



REHABILITATION LOAN PROGRAM

PROCEDURES

AS OF AUGUST 2001

Rehabilitation Loan Program Procedures

TABLE OF CONTENTS

I.	INTRODUCTION	1
A.	Purpose	1
B.	Authority	1
C.	Funding Sources	1
D.	Definitions	1
II.	REHABILITATION LOAN PROGRAMS	3
A.	Housing Rehabilitation and Conservation Program (HRCP)	3
B.	HRCP-Investor Program	4
C.	Mobilehome Repair Program	4
D.	Neighborhood Improvement Program (NIP)	4
III.	PROGRAM REQUIREMENTS	4
A.	Property Eligibility	4
	i. City of Santa Rosa Location	4
	ii. Property Ownership	4
	iii. Feasibility	4
	iv. Loan-to-Value Ratio	5
B.	Borrower Eligibility	5
	i. Owner-Occupied Property	5
	ii. Investor-Owned Property	5
C.	Loan Processing	6
D.	Loan Terms	6
E.	Eligible Costs	7
F.	Rehabilitation Specifications	7
G.	Bid Process	8
H.	Contractor Selection	9
I.	Contractor Requirements	9
J.	Insurance	10
K.	Owner-Funded Rehabilitation	10
L.	Site Conditions	10
M.	Payment for Work Completed	11
N.	Acceptance of Work	11
O.	Disputes	11
P.	Guarantees	12
Q.	Contractor Default	12
IV.	ROLE OF HOUSING AUTHORITY	12
A.	Lender	12
B.	Additional Services	12
V.	LOAN APPROVAL	13

VI.	LOAN REPAYMENTS	13
VII.	REVISIONS TO LOANS	14
	A. Further Advances	15
	B. Change in Payment Terms	15
	C. Subordination	15
	D. Review of Deferred Loans	15
	E. Assumptions	16
	F. Extensions	16
VIII.	ACCELERATION	16
IX.	ADDITIONAL TERMS AND CONDITIONS	17
	A. Civil Rights	17
	B. Conflict of Interest	17
	C. Environmental Clearance	17
	D. Equal Employment Opportunity	17
	E. Prevailing Wage Requirements	17
	F. Displacement and Relocation	17
	G. Lead-based Paint	18
	H. Debarred, suspended or ineligible contractors	18
	I. Uniform administrative requirements and principles	18

REHABILITATION LOAN PROGRAM PROCEDURES

I. INTRODUCTION

A. Purpose

The purpose of this document is to provide procedures to be used to implement the policies of the various Rehabilitation Loan Programs adopted by the Housing Authority of the City of Santa Rosa.

B. Authority

The City Council and the Redevelopment Agency of the City of Santa Rosa have delegated the responsibility of administering various housing programs to the Housing Authority. That body has adopted various Rehabilitation Policy Statements and directed that the staff of the Department of Housing and Redevelopment institute procedures which implement those policies. The procedures are to be approved by the Executive Director of the Housing Authority and communicated to the Housing Authority prior to implementation. The procedures apply to each Rehabilitation Loan Program unless the Program Policy states specific differences from these procedures.

C. Funding Sources

The Rehabilitation Loan Programs are funded from a variety of Federal, State and local sources which change from time to time. The Housing Authority will determine the funding sources to be used in the Rehabilitation Programs. The applicable rules and regulations of each funding source must be applied to the loans funded by that source.

D. Definitions

The following definitions shall apply to terms and expressions used in the Rehabilitation Loan Programs.

AFFORDABLE RENTS: For a very low income household, rents which do not exceed 30 percent of the maximum monthly income of very low income households expected to reside in the units, less a utility allowance. For a low income household, rents which do not exceed 30 percent of 60% of the maximum median monthly income, less utilities, for low income households expected to reside in the units. External funding sources may require lower rent levels.

APPROVAL AUTHORITY: The Executive Director, a Housing Programs Coordinator designated by the Executive Director, the Loan Committee or Housing Authority may act as the Approval Authority as required by these Procedures.

CONTRACT DOCUMENTS: The Contract Documents shall include the executed contract, addendum, if any, a promissory note and a deed of trust, signed bid, notice to proceed, change orders, if any, work specification, payment schedule, standard and technical specifications.

