



**City of Madison
Community Development Division**

**Program Guide for Homeownership
Developers and Sub-recipients**

The City of Madison CDBG Committee has approved these underwriting guidelines for use by the Community Development Division's CDBG Unit assisted mortgage reduction financing.

Updated 1124

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PROGRAM OVERVIEW

The City of Madison Community Development Division (CDD) promotes and facilitates homeownership opportunities for lower income households. One method CDD uses to achieve this goal is to fund various nonprofit programs that develop affordable housing for resale to income eligible homebuyers. Another method is to provide mortgage reduction assistance directly through City of Madison administered programs. Funding to support these efforts comes from the U.S. Department of Housing and Urban Development HOME Investment Partnerships Program (HOME) and Community Development Block Grant (CDBG) program, as well as programs funded by the State of Wisconsin and the City of Madison (the City). All mortgage reduction assistance is provided to the homebuyer in the form of a long-term deferred loan, generally as a second mortgage. To ensure that all homebuyer assistance loans from CDD are processed in a similar manner and are subject to the same conditions, the CDBG Committee has established these program/underwriting guidelines. Their requirements must be followed by all agencies providing CDD funds to homebuyers.

The requirements and the forms necessary to administer this program are subject to change. Agencies will be informed as changes occur. There may be additional requirements due to specific program descriptions, which shall be articulated in the contract between CDD and the administering nonprofit agency. Agencies administering CDD funds should contact their Community Development Specialist if clarification is needed.

The City of Madison's Community Development Division is committed to furthering racial equity and social justice in our community with our homebuyer assistance funds. The City's Racial Equity and Social Justice Initiative (RESJI) mission is to establish racial equity and social justice as core principles in all decisions, policies and functions of the City of Madison. One of the visions of the RESJI is for living wage jobs, safe neighborhoods, high-quality education, a healthy, sustainable natural environment, efficient public transit, parks and green spaces, affordable and safe housing and healthy food are affordable to all. The City reserves the right to waive general underwriting requirements, including minimum cash reserves after purchase, to fulfill the mission and vision of the Racial Equity and Social Justice Initiative.

Community Development Division

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Non-Discrimination

CDD funds will be made available to all persons without regard to race, national origin or ancestry, color, religion, sex, age, handicap/disability, marital status, source of income, arrest record or conviction record, less than honorable discharge, physical appearance, sexual orientation, political beliefs, familial status, or student status or the fact that such a person is a member of a domestic partnership as determined in MGO 39.03. The loans will be approved based on the homebuyer's eligibility and the availability of funds.

Privacy Concerns

Homebuyer information obtained by the Community Development Division will determine eligibility for a CDD loan according to these underwriting standards. Certain information will not be disclosed outside the CDD without consent except to the person or company verifying the information including, but not limited to, the employer, bank, lender, and any other credit reference as needed to verify other credit information and as permitted by law.

Appeals Process for Denial of Homeownership Assistance

The sub-recipient must have an Appeal procedure on file with the City.

SUBSIDY LAYERING

Maximum Loan-to-Value

The total of the of the first mortgage plus the city funded mortgage and any other loans collateralized by the property shall not exceed 105% of the home's value based on the purchase price of the property or the appraised value, whichever amount is less.

Stacking of Funds

Combining funds from more than one loan program will be allowed, however the City's funds must take a second lien position. Exceptions to second lien position may be considered when there are other City funds involved such that a third mortgage position could be allowed. Approval must be made by Community Development Grants Supervisor or designee.

HOUSEHOLD ELIGIBILITY

Compliance Income

Have a household gross annual income that does not exceed 80% of the area median income limits as published annually by HUD. [Annual income limits](#) are published on the City of Madison's website for CDBG & HOME funded programs:

Education & HUD Approved Counseling

All applicants must complete [approved homebuyer education course & HUD approved homebuyer counseling](#). A signed training & counseling certificate(s) must be submitted prior to closing. Homebuyer's certificate(s) must be dated no more than 18 months prior to loan closing.

Citizenship

Household members must be documented United States citizens or permanent residents for loans funded with federal HOME Investment Partnerships Program dollars. **There is no citizenship requirement for loans funded by City levy, State funding, or CDBG funds.** [Borrower's Authorization Form](#) must be completed to determine status.

