

OPERATION FRESH START REQUEST FOR EXCEPTION TO CDBG & HOME MORTGAGE REDUCTION ASSISTANCE – DEFERRED PAYMENT LOAN PROGRAM STANDARDS

Background: Operation Fresh Start received an award of \$54,000 in 2020 HOME funding to construct or rehab a single-family home to be sold to a low-income homebuyer. Operation Fresh start would like to partner with the Urban League of Greater Madison on this project. OFS would use funds to rehab an identified property that is currently owned by Urban League. After rehab, the property would be sold to an income eligible buyer. Urban League will provide the primary financing to the buyer of the property.

Dane County Mortgage Reduction – Deferred Payment Loan Program Standards require that the borrower “qualify for a first mortgage that does not exceed the prevailing market rates. First mortgages must be fixed rate loans with no negative amortization, balloon payments or adjustable rate features.”

Urban League’s loan product does not comply with Dane County’s program standards. The loan features interest only payments for 7 years, with a balloon payment in year 8. Payments are deposited in a savings account for the borrower, to be used to refinance the loan in year 8. Additional loan details provided below.

1. **Rate:** between 3.5% and 3.75%, fixed rate only. The annual percentage rate of the Loan does not take into account the required Savings Deposit
2. **Loan Type:** Non-amortizing for 7 years, amortizing beginning year 8, w/ balloon payment at maturity
3. **Term:** 8 years
4. **Payments:** Interest only (no principal) for 7 years, amortizing beginning year 8, plus escrow and savings deposits, due on the 1st of each month
5. **Payment Detail:** Monthly payment detail will be included on your periodic loan statements. Required monthly payments are listed below. Discounts on you interest rate are available for setting up ACH deposits.
 1. Interest Payment
 2. Savings Deposit
 3. Property Taxes Escrow
 4. Homeowners Insurance: Property & GL Escrow
6. **Escrows & Savings Deposits:** The required payments, in addition to interest, which are included in your monthly invoice will fund accounts for each of your future liabilities/payments.
 - *Savings Deposit:* paid monthly, deposited into an interest bearing account and held for the benefit of the borrower’s refinancing after year 7, subject to account control agreement and right of setoff following default of loan. Payment amount is a sliding scale, based on home price and borrower income. Range is between \$150 and \$300. Please see Mortgage for further detail.
 - *Property Taxes:* paid monthly, held by Loan Servicer, due to Madison’s Department of Finance 15 days after year’s end
 - *Homeowners’ Insurance:* paid monthly, coverage to be bound pre-closing through a carrier approved by both Lender and Servicer.

REQUEST: OFS requests an exception to loan qualifications requirements in order to move forward with partnership with Urban League. In order to comply with all federal requirements, funding for project will be switched from HOME to CDBG using program income received in 2020.