



## **Community Development Block Grant (CDBG)**

# **HOUSING REHABILITATION PROGRAM GUIDELINES**

Adopted by City Council: April 7, 2021



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## **CITY OF UKIAH**

### **COMMUNITY DEVELOPMENT BLOCK GRANT HOUSING REHABILITATION PROGRAM GUIDELINES**

The City of Ukiah Housing Rehabilitation Program, (here after called “Lender”), funded by State Community Development Block Grant (CDBG) Program, is designed to expand the supply of decent, safe, sanitary and affordable housing; to correct health and safety hazards in deteriorated housing; and to extend the useful life of existing housing units. Loans and grants are available to achieve cost-effective repairs for low-income owner-occupied homes or for units occupied by low-income tenants of owner-investors jurisdiction wide.

#### **FAIR HOUSING**

This program will be implemented in ways consistent with the Lender’s commitment to Fair Housing. No person shall be excluded from participation in, denied the benefit of, or be subjected to discrimination under any program or activity funded in whole or in part with Community Development Block Grant (CDBG) funds on the basis of their religion or religious affiliation, age, race, color, creed, ancestry, national origin, gender, marital or familial status (children), physical or mental disability, medical condition, sexual orientation, or other arbitrary cause.

#### **OUTREACH/APPLICANT LIST**

##### Outreach

When loan funds are available, the Lender shall conduct a periodic program to advertise and promote the Housing Rehabilitation Program so that all those in need of rehabilitation assistance are aware of the Lender’s program. Efforts will be made to contact special needs households such as: elderly, single parent households, women, disabled, and minorities.

##### Applicant List

- Applications shall be received and processed as quickly as possible.

- Applicants shall be placed on the Applicant list at the time they apply for the program.
- Applicants shall provide information needed for the income and property verification process and what improvements are needed in a timely manner. If information is not forthcoming in a reasonable time, the Applicant shall be informed that their position on the Applicant list may be affected.
- Unless there are emergency conditions that warrant more immediate action, projects will be funded based on the order of which the applications are received and deemed eligible.

### **TEMPORARY RELOCATION**

Unit occupants will be informed of their eligibility for temporary relocation benefits if occupancy during rehabilitation constitutes a danger to health and safety of tenant or public danger or is otherwise undesirable because of the nature of the project.

Relocated tenants will receive compensation for increased housing costs, payment for moving and related expenses and appropriate advisory services, as detailed in the “Housing Rehabilitation Program Single Family Temporary Relocation Plan” attached at the end of these Guidelines. Owner occupants are not eligible for temporary relocation benefits unless health and safety threats are determined to exist by the project coordinator/construction supervisor.

### **CONFLICT OF INTEREST**

No member of the governing body of the locality and no other official, employee, or agent of the City government who exercises policy, decision-making functions, or responsibilities in connection with the planning and implementation of the program shall directly or indirectly be eligible for this program, unless the application for assistance has been reviewed and approved according to applicable California Department of Housing and Community Development (HCD) guidelines. This ineligibility shall continue for one year after an individual's relationship with the City ends.

A contractor with a vested interest in the property cannot bid on a rehabilitation job. Such a contractor may act as owner/builder, subject to standard construction procedures. (Owner/builders are reimbursed for materials purchased which are verified by invoice/receipt and used on the job. Reimbursement occurs after the installation is verified by Community Development Department staff to be part of the scope of work. Owner/builders are not reimbursed for labor.) The City reserves the right to determine if the owner is capable of owner/builder rehabilitation work.

### **APPLICANT ELIGIBILITY**

1. Owner-Occupied Applicant
  - Must be existing homeowner and occupy the residence. Proof of occupancy will be required.
2. Owner-Investor Applicant
  - Must be existing property owner and rent the residence to income eligible renter.

### **INCOME ELIGIBILITY**

Income eligibility is based on the occupant's gross annual income and must be less than 80 percent of the area's median income. These limits can be located on the [HCD website](#).

#### Owner Occupant

To be eligible, household income must be equal to, or less than, the applicable HCD income guidelines. Owner will be required to provide income documentation as detailed in the "Annual Household Income Definition/Income Limits" attached at the end of these Guidelines.

