Housing Rehabilitation Program Guidelines

November 19, 2008

EQUAL HOUSING OPPORTUNITY

Authorized by: _____ Resolution NO. _____

Michael Hackett, City Manager

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City of Arcata

HOUSING REHABILITATION PROGRAM GUIDELINES

1.0 GENERAL

The City of Arcata, hereinafter referred to as the City, has entered into a contractual relationship with the California Department of Housing and Community Development ("HCD") to administer one or more HCD-funded Housing Rehabilitation Programs. The Housing Rehabilitation Program described herein (the "Program") is designed to provide housing rehabilitation loan assistance to owners of housing units within the City of Arcata that are occupied by low or very-low-income households. The goal of the Program is to correct health and safety problems, correct code violations, eliminate blight, revitalize and preserve neighborhoods and conserve the existing supply of affordable housing in Arcata.

Program loans are "revolved," that is, as loans are repaid these loan proceeds are loaned again in the same program to another eligible borrower. Therefore, the program will provide significant benefits beyond the Program's initial loans. All Program loans, including eligibility determinations, are processed by the City or the City's designated loan agent "Program Operator" or the City's "Loan Servicing Agent." After completion of construction, all loans are transferred to the City's "Loan Servicing Agent." All Program loans are administered within the City's Community Development Department by the City's Grant Program Manager.

The City Manager will seek guidance from the State as need. The City Manager has the authority to interpret any provision of these Guidelines as long as they are within State and Federal regulations. Whenever the City Manager determines that the meaning or applicability of any guideline is subject to interpretation, the City Manager may issue an official interpretation in the form of a Management Memorandum. The Program Operator may develop "handouts." Handouts will generally be used to clarify specific guidelines, to make the program more user-friendly, and to produce documents for educational purposes.

1.1 PROGRAM OUTREACH AND MARKETING

All outreach efforts will be done in accordance with state and federal fair lending regulations to assure nondiscriminatory treatment, outreach, and access to the Program. No person shall, on the grounds of age, ancestry, color, creed, physical or mental disability or handicap, marital or familial status, medical condition, national origin, race, religion, gender or sexual orientation be excluded, denied benefits nor subjected to

discrimination under the Program. The City will ensure that all persons, including those qualified individuals with handicaps, have access to the Program.

A. The Fair Housing Lender logo will be placed on all outreach materials. Fair housing marketing actions will be based upon a characteristic analysis comparison (census data may be used) of the Program's eligible area compared to the ethnicity of the population served by the Program and an explanation of any underserved segments of the population. Demographic data will also be gathered and maintained on all applicants regardless of whether they receive funds. This information will be used to show that protected classes (age, gender, ethnicity, race, and disability) are not being excluded from the Program. (For HOME funded projects, the City shall develop a Fair Housing Marketing Plan prior to project set up.) Flyers or other outreach materials, in English and any other language that is the primary language of a significant portion of the area residents, will be widely distributed in the Program-eligible area and will be provided to any local social service agencies. The Program may hold City homebuyer classes.

B. The Program Operator will work closely with local contractors to review Program processes and to explain Program eligibility requirements for housing units and homebuyers to applicants. Local contractors will also be encouraged to have their customers participate in the Program.

C. Section 504 of the Rehabilitation Act of 1973 prohibits the exclusion of an otherwise qualified individual, solely by reason of disability, from participation under any program receiving Federal funds. The City will take appropriate steps to ensure effective communication with disabled housing applicants, residents and members of the public.

1.2 SOURCE OF FUNDING

The Program is capitalized with funds from the State of California Small Cities Community Development Block Grant (CDBG) Program, and Home Investment Partnership Program (HOME). For accounting purposes, these two funding sources are segregated. Reuse of loan proceeds repaid by a borrower where the funding source is the CDBG Program is controlled by the City of Arcata CDBG Program Income Reuse Plan. Reuse of HOME Program proceeds is controlled by the City's HOME Program Income Reuse Plan. Both plans have been approved by the Arcata City Council and the State Department of Housing and Community Development (HCD). For purposes of discussion here, any loan made under these Guidelines is referred to as a Program loan.

1.3 APPLICATION PROCESS AND SELECTION

The priority of applications will be on a "first come-first served" basis which shall be based on the date that a complete application is turned into the City. Each applicant is

asked to complete an application form, which asks for sufficient information concerning income, employment, and credit history to establish preliminary eligibility for Program participation. Complete applications are date and time stamped; therefore, assistance is given on a first-come-first-served basis. Incomplete applications, as defined in handouts are returned to the applicant and will not be date/time stamped until completed.

1.4 HOUSING REHABILITATION EDUCATION

Making significant repairs to a home can be second only to buying a home as one of the most confusing and complicated transactions anyone can make. Providing the borrowers with informative education training can bring success to the City, Program Operator, the Program and most importantly, the Program. It has been documented that borrowers that have had education have the ability to handle problems that occur during construction and throughout homeownership. All Program participants are required to attend a City-approved education class. The education class may cover such topics as the following: selecting a contractor, preparing for construction, available financing, credit analysis, loan closing, homeownership responsibilities, home maintenance, refinancing, and loan servicing.

1.5 CONFLICT OF INTEREST REQUIREMENTS

As per title 24, Section 570.611 of the Code of Federal Regulations, no member of the governing body and no official, employee or agent of the local government, nor any other person who exercises policy or decision-making responsibilities (including members of the loan committee and officers, employees, agents of the loan committee, the administrative agent, contractors and similar agencies) in connection with the planning and implementation of the Program shall directly or indirectly be eligible for this Program. This ineligibility shall continue for one year after an individual's relationship with the City. Exceptions to this policy can be made only after public disclosure and formal approval by the governing body of the locality.

1.6 NON-DISCRIMINATION REQUIREMENTS

The Program will be implemented in ways consistent with the City’s commitment to non-discrimination. No person shall be excluded from participation in, denied the benefit of, or be subject to discrimination under any program or activity funded in whole or in part with State or Federal funds on the basis of his or her religion or religious affiliation, age, race, color, creed, gender, sexual orientation, marital status, familial status (children), physical or mental disability, national origin, or ancestry, or other arbitrary cause.

2.0 APPLICANT QUALIFICATIONS

2.1 CURRENT INCOME LIMITS FOR THE AREA, BY HOUSEHOLD SIZE

The City must certify that all applicants meet the household income eligibility requirements for the applicable HCD program(s) and have their household income documented. The income limits in place at the time of loan approval will apply when determining applicant income eligibility. All applicants must have incomes at or below 80% of the County's area median income (AMI), adjusted for household size, as published by HCD each year. Current limits are included as a handout to these Guidelines and are incorporated herein by reference. The link to the official, HCD-maintained, income limits is:

http://www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html

Household: means one or more persons who will occupy a housing unit.

Annual Income: Generally, the gross amount of income of all adult household members that is anticipated to be received during the coming 12-month period.

2.2 INCOME QUALIFICATION CRITERIA

Projected annual gross income of the applicant household will be used to determine whether they are above or below the published HCD income limits. Income qualification criteria, as listed in the most recent HCD program-specific guidance, will be followed to independently determine and certify the household's annual gross income. The City will verify income by reviewing and documenting tax returns, copies of wage receipts, subsidy checks, bank statements and third party verification of employment forms sent to employers. All documentation shall be dated within six months prior to loan closing and kept in the applicant file and held in strict confidence.

A. HOUSEHOLD INCOME DEFINITION:

Household income is the annual gross income of all adult household members that is projected to be received during the coming 12-month period, and will be used to determine program eligibility. For those types of income counted, gross amounts (before any deductions have been taken) are used. The household's projected income will be used, rather than its past earnings, when calculating income. The City of Arcata determines household size and income based on 24 CFR Part 5, and the HUD Technical Guide for Determining Income and Allowances for the HOME Program. Annual Income Inclusions and Exclusions are outlined in the HUD Technical Guide.