DEPENDENT: A member of a household other than the head or spouse, as defined by the Internal Revenue Service for use on Form 1040.

DISABLED PERSON: A person who is any of the following:

- (1) A person who has a disability as defined in section 223 of the Social Security Act. (42 U.S.C. 423).
- (2) A person who has a physical, mental, or emotional impairment that:
 - (i) Is expected to be of long-continued and indefinite duration;
 - (ii) Substantially impedes his or her ability to live independently; and
 - (iii) Is of such a nature that ability to live independently could be improved by more suitable housing conditions.
- (3) A person who has a developmental disability as defined in section 102(7) of the Developmental Disabilities Assistance and Bill of Rights Act [42 U.S.C. 6001(7)].

ELDERLY HOUSEHOLD: A household in which one of the members is 62 years of age or older. (Also defined as SENIOR household.)

FAIR MARKET VALUE (FMV): An amount which, when offered by a willing buyer who does not have to buy, will be acceptable to a willing seller who does not have to sell. The FMV can be determined by knowledgeable staff using market comparables or by an appraisal.

FAMILY: All persons living in the same household who are related by birth, marriage or adoption.

GENERAL PROPERTY IMPROVEMENTS: Rehabilitation work which is not necessary to meet rehabilitation program requirements. It may be any work that improves the property, but may not include luxury or recreational items.

HOUSEHOLD: All the persons living together in a housing unit, sharing it as their common home and sharing common income and expenses.

HOUSING EXPENSES: The monthly cost of shelter and basic utilities including gas, electricity, water, sewer and garbage. For tenants it includes rent and these utilities. For homeowners, it includes principal, interest, homeowner's association fees, taxes, insurance, and basic utilities. Costs for basic utilities may be determined using the utility allowances developed for the Section 8 Rental Assistance Program or its successor.

HOUSING QUALITY STANDARDS (HQS): Basic standards of habitability as defined by HUD.

HUD: The U. S. Department of Housing and Urban Development, or its successor agency.

INCIPIENT HQS ITEMS: Problems or defects with the property which, if not corrected, would be reasonably expected to deteriorate into actual HQS deficiencies within two years.

INCOME: The gross income of a household as defined by the Section 8 Rental Assistance Program at 24 CFR 913.106, or such successor program as may be adopted. The actual or imputed income from assets is included in this definition. Personal property such as furniture or vehicles used for regular transportation is excluded. No adjustment shall be made for medical or child care expenses.

LOAN PROCESSING COSTS: All costs incurred in the processing of a loan, including but not limited to credit reports, appraisals, pest control reports, architectural or engineering costs, lender's title insurance, escrow, title and recording fees.

LOW INCOME HOUSEHOLD: A household which has income equal to or less than 80% of the median income for Santa Rosa adjusted for family size, as defined by HUD.

MONTHLY HOUSING EXPENSES: The monthly total paid by a household for principal, interest, property taxes, hazard insurance, homeowners' dues, and basic utilities.

MINOR: A dependent who is younger than 21 years of age; or who is younger than 23 years of age and is a full time student.

REHABILITATION: The improvement or repair of an existing structure, or the improvement or repair of facilities in connection with an existing structure, and may include the provision of such sanitary or other facilities as are required by applicable local standards. Rehabilitation may not include work so excessive as to be equivalent to new construction or reconstruction of the property, although "gut rehabilitation" may be considered rehabilitation if necessary to meet local standards. Additions of living space or parking may be considered rehabilitation if required due to household overcrowding or by local zoning requirements.

RESIDENTIAL UNIT: A structure or a portion thereof intended for human habitation which has permanently installed cooking, bathing and sleeping areas.

SENIOR: See ELDERLY.

TECHNICAL SPECIFICATIONS: The specifications for the materials and methods of installation to be used in completing the work specified in the Contract Documents.

II. **REHABILITATION LOAN PROGRAMS**

A. Housing Rehabilitation and Conservation Program (HRCP)

This program serves low income owners of housing anywhere within the City of Santa Rosa who wish to make significant rehabilitation repairs to their dwelling

B. HRCP-Investor Program

This program provides rehabilitation loans to residential rental property investors who agree to serve low income residents for a specified time.

C. Mobilehome Repair Program

The program provides rehabilitation loans to repair mobile homes.