#### Owner Investor

There are no restrictions on the income of the owner investor unless the owner investor's household falls within income guidelines and is interested in qualifying for a Deferred Payment Loan (DPL).

### Tenant

If a rental property is currently occupied, the tenant's household income must be equal to, or less than, the applicable HCD income guidelines. Tenant will be asked to cooperate by providing income documentation as detailed in the "Annual Household Income Definition/Income Limits" attached at the end of these Guidelines.

## **PROPERTY ELIGIBILITY**

### Location

Units to be rehabilitated must be located within City of Ukiah city limits.

### Property Taxes

Property Taxes must be paid and current to be eligible for a rehabilitation loan.

### Evidence of Ownership

"Ownership" means any of the following interests in residential real property:

- Fee simple interest
- 99-year leasehold interest in the property
- Ownership or membership in a condominium, cooperative or mutual housing project.

### Property Types

To be eligible, the housing must be the primary residence of income-eligible occupants.

Eligible property types of residence can include:

- 1-4 housing units where at least one unit is occupied by income-eligible homeowner or tenants
- Traditional single-family housing, condominiums, manufactured or mobile homes.
- Structures may be either attached or detached.

If CDBG funds are used to assist units in a two-to-four-unit property, where some of the units are occupied by ineligible tenants, then CDBG funds can only be used on the LMI occupied units.



### Environmental Review

The environmental review process is required for all HUD-assisted projects to ensure that the proposed project does not negatively impact the surrounding environment and that the property site itself will not have an adverse environmental or health effect on end users. Not every project is subject to a full environmental review (i.e., every project's environmental impact must be examined, but the extent of this examination varies). Every project must be in compliance with the National Environmental Policy Act (NEPA), and other related Federal and state environmental laws. The environmental review must be completed prior to any loan approval.

### **REHABILITATION STANDARDS**

All repair work will meet Uniform Building Code standards. The priority will be the elimination of health and safety hazards. Additionally, all repair work will comply with any special design or construction standards established by the City to preserve historic buildings. Rehabilitation work should incorporate energy efficient/green building materials.

In the case of 2-4 unit property in which the owner occupant is income eligible, but a tenant is not, the rehabilitation shall be limited to those that benefit the overall structure (roof, exterior changes) and the interior changes for the income eligible household only. The priority will be the elimination of health and safety hazards and code compliance.

### **PROPERTY IMPROVEMENTS**

The goal of the Lender's rehabilitation program is to remove deficiencies, improve energy efficiency, remediate lead-based paint, extend the useful life of the property and/or provide accessibility to comply with the Americans with Disabilities Act (ADA), and/or comply with any special design or construction standards established by the Lender to preserve historic buildings. All improvements must be physically attached to the property and permanent in nature. General property improvements should be limited to 15 percent of the rehabilitation loan amount. Luxury items are not permitted. If building materials that are normally considered "luxury items" are necessary due to a

medical condition of a household member or for reasons of accessibility, the Lender may approve the use of such materials.

Examples of eligible improvements include foundation construction and repair, electrical repair or rewiring, plumbing repair, roof repair or replacement, heating system installation and repair, window and door replacement and repair, repair of structurally significant damaged wood, and floor coverings where it poses a hazard.

Examples of non-eligible improvements include swimming pools, patios and patio covers, room additions that are for leisure, landscaping upgrades, hot-tubs, custom cabinets, and high-end appliances.

Examples of general property improvements include improvements that bring the property into compliance with local zoning requirements, fence repairs, exterior paint, or items to improve the appearance of the property but are not health and safety items.

### **LEAD-BASED PAINT**

Program participants rehabilitating homes constructed prior to January 1, 1978 must be provided with the proper disclosure notification concerning lead-based paint (LBP) hazards. Whenever pre-1978 houses are rehabilitated under CDBG, please refer to Title 24 Code of Federal Regulations ([24 CFR](#)) [§570.608](#) , Lead-based paint for guidance. The costs associated with meeting these requirements may be eligible to be paid for with CDBG funds, if available.