NOTE: Everyone on the title must sign loan documents, but not all persons on the title need to be living in the house.

B. ASSETS:

There is no asset limitation for participation in the Program. Income from assets is, however, recognized as part of annual income under the Part 5 definition. An asset is a cash or non-cash item that can be converted to cash. The value of necessary items such as furniture and automobiles are not included. ***(Note: it is the income earned – e.g., interest on a saving's account – not the asset value that is counted in annual income.)***

An asset's cash value is the market value less reasonable expenses required to convert the asset to cash, including: Penalties or fees for converting financial holdings and costs for selling real property. The cash value (rather than the market value) of an item is counted as an asset.

2.3 ELIGIBLE BORROWER

To be eligible for a Program loan a borrower must own property located within the Arcata city limits.

An owner who intends to occupy the Program rehabilitated housing unit as a primary residence, who is income-qualified and provided there are no more than two housing units on the property, is referred to as an Owner-Occupant. All other owners who participate in the program are referred to as Owner-Investors. Even though some Owner-Investors may have their primary residence in the Program rehabilitated unit, unless all eligibility requirements are met, these owners do not qualify as Owner-Occupants. The distinction between Owner-Occupants and Owner-Investors is important and is outlined in Section 5.0. Owner-Investor projects are NOT eligible for HOME Program Funds. Other Program Funds (e.g. CDBG or Redevelopment Agency) must be used for Owner-Investor Projects.

All Program-rehabilitated housing units are referred to as "Restricted Occupancy Units." For these Units, restrictions limit the rent that may be charged and maximum household income. Owners are not required to rehabilitate all housing units on their property, but each unit rehabilitated with a Program loan is a Restricted Occupancy Unit. Title to the property on which the Unit is located is subject to a Rent Limitation Agreement. The term of the Rent Limitation Agreement coincides with the term of the loan.

3.0 HOUSING UNIT ELIGIBILITY

3.1 LOCATION AND CHARACTERISTICS

A. All housing units must be located within the city limits of Arcata.

B. Housing unit types eligible for the Owner-Occupied Program loan are: single-family detached houses, half-plex, duplex, condominiums, or manufactured homes in mobile home parks, in a common-interest developments or on a single-family lot and placed on a permanent foundation system. The HOME Program does not allow manufactured homes unless on a permanent foundation system.

C. The maximum after rehabilitation value shall not exceed the maximum property values listed in the handout "Maximum Purchase Price/After Rehabilitation Value Limits." This value shall be based on the 95% of median sales price for Arcata or the amounts published by HUD for Humboldt County whichever is larger. The link to Maximum Purchase Price is:

http://www.hud.gov/offices/cpd/affordablehousing/programs/home/limits/maxprice.cfm

D. Housing unit types eligible for the Owner Investor Program Loan include Multifamily Rental Acquisition and/or Rehabilitation, including Multifamily units in an apartment, units in a Mobile Home Park, tri-plex, or quad-plex houses. Owner-investor projects are not eligible for HOME Program funds.

E. Housing units located within a 100-year flood zone will be required to provide proof of flood insurance in order to close escrow.

3.2 ELIGIBLE IMPROVEMENTS

A. Assistance is restricted to rehabilitation required to correct health and safety concerns, building code violations, and eliminate blight conditions. A housing condition inspection will be conducted by the Program Operator following its determination that the borrower meets eligibility requirements specified in Section 2.

Based on the housing condition inspection the Program Operator will prepare a work write-up to ensure that the repairs will meet all health and safety hazards identified during the inspection consistent with Uniform Building Code standards. Any Health and Safety or Uniform Building Code violation shall be included as a mandatory repair item. Any other potential health and safety concern or blight condition may be allowed by the Program Operator on a project-by-project basis as funds allow. All improvements must be physically attached to the property and permanent in nature. All rehabilitation work shall be designed and constructed to meet current Uniform Building Code standards and other applicable codes. Eligible improvements to the living units may include repair, replacement or installation of:

1. Foundations;
2. Roofs;
3. Siding;

4. Windows;
5. Flooring;
6. Plumbing;
7. Electrical systems;
8. Water or sewer laterals on private property;
9. HOME requires lead-based paint remediation. Lead paint expenses are covered as a grant as authorized by the CDBG and Home Programs.
10. HOME requires American Disabilities Act Section 504 improvements such as handicapped-accessible ramps, bathrooms, and other associated improvements to be included as part of the loan. For CDBG and Redevelopment Agency funds, if Exceptional/Special Circumstances are documented, borrowers may be eligible to receive up to a $8,000 grant (not HOME funds) for the materials and installation. For details on the Ramp Grant refer to Section 11.3;
11. Additions to the primary residence may be assisted if there is evidence of over-crowding and after all immediate and potential health and safety deficiencies have been corrected (Attachment B). Generally, over-crowding means not more than two persons per bedroom or living room;
12. On-site general property improvements up to 10% of total work write-up amount such as painting and carpeting;
13. Improvements resulting in substantial energy savings through weatherization and installation of on-site energy generation equipment, such as solar photovoltaic or solar hot water systems, after all other health and safety deficiencies have been corrected on the residential unit;
14. Health and safety deficiencies identified on garages, sidewalks and driveways may be assisted after all other health and safety deficiencies have been corrected on the residential unit; and
15. The cost of building permits, engineering/geologic reports, first year's hazard insurance, title reports, appraisals, escrow fees, document fees and related costs associated with construction contracts and loan documentation.
16. Replacement Housing for health and safety repairs valuing over 50% of the estimated after rehabilitation fair market value of the home based on comparable sales. Procedures and Loan terms as outlined in the City's Home Ownership Program (HOP) Guidelines shall apply.

B. Non-eligible Improvements: General property improvements, as defined by HCD, and/or remodeling are ineligible. Examples of non-eligible improvements include but are not limited to:

1. Acquisition of real property;
2. New construction, except to alleviate overcrowding;

3. Refinancing;

4. General property improvements not related to health and safety issues or blight removal;

5. Materials, fixtures or equipment of a higher quality than are normally used in the community for similar properties; and

6. Work on detached garages, outbuildings and additions unless necessary to resolve an over-crowded condition (as defined by HCD) or as allowed under item (A)(13) above, decks, landscaping and non-essential appliances that are not permanent in nature.

C. Rehabilitation Standards/Life Safety: Corrective repairs shall be made to appropriate Uniform Building Code requirements. Where appropriate, the National Fire Protection Association's (NFPA) Life Safety Code, and the Fire Code and other applicable regulations will be used to supplement and clarify provisions of the Uniform Building Code standards.

D. Lead-Based Paint: Occupants of structures to be rehabilitated under the Program shall be notified of possible lead-based paint hazards. All housing units built prior to 1978 for which HOME or CDBG funding is anticipated are subject to the requirements of this section. Such homes must undergo a visual assessment by a person who has taken HUD's online Visual Assessment course. Deteriorated paint must be stabilized using work safe methods. Clearance must be obtained after paint stabilization by a DHS certified LBP Risk Assessor/Inspector. HOME and CDBG general administrative and activity delivery funds may be used to pay for lead-based paint visual assessments, and if lead mitigation and clearance costs are incurred, these programs may incorporate the costs into the calculation of Program assistance. The CDBG Program allows grants for lead hazard evaluation and reduction activities. The HOME Program allows grants for lead hazard evaluation and reduction activities only for acquisition with rehabilitation programs where the proposed paint stabilization measures do not add value to the home.

The following requirements must be met:

1. **Notification**: a) Prior to borrower's execution of loan documents on a pre-1978 home, the borrower will be given a copy of and asked to read the EPA pamphlet *"Protect Your family From Lead in Your Home"*. (EPA 747-K-94-001, ***September 2001)*** A signed receipt of the pamphlet will be kept in the City's homebuyer file; b) A notice to residents is required following a risk assessment/inspection using form DHS 8552, which is provided by the DHS-certified Risk Assessor/Inspector; c) A notice to residents is required following lead-based paint mitigation work using

Visual Assessment and Lead-based Paint Notice of Presumption and Hazard Reduction form, LBP – 1.