D. Neighborhood Improvement Program (NIP)

This program provides loans in specific neighborhoods defined by the Housing Authority in order to revitalize those neighborhoods through the rehabilitation of existing affordable housing.

III. PROGRAM REQUIREMENTS

A. Property Eligibility

i. City of Santa Rosa Location

Assistance may be made only to residential properties located within the City of Santa Rosa. Assistance may be provided to residential units in a mixed use property.

ii. Property Ownership

Loans may only be made to owners of residential property. Owners must have legal or equitable title to the property vested in their name as shown by the official records of the Sonoma County Recorder's Office. Loans may also be made for property held by trusts for which the occupant is the trustee. Owner-occupants must have occupied the property to be rehabilitated for at least six months prior to any loan approval.

iii. Feasibility

The Department of Housing and Redevelopment will make a determination of the feasibility of each proposed rehabilitation project, taking into consideration the fact that each unit must meet Housing Quality Standards (HQS) upon completion of the rehabilitation.

iv. Loan-to-Value Ratio

Generally, loans may not be made if the after-rehabilitation loan-to-value ratio will exceed 90%. Exceptions include the Neighborhood Improvement Program and mobilehome repair loans where there are urgent health or safety issues and the applicant has no resources to obtain alternative housing. The after-rehabilitation value may be determined by staff unless the staff determination is disputed. In that case the value is to be determined by an appraisal.

B. Borrower Eligibility

i. Owner-Occupied Property

- a. Borrowers must be able to demonstrate that their projected annual income will not exceed the low income standard, which is generally 80% of the area's median income, adjusted for family size. The income of co-owners who do not reside in the property is not considered part of household income. If the household income has been reviewed by another governmental agency and determined to be low income, e.g., AFDC or SSI, that certification may substitute for recertification by the Housing and Redevelopment staff.
- b. If an owner occupant's net assets are in excess of 120% of the median income, adjusted for family size, the Borrower will be required to make monthly payments (i.e., the loan will be amortized).
- c. If an owner occupant's net assets are in excess of 300% of the median income adjusted for family size, the applicable interest rate shall equal the prime rate, as published in a local newspaper of general circulation.
- d. The debt-to-income ratios are to be calculated to obtain the housing-debt-to income and total debt-to-income ratios. There must be sufficient monthly income available after payment of housing and consumer debt to meet the basic requirements for food, transportation and other needs.
- e. Borrowers must occupy the rehabilitated unit as their primary residence. If a Borrower no longer occupies the rehabilitated unit, the loan is to be called unless the Housing Authority or its designee approves a written request to rent the home to a low income household at affordable rents.

ii. Investor-Owned Property

- a. Investors must be willing to rent at least 70% of the units in the property rehabilitated by a loan to low income tenants for a specified period of time at affordable rents to low income households, as defined by the Housing

Authority. External funding sources may require lower rents. A rent limitation agreement specifying the terms and the maximum rent levels shall be executed by the Borrower.

- b. The rental income must be sufficient to cover debt service and operating costs including maintenance, taxes, insurance, replacement reserves, and management expenses. Loans may be made where the income is not sufficient to cover these costs if a determination is made by the Approval Authority that the owner has resources adequate to prevent foreclosure on the rehabilitated property.

C. Loan Processing
(See Appendices III 1 - III 10)

- i. Staff is to verify Borrower eligibility obtaining an application signed by all owners of record, a credit report, employment, income and asset verifications, and copies of tax bills and insurance invoices.
- ii. Staff is to verify property eligibility by obtaining a preliminary title report and conducting a feasibility review to ascertain that the required rehabilitation can be accomplished with the funds available.

D. Loan Terms

- i. All rehabilitation loans are made to assist low income residents. In addition to requirements imposed to meet this purpose, each loan program policy will define the interest rate, term, fees and repayment requirements.
- ii. The minimum loan shall be \$1000.
- iii. All rehabilitation loans to be at one interest rate of 3%. A borrower at or below 50% of median would have a 3% simple interest deferred payment loan. A borrower at 51% to 80% of median would have a 3% simple interest amortized loan..
- iv. Loan repayments may be deferred for Borrowers in the following circumstances:
 - A borrower at 51% to 80% of median with a total housing debt-to-income ratio (HD/I) over 40% would be eligible to have the payment deferred.
 - Investor owners who elect to defer payments and accrue interest at a higher rate, as outlined in the specific rehabilitation program policy.