### **MANUFACTURED HOUSING UNIT/MOBILE HOME REHABILITATION**

CDBG funds may be used for the rehabilitation of an owner-occupied mobile home if it is considered part of the community's permanent housing stock.

### **RECONSTRUCTION**

CDBG funds may be used to demolish and reconstruct residential structures. Reconstruction is defined as the demolition and construction of a structure. The City must document that the reconstruction costs are less than newly constructed housing

and that the estimated cost of the reconstructed housing (including demolition, site preparation and temporary relocation) is less than the fair market value of the reconstructed housing and land combined.

## **RESIDENCY REQUIREMENTS**

### Owner Occupant

Owner occupants will be required to submit to the Lender between January 1 and 30 of each year for the term of the loan:

1. Proof of occupancy in the form of a copy of a current utility bill.
2. Statement of unit's continued use as a residence.
3. Declaration that other title holders do not reside on the premises, if applicable.
4. Proof that property insurance and taxes are paid current.
  - Note: If owner occupant has received financial assistance in the form of a loan from Lender, proof of property insurance must list Lender as lien holder in the amount of the Lender loan and for guaranteed replacement cost.

If an owner occupant sells, transfers title, or discontinues residence in the rehabilitated property, the loan is due and payable, unless one of the following applies:

1. If the owner occupant sells or otherwise transfers title of the property to a qualified income household, the Lender may consider refinancing the loan balance and subordinating the loan and continuing all or part of the lien as a Deferred Payment Loan.
  - Note: transfer of title to qualified income household must first be approved by Lender, including the income certification process.
2. If the owner occupant dies, and if the heir to the property lives in the house and is income eligible, the heir may be permitted, upon approval of the

Lender to refinance the loan at the rate and terms the heir qualifies for under current participation guidelines.

- Note: refinancing of the loan and/or transfer to heir must first be approved by Lender, including the income certification process.
- 3. If the owner occupant dies and the heir is not income eligible, the loan is due and payable.
- 4. If the owner occupant dies and the heir is not income eligible, but they elect to rent the unit to income qualified households and agrees to comply with owner investor restrictions, the heir may be permitted, upon approval of the Lender, to refinance the loan at the same rate and terms offered owner investors under current program guidelines. If the heir/owner investor does not elect to comply with owner investor restrictions, the loan is due and payable.
- 5. If an owner occupant wants to convert the rehabilitated property to a rental unit, the owner must notify the Lender in writing in advance. If the Lender approves the conversion of an owner-occupied unit to a rental, the owner will be required to comply with the provisions of the owner-investor guidelines, including rent limitation provisions and financing arrangements.
- 6. If an owner occupant wants to convert full use of the rehabilitated property to any commercial or nonresidential use, the loan is due and payable. Refer to “Loan Servicing Policies and Procedures” attached at the end of these Guidelines.

### Owner Investor

An owner investor may convert a rental property to their primary residence and refinance the loan at the rate and terms offered owner-occupants under current program guidelines if all conditions below exist:

1. They can prove that the previous tenant was not evicted without cause.
2. The owner-investor is income eligible.
3. They request approval from the Lender in advance.

- If an owner investor converts a rehabilitated rental property to their primary residence, but they are not income eligible, the loan is due and payable.
- If an owner investor wants to convert the rehabilitated property to any commercial or nonresidential use, the loan is due and payable.
- If an owner investor sells or transfers title of the rehabilitated property for any reason, the loan is due and payable.

## **FINANCING**

### Maximum Loan Amount

**Loan amounts are between \$5,000 and \$80,000.**

The loan amount may include:

- construction contract (the accepted bid price for the cost of materials and labor);
- construction contingency;
- drafting and engineering fees, if any;
- appraisal and termite inspection charges;
- credit report review fees;
- permit fees and related building fees,
- site preparation for replacement housing;
- escrow, closing and recording fees; title report and title insurance, title updates

**CDBG funds may not be used to pay for property taxes.**

### Maximum Loan-to-Value Ratio

The maximum encumbrance is limited to 95 percent of the property's after-rehabilitation value (determined by after rehab appraisal).