First-time homebuyer

Be a first-time homebuyer as defined by [HUD](#):

- A **first-time homebuyer** is defined as any individual listed on the deed, mortgage and note who has not owned a property during the three-year period prior to purchase. For married couples, if only one individual is listed on the deed, mortgage and note both individuals must qualify as first-time homebuyers as defined above.
- A **single parent** is defined as an individual who is unmarried or legally separated from a spouse and has one or more dependent minor children for whom the individual has custody or joint custody. At time of loan closing, the single parent cannot own any other property.
- A **Displaced homemaker** is defined as an individual who is an adult; who has not worked full-time, full-year in the labor force for a number of years but has, during such years, worked primarily without remuneration to care for the home and family; is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment and has owned a property with a spouse.
- An individual who owned as a principal residence during the three year period, a dwelling unit whose structure was not permanently affixed to a permanent foundation and/or did not own the land.

Ownership of Other Property

The subject property must be owner-occupied and the borrower may not have an ownership interest in any other real estate at the time of closing. The borrower must take occupancy within sixty (60) days of acquisition of the property.

Asset Limits (Reserves)

The maximum amount of "liquid assets" that the homebuyer can have in reserves after closing cannot exceed the equivalent of twelve (12) months of PITI (principal, interest, taxes and insurance) and condominium association/lease fees, if applicable. "Liquid assets" will include, but not be limited to, such things as: checking accounts, savings accounts, stocks. Excluded are such things as IRA's, 401K plans, pension profit sharing, other pensions, employee retirement funds, assets not accessible to an applicant and personal property. **An exception to exceed the 12 month PITI limit may be granted for households that do not utilize traditional retirement savings accounts, on a case-by-case basis.** All assets must be verified for income compliance. Must provide 6 months of checking account statements or 6 months average bank verification.

Down Payment from Borrower

Borrower must have a cash down payment of at least 1% of their own funds. Gifted funds are an acceptable source of the 1% down payment. **Borrower must have a cash reserve of at least \$50 after loan closing, unless an exception is granted.**

Source of Down Payment

Cash on Deposit

Funds must be invested in the borrower's account at least two months prior to the loan application date. When deposits greater than 25% of annual qualifying income are made to a borrower's account within two months of a loan application, the borrower will be required to provide documentation. Must provide six months of statements or a statement from a financial institution demonstrating a six month average balance on the checking account(s).

Verification of funds must be within 3 months of loan commitment and no older than 120 days at time of loan closing.

Gifts

An acceptable gift donor may be a spouse, parent, sibling, child, grandparent, aunt, uncle, cousin, or domestic partner or fiancé/fiancée who has lived with the borrower for the last 12 months.

Verify and document the gift using a Gift Affidavit Form.

All gift funds must be verified and received by the borrower prior to the closing. The following are required:

- Copy of gift check (or withdrawal documentation) to borrower showing the donor as the remitter; and
- Copy of borrower's deposit receipt or a bank statement that shows the deposit.

Earnest Money

Provide a copy of the cancelled earnest money check and/or evidence of it clearing borrower's account.

Retirement Funds

The net withdrawal amount, after any penalties, may be an acceptable source of down payment. Use 60% of the vested balance when calculating available cash to close and reserve funds if the withdrawal has not yet occurred.

Sale of Personal Asset

The purchaser of the asset cannot be an interested party in the sales transaction. Provide the following:

- Proof of ownership
- Fair market value of the item sold
- Bill of sale or copy of the transferred title
- Receipt of funds

Tax Refund

Satisfactory documentation includes:

- Copies of the refund checks
- Proof of deposit in the borrower's account

Borrowed Funds

The loan must be fully secured by the borrower's own asset, repayable on a monthly installment basis, and fully amortized. Provide the following:

- Copy of the fully executed note
- Receipt of funds
- Proof of ownership
- Verification of asset value.

The terms of the loan must be reasonable based on the life of the asset.

Cash at Home

Cash at home generally is not an acceptable source of down payment. Exceptions may be made if the borrower has no history of using:

- Checking accounts
- Savings accounts
- Loans
- Credit cards

Funds must be deposited in a bank account and verified prior to closing.

Repayment of Debt

Funds received from repayment of loans to family and friends must be verified and reconciled with the borrower's ability to have made such loans.

Verification of funds must be within three months of loan commitment and no more than 120 days old at time of loan closing.