Such approval is discretionary and subject to periodic review under v. below, which review could require payments.

- v. All deferred payment loans made to owner-occupants are subject to periodic review to determine if the Borrower has the capacity to make payments, in accordance with the applicable program requirements. Reviews will generally not be undertaken for seniors or disabled Borrowers who are on fixed payment incomes.
- vi. Interest is to be simple interest annually on deferred payment loans.
- vii. Interest-only payments may be made if the Borrower qualifies for a deferred payment loan. The election of interest only payment is to be made by the Borrower, subject to review by staff to ensure that the Borrower has adequate cash flow for basic living expenses.
- viii. Loans may be partially or completely repaid at any time without penalty.

E. Eligible Costs

- i. Loan funds may be used to address Housing Quality Standards, meet code or zoning requirements including payment of required fees, address incipient HQS items, address safety concerns, install handicap accessibility modifications and install energy modifications.
- ii. Each loan shall have a contingency amount of \$500 or 10% of the rehabilitation contract, whichever is larger. The contingency is to be rounded up so the loan amount is in increments of \$100. Contingencies may exceed these amounts if there is specific justification.
- iii. Room additions are eligible only if overcrowding exists, as defined by HUD.
- iv. General property improvements are allowed only if specifically stated in a Rehabilitation Policy and are limited to 25% of the loan amount. General property improvements may not include items generally considered to be luxury or recreational items.
- v. Loan proceeds may also be used to pay loan processing costs. In addition, funds may be utilized to protect the security for the loan, i.e., hazard insurance may be paid in the rare instances where the household is clearly unable to afford making those payments.

F. Rehabilitation Specifications

- i. The property to be rehabilitated must be inspected by the staff of the Housing Authority so that the owner can be informed of the work necessary to meet HQS.

- ii. The work to be funded by a rehabilitation loan must be outlined in sufficient detail to allow the owner, contractors and staff to understand the types, quantities and quality of work to be done. The property owner must specify model numbers, patterns and colors where such choices must be made.
- iii. The owner may provide work specifications for staff review prior to solicitation of bids, or specifications may be prepared by staff at the owner's request.

G. Bid Process

(See Appendices III 10 - III 13)

It is suggested that property owners solicit sealed bids for the proposed rehabilitation work from no less than three licensed contractors.

- i. Owners may solicit bids from any licensed contractor who is willing to comply with the procedures of the Housing Authority, including the insurance and affirmative action requirements.
- ii. Assistance may be provided by the Housing Authority which maintains a rotating bid list of contractors who have applied to receive rehabilitation bid requests.
- iii. Staff will estimate the cost of the proposed work and provide that information to the property owner. If any bid received is believed to be unrealistically low, the staff shall inform the property owner and advise that it be rejected.
- iv. Contractors are required to obtain a permit for the work to be completed unless a permit is not required for the work specified.
- v. Contractors may withdraw a bid and proposal thirty (30) days after notification of selection if no Notice to Proceed has been issued.
- vi. Contractors must begin work within ten (10) days of receipt of Notice to Proceed and complete the work within sixty (60) days unless directed otherwise in writing by the property owner. Contractors shall not be held responsible for adverse acts by the Borrower, acts of government which cause delay of completion, unforeseen natural causes, or delays caused by materials suppliers or labor actions. Borrowers shall be notified promptly in writing by the contractor should any of these events occur; the time frame for completion of the work shall be extended by a period equal to the period of excusable delay.
- vii. No changes shall be made in work specifications and Contract Document unless required by code or specifically approved in writing by the Borrower and the Housing Authority. Any such changes must be specified in writing as detailed in the section entitled Rehabilitation Specifications with the cost stated.

H. Contractor Selection

The owner shall select the contractor to do the work, subject to receipt of loan approval. All work must be covered in a written Contract between the owner and the contractor. The Contract shall describe all work to be completed, including any work not funded by the rehabilitation loan. It shall include the agreed-upon price, times of performance, payment schedule and provisions necessary to comply with requirements by the funding entities.