2. **Inspections:** Any Program assisted home built prior to 1978 shall be subject to lead paint assessment following the requirements and procedures specified in CFR part 35 Part J (HOME Grant Management Manual Appendix V1-A). Program Operator will complete lead inspection, remediation, and clearance. The Inspector shall conduct an assessment of all the dwelling unit's painted surfaces in order to identify deteriorated paint. All deteriorated paint will be stabilized in accordance with CFR 35 Part J.

3. **Mitigation:** If stabilization is required, the contractor performing the mitigation work must use appropriately trained workers. Prior to the contractor starting mitigation work the Program Operator shall obtain copies of the contractor's and workers' appropriate proof of LBP training, as applicable to the job, in order to assure that only qualified contractors and workers are allowed to perform the mitigation.

E. Major Reconstruction or Rehabilitation and Off-Site Improvements: Major reconstruction and/or major rehabilitation of a housing unit and off-site complementary rehabilitation activities such as drainage, streets, curbs and sidewalks within 300 feet of the property are not eligible for Program loan funding unless specifically approved under Exceptional/Special Circumstances.

3.3 ANTI-DISPLACEMENT POLICY

A. Owner-Occupied Relocation Policy: Temporary relocation policy applies to Owner-Occupied rehabilitated homes in which no tenants are involved. Eligible homes will be those that are currently owner-occupied. It is not anticipated that the implementation of the Program will result in the permanent displacement of any persons, households, or families.

B. Owner-Investor Relocation Policy: Owner-Investor projects are <u>not</u> eligible for HOME Program Funds, only CDBG and Redevelopment Agency funds may be used. If relocation becomes necessary, the activity will be carried out in compliance with the City's relocation plan. The relocation plan describes how persons permanently displaced will be relocated and paid benefits in accordance with the following Federal Laws:

1. Uniform Relocation Assistance (URA) and Real Property Acquisition Policies Act of 1970

The federal URA and Real Property Acquisition Policies, as amended by the URA Amendments of 1987, contains requirements for carrying out real property acquisition or the displacement of a person, regardless of income status, for a project or program for which HUD financial assistance (including CDBG and HOME) is provided. The implementing regulations, 49 CFR Part 24, require developers and owners to take certain steps in regard to tenants of housing to be acquired, rehabbed, or demolished. This regulation also covers tenants who will not be relocated.

2. Section 104(d) of the Housing and Community Development Act of 1974

Section 104 (d) requires each contractor (CHDO or State Recipient), as a condition of receiving assistance under HOME or CDBG, to certify that it is following a residential anti-displacement plan and relocation assistance plan. Section 104(d) also requires relocation benefits to be provided to low-income persons who are physically displaced or economically displaced as the result of a HOME or CDBG assisted project, and it requires the replacement of low-income housing that is demolished or converted. The implementing regulations for Section 104(d) can be found in 24 CFR Part 570(a).

4.0 LOAN CRITERIA

Following a determination that all of the requirements of Section 2 and Section 3 have been met, and provided the City has funds available for Program loans, the Program Operator shall provide a recommendation to the City on the loan approval; any special circumstances; and the contractor draw schedule. The City's Loan Advisory Committee comprised of the City's Community Development Director, Finance Director and Building Official will review the applicant and properties eligibility; contract terms; program operator's recommendation and other factors to evaluate the approval of the Program Loan. The Loan Advisory Committee shall utilize loan terms included in these Guidelines, but may make adjustment to accommodate any special conditions as long as they are consistent with the funding source requirements.

4.1 MAXIMUM ASSISTANCE PER UNIT

The maximum amount of a Program loan for any single parcel of property is limited as follows:

A. Assistance may not exceed $50,000 per unit unless, on a case-by-case basis, after review and approval by the Arcata City Manager and the Program Operator, it is determined that an amount in excess of $50,000 per Restricted Occupancy Unit is appropriate; provided, in no event shall any Program loan exceed $100,000 per Unit. A Restricted Occupancy Unit is a unit assisted and rehabilitated with

Program Funds. For Owner-Occupied units there will typically be one Restricted Unit, but for Owner-Investor units there will be more than one Restricted Unit. Owner-Investor units are not eligible for HOME funds. All HOME Program loans utilize the recapture method.

B. The first $25,000 of the rehabilitation loan shall be a HOME or CDBG Program Loan. Upon review and at the discretion of the Loan Advisory Committee, any loan in excess of $25,000 will add a $6,000 Agency loan in addition to CDBG or HOME Program funds up to the maximum $50,000.

C. A borrower (Owner-Occupied or Owner-Investor) may supplement a Program loan with the borrower's own funds or may borrow funds from other sources to be secured by the property to accomplish the proposed rehabilitation. If other loan funds are secured by the property, the maximum debt-to-value ratio of these Guidelines shall not be exceeded. A borrower will not be eligible for a second Program loan on the same property until:

- The borrower's Program loan account(s) are in good standing;
- The proposed project meets all Program Guideline requirements; and
- The combined total for all existing and proposed Program loans on the property do not exceed $50,000 per restricted unit, unless authorized as set forth above.
- HOME funded projects are not eligible for an additional Program loan with HOME funds. These projects may be eligible for CDBG or Redevelopment Agency Program Loans.

In the case of an Owner-Occupant, the borrower's housing costs (mortgage, taxes, insurance, and debt service payments on all loans) shall not exceed 30% of a borrower's gross annual income.

4.2 LOAN TERMS

HOME AND CDBG PROGRAM LOANS: All Owner-Occupied Program loans shall be at a fixed simple interest rate of 1.5%.

A. Standard rehabilitation loans, for health and safety repairs in value not to exceed 25% of the after rehabilitation value of the home, shall have a loan term of 15 years. There will not be a Share of Equity on Standard Rehabilitation loans. The Term of loan shall coincide with the period of affordability.

B. Substantial rehabilitation loans for health and safety repairs valuing over 25% of the after rehabilitation value of the home, shall have a loan term of 15 years. There will not be a Share of Equity on Substantial rehabilitation loans. The term of the loan shall coincide with the period of affordability.

C. Replacement rehabilitation loans, for health and safety repairs valuing over 50% of the estimated after rehabilitation fair market value of the home based on

comparable sales, and complete replacement of a manufactured home, shall have a loan term of 30 years. Replacement Housing loans qualify as an Acquisition/Rehabilitation activity, and the City's Home Ownership Program (HOP) loan terms as outlined in the HOP Guidelines will apply. There will be a Share of Equity on Replacement rehabilitation loans as specified in the HOP Guidelines. The term of the loan shall coincide with the period of affordability.

OWNER_INVESTOR LOANS: For rehabilitation of less than four (4) units, Owner-Investors may qualify for a loan that will be fully amortized with a term of fifteen (15) years at a compound interest rate of three percent (3%) per year. There will be a monthly payment as outlined in the Loan Documents. Owner-Investor loans may be funded from CDBG and/or Redevelopment Agency funds, but cannot be funded through the HOME Program.

Owner-Investor Rehabilitation loans for multifamily projects of four (4) or more units may qualify for a fully amortized, fifteen (15) year loan at 3% Compound Interest. At the discretion of the City Manager, and dependant on the City's administrative burden, payments on these multifamily loans will be either residual receipts or a fixed monthly payment as specified in the Loan Documents. Multifamily rehabilitation loans may be funded through the CDBG Program, or Redevelopment Agency.

Non-profit organizations; Community Based Housing Organizations (CHDO); Cooperative Housing and Community Land Trust type ownerships may qualify for a loan with a fifteen (15) year term at an interest rate of one and one-half percent (1.5%) per year with payments based on residual receipts.