DETERMINING INCOME ELIGIBILITY/ RATIOS ANALYSIS

Compliance Income

Gross annual household income includes income from the following sources: wages, overtime, commissions, bonuses, profit sharing, tips, business income, child support, interest and dividends from funds retained after the closing, and other types of periodic payments which are anticipated for a forthcoming 12 month period commencing with the date of the application. Gross annual income is based on the HUD 24 CFR Part 5 definition of annual income. [The Technical Guide for Determining Income and Allowances for the HOME program \(January 2005\)](#) should be used as a guide to calculating income.

Income documentation is good for 6 months from the date of initial verification of income and homebuyer assistance is provided.. Updated income documentation may be required determined on a case-by-case basis.

REQUIRED EMPLOYMENT DOCUMENTATION

Provide two consecutive months of pay stubs if income is stable. If borrower has been on their present job for less than 1 year or income is unstable, provide Verification of Employment and two months of pay stubs. For all household residents over the age of 18, provide recent W-2 and two months of pay stubs.

Documentation for current employment must include:

- Wage rate
- Average hours and overtime hours worked per week
- Year-to-date earnings
- Date of employment
- Frequency of payment
- Previous year earnings
- Income source documentation must be dated within three months of loan commitment and no more than 120 days old at time of loan closing.

Other income documentation:

- Current Social Security Award Letter
- One year history of child support verified through the Department of Workforce Development
- Pension Letter
- A disability benefits statement from the benefits payer

Self-Employed Borrower

Individuals participating in partnerships and/or corporations must provide copies of the business tax returns for the last 2 years and a current year-to-date Profit & Loss Statement in addition to the personal tax returns from the last 2 years.

Compliance Income

Compliance income is the anticipated income of anyone age 18 or older who intends to occupy the property, regardless of their relationship to the borrower. This may include adult children, parents, aunts, uncles, grandparents, partners, companions, etc.

Compliance income is calculated by projecting forward the current gross income by 12 months.

Complete lists of inclusions/exclusions are found in [Technical Guide for Determining Income](#) at:

Inclusions:

- Earned income of all occupants over the age of 18. For full-time student 18 years old or older (excluding head of household or spouse.) count up to \$480 in income.
- Unearned income of all occupants under the age of 18
- Social Security Income (SSI)
- Child support
- Alimony
- Pension/retirement
- Periodic amounts received from social security, annuities, insurance policies, pension, disability benefits and other similar types of periodic receipts (including periodic gifts), including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount. (Exception for supplemental security income and social security benefits received in lump sum amount or in prospective monthly amounts.)
- Disability
- Public Assistance
- Interest and dividend income on funds retained after closing
- Self-employment income (adding back depletion, meals and entertainment, and business use of home). An allowance for depreciation of assets used in a business or profession may be deducted based on straight-line depreciation. If a business is operated at a loss, such loss may not be used to offset income generated from other sources.

Exclusions:

- Earned income for all occupants under the age of 18
- Foster care income
- Food stamps
- Temporary, non-recurring or sporadic income (including gifts)
- Lump-sum additions to family assets, such as inheritances, insurance payments, capital gains and settlement for personal or property losses
- Amounts received specifically for, or in reimbursement of, cost of medical expenses for family member
- Income of live-in aide
- Student financial assistance paid directly to the student
- Mortgage Credit Certificate (MCC)
- Earnings in excess of \$480 for each full-time student aged 18 years or older (excluding head of household or spouse).

Income must be verified again if more than 6 months passes between initial verification of income and homebuyer assistance is provided.

Qualifying Income

Qualifying income is the verified, stable income of the borrower and is used to calculate ratios. The City of Madison will accept the sub-recipient's use of the qualifying income as underwritten by the first mortgage lender.

Assets

All assets must be verified for income compliance. **All asset documentation must be no more than 3 months old at time of loan commitment and no more than 120 days old at time of loan closing. Must provide 6 months of checking account statements or 6 months average bank verification.** Assets to be included are such things as: checking accounts, savings accounts, life insurance net cash value, stocks, bonds, mutual funds, money market funds and annuities, IRA's, 401K plans. If amount of assets greater than \$5,000 after closing multiply the amount by current Passbook Rate of 0.06%. **Borrower must have a cash reserve of at least \$50 after loan closing, unless exception is granted.**

DEBT / UNDERWRITING ANALYSIS

Qualifying Ratio

Maximum ratios of 38%/55% are allowed. Borrower's with a housing-to-income ratio less than 25% are ineligible, unless assistance is needed to qualify for first mortgage financing and an exception is granted. The Community Development Grants Supervisor or designee must approve loan requests with a ratio below 25% and only on a case-by-case basis. Housing-to-income ratio exceeding 38% requires an exception and must list compensating factors for approval. Written documentation of the need for down payment assistance must be provided.