- i. The owner may select a contractor other than the lowest bidder. However, if the bid of the owner-selected contractor exceeds the staff estimate of the cost to complete the job by 10% or more, the owner shall be responsible to deposit the following amount into escrow to pay the differential: A sum equal to the difference between the Staff's estimate of cost + 10% and the owner-selected contractor's bid amount..
- ii. Property owners may elect to designate a contractor to do the work. If the bid exceeds the staff estimate by more than 10%, the owner has the choice of obtaining two other bids and selecting one within 10% of the staff estimate, or they may deposit the difference between the staff estimate plus 10% and the contractor's bid into escrow to pay the differential.
- iii. Property owners may perform the rehabilitation work themselves, or with the assistance of subcontractors, if they can prove to the satisfaction of the staff that they possess the time and the knowledge to do so. This may necessitate the purchase of workers' compensation insurance. They may not receive any compensation for work performed by themselves or by members of their household or by persons related to them by birth, marriage or adoption. In addition, the loan must be in an amount adequate to cover the staff estimate of the costs of rehabilitation by a general contractor. Unused loan proceeds will be used to pay down the principal amount of the loan.
- iv. All Contracts for the rehabilitation work shall be between the owners and contractors or subcontractors. The Housing Authority shall not be a party to any Contract for rehabilitation work, except in the case where owners are approved to perform the rehabilitation work. In such cases, an agreement shall be entered between the owner and the Housing Authority as to the work that is to be accomplished.

I. Contractor Requirements

Contractors who wish to participate in the Rehabilitation Loan Programs must meet all of the requirements outlined.

- i. Contractors must have a valid California contractor's class B license.

- ii. Contractors must have a valid business license.
- iii. Each contractor must carry insurance coverage as outlined and must provide a certificate of insurance naming the Housing Authority as an additional insured.
 - a. Contractors must have Business Automobile Liability, Comprehensive General Liability, Contractual Liability and Professional Liability with Errors and Omissions coverage with a minimum liability limit of \$500,000.
 - b. Worker's Compensation Insurance
- iv. Contractors must provide a minimum of two residential client references and two materials supplier or subcontractor references.

J. Insurance

The owner of each rehabilitated property must maintain hazard insurance in force naming the Housing Authority as an additional insured. The insurance must be the greater of the total liens against the property or 80% of the replacement cost of the improvements.

K. Owner-Funded Rehabilitation

When a Borrower proposes to fund a portion of the proposed rehabilitation due either to the fact that the items are ineligible for funding by the Housing Authority, or that inadequate funds exist to fund the items, the following procedures shall be followed:

All costs related to any proposed ineligible rehabilitation shall be attributed to that item, e.g., portions of an exterior painting or rewiring included for an ineligible room addition funded by the Borrower will be attributed to the cost of the room addition. Staff shall verify that the Borrower has funds available to fund items proposed for owner funding prior to sending the proposal to bid.

At loan closing, staff shall obtain the required Borrower contribution to deposit into the escrow account. The rehabilitation contract is not to be executed until the necessary funds are provided.

If an item of work to be funded by the Borrower is identified after the rehabilitation has started, the Borrower must deposit the funds in escrow as soon as the cost is established and they authorize the work.

L. Site Conditions

- i. The site will be occupied during the work unless specified as vacant.
- ii. The Borrower is responsible for facilitating the work in whatever manner may be reasonably expected. This includes providing home utility services, including local

telephone calls without charge, use of the bathroom, parking and storage of materials needed to complete the work.

- iii. The Borrower is responsible for moving furniture and personal effects to facilitate the work unless it is otherwise agreed in writing.
- iv. The contractor is responsible for taking care to protect the Borrower's property, landscaping and personal effects.
- v. Basic cooking and plumbing facilities must be available to the Borrower between the hours of 5:00 p.m. and 8:00 a.m., unless otherwise agreed in writing at least twenty-four (24) hours in advance.
- vi. Contractors are responsible for keeping the site in safe condition including removal of debris on a timely basis. Living areas are to be swept clean at the end of each work day.

M. Payment for Work Completed

- i. Progress payments may be made upon completion of construction as described in the Contract Documents. Payment will be made after necessary inspection of any code-related work and receipt of approval from the Borrower and the Housing Authority.
- ii. Twenty percent of the original Contract amount shall be retained for thirty-five (35) days after Notice of Completion has been recorded unless the owner approves an earlier retention payment after the contractor provides appropriate guarantees and lien releases.
- iii. The Borrower must permit inspection of the work and related materials and equipment by the Housing Authority and Building officials.
- iv. The value of the work completed shall be determined using the itemized costs from the contractor's bid incorporated into the Contract Documents.

