File #: 46078, **Version:** 1

Fiscal Note

The proposed resolution modifies a loan made from the Homebuyers Assistance Program in May 2006. The proposed modification would reduce the loan interest rate from 4.75% to 2.75%, modify the loan amortization schedule to 60 years, with a balloon payment due in 15 years. These modifications would reduce the home owner's monthly payment from $342.25 to $124.86 for 15 years. At the time the balloon payment is due, City staff would work with the home owner to devise a way to draw equity from the property that could be used to repay the remaining loan balance.

The Homebuyer's Assistance program, which began in 1974, provides loans to eligible buyers to finance a portion of the acquisition and rehabilitation cost of an eligible property. These loans are available to owner-occupants/developers of 1-8 unit buildings. Funding is from available fund balances, loan repayments, and program income.

Title

Loan modification for Homebuyers Assistance loan provided in May 2006.

Body

The Community Development Division is seeking approval to modify a May 2006 loan made from its Homebuyers Assistance Program (HBA). A description of the program is included below. The subject loan was made to assist the current owners in purchasing and rehabilitating their first home located at 102 N Second Street. The home owners complied with all program eligibility requirements at the time of purchase, and the ratio of their income to debt service ratio was in line with program standards. The loan was committed in May 2006 at the then current interest rate of 4.75%, and repayment was deferred for ten years. The loan automatically converted to one with installment payments in 2016, with a payment of $342.25 due monthly

Since the loan was made, the household has changed from a three-person household with two adults, to a two -person, female headed household. After reviewing the household's current financial statements, CDD staff has determined that the required monthly payment of $342.25 is not sustainable. In addition, because area property values have not increased enough since the purchase to support sale or refinance of the property without a short sale to City of Madison, these alternative options are not feasible.

Given these facts, CDD staff proposes a loan modification that would modify the current repayment structure to provide affordability for the homeowner while also helping to ensure that the loan is repaid. The proposed loan modification includes the following provisions:

- Reduce the loan interest rate to the current HBA program rate of 2.75%.
- Modify the loan amortization schedule to 60 years, with a balloon payment due in 15 years.

These modifications would reduce the home owner's monthly payment from $342.25 to $124.86 for 15 years. At the time the balloon payment is due, City staff would work with the home owner to devise a way to draw equity from the property that could be used to repay the remaining loan balance.

Program Description: City HBA Loan Program

The City of Madison Community Development Division offers lending programs that provide financial assistance to eligible residents interested in purchasing homes in the City of Madison. One of those the "Homebuyers Assistance" (HBA) program provides financing for a portion of purchase costs and for rehabilitation as well. Eligible properties include those with one to eight units that are located in the City of

Madison. Applicants must be proposed home owners who plan to occupy the property for the life of the loan. For low- to moderate-income households (those earning less than 80% of the Dane County median income) repayment is deferred for up to ten years, at which point loans are converted to installment loans, amortized over 15 years. HBA provides a below market rate which is fixed at the time of closing; the current 2017 interest rate is 2.75%. Borrowers whose incomes are greater than 80% of the Dane County median income, but less than 125% of Dane County median income may still take advantage of the loan program, but without a deferment period. The maximum loan amount under the program is $40,000 for a one-unit property, $10,000 per additional unit, and up to $110,000 for an eight-unit property.

Action

WHEREAS, a City of Madison resident received a Homebuyers Assistance (HBA) loan from the City of Madison, Community Development Division in 2006 and is now seeking a loan modification that will lower the monthly payment; and

WHEREAS, the homeowner has agreed to the terms proposed by CDD staff to refinance the loan to the HBA's current program rate of 2.75% and to extend the amortization period of the loan to 60 years with a 15 year balloon payment; and

WHEREAS, the Promissory Note signed by the homeowner is due and payable to the City of Madison and, therefore, any modifications to it must be approved by Common Council;

NOW, THEREFORE, BE IT RESOLVED that the Common Council approves the proposed modification of its Promissory Note for 102 N Second Street to include the terms listed above and authorizes Community Development Division staff to execute the loan modification by ensuring completion and processing of related documents.