Under the proposed program terms, the CDA would provide short-term loans of between \$50,000 and \$1,600,000 to selected projects at an interest rate at least equal to the rate charged by Fannie Mae, and the CDA would administer the program utilizing existing staff resources. All individual loans would be subject to approval by the Common Council and would be fully due and payable by June 15, 2007.

The Fannie Mae line of credit is backed by a general obligation pledge of the City to the extent that the CDA acts to draw upon it. The interest rate and availability of the credit is conditioned on the City maintaining its current bond rating. If the CDA were unable to meet its payment obligations under the line of credit at any time, the City would be responsible for repayment.

Title

Authorizing the creation of a \$1,600,000 American Communities Capital Revolving Fund program, objectives and criteria to be administered by the Madison Community Development Authority (CDA) and capitalized by the Fannie Mae American Communities Fund line of credit.

Body

WHEREAS, on September 24, 2002, the City of Madison adopted Resolution No. 59,816, authorizing the Community Development Authority (CDA) to guaranty payment of a \$2,500,000 American Communities Fund revolving line of credit ("line of credit") loan from Fannie Mae; and

WHEREAS, on November 9, 2004, the City of Madison adopted Resolution No. 62,022 authorizing an increase in the line of credit to \$4,100,000; and

WHEREAS, on the CDA has committed to take down approximately \$2,500,000 of the line of credit to finance development in the Lake Point Project on Madison's South Side, and

WHEREAS, the CDA will advertise and accept written proposals for ACCRF loans from qualified applicants within a targeted geographic area and as of a date to be determined by the CDA, and

WHEREAS, the CDA has reviewed the objectives and criteria for the proposed American Communities Capital Revolving Fund (ACCRF) and hereby requests that the City of Madison authorize the CDA to draw upon the remaining \$1,600,000 line of credit to capitalize qualified ACCRF loan projects.

NOW THEREFORE BE IT RESOLVED that the City of Madison authorizes the Madison Community Development Authority to administer the ACCRF program as stipulated in the Objectives and Criteria attached hereto.

American Communities Capital Revolving Fund Objectives and Criteria April 14, 2005

On April 14, 2005, the Madison Community Development Authority (CDA) considered a proposal to create the American Communities Capital Revolving Fund (ACCRF) to be funded on a project-by-project basis by authorizing CDA draws upon the remaining \$1,600,000 revolving line of credit loan provided by Fannie Mae. The CDA hereby recommends that eligible projects be evaluated according to the following Objectives and Criteria:

Objectives:

1. Preserve and expand the housing supply within the City, including market rate and affordable housing.
2. Eliminate blighted and underutilized property.
3. Conversion of multi-tenant rental property into single- or dual-household owner occupancy.
4. Restore, enhancing or beautifying the facade of historic or architecturally significant residential property.
5. Give preference for ACCRF funds to existing or potential homeowners instead of speculative developers.
6. Give preference for projects located in existing Tax Incremental Districts, Redevelopment Districts, Community Development Block Grant eligible areas and other areas where the City of Madison has committed other funds to encourage redevelopment.

Criteria:

1. Financial assistance shall be provided as short-term loans that shall mature on or before June 15, 2007.
2. Minimum loan amount shall be \$50,000 with a maximum up to \$1,600,000.
3. Loans may be provided in the form of short-term construction financing as set forth in Section 1.4 of the American Communities Fund line of credit agreement:

"Fannie Mae and the Borrower [CDA] agree that the Credit Facility shall be used by the Borrower to finance certain costs and expenses incurred by non-profit, for-profit, or public agency developers in connection with single-family or multi-family residential construction or rehabilitation projects, housing related infrastructure or mixed-use construction or rehabilitation projects (such projects are hereinafter referred to as "Acceptable Projects")."

4. Credit Criteria:
 - a. Repayment ability
 - b. Loan recipient equity
 - c. Loan security and risk. Loan to value not to exceed 90%.
 - d. Subordination to private sector loan when necessary.
 - e. Term of the loan.
5. Other Underwriting Criteria
 - a. Construction financing shall be escrowed with a title company stipulated by the CDA and draws authorized upon satisfactory completion of work by a certified architect chosen by the CDA.
 - b. CDA staff shall conduct personal credit checks of all ACCRF Applicants.
 - c. For projects of historic or architecturally significant nature, the Applicant shall meet with the District Alder and City Historic Preservation Planner.
 - d. Interest rates may be fixed or floating but may not be less than the interest owed by the CDA to Fannie Mae on a quarterly basis (See 7 (a)).
 - e. The CDA shall take a mortgage security interest in the property to be receiving ACCRF assistance.
 - f. The CDA shall conduct an independent appraisal of the subject property or may review at its discretion, an independent appraisal conducted by a first mortgage lender. In either case, the CDA must determine that the total loan-to-value exposure of the ACCRF does not exceed 90%.
6. Loan Application and Review Process
 - a. The CDA shall advertise and accept written proposals for ACCRF loans from qualified applicants within a targeted geographic area and as of a date established by CDA.
 - b. The ACCRF applicant shall complete an ACCRF application form that shall be reviewed by CDA staff and submitted to the CDA for evaluation according to 1) ACCRF objectives, 2) Underwriting criteria
 - c. Upon CDA approval, a resolution authorizing transfer of line of credit funds of the project shall be introduced, reviewed and adopted by the Common Council.

7. Other Specific Loan Terms

- a. Interest rate shall not be less than the interest owed by the CDA to Fannie Mae on the line of credit, established at the 3-month London Inter-Bank Overnight Rate (LIBOR) plus 90 basis points.
- b. If ACCRF is used with Low-Income Housing Tax Credit (LIHTC) projects, ACCRF funds must be repaid within 30 days of receipt of LIHTC equity generated by the sale of the tax credits.
- c. New multi-unit owner-occupied residential (i.e. condominiums) shall be required to repay a proportional amount of the ACCRF loan within 30 days of the sale of each condominium unit.
- d. Condominium projects shall also be required to stipulate to the CDA's satisfaction a mortgage release price for each condominium unit.
- e. All ACCRF loans shall be closed by CDA legal counsel.

8. Program Expiration Date

The line of credit expires with Fannie on December 15, 2007. All repayments of ACCRF funds must be received by CDA by June 15, 2007.