N. Acceptance of Work

Applicable building permits must be signed off by the Building Official prior to filing a Notice of Completion and final payment to the contractor. The property owner is responsible for reviewing the work completed in order to determine whether loan funds may be disbursed to the contractor.

O. Disputes

If there is a dispute as to the satisfactory completion of the work, the staff will assist in attempts to resolve the issues. Borrower and Contractor shall participate in those resolution efforts. If either fail to cooperate in a good faith effort to resolve the dispute, the staff may proceed to review the dispute and make a binding and final decision. If after a good faith effort to resolve the dispute, there is still disagreement between the Borrower and the Contractor, the dispute must be submitted to binding arbitration in accordance with the Construction Rules of the American Arbitration Association. The costs for this process will be borne by the disputants. Loan proceeds may be disbursed without owner approval, upon a finding by staff that the Borrower and/or the Contractor failed to cooperate in staff efforts to resolve the dispute.

P. Guarantees

The contractor must provide all manufacturers' guarantees and warranties for materials installed and must guarantee all work, materials and workmanship for a minimum of one year from the date of the final inspection and sign-off by the Building Official. Where the Contract or materials manufacturer specifies a warranty period for a longer period for a specific item, the contractor or manufacturer must warrant the item for the period specified, regardless of whether the work was performed by the general contractor or a subcontractor. The general contractor must take responsibility for ensuring that the warranty is honored. All requests for warranty repairs must be made in writing by the Borrower to the contractor, with a copy to the Housing Authority.

Q. Contractor Default

In cases of contractor default, where the Borrower has properly exercised his or her legal rights and responsibilities under the terms of the Contract, the Borrower must terminate that Contract and secure the services of a new contractor to complete the work. A new Contract must be executed between the Borrower and the contractor.

The original contractor shall be paid from funds remaining in escrow only after completion of the rehabilitation work and final payment to contractor completing the project. In no case shall the defaulting contractor receive more than the original Contract price. No additional funds will be made available for payment to the defaulting contractor.

IV. ROLE OF HOUSING AUTHORITY

A. Lender

The role of the Housing Authority is that of a lender.

B. Additional Services

The staff may provide additional services to the owner including financial counseling, property inspection, work specifications development, assistance in contractor selection, and construction monitoring.

V. LOAN APPROVAL

Rehabilitation loan funds may not be used to reimburse costs incurred by the owner prior to loan approval except as necessary to process the loan application and prepare the rehabilitation specifications.

Loans in amounts up to \$75,000 may be approved by the Executive Director or a designated Housing Programs Coordinator. Loan applications may be referred to the Loan Committee by the Executive Director or the Housing Programs Coordinator at his or her discretion. Loan denials may be appealed to the Loan Committee.

Loans exceeding \$75,000 must be reviewed by the Loan Committee, which is composed of three members of the Housing Authority, the Executive Director and a staff member of the Administrative Services Department appointed by the Executive Director. Loans reviewed by the Loan Committee may be appealed to the Housing Authority.

Loan documents shall be executed by staff as outlined on Appendix A, Rehabilitations Signatories.

VI. LOAN REPAYMENTS

- A. Interest shall begin to accrue as of the first day of the second month following execution of the Contract Documents.
- B. The first loan payment for amortized loans shall be due on the first day of a month within thirty (30) days of the anticipated completion of the work.
- C. Loan payments shall be credited first to any late charges, then to interest and then to the outstanding principal.
- D. Payment shall be deemed late if not received within fifteen (15) days of the due date. A late charge will accrue, equal to the greater of \$10.00 or 4% of the payment due.
- E. Default counseling will be offered by staff to Borrowers who are ninety (90) days late in making loan payments. A revision to loan terms may be made if the Borrower qualifies for a deferred loan under the current criteria. If the default is not cured, the Housing Authority has the right and responsibility to pursue foreclosure proceedings.
- F. Loans are due at transfer of title, unless the Housing Authority has approved an assumption.