AGENCY LOAN: The HOME or CDBG Program Loan shall be subordinate to the Redevelopment Agency Loan.

A. The Agency loan shall be fully amortized at 1.5% compound interest over 15 years, with a monthly payment. When all required Health and Safety deficiencies and Lead Paint hazards have been repaired, the borrower may elect to use the remainder of the Agency loan on weatherization of the home, and installation of on-site energy generation equipment, such as solar photovoltaic or solar hot water systems.

B. In any case of Agency funds being used to pay rehabilitation costs exceeding 25% of the estimated after rehabilitation fair market value (Substantial Rehabilitation), the loan shall be subject to affordability recapture requirements. The term of the loan and period of affordability will be 45 years and there will be a Share of Equity as summarized in the HOP Guidelines.

C. The Agency loan term for a Replacement rehabilitation loan, when Agency funds do not exceed 25% of the estimated after rehabilitation fair market value, shall match the term of the Program loan.

All Owner Occupied and Owner Investor loans shall be subject to the following:

A. Interest: In the event of multiple draws during the construction period, interest will accrue on each draw beginning as of the date of each separate draw. However, at the election of, and at the sole discretion of, the Arcata City Manager interest during the construction period may be waived.

B. Extended Term: The Arcata City Manager may authorize an extended term beyond the term specified for Program loans as set forth above if exceptional and special circumstances are established as provided.

C. Accelerating Events: Failure to comply with the Occupancy Requirements, Rent Limitation Requirements, at the election of the City, may result in the acceleration of all principal and accrued interest which shall then be immediately due and payable (an "accelerating event"), and, if borrower fails to take appropriate action to eliminate the accelerating event, foreclosure proceedings may be instituted.

5.0 OCCUPANCY RESTRICTIONS

A. Owner-Occupant: Each Owner-Occupant of a Restricted Occupancy Unit will be required to submit to the City's Department of Community Development on or before July 1st of each year, for the term of the loan, all of the following:

1. Proof of occupancy by the Owner in the form of a copy of a current utility bill and such other documentation as the City may require to determine occupancy.

2. A statement verified under penalty of perjury that the Owner occupies the Unit rehabilitated with the Program loan as a primary residence and that no non-residential use of the Unit is occurring, other than a home-occupancy type use permitted under the City of Arcata's Land Use and Development Guide Section 3-0200.

3. In the event an Owner-Occupant sells, transfers his/her interest in the property or any part of it by operation of law or otherwise, or no longer occupies a Restricted Occupancy Unit as his/her principal residence, the loan may be accelerated and all principal and interest shall be immediately due subject to the following:

   a. If the sale or transfer of the Owner-Occupant's interest in the property, or any part of it, is to a person who meets the Owner-

Occupant eligibility requirements of Section 3 of these Guidelines, the City will waive its acceleration rights.

b. If the new, eligible Owner-Occupant described in subparagraph "a" above proposes to finance the purchase of the property through an institutional loan, the City will consider subordinating its deed of trust to that loan. The decision to do so will depend on the terms of the institutional loan and the value of the property at that time, as well as other relevant financial factors. The City's decision shall be at the sole discretion of the Arcata City Manager.

c. If an Owner-Occupant dies and an heir succeeding to his/her interest in the property meets the income-eligibility requirements of Section 3 of these Guidelines and proposes to occupy the Unit as his/her principal residence, the City will waive its acceleration rights and permit the heir to assume the loan for the remainder of the term.

d. If an Owner-Occupant dies and the heir is not income-eligible or does not propose to occupy the Unit as his/her principal residence, but the Unit is rented to a very-low-income or low-income elderly household as defined in these Guidelines, the City will waive its acceleration rights and permit the heir to assume the loan for the remainder of the term.

B. Owner-Investor: Owner-Investor projects are <u>not</u> eligible for HOME Program Funds. Other program funds must be used for Owner-Investor projects. Each Owner-Investor will be required to submit to the City's Department of Community Development on or before July 1st of each year of the term of the loan all of the following or the loan may be accelerated and all principal and interest shall be immediately due:

1. A statement by the Owner-Investor, verified under penalty of perjury, that sets forth the rents charged each month of preceding year for each Restricted Occupancy Unit.

2. A statement by each tenant(s) occupying any Restricted Occupancy Unit on the property, verified under penalty of perjury, that sets forth the combined household income for that Unit and the total rent paid for the Unit in a form determined by the City to be sufficient in detail to enable the City to verify that the Unit meets the continued income and rent eligibility requirements of these Guidelines.

3. A statement verified under penalty of perjury that no non-residential use of the Unit is occurring, excepting only home occupancy permitted under the City of Arcata's Land Use and Development Guide Section 3-0200.

4. If an Owner-Investor converts a Restricted Occupancy Unit to his or her personal residence, the loan may be accelerated and all principal and interest shall be immediately due unless all of the following conditions are established to the satisfaction of the City:

   a. The previous tenant was not evicted, unless for cause.

   b. The Owner is income-eligible as an Owner-Occupant under Section 3 of these Guidelines.

   c. The Owner has complied with all other applicable requirements of the Program Loan.

5.1 RENT LIMITATIONS

An "Owner-Investor" who elects to rehabilitate a rental unit with Program financing must sign a Rent Limitation Agreement, in the form attached to these Guidelines. Owner-Investor projects are not eligible for HOME Program Funds. This Agreement will be recorded in the official records of Humboldt County. This "Rent Limitation Agreement" shall specify:

A. Income and Rent Verification Requirement: Before initial occupancy of a Restricted Occupancy Unit may occur and on or before July 1st of each year during the term of the Program loan, each Owner-Investor must provide a verified statements from the Owner-Investor and each tenant that will enable the City to determine that the income and rent restrictions of the program are being met. If any Restricted Occupancy Unit has been designated for occupancy by a very-low-income household, the income and rent restrictions set forth in the attached Table 2 must be met for that Unit. All other Restricted Occupancy Units must meet the income and rent restrictions for occupancy by low income households as set forth in the attached Table 1. The definition of "rent" includes the amount paid to the Owner as rent and any amount paid by the tenant for gas and electric utilities.

B. Initial Occupancy Restrictions: Initial priority for occupancy of any Restricted Occupancy Unit after rehabilitation must be given to any low- or very-low-income household that resided in the Unit immediately prior to rehabilitation.

C. Rent Restrictions During Initial Occupancy: If a Restricted Occupancy Unit was occupied by a low or very low income household prior to rehabilitation and that tenant elects to re-occupy the Unit, the rent charged during the first year of occupancy shall not exceed the rent charged prior to rehabilitation unless that rent would exceed the maximum rents described in the attached Tables 1 and 2 in which event these maximums apply.

D. Annual Rent Increases: After the first year, rents in Restricted Occupancy Units may be increased by an annual amount not greater than the percentage increase

in median income for the area in which the property is located, as determined annually by HUD. Rents may be adjusted only one time in any calendar year. If the borrower is participating in a public rent subsidy program which regulates future rent increase, such regulations shall control. In every case of a proposed rent increase, the tenant(s) affected by such increase shall receive written notice of the amount of the increase at least 60 days prior to the effective date of such increase.

E. HUD Rent Restrictions: In no instance may rents charged for a Restricted Occupancy Unit exceed the U.S. Department of Housing and Urban Development (HUD) Fair Market Rent (FMR) schedule for Humboldt County while the Rent Limitation Agreement is in effect. HCD's rent maximums as described in Table 1 and 2 are within HUD's FMR schedule.