The City will also calculate a third ratio which includes PITI + other debts + maintenance & utility expenses. Maintenance and utility expenses is calculated by multiplying the square footage of the home by \$0.14; this ratio cannot exceed 75.0%. (This figure is from Multifamily Letter 14-02 (page 15) <https://www.hud.gov/sites/documents/14-02ML.PDF>).

Maximum Loan-to-Value

The total of the first mortgage plus the City funded mortgage(s) and any other loans collateralized by the property, shall not exceed **105%** total combined loan-to-value based on the purchase price of the property or the appraised value whichever amount is less.

Housing Payment

First mortgage must have a minimum term of 30 years, unless provided by non-profit. The monthly payment includes principal and interest, taxes, hazard insurance, condominium association fees, flood insurance and mortgage insurance premium, if applicable. Homebuyers must escrow the property taxes and homeowners insurance as a condition of the first mortgage.

Credit Report

Obtain a triple-merged credit report for all borrowers, including a non-applicant spouse, if applicable. Sub-recipient will follow first mortgage lender guidelines for debt, which could include debt on the credit report but not limited to auto loans, installment loans, charge card debt, and student loans.

Judgments, Tax Liens

Must be paid-in-full prior to closing. Provide a recorded satisfaction.

Guarantors/Co-Signers

Guarantors and co-signers are allowed only for credit purposes. The borrower must be able to support the monthly housing payment within the program's ratio guidelines without the support of the co-signer's income.

PROPERTY REQUIREMENTS

Principal Residence

The property must be the borrower's principal residence. The borrower must occupy the subject property within 60 days of loan closing.

Location

The property must be located in the City of Madison. Property may not be located in the 100-year flood plain, according to FEMA.

Purchase Price (HOME Funded Programs ONLY)

As of September 1, 2024, HUD has established the maximum value of the home being purchased using HOME Investment Partnerships funding assistance from CDD as **equal to or less than \$371,000** for existing and new construction.

Property Types

Eligible Properties: Existing single family dwelling, Condominium, or zero lot line duplex.	Ineligible Properties: Commercially used properties, time share units, and earth/dome/log homes.
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Offer to Purchase

Provide a copy of the complete and fully executed contract, including all addendums, counters, amendments, and notices.

Voluntary Acquisition Form & Voluntary Sale form

It will be the responsibility of the homebuyer to submit a Voluntary Acquisition & Voluntary Sale Form with the Offer to Purchase to the seller. This form is used to satisfy the requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA). Neither the City of Madison nor the homebuyers have the right to acquire the property by eminent domain. **The property cannot be currently used as a rental property with tenants in place.** Forms can be found at <https://www.cityofmadison.com/dpced/community-development/contracts-funding/contract-compliance>

Appraisal

Appraisal requirements are as follows:

- Obtained in compliance with the Appraiser Independence Requirements
- Compliant with Uniform Appraisal Dataset requirements
- An interior & exterior review by a licensed appraiser
- Based on the "as is" value of the property **or leasehold value, if applicable.**
- Appraiser must confirm they were provided with a complete copy of the Offer to Purchase and verify Interested Party Contributions (IPCs), if applicable

The following exhibits must accompany the appraisal:

- Exterior building sketch with dimensions
- Street map that shows the location of the property and comparable properties
- Original photographs showing the front, back, and street scene of the subject property and the front of each comparable
- Interior photographs of the kitchen, all bathrooms, main living area, examples of physical deterioration, examples of recent updates

Property Inspections

The property must meet the City of Madison Minimum Housing and Property Maintenance Code requirements before CDD assistance will be provided. **If applicable, repairs to be completed within 60 days of loan closing and re-inspected. (For HOME funds, all repairs MUST be completed PRIOR TO CLOSING.)**