- i. When an owner-occupied rehabilitation loan has come to the end of its approved term and funds are still owed, the Borrower has two options: they may pay off the remaining balance or they may make a written request to the Housing Authority that the loan be extended (See VII F).
- ii. When an investor loan is due, it must be repaid, unless it is due because of a sale and the note specifically allows assumption by qualified purchasers.
- iii. Processing repayments will be handled in one of two ways:
 - The Borrower may make payment to the Administrative Services Department with a money order or cashier's check for the total amount of the principal and interest. For conventional housing, it will also be necessary to provide a money order or cashier's check payable to Sonoma Title Guaranty as a fee for the reconveyance of the deed of trust. If the Borrower prefers to handle the reconveyance, the original note and deed of trust will be given to them with the information that the loan will continue to be recorded against their property until they file the reconveyance with the Recorder's Office. For mobile homes, the original Certificate of Title will be signed off by a Housing Programs Coordinator or the Executive Director. The owner will then be responsible to complete the form and send it to the State Department of Housing and Community Development (HCD) so that the mobilehome will be registered in their name. If the Housing Authority loan was in a junior position, a "Lien Satisfied" form will be executed and submitted to HCD by the owner.
 - Borrowers who are selling their property will have a deed of trust reconveyed through the title company handling that transaction. When Administrative Services receives the Requests for Demand and Authorization to Reconvey, the Housing and Redevelopment Program Specialists are to be informed via e-mail. Administrative Services will prepare the appropriate documents and send them with the original Note and Deed of Trust to a Specialist who will obtain the proper signatures and notarial acknowledgment, copy the documents for the file and call the title company for pick up. In the case of mobilehome loan pay-offs, the signature for release by the legal owner will occur only when the funds are delivered to the Housing Authority.

When the pay-off check arrives, Clerical staff is to make a copy for the file and send the check to Administrative Services for processing. Administrative Services will inform Rehabilitation staff of the loans paid off on a monthly basis.

VII. REVISIONS TO LOANS
(See Appendices VII 1 - VII 5)

After execution of the loan documents, the Housing Authority will consider requests by the Borrower for revisions to the loan agreement such as a further advance, change in payment terms, subordinations, assumptions and extensions. Nothing contained in these procedures is intended to require such revisions. In general, the issues which will be considered in each such case are outlined below.

A. Further Advances

If the need for additional work is determined after execution of the loan documents and adequate funding to address the need does not exist in the contingency funds, the owner may request an additional advance in writing. Such requests must undergo the same funding approval process as outlined above and may not exceed established loan limits.

B. Change in Payment Terms

Owners who document changes in income or cash flow that would result in different loan terms upon initial underwriting may be approved by the staff for a revision in loan terms. Any revision shall include late charges and accrued interest.

C. Subordination

Written requests for subordinations for owner-occupied properties may be approved by staff if the Borrowers have no more than three late payments and the new loan provides no cash out. Such requests must be accompanied by copies of the application for the new loan and any appraisal or determination of property value. If the housing debt-to-income ratio resulting from the new financing is less than 30%, the Borrowers of deferred payment loans will be required to begin making payments.

Investors and Borrowers who do not meet the above criteria may make a written request for subordination to the Loan Committee. Each request shall include copies of the new loan application, the appraisal and an indication of the purpose of the new loan. The approval of subordinations is discretionary and may be contingent upon revisions of the other rehabilitation loan terms.

D. Review of Deferred Loans

Borrowers who receive approval for deferred payment loans are subject to periodic eligibility reviews to determine if they have the ability to begin making repayment. The reviews are to be made for all deferred payment loans except those made to elderly, disabled or investor owners. The reviews will occur every five years or at such time as is determined by the Approval Authority upon initial approval of the loan.

The Borrower shall be sent a review letter requesting eligibility information approximately 30 days before the review date. If the Borrower has not responded within 15 days, a second letter of request will be sent with an indication that failure to comply will be an event of default and the loan could be called.

If the eligibility review determines that the Borrower continues to be eligible for a deferred loan pursuant to the then current Procedures, no change will be made in the loan terms. If the Borrower is determined to have the ability to pay as defined by the then current Procedures, a Revision Agreement will be executed requiring monthly payments in an amount which will increase monthly housing expenses up to 30% or the maximum considered affordable by HUD at that time.

In cases where the Borrower does not respond to the second letter within 15 days, foreclosure proceedings will be instituted.