F. Filling Vacancies: The Owner agrees to seek assistance in locating low- and very-low-income households by contacting the local housing authority, the City or the Program Operator for guidance. All reasonable efforts shall be made by the Owner to rent the Restricted Occupancy Unit to a very low-income household if the Unit is designated for such occupancy under the program and to a low-income household for all other Units. A very-low-income-designated Unit may be rented to a low-income household only with the prior approval of the City, which approval shall be based on the reasonableness of the Owner's efforts to locate low or very-low-income households.

5.2 MAINTENANCE AND USE REQUIREMENTS

Owners must maintain their properties in post-rehabilitation condition for the term of the loan. Any Building, Health and Safety or other applicable code violation shall be sufficient evidence that the property has not been adequately maintained. Owners may not change the use of any Restricted Occupancy Unit to any use other than residential. Home occupancy is permitted as defined by the City of Arcata's Land Use and Development Guide, Section 3-0200.

6.0 PROGRAM REQUIREMENTS AND PROCEDURES

6.1 INSURANCE

Proper insurance shall be maintained by the Owner at all times during the term of the Program loan including the following:

A. Fire Insurance: At all times during the term of the loan the Owner must maintain fire insurance on all improvements on the property in an amount equal to the

replacement value of such improvements.

B. Flood Insurance: In areas designated "Special Flood Hazard Areas Inundated by 100 - Year Flood" on the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Maps, the owner must maintain flood insurance in an amount equal to the replacement cost of all improvements on the property. The premium of the first year only may be paid from loan proceeds.

C. Evidence of Insurance: Evidence of both policies of insurance must be provided to the Program Operator and the City in the form of certificates of insurance that name the City of Arcata as additional Loss Payee. Said certificates must also provide for 30 days prior written notice of any cancellation of or reduction in coverage. Failure to comply with these requirements will constitute a default under Program loan that may result in foreclosure proceedings.

D. Insurance Payments: In the event borrower fails to make the insurance premium payments in a timely fashion, the Program Operator or the City, at their option, may make such payments for a period not to exceed 90 days. The Program Operator or the City may, at their discretion and upon the showing of special circumstances, make such premium payments for a longer period of time. Should the Program Operator or the City make such payments, the amount of such payments shall be added to the principal amount of the loan.

6.2 DEBT-TO-VALUE

The Program Operator shall conduct an assessment of the debt-to-value ratio for the property. Debt will include the Program loan and all other debt or liens recorded against the property. Value may be estimated by the Program Operator on the basis of assessed value or comparable sales methods and without a formal appraisal. If the Program Operator determines on that basis that the debt-to-value ratio will exceed 80%, a formal appraisal by a licensed appraiser is required. Based on that appraisal, the debt to value ratio may be increased to 90%. If the property is to be purchased after rehabilitation through the City's First Time Home Buyer Program, the debt-to-value ratio may be further increased to 100% based on the formal appraisal.

6.3 COLLATERAL REQUIREMENTS

All Program loans must be secured by a standard form deed of trust against the property proposed for rehabilitation with Program funds that include, as an attachment, an acceleration agreement in the form attached to these Guidelines as Attachment C.

6.4 EXECUTION OF LOAN DOCUMENTS

Upon approval of a Program loan, the borrower shall have 90 days to sign all the necessary documents and agreements and close the loan. Prior to execution of the loan documents, the borrower shall be provided with a checklist outlining the borrower's obligations and shall sign a Statement of Understanding regarding these Guidelines. The City's Loan Advisory Committee may approve a 90-day extension of the closing of the loan if the delay is due to bad weather or other factors beyond the reasonable control of the borrower.

6.5 DISBURSEMENT OF FUNDS

Program loan proceeds will be disbursed as follows:

A. City Funding: Upon approval of the loan pursuant to these Guidelines, the City, Program Operator, or Loan Servicing Agent will request funding of the loan from the City, and, provided funds are available, the City will transfer to the Program Operator or Loan Servicing Agent the amount of the loan.

B. Loan Disbursements: The Program Operator or Loan Servicing Agent will disburse loan funds according to the payment schedule contained in the Rehabilitation Contract Documents, as described in Section 6 below in the form of progress payments. All progress payments must be signed by the contractor, borrower, and the Program Operator or Loan Servicing Agent. The City, Program Operator, or Loan Servicing Agent will conduct an on-site inspection of the work to verify the stage of completion. The payment will be in the amount of the progress payment provided for in the Rehabilitation Contract Documents, minus 10% (the "10% hold-back"). The 10% hold-back will be disbursed 35 days after the date of recordation of the Notice of Completion is recorded, unless the Program Operator has notice of a mechanics' lien or a notice of dispute filed pursuant to Section 8 below.

6.6 COMPLETION OF IMPROVEMENTS

Improvements funded with a Program loan must be completed within six months of the date of execution of all loan documents by the borrower. In the event there are circumstances that prevent completion within that time period that are beyond the reasonable control of the borrower, the time of completion may be extended as follows:

A. Borrower shall promptly notify the Program Operator and the City's Department of Community Development of the facts or circumstances which necessitate additional time to complete the loan-funded improvements.

B. The Department of Community Development will review the request as an exceptional/special circumstance under Section 5.4 below.

C. Upon a finding by the Department that an exceptional/special circumstance exists, the date of completion of the improvements will be extended as appropriate.

6.7 LOAN PAYMENTS

Unless the Loan Terms as described in the Loan Documents specify a deferred payment option, loan Payments are due on the first of each month. The first payment shall be due on the first day of the first month following the date of completion as evidenced by the Notice of Completion. All payments are accounted for by the City's Loan Servicing Agent. A $20.00 late charge will be assessed by the Loan Servicing Agent for loan payments not made within 10 days of the payment due date. Monthly payments are applied first to the late payment penalties and collection fees, then to loan interest and principal.

A. Owner Occupied Rehabilitation Loans funded through the HOME or CDBG Programs shall have deferred payment as specified in the Loan Documents.

B. Owner-Investor Rehabilitation Loans shall have a monthly payment as specified in the Loan Documents.

C. Agency Housing Rehabilitation Loans shall have a monthly payment as specified in the Loan Documents.

6.8 PREPAYMENT PENALTY

None

6.9 SETTLEMENT COSTS

Settlement costs such as credit reports, appraisals, recording and notary fees, preliminary title reports, flood and hazard insurance verification, and title company settlements and other closing costs associated with a Program loan may be paid in cash by the borrower or financed from Program loan proceeds.

6.10 LOAN POSITION

The Program note must be secured by a deed of trust, but may be subordinate to existing deeds of trust and approved liens, provided the Program Operator and the City determine that there is adequate collateral to secure the loan.

6.11 LOAN ASSUMPTION

No Program loan may be assumed or assigned except specifically authorized under Section 6.1 of these Guidelines.

6.12 REFINANCING OF SENION LIENS/SUBORDINATION

All Program loans shall be due and payable when any senior deed of trust is refinanced unless the Program Operator or the City determines that the purpose of the refinancing for the sole purpose of obtaining a lower interest rate without change in any other terms.

6.13 DEFAULT/FORECLOSURE

The Loan Servicing Agent will closely monitor the monthly payments by Program borrowers. Only Owner-Investor loans have scheduled monthly payments. Should a Program loan be more than 90 days past due or a notice of default is received from any senior trust deed or lien holder, the Loan Servicing Agent shall:

A. Notify the City's Community Development Department immediately;

B. Follow the City of Arcata Loan Foreclosure Policy (Attachment D);

C. Determine the City's lien position, foreclosure loan amount (including foreclosure costs) and minimum amount necessary for the City to redeem the Program loan; and explore with the City, borrower and the senior trust deed or lien holder ways to cure the default including refinancing the Program loan

6.14 REFINANCE OPTION

A. The refinance option will be available to any borrower with a deferred payment loan who qualifies as low income or a senior at the time the Program loan matures. Borrower may refinance when the Program loan reaches the Loan Maturity Date. The purpose of the refinance is to enable borrowers to pay off the Program Loan principal and interest through scheduled payments rather than a balloon payment.