### Loan Security

1. A Deed of Trust and Promissory Note will secure loans.

- A manufactured home in a mobile home park or on leased land that is not on a permanent foundation will be secured by an HCD 484 Statement of Lien, for mobile homes will be secured by HCD 480.7 – Statement of Lien and include a Promissory Note and Loan Agreement.
2. All owners listed on the benefiting property title are required to sign the Deed of Trust, Promissory Note, rehabilitation contract documents, and other related loan documents, whether or not they reside on the property.
  3. All Lender loans, which are not in first position on title, will require a Request for Notice of Default to be recorded as part of the transaction.
    - a. If Lender changes address - a new Request for Notice of Default must be recorded to ensure any possible notice is sent to the current address of Lender.

### Financing Terms

#### Owner-Occupied Property

Financing terms are made flexible to allow for maximum affordability. In addition to the Lender's ability to do a fully deferred loan, there are three other types of financing available.

To the extent that an amortized loan payment will not cause housing costs plus all other monthly debt payments to exceed 49 percent of gross monthly income, rehabilitation costs will ordinarily be financed as a 0 percent simple interest rate loan (defined by Lender and dependent on the current market at loan close).

In the event the household cannot afford a loan payment, the rehabilitation loan will be financed at 0 percent simple interest (defined by Lender and dependent on the current market at loan close) with payments, including interest, deferred for a period up to 30 years.

Very Low-income owner-occupants (making 50 percent of County Median) or persons who are elderly (age 65 or older) or permanent disabled heads of household will be eligible for 0 percent interest (defined by Lender and dependent on the current market at loan close) deferred payment loans.

Payments are deferred for up to 30 years.

Very Low-income owner-occupants or persons who are elderly (age 65 or older) or permanent disabled heads of household are also eligible for the Emergency Repair Grant program (see Page 12).

### Owner Investor

The Lender offers a Below Market Interest Rate (BMIR) loan at 1.5 percent simple interest, amortized over a period with a maximum term of 15 years.

In certain situations, such as when the deterioration of the unit poses an imminent threat to the health and safety of the tenant and the owner investor does not have the financial ability to make monthly payments, the City of Ukiah Loan Committee may approve an exception to the interest or amortized nature of the loan, potentially allowing a lower interest rate and/or deferral of payment(s). Payback is required if the Borrower sells or transfers title to the rehabilitated property.

### Restrictions

Rent Limitation Agreement (RLA) - An owner investor who elects to rehabilitate a rental unit with CDBG financing must sign an RLA, which will be recorded. This agreement will specify:

- In no instance shall rents exceed the U.S. Department of Housing and Urban Development (HUD) Fair Market Rent (FMR) schedule while the RLA is in effect.
- Base Rent – Vacant Unit - If the property is vacant, rent charges shall not exceed 30 percent of 80 percent of County median income for the appropriate household size in that unit. Owner investor shall affirmatively seek income qualified households by contacting the local housing

authority. Where such contact does not result in eligible income qualified tenants, the owner investor shall contact the Lender for guidance.

- **Base Rent – Occupied Unit** - If the property is occupied, rent charges shall not exceed 30 percent of the existing tenants' household income; or, where, before rehabilitation, rents already exceed 30 percent of the existing tenants' income, no rent increases shall be allowed which provide for rents plus utilities over 30 percent of the tenants' income.
- **Term** - Adherence to these rent limitations will be for the term of the loan.
- **Annual recertification** of tenant's income and rents paid from both the owner-investor and tenant.
- **Compliance** – Failure to comply with these terms and conditions will result in the loan becoming due and payable. If necessary, foreclosure proceedings will be instituted.

#### Maintenance Agreement

As specified in the Rehabilitation Loan Agreement, an owner-investor who participates in the program must maintain the property at post-rehabilitation conditions for a minimum of five years. Should the property not be maintained accordingly, the loan will become due and payable, and if necessary, foreclosure proceedings will be instituted.