E. Assumptions

All rehabilitation loan assumption requests are to be reviewed by staff with a decision to be made by the Executive Director or a designated Housing Programs Coordinator, based upon current eligibility criteria for the pertinent loan program and the assumption of the loan requirements in writing. The information presented for review is to contain the specific eligibility information required, with a staff recommendation.

F. Extensions

When an owner-occupied rehabilitation loan has come to the end of its approved term it is due and payable. The Borrower shall pay off the remaining balance. The Borrower may make a written request to the Housing Authority that the loan be extended. For an extension to be approved:

- The household must be low income and must occupy the units as its primary dwelling.
- The terms and conditions of the extension shall be reviewed and approved by the appropriate Approval Authority. The interest rate and payment shall be adjusted according to then current policies and procedures. It is a goal that some repayment be made, if the household can afford a repayment.
- The term may be extended for five years, unless the Borrower is senior or disabled, when the loan may be extended until change of title.
- An extension agreement must be executed by the owners and be recorded at the Housing Authority's discretion.

When an investor loan is due, it must be repaid, unless it is due because of a sale and the note specifically allows assumption by qualified purchasers. The staff of the Housing Authority shall review the qualifications of the purchasers to determine if they are willing and able to meet the loan requirements.

VIII. ACCELERATION

The principal balance on any rehabilitation loan may be accelerated by the Housing Authority and made immediately due and payable at any time without further notice as a result of fraud or misrepresentation in any respect in any loan application a non-monetary default in loan terms, or transfer of the underlying real property or security interest without the written approval of the Housing Authority.

In addition, if ongoing income eligibility is a condition to the continuation of any loan, that loan may be accelerated at any time and made immediately due and payable if the Borrower is not income eligible at any time.

IX. **ADDITIONAL TERMS AND CONDITIONS**

There are additional requirements for rehabilitation loans as the result of specific Federal, State or local funding sources. Failure to comply with any of the following terms and conditions shall provide the basis to deny participation in the Rehabilitation Loan Programs.

A. Civil Rights

Each Borrower shall agree to comply with Federal, State and local laws prohibiting discrimination on the basis of race, sex, color, creed, national origin, marital status, sexual preference or handicap status.

B. Conflict of Interest

No official or employee of the Housing Authority who exercises any function or responsibility in connection with the administration of the Rehabilitation Loan Programs shall be permitted to share in the proceeds or benefits of the Rehabilitation Loan Programs. This includes receiving the benefits of any purchase of work, materials, supplies or services.

C. Environmental Clearance

Each rehabilitation project must receive environmental clearance prior to loan approval pursuant to the National Environmental Policy Act of 1969 and the Flood Disaster Protection Act of 1973. This may require that mitigation activities be carried out as a condition of loan approval.

D. Equal Employment Opportunity

Rehabilitation Contracts are subject to Federal and State laws requiring that employment opportunities be offered to very low and low income residents of the City, to the greatest extent possible.

E. Prevailing Wage Requirements

Each Borrower must agree to comply with applicable Federal, State and local labor standards. Generally these require that prevailing wage rates be paid for any rehabilitation work on properties containing eight or more units.

F. Displacement and Relocation

To the extent that the Housing Authority must comply with the provisions of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 and/or the provisions of California Government Code, it may have to impose conditions on loan approvals that make projects infeasible or that cause Borrowers to make temporary or permanent relocation payments from their loan proceeds.

G. Lead-based Paint

The Housing Authority must comply with the provisions of the Federal Lead-based Paint Poisoning Prevention Act in regard to Federally-funded rehabilitation loans. This requires that occupants of housing assisted by the Rehabilitation Loan Programs receive notice of the possible presence of lead-based paint, of the hazards and symptoms of lead-based paint poisoning, of the advisability of blood screening for children under the age of seven and of the fact that mitigation of these hazards may be required as part of any property rehabilitated with Federal funds.

H. Debarred, suspended or ineligible contractors

No contractors who are currently debarred, suspended or ineligible to participate in HUD programs may contract to perform rehabilitation funded by these Rehabilitation Loan Programs.

I. Uniform administrative requirements and principles

The Housing Authority must comply with the requirements of 24 CFR Part 85 and OMB Circulars, A-87, A-110, A-122, and A-128. This may require that certain conditions be imposed upon rehabilitation loans.