B. Payments will be calculated to pay the loan balance of principal and interest in full over a 15-year payoff term. Simple interest at 1.5% will be charged until the loan is paid in full.

C. There will be no prepayment penalty.

7.0 APPLICATION PROCEDURES

7.1 APPLICATION PERIOD

Applications will be accepted year-round but will be processed only when funds are available.

7.2 LOAN APPLICATION

The loan process begins with the borrower completing the Housing Rehabilitation Program application form and other forms required by the Guidelines for participation in Program. A complete application shall contain at a minimum the following information:

A. Owner-Occupied Application Form: Shall be completed by everyone who lives in the home to be rehabilitated. City Staff will complete a title search to identify all persons on title.;

B. Owner-Investor Application Form: Owner-Investor projects are not eligible for HOME Program Funds. The application form shall be completed by everyone who lives in the home to be rehabilitated. The application shall include rental property household member information forms and appropriate release of information forms. City Staff will complete a title search to identify all persons on title.;

C. Verification of Income Form: Shall be completed by every member of the household above the age of 18, unless enrolled full time in school, who earns any income. Verification of benefits and verification of employment forms are signed by the borrower(s) and verified as necessary by the Program Operator.

D. Senior Loan Verification Form: The Program Operator shall obtain the borrower's signature and shall send this form to the any senior loan or lien-holder.

E. Property Tax Information: The borrower shall provide the Program Operator with the most recent property tax information and identifying parcel number.

F. Fair Lending Notice: Shall be signed by the borrower.

G. Statement of Understanding: Shall be signed by the borrower.

H. Credit Report: The Program Operator shall obtain a credit report for all persons on the title.

I. Preliminary Title Reports and Title Insurance: The Program Operator shall obtain a Limited Coverage policy of title insurance prior to closing any Program loan from a title insurance company doing business in Humboldt County for all Owner-Occupant loans. The Program Operator shall obtain a standard CLTA Lender Guarantee policy of title insurance from such title company for all Owner-Investor loans. Prior to closing an Program loan, the Program Operator shall review the condition of title and, based on that review, close the loan only if the title exception(s) disclosed do not materially affect the collateral given to secure the loan.

J. Environmental Review: The Program Operator shall prepare an Environmental Review Questionnaire in the form approved by the City. Said Questionnaire shall describe any adverse environmental affects of the loan-funded improvements that

are likely to occur. Said Questionnaire shall be submitted to the City's Community Development Department for its review and approval prior to closing the loan. The Program Operator will not approve any proposed loan if the loan-funded improvements are likely to have a significant adverse impact on the environmental, as defined by the National Environmental Policy Act (NEPA).

7.3 APPLICATION REVIEW

The City or its Program Operator will review all loan application documents, and based on the documents shall make a determination of eligibility consistent with these Guidelines. If additional information or documentation is required to evaluate the proposed loan, the Program Operator shall request such information from the borrower. The Program Operator will maintain confidentiality with respect to all financial information received from the borrower to the maximum extent permitted by law.

Once the application package is complete, and provided the borrower, the property and the proposed improvements meet all the eligibility requirements set forth in these Guidelines, the Program Operator will prepare a summary analysis of the loan request and make a recommendation to the City. These recommendations will be reviewed by the City based on the following criteria:

A. Priority will be on a "first come first served," immediate need, and/or project readiness basis;
B. The borrower, property and proposed improvements meet all eligibility requirements contained in Section 3 of these Guidelines.
C. The proposed loan meets the Loan Criteria contained in Section 4 of these Guidelines.
D. The proposed loan meets all Program loan underwriting criteria (Attachment E).
E. The proposed improvements complies with all local, state, and federal regulations, including but not limited to

   i. Land Use Zoning;
   ii. Design Review;
   iii. Building Permits;
   iv. California Environmental Quality Act (CEQA];
   v. National Environmental Policy Act [NEPA];
   vi. Davis Bacon Prevailing Wage; and
   vii. Other regulations which may be applicable.

F. No borrower shall be excluded or discriminated against because of race, color, religion, ancestry, sex, age, national origin, physical handicap, or any other legally prohibited basis.

7.4 EXCEPTION/SPECIAL CIRCUMSTANCES

The following procedure shall be used when considering any action which would depart from policy and procedures developed in these Guidelines:

A. Consideration of exceptional/special circumstances may be initiated by either the borrower, Program Operator or the City.

B. A report will be prepared by the Program Operator or the City that will be included in the borrower's loan application file, along with all other loan documents. This report will contain a narrative, including relevant information provided by the borrower and the recommended course of action.

C. The City's Community Development Director or his/her designated representative will review the report and make a determination regarding the exception/special circumstances. The recommendation shall consider use of Program loan funds, CDBG grant, HOME grant, Community Development Agency, or other potential funding sources which may be used to address the exception/special circumstances.

7.5 APPEAL

A borrower may appeal the decision of the City with respect to the approval or denial of a Program loan to the City Manger within 30 days of the decision. The City Manager will review the matter and decide the appeal which shall be the final decision of the City and there shall be no further appeal from that decision. Other matters disputed by the borrower shall be subject to the dispute resolution procedures set forth in Section 8 below.

8.0 CONSTRUCTION

8.1 PRE-CONSTRUCTION INSPECTIONS

Prior to approving a Program Loan, the Program Operator shall insure that the following have occurred: an Environmental Review, Housing Condition Inspection and Lead Based Paint Assessment. These initial inspections, combined with the City's own environmental assessment, input from the borrower, information contained in termite reports and roof inspections and feedback from contractors will provide the information necessary to define the scope of work to be funded with the loan (herein "Work Write-Up").

8.2 WORK WRITE-UP

After the pre-construction inspections are completed, the Program Operator will prepare a Work Write-Up and cost estimates to correct all health and safety hazards identified during these inspections. All items considered to be health and safety hazards shall be included as mandatory repair items. The Work Write-Up is the central document in the City's Program process. It is expected that there will be a number of drafts of the Work Write-Up as input from various sources is received and considered. In its final form, the Work Write-Up is attached to the construction contract and becomes the project description. Any deviation from the final Work Write-Up is considered a change to the construction contract that must be documented and approved as a Work Extra or Change Order.

The Work Write-Up will delineate the various rehabilitation tasks according to the following three general categories: exterior work, interior work and mechanical systems. Each of these general categories will be further divided into specific items with a description of the necessary work in a problem/solution format. An estimate of the cost to complete the work in each category (the "Cost Estimate" will be included at the time the Work Write-Up is given to the borrower. This enables the borrower to determine the amount of money necessary to address each item in the Work Write-Up and the total amount the borrower will need in the form of a loan. The Work Write-Up will be utilized by the Loan Committee to verify the eligibility of the proposed improvements.

8.3 FULLY CONTRACTED PROJECTS

If the borrower is not planning on doing any of the work on a self-help basis, and does not want to act as his/her own contractor, the Program Operator will assist the borrower in obtaining competitive bids.

A. Process: The Program Operator will maintain a list of contractors who are interested and experienced in doing housing rehabilitation and who have the necessary amount and type of insurance to work on Program rehabilitation projects.

B. Bid Conference: A minimum of six contractors that are on the list and any contractor specifically requested by the borrower will each be sent a bid packet which contains a description of the work (the Work Write-up and the Cost Estimate) and the time, date, and address of the scheduled bid conference. The bid conference is intended to give the contractors an opportunity to look at the various aspects of the job and raise questions. The contractors are then given a minimum of 10 days to submit bids. The selection of the contractor rests solely with the borrower. The Program Operator will check the license of the selected contractor for "good standing" with the State and go over the bids. No federal or state debarred contractors may be selected for the work. Bids shall also include

the hourly labor rate the contractor would charge for extra work.