#### Grants

##### **Emergency Home Repair Grant**

Very Low-income owner-occupants or persons who are elderly (age 65 or older) or permanent disabled heads of household are eligible for the Emergency Repair Grant program. The Emergency Repair Grant Program provides a grant of up to \$7,500 for emergency home repairs to correct housing conditions posing an imminent threat to the health and safety of the owner occupant.

The Lender will require a signed grant agreement.



## **LOAN REQUIREMENTS**

### Loan Documentation

The Lender shall determine the loan amount based on the consideration of:

1. The selected bid contractual amount
2. 10 to 20 percent contingency
3. Plan or drawing preparation if any
4. Pre-project inspections (termite report, LBP inspection)
5. Escrow and title policy costs

The Lender shall provide the owner-investor with the loan disclosure information.

Once the owner-investor has approved the disclosure, the Lender shall process the loan for approval. The approval process shall require approval by the City of Ukiah Loan Committee.

The Borrower or owner-investor shall be notified of approval and/or denial.

### Loan Approval

A loan package will be prepared by the Lender that: confirms the Applicant and property eligibility; documents the equity in and the encumbrances on the property; lists the estimated loan and construction costs; and includes any other information particular to the loan. By preparing a loan package using all the income and property eligibility, the determination of the amount and rates and terms of the CDBG loan will be outlined for the City of Ukiah Loan Committee to review.

To obtain CDBG financing, Applicants must meet all property and eligibility guidelines in effect at the time of loan approval. Applicants will be provided written notification of approval or denial. Reason for denial will be included in a denial letter to the Applicant.

### Loan Settlement

1. The Applicant shall sign the following: Deed of Trust, Promissory Note, Loan Estimate and Closing Disclosure Statement, Rescission Notice, Loan Agreement, Request for Notice of Default and Sale (if applicable) and Rent Limitation Agreement (if applicable).

2. A manufactured home in a mobile home park or on leased land that is not on a permanent foundation will be secured by an HCD 480.7 or an HCD 484 Statement of Lien.
3. The City Community Development Director, acting on the behalf of the Lender, shall sign the loan documents as required.
4. If the Applicant does not rescind the loan after the 3-day rescission period:
  - A. The Deed of Trust, Request for Notice, and Rent Limitation Agreement, as applicable, shall be recorded at the Mendocino County Recorder's Office. The Applicant shall sign the Construction agreement and Notice to Proceed.
  - B. Title insurance shall be requested and received.
5. The original loan documents shall be filed with the City as applicable: Promissory Note, Deed of Trust (recorded), Loan Agreement, Request for Notice of Default (recorded) and Rent Limitation Agreement (recorded).
6. The construction documents shall be filed with the City.
7. The Lender shall deposit loan funds into an escrow account with a reputable title company, unless the loan amount is too small to warrant incursion of escrow fees.

#### Loan Servicing

Refer to "Loan Servicing Policies and Procedures" attached at the end of these Guidelines.

### **DEFAULT AND FORECLOSURE**

If a Borrower defaults on a loan, and foreclosure procedures are instituted, they shall be carried out according to the CDBG Foreclosure Policy as described in the "Loan Servicing Policies and Procedures" attached at the end of these Guidelines.

### **INSURANCE**

#### Standard Property Insurance

Borrower must maintain property insurance coverage naming the Lender as loss payee in first position or additional insured if the loan is a second mortgage. If

Borrower fails to maintain the necessary insurance, the Lender is notified in writing by the insurance company. If this occurs, the Lender may take out forced place insurance to cover the property while the Borrower puts a new insurance policy in place. All costs for installing the necessary insurance will be added to the loan balance at time of installation of Borrower's new insurance.

#### Fire Insurance

The Borrower shall maintain fire insurance on the property for the duration of the loan(s). This insurance must be an amount adequate to cover all encumbrances on the property. The insurer must identify the Lender as Loss Payee for the amount of the loan(s). A binder shall be provided to the Lender. In the event the Borrower fails to make the fire insurance premium payments in a timely fashion, the Lender at its option may make such payments for a period not to exceed 60 days. The Lender may, in its discretion and upon the showing of special circumstances, make such premium payments for a longer period. Should the Lender make any payments, it may, in its sole discretion, add such payments to the principal amount that the Borrower is obligated to repay the Lender under this program.