Lead based paint inspection will be conducted on all homes built prior to 1978 in accordance with the Lead-Based Paint Poisoning Prevention Act 42 USC 3535 (d), 4821 and 4851, and its implementing regulations in 24 CFR 35, as well as State of Wisconsin Code HFS 163 and City of Madison MGO 7.49. The City of Madison contracted inspector will provide the lead based paint inspection and clearance test for the property. If the work being done is disturbing the lead-based paint (scraping it or painting over it), the contractor needs to be **"Wisconsin Department of Health Services" lead-paint certified.** EPA Lead Paint certification is not enough in Wis. The link to find those contractors that are Wis Dept of Health certified to deal with lead base paint is <https://dhsgis.wi.gov/dhs/clara/index.html>

The City of Madison contracted inspector will provide all inspections. For newly constructed properties, a certificate of occupancy will be accepted in lieu of Madison Minimum Housing and Property Maintenance Code inspection. The inspection will be scheduled once it is determined that the homebuyer qualifies for the program.

Environmental Review

The property must pass an environmental review conducted by the City of Madison Community Development Division staff if assistance is funded by the federal government (i.e. HOME/CDBG).

Period of Affordability

If assistance is provided by federal HOME funds, depending on funding amount, a 10 to 15-year period of affordability is required. Funding of \$15,000 - \$40,000 has a 10-year period of affordability and funding of greater than \$40,000 in funding has a 15-year period of affordability.

LOAN REPAYMENT

This section is applicable to agencies providing mortgage reduction assistance.

The mortgage will require a shared appreciation repayment. Subrecipients are to include in their loan commitment letter to homeowner an example, such as below, of shared appreciation which is to be acknowledged and signed by homeowner and kept in Subrecipient file. An amount equal to a percent (%) of the accepted sales price of the property in an arm's length transaction or the current fair market value of the property as determined by an appraisal submitted by borrower and conducted in the prior six months by a licensed appraiser. The repayment is due and payable to the City of Madison at the time the property is sold, at the time of a cash-out refinance for a reason other than property improvements, if the property is transferred, or when the property ceases to be the primary residence of the homebuyer. Partial payments will not be accepted. Complete loan payments can be made prior to the property being sold, transferred or ceases to be the primary residence of the homebuyer. In this case, the homebuyer will be responsible for the cost of an appraisal that is acceptable to the City of Madison.

Example of repayment:

Home purchase price	\$300,000
Community Development Division (CDD) CDBG Unit loan assistance	\$35,000
Percentage of CDD CDBG Unit funds invested (% based on City loan amount compared to higher of purchase price or appraised value)	11.6%
Home appraisal at the time the homebuyer sells or pays off the loan	\$375,000
Loan repayment equals 11.6% of the accepted sales price or the appraised value	\$43,500

Request for payoff information can be sent to homeloans@cityofmadison.com.

HOME REPAIR CONTRACTS

This section is applicable to agencies providing major or minor home repair assistance.

An Environmental Review is required for each property. A written summary of the property inspection, including recommendations regarding repairs needed, shall be provided to homeowner. The Agency must search any contractors to be used on the project on SAM.gov to verify not disqualified from receiving government funding prior to award of sub-contract. The Agency is to sign a written agreement with homeowner prior to start of any repair work. Agency must refer to their contract for details regarding policies and procedures related to their program.

LOANS SUBORDINATION POLICY

CDD will subordinate the second mortgage loan according to the terms of the Community Development Division Homeowner Loan Subordination Policy. Complete policy is located at [Subordination policy & checklist](#).

APPEALS PROCEDURE

Sub-recipients must disclose to applicants their Appeals Procedure.

RETENTION OF DOCUMENTS

The City requires Agency to retain their documents (paper/electronic) a minimum of 7 years from loan closing and contracts a minimum of 7 years from end of contract/last payment disbursement, or adhere to sub-recipient Agency retention policy (if greater).

FORMS / INFORMATION LINKS

A. Borrower Application Documents/Underwriting Forms

- [Borrower's Authorization](#) (Includes City Conflict of Interest, Agencies should add their staff to the list or have an Agency Internal Conflict of Interest Form)
- [Voluntary Acquisition Form](#)

B. Other Documents and Links

- [HOME Match Form](#)
- M/WBE Subcontractor Report
 - [CDBG Report](#)
 - [HOME Report](#)