C. The Rehabilitation Contract Documents: The construction documents which govern rehabilitation are the construction contract, the general conditions and the final Work Write-Up. These three documents are combined and constitute the Rehabilitation Contract Documents. All of these documents must be signed by the borrower and the contractor. The Rehabilitation Contract Documents specifying that 10% of all progress payments will be held back until all final building inspections are completed and a Notice of Completion has been signed and recorded.

The General Conditions section of the Rehabilitation Contract Documents entered into by the borrower and the contractor and the Certificate of Understanding which is signed by the borrower state:

> Any controversy arising out of or relating to this Contract, or the breach thereof; shall be submitted to binding arbitration in accordance with the provisions of the California Arbitration Law, Code of Civil Procedure 1280 et seq., and the Rules of the American Arbitration Association. The arbitrator shall have the final authority to order work performed, to order the payment from one party to another, and to order who shall bear the costs of arbitration. Costs to initiate arbitration shall be paid by the party seeking arbitration. Notwithstanding, the party prevailing in any arbitration proceeding shall be entitled to recover from the other all attorney's fees and costs of arbitration.

The City, its Program Operator, and its Collection Agent are not party to this contract and are not bound by its terms.

D. Change Orders: Any change to the scope of work as described in the construction contract shall require a change order or extra work order signed by the borrower and the contractor and approved by the Program Operator. (NOTE: The Program Operator signs the change orders to verify that there are sufficient Program funds available to cover the extra work.) The change order must clearly state in detail the change in work and include the number of hours and cost of materials necessary to effect this change. Should it be impossible to accurately detail the time and materials, a "not to exceed" figure shall be included.

E. Method of Payment: Payment for all work performed under the Program will be according to the progress payment schedule defined in the construction contract. A request for payment signed by the borrower and the contractor shall be submitted to the Program Operator who will conduct an inspection of the work and process the payment. From each payment the 10% hold-back will be retained

by the contractor until 35 days after the date of recordation of the Notice of Completion.

F. Notice of Completion: After all final building inspections are received and the contracted projects are complete, the Program Operator will conduct a post construction inspection with the borrower and contractor to review the project. After the inspection the Program Operator will request that the borrower sign the Notice of Completion. The Notice of Completion will then be submitted to the County Recorder's Office for recordation.

G. Final Payment: After the Notice of Completion is recorded, the Program Operator shall retain the final payment and 10% hold-back for 35 days, after which final payment will be made unless the Program Operator has notice of a mechanics' lien or a notice of dispute from the borrower. In either event, the 10% hold-back will be retained until the lien or other dispute is resolved.

8.4 SELF-HELP PROJECTS

A. Purpose: The Self-Help Program is designed to encourage owners to assist in the rehabilitation of their homes in order to decrease the amount of financing needed; encourage participation of owners whose limited financial resources might otherwise exclude them; and involve the borrowers in the rehabilitation of their own homes to provide added incentive to develop and practice skills necessary to ensure that the rehabilitation process has a lasting, long term impact.

B. Method of Valuation: Elements of the rehab work to be performed by borrowers are valued at $10.00 per hour and must be submitted with time sheets. The Program Operator will conduct an initial inspection and prepare a Work Write-Up and Cost Estimate for the work to be done on the property. The entire work is estimated based on current contractor rates. Based on the Cost Estimate, negotiation takes place with the potential borrower as to the extent to which the borrower can lower the Cost Estimate by providing labor to the project. Borrowers may not be paid for the work they complete. This method of valuation is intended to be used to calculate any leveraged funds which may have been committed.

C. Typical Self-Help Tasks: The tasks that a borrower might accomplish are activities that an inexperienced borrower could master. These include painting, excavation for foundation footings, roof-stripping and demolition. Borrowers skilled in one or more trades who desire to participate in more complex tasks and have the requisite skills may do electrical wiring, siding, window replacement, plumbing, foundation installation, bedroom additions to alleviate overcrowding, roofing and the like.

Labor costs to which the borrower is willing and able to commit are subtracted

from the Cost Estimate. However, these amounts are, where possible, held for contingency reserve within the financing so that, should unforeseen circumstances prevent the borrower from completing the work agreed, the work can be carried out by a licensed contractor without refinancing. This process enables the borrower to obtain the cash savings involved in self-help, while ensuring that, despite unforeseen circumstances, the work will be completed.

D. Self-Help Contract: The borrower must sign a Self-Help Rehabilitation Contract specifying the work to be completed, the estimated time schedule, and the consequences if self-help is not completed. The Program Operator insures that all permits are obtained and maintain records of work done by the borrower. When the rehabilitation is complete, Program Operator's staff reviews the work as well as actual expenditures to determine if any adjustments are necessary to the initial estimated value of borrower labor. Where funds were held in contingency to cover the sweat equity labor, the borrower's loan is credited in this amount.

8.5 OWNER DESIGNATED CONTRACTOR

This project option allows the borrower to designate a specific contractor to do the project. All procedures described in Section 6.3 are followed except there are no competitive bids. The Program Operator reviews the bid price of the contractor borrower has designated, and, if it is within 10% of the Program Operator's Cost Estimate, the contract is approved.

9.0 QUARTERLY REPORTS

A Quarterly Program Report for each loan and the loan portfolio as a whole shall be submitted to the City within 30 days of the end of each quarter by the City's Loan Servicing Agent. The monthly receipts on each loan will serve as the basis for this report. The report will be used by the Loan Servicing Agent and the City to monitor the loans and identify problems. A separate report is to be submitted for each source of funds in the Program portfolio. The report shall be submitted on forms provided by the City and shall contain a quarterly summary of the beginning fund balance, principal and interest recaptured during the quarter, disbursements made during the quarter and funds committed but not yet disbursed, and amount remaining in the Program which is unencumbered. The quarterly report shall also include the last payment date and loan balance. Delinquent loans shall be identified and a narrative summary of actions to date to collect delinquent loans shall be included.

10.0 COMPLAINT RESOLUTION PROCEDURES

The City's Program Operator and/or Loan-Servicing Agent, currently RCAA and AEDC respectively, will work informally with each borrower to resolve any complaints

associated with the Program. If complaints cannot be resolved informally, borrowers shall be notified that they should submit a written complaint to the City's Director of Community Development. The Community Development Director will direct the City's Program Manager to attempt to informally resolve the complaint within 30 days of the date of receipt of the complaint to the satisfaction of the borrower. However, if the City's Program Manager is unable to resolve the complaint to the satisfaction of the borrower, the Program Manager will assist the borrower, if necessary, to draft a written complaint. Upon receipt of this second written complaint, one of the following two dispute resolutions procedures will apply:

A. Arbitration: If the dispute is between the borrower and the contractor employed to make the improvements to the property, the City will assist the borrower to file a complaint utilizing binding arbitration pursuant to the Rehabilitation Contract Documents as described in Section 6.3(C) above of these Guidelines.

B. Mediation by the City: If the dispute involves the Program Operator or Loan Servicing Agent's responsibilities, HCD regulations, these Guidelines or any other matter other than a dispute between the contractor and the borrower, the City will attempt to informally mediate the complaint utilizing the following process:

1. Upon receipt of the complaint, the matter will be referred to the following persons, who shall act on the City's behalf as dispute resolution facilitators: Director of Finance, Community Development Director, and the Building Official.

2. The City's facilitators will review the complaint in light of the following:
   a. These Guidelines;
   b. The most recent CDBG grant management manual;
   c. The agreements between the Program Operator and/or Servicing Agent and the City;
   d. The Rehabilitation Contract Documents;
   e. The loan documents; and
   f. Such other documents which are referred to in the complaint.

3. The City's facilitators will meet with the borrower within thirty (30) days of receipt of the complaint. If, following the meeting with the borrower, the City's facilitators are unable to resolve the complaint to the satisfaction of the borrower, the matter will be submitted to binding arbitration in accordance with the California arbitration provisions of Code of Civil Procedure §1280, et seq.