#### Flood Insurance

In areas designated by HUD as flood prone (located in a 100-year flood plain) the Borrower is required to maintain flood insurance in an amount adequate to secure the Rehabilitation Loan. The policy must designate the Lender as Loss Payee. The premium may be paid by the Rehabilitation Loan for one year.

### **CONTRACTING PROCEDURES**

- All housing rehabilitation work must be carried out using the adopted Housing Rehabilitation Program Guidelines.
- The Lender will prepare the bid package and assist the Borrower in negotiating the contract.
- The Borrower will select the contractor.

- All general and sub-contractors must be checked and cleared with HUD'S federal debarred list of contractors and have a DUNS number or Unique Entity Identifier (UEI).
- All general and sub-contractors must be actively licensed and bonded with the State of California.
- All general and sub-contractors must have public liability insurance to the Lender's required limits, and if applicable, maintain Workers' Compensation and Employer Liability insurance to the extent required by State Law.
- All general and sub-contractors must comply with CDBG federal and state regulations.
- A Notice of Completion must be recorded with the County Recorder.

### **DISPUTE RESOLUTION/APPEALS PROCEDURE**

Any person/household applying for a Rehabilitation Loan through the CDBG program has the right to appeal if their application is denied. In addition, during pre-construction, construction, or post-construction periods, the Borrower has a similar right to have any disputes heard and resolved.

Rehabilitation program representatives are primarily responsible to assure that the program is implemented in compliance with state and federal regulations in a timely and responsible manner. This includes developing accurate and professional files, work write-ups and contract documents. Program representatives attend the meeting between the homeowner and the contractor when the contract documents are signed and facilitate in the clarification and/or corrections of proposed work, so a clear understanding is established between both parties.

During and after completion of construction, the contractor's work is monitored for code compliance by the Lender's Building Inspector and for quality by the Housing Rehabilitation Inspector.

The contractual obligation for rehabilitation is ultimately between the contractor and the homeowner. If a situation occurs where the two parties are in conflict, the following procedure will occur:

Before any intervention occurs, the homeowner or contractor shall communicate perceived problems or complaints directly to the other party. To resolve the differences, each will give the other an opportunity to respond or correct the problem.

If the first attempt fails, the homeowner or contractor may ask the City of Ukiah Community Development Director or designee to informally intervene. This intervention might include telephone call(s) to the contractor or homeowner, meeting(s) at the job site or in the office, or other actions as seem appropriate, including such things as the establishment of written working guidelines, or other post-contractual agreement.

If the City of Ukiah Community Development Director or designee is unable to satisfactorily resolve the homeowner-contractor differences, the homeowner, contractor, or program representative, will contact HCD detailing the problem. In cases of building code compliance or questions of construction quality, the building official might also be contacted.

It must be recognized that the homeowner has other options which they may choose to utilize, including contacting the Contractors State Licensing Board and submitting a complaint.

Any controversy between the parties that cannot be settled through the informal intervention process outlined above shall be submitted to binding arbitration. Costs for the arbitration will be borne by the losing party, or subject to the terms of the arbitration agreement.

The parties shall attempt to agree on a single arbitrator to hear the dispute. If they cannot agree each party shall appoint an arbitrator. If the two arbitrators cannot reach

an agreement, then they shall appoint a third arbitrator whose decision shall be final and binding.

The cost of the arbitration shall be borne by the losing party unless the arbitrator otherwise determines.

The arbitration shall be conducted in accordance with the rules of the American Arbitration Association then in force. The parties expressly agree that the arbitration shall be subject to and governed by, the Federal Arbitration Act, Title IX, USC 1 et seq.

### **SWEAT EQUITY**

Participants who wish to perform sweat equity must obtain approval from the general contractor and sign a written commitment itemizing the work they will perform, a time schedule for completion and a dollar value of the contribution.

Owners that contribute sweat equity that involves painting will not participate in activities that include the abatement or mitigation of lead paint hazards without first being trained on Safe Work Practices as required by HUD and provide documentation of such in the project file.

### **AMENDMENTS**

Amendments to these Guidelines may be made by the Lender.

### **EXCEPTIONS/PROCEDURES FOR EXCEPTIONAL CIRCUMSTANCES**

Any case to which a standard policy or procedure, as stated in the guidelines, does not apply or an Applicant treated differently from others would be an exception.

In the event of extraordinary or special circumstances, the Loan Committee may grant an exception to the guidelines if the exception does not violate the regulations of the funding sources.

The Program staff may initiate consideration of an exception and prepare a report. This report shall contain a narrative, including staff's recommended course of action and any

written or verbal information supplied by the Applicant. The request shall be presented to the Loan Committee for decision and consideration.

### **CURRENT HUD/INCOME LIMITS**

For consistency in calculating household incomes, the Lender will use the most current income limits available when determining household income. The CDBG income limits are updated annually.

## **ATTACHMENT A**

### **HOUSING REHABILITATION PROGRAM SINGLE FAMILY TEMPORARY RELOCATION PLAN**

The Housing and Community Development Act of 1974, as amended, and the National Affordable Housing Act of 1990, require all grantees of Community Development Block Grant (CDBG) and Home Investment Partnerships Program (HOME) funds to follow a written Residential Anti-displacement and Relocation Assistance Plan (Plan) for any activities that could lead to displacement of occupants whose property is receiving funds from these or any other federal funding source. Having been developed in response to both aforesaid federal legislations, this Plan is intended to inform the public of the compliance of the City of Ukiah with the requirements of federal regulations 24 CFR 570.606 under state recipient requirements and Section 104(d) of the Housing and Community Development Act of 1974 and 24 CFR 92 of the HOME federal regulations. The Plan will outline reasonable steps, which the City will take to minimize displacement and ensure compliance with all applicable federal and state relocation requirements. The City's governing body has adopted this Plan via a formal resolution.

This Plan will affect rehabilitation activities funded by the U.S. Department of Housing and Urban Development (HUD) under the following program titles: HOME, CDBG, Urban Development Action Grant (UDAG), Special Purpose Grants, Section 108 Loan Guarantee Program, and such other grants as HUD may designate as applicable, which take place within the City of Ukiah limits.

The City of Ukiah will provide permanent relocation benefits to all eligible "displaced" households either owner occupied or rental occupied units which are permanently displaced by the housing rehabilitation program. In addition, the City will replace all eligible occupied and vacant occupiable low-income group dwelling units demolished or converted to a use other than low income group housing as a direct result of rehabilitation activities. This applies to all units assisted with funds provided under the



Housing and Community Development Act of 1974, as amended, and as described in the Federal Regulations 24 CFR 570.496(a), Relocation, Displacement and Acquisition: Final Rule dated July 18, 1990 (Section 104(d)) and 49 CFR Part 24, Uniform Relocation Assistance (URA) and Real Property Acquisition Regulations Final Rule and Notice (URA) dated March 2, 1989.

All City programs/projects will be implemented in ways consistent with the City's commitment to Fair Housing. Participants will not be discriminated against on the basis of race, creed, color, religion or religious affiliation, age, ancestry, national origin, gender, marital or familial status (children), physical or mental disability, sexual orientation, medical condition, or other arbitrary cause. The City will provide equal relocation assistance available 1) to each eligible income household displaced by the demolition or rehabilitation of housing or by the conversion of a eligible income household dwelling to another use as a direct result of assisted activities; and 2) to each eligible income person temporarily relocated as a direct result of activities funded by HUD programs.

#### **Minimizing Permanent Displacement and Temporary Relocation Resulting from Housing Rehabilitation or Reconstruction Activities**

Consistent with the goals and objectives of activities assisted under the Act, the City will take the following steps to minimize the displacement of persons from their homes during housing rehabilitation or reconstruction funded by HUD programs:

- Provide proper notices with counseling and referral services to all tenants so that they understand their relocation rights and receive the proper benefits. When necessary assist permanently displaced persons to find alternate housing in the neighborhood.
- Stage rehabilitation of assisted households to allow owner occupants and/or tenants to remain during minor rehabilitation.