11.0 OTHER HOUSING REHABILITATION PROGRAMS

This section amends the existing Housing Rehabilitation Guidelines to include additional eligible housing rehabilitation programs. The Housing Rehabilitation Guidelines apply to all programs outlined in this section, with the modifications specified hereunder.

11.1 MANUFACTURED HOMES IN MOBILE HOME PARKS

An eligible borrower may rehabilitate a manufactured home in a mobile home park if the borrower has a long-term lease (30 years) on property restricted by a 99-year leasehold interest located within the Arcata city limits. As per 24 CFR Part 92.2, under the HOME Program, Homeownership means ownership in fee simple title or a 99-year leasehold interest. Fannie Mae defines a "leasehold interest as the right to use and occupy real property by the existence of a lease agreement. The lessee (tenant or renter) enjoys these rights for a stipulated period of time, subject to the payment of rent and other conditions."

All other Housing Rehabilitation Guidelines apply.

11.2 PILOT PROGRAM TO OFFER HOUSING REHABILITATION LOANS TO SENIOR CITIZENS WHO OWN MANUFACTURED HOMES IN MOBILE HOME PARKS

A pilot program to assist senior citizens to rehabilitate manufactured homes in mobile home parks will be available until June 30th, 2009. After June 30th, 2009 the program and funding sources will be re-evaluated and may be continued, amended, or cancelled.

An eligible borrower may rehabilitate a manufactured home if they meet the existing Housing Rehabilitation Guidelines and the borrower is fifty-five years of age (55) or older. In addition, an eligible borrower may rehabilitate their home if the borrower has a lease of a minimum of one year (1 year) on the property that their manufactured home is located. Homeownership means borrower has a certificate of title for the home.

The terms of the loan would be the same as the Housing Rehabilitation Guidelines except that the length of the term would be for one year. At the end of the one year term the loan would be automatically deferred if the borrower is not in default of the loan agreement, and is still income eligible. The minimum amount of assistance per housing unit is $1,000. The maximum amount of assistance per housing unit is: 1) $10,000, 2) less than 25% of after rehabilitation value, or 3) less than 80% debt to value whichever is less.

All other Housing Rehabilitation Guidelines apply.

11.3 RAMP GRANT PROGRAM

The Ramp Grant Program goal is to provide financial assistance to low income households to purchase and install Americans with Disability Act compliant ramps or

lifts. The maximum amount of a Program grant for any single housing unit of property is limited to $8,000.

A. ELIGIBLE APPLICANTS - To be eligible for a Program grant an applicant must own residential property located within the Arcata city limits. Only Owner-Occupied homes are eligible for a ramp grant. An Owner-Occupant is an owner who intends to occupy the Program rehabilitated housing unit as a primary residence and who is income-qualified. To be eligible for a Program grant proper insurance shall be maintained by the Owner at all times during the term of the Program grant as defined by the approved Housing Rehabilitation Guidelines.

B. ELIGIBLE PROPERTY - In addition to homes eligible for Housing Rehabilitation loans, owners of Manufactured homes in Mobile Home Parks are eligible if the homeowners have; 1) lived in the home for a minimum of one year prior to submitting an application, and 2) a minimum of a one year lease on the property. Homeowners are not required to have health and safety inspection or general property inspection to be eligible for a Ramp Grant, unless the Ramp Grant is given in conjunction with a Housing Rehabilitation Loan.

C. ELIGIBLE COSTS - Eligible Ramp Grant Program costs will be limited to construction costs directly related to the construction and installation of a handicap accessible ramp to one entrance of the home. The following items are considered eligible costs:

1. Construction of the Ramp;
2. Construction of a Landing; and
3. Repairs or changes to doorways associated with the ramp to ensure accessibility.

If the homeowner feels that the construction of a ramp is not feasible for their property because of property or cost restraints they may request a residential lift be installed. Prior to the approval of a residential lift the Program Operator will present a report to the City's Building Official for approval. The report will include the cost of building a ramp, cost of installing a lift, pictures of the home, and site plans of the property that outline the area that would be taken up by a ramp. The City's Building Official will make the determination of whether a ramp or residential lift is appropriate for the property.

D. CONSTRUCTION AND INSTALLATION STANDARDS -
Ramps - All Program funded ramps will be required to be designed and constructed according to ADA Standards. The building designs will need to be submitted to the Program Operator for review prior to the City issuing a Notice to Proceed.

Residential Lifts - All residential lifts must be approved by Underwriters Laboratories, and homeowners must receive a building permit prior to the installation. The lifts are required to be installed according to Manufacturer Guidelines.

E. GRANT APPROVAL - Following a determination that all of the requirements of the Guidelines have been met, and provided the City has funds available for Program grants; the Program Operator shall provide a recommendation to the City on the grant approval; any special circumstances; and the contractor draw schedule. The City's Loan Advisory Committee comprised of the City's Community Development Director, Finance Director and Building Official will review the applicant and properties eligibility; contract terms; program operator's recommendation and other factors to make a recommendation to the City Manager on the approval of the Program Grant. The City will issue Award letters to grant recipients, including Conditions of Approval and a Contract Agreement.

F. All other Housing Rehabilitation Guidelines apply.

11.4 REPLACEMENT OF EXISTING MANUFACTURED HOMES IN ARCATA AND SANDPIPER MOBILE HOME PARK

The purpose of this program is to provide a mechanism to replace substandard manufactured homes in Arcata and Sandpiper Mobile Home Parks.

A. Disposal and Removal of Existing Manufactured Home

1. City will **grant** up to $5,000 to have the home removed and disposed of properly,
2. The City will **loan** up to $5,000 for the applicant to pay off any existing mortgage on the property (if the applicant remains in the new home for 5 years the loan would be forgiven),
3. If the disposal of the property does not require the full $5,000 grant the remainder of the grant could be used to payoff existing mortgage on the property,
4. If the Owner of the property wanted to sell the home, the Owner would be responsible for providing City proof that the home was sold and transported according to all local, state, and federal laws.

B. Loan Terms for the New Manufactured Home

1. The applicant has to have lived in the existing home for at least one year prior to submitting an application to be eligible.
2. The term of the home site lease shall be 30 years from the date of the Program and Agency Loan documents
3. The City will loan up to $50,000 for the replacement of an existing

manufactured home for a new manufactured home, under the current Home Ownership Guidelines,

4. Manufactured Homes shall be new, shall not have wheels, and shall be attached to a permanent foundation at the home site.
5. Space rent and mortgage costs cannot exceed 38.9% of the Borrower's gross income and total debt cannot exceed 42.9% of the Borrower's gross income. The Home Ownership Program Guidelines will be used to calculate Debt to Income Ratio.
6. The City's loan Advisory Committee will have the authority to make modifications to the loan terms depending on private lender constraints.
7. All other Home Ownership Program Guidelines apply.

11.5 MODERATE INCOME

A. Current Income Limits for the Area, by Household Size

All applicants must certify that they meet the household income eligibility requirements for the applicable HCD program(s) and have their household income documented. The income limits in place at the time of loan approval will apply when determining applicant income eligibility. All applicants must have incomes at or below120% of the County's area median income (AMI), adjusted for household size, as published by HCD each year. Current limits are included as a handout to these Guidelines and are incorporated herein by reference. The link to the official, HCD-maintained, income limits is:

http://www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html

B. The Agency Housing Rehabilitation loan will be available to moderate income homeowners. The Agency loan will be up to $20,000, fully amortized over 15 years at 1.5% compound interest, with a monthly payment.

Moderate income borrowers must complete a health and safety inspection on the home. When all Health and Safety deficiencies and Lead Paint hazards have been repaired, the borrower may elect to use the remainder of the Agency loan on weatherization of the home, and installation of on-site energy generation equipment, such as solar photovoltaic or solar hot water systems.

C. All other Housing Rehabilitation Guidelines apply.