- Encourage owner investors to temporarily relocate tenants to other available safe and sanitary vacant units on the project site area during rehabilitation or pay expenses on behalf of replaced tenants.
- Work with area landlords, real estate brokers, and/or hotel/motel managements to locate vacancies for households facing temporary relocation.
- When necessary, use public funds, such as CDBG funds, to pay moving costs and provide relocation/displacement payments to households permanently displaced by assisted activities.

### **Lead Based Paint Mitigation Which Causes Temporary Relocation**

On September 15, 2000, the Final Rule for Lead Based Paint Hazard Control (LBPHC) went into effect. Among other things, it requires that federally funded rehabilitation must use safe work practices so that occupants and workers can be protected from lead hazards. At no time should the tenant-occupant(s) be present in work areas or designated adjacent areas while LBPHC activities are taking place in any dwelling unit interior, common area, or exterior. As such, occupants will not be allowed to remain in their units during the time that lead-based paint hazards (LBPH) are being created or treated. Once LBPHC has been completed, and the unit passes clearance, the occupants can return. The tenant-occupants may not reoccupy a work area or adjacent area until post-lead hazard reduction clearance standards have been achieved and verified with laboratory results. The final rule allows for certain exceptions:

- The work will not disturb lead-based paint, or create dust-lead or soil-lead hazard; or
- The work is on exterior only and openings are sealed to prevent dust from entering the home, the work area is cleaned after the work is completed, and the residents have alternative lead-free entry; or
- The interior work will be completed in one period of less than 8-daytime hours and the work site is contained to prevent the release of dust into other areas of the home; or

- The interior work will be completed within 5 calendar days, the work site is contained to prevent the release of dust, the worksite and areas within 10 feet of the worksite are cleaned at the end of each day to remove any visible dust and debris, and the residents have safe access to kitchen and bath and bedrooms.

If temporary relocation benefits are not provided because the {City/County} believes that the project meets one of the above criteria, then proper documentation must be provided in the rehabilitation project file to show compliance. It is up to the {City/County} to ensure that the owner occupant or tenant in the project does not get impacted by lead paint mitigation efforts. In most cases where lead paint mitigation is taking place, occupants (tenants or owners) will be strongly encouraged to relocate. Even for just a few days until a final lead clearance can be issued by a certified lead-based paint assessor. Occupants who are temporarily relocated because of lead based paint mitigation are entitled to the same relocation benefits as those who are relocated because of substantial rehabilitation or reconstruction activities.

### **Temporary Relocation of Owner Occupants**

Owner occupants are not allowed to stay in units which are hazardous environments during lead-based paint mitigation. When their home is having lead-based paint mitigation work done which will not make it safe to live in, then they are eligible for temporary relocation benefits which will be provided as a grant. In the same way, a unit requiring substantial rehabilitation (with or without lead based paint mitigation) which will not allow the family to access a bath or kitchen facility, or if the unit is being demolished and reconstructed, then the family will be eligible for temporary relocation benefits which will be provided as a grant. The amount of the benefit to be paid should be cost appropriate to the conditions.

Owner occupants will be encouraged to move in with family or friends during rehabilitation, since they are voluntarily participating in the program. The housing rehabilitation loan specialist and/or the rehabilitation construction specialist will complete a temporary relocation benefits form. This documents that the owner occupant

understands that they must relocate during construction and what benefits they wish to be reimbursed for as part of their relocation.

### **Temporary Relocation of Residential Tenants**

If continued occupancy during rehabilitation is judged to constitute a substantial danger to health and safety of the tenant or the public or is otherwise undesirable because of the nature of the project, the tenant may be required to relocate temporarily. The program administrator or construction supervisor will make determination of the need for temporary relocation. The temporary relocation period will not exceed 180 days. All conditions of temporary relocation will be reasonable.

Any tenant required to relocate temporarily will be helped to find another place to live which is safe, sanitary and of comparable value and they have the first right to move back into the original unit being rehabilitated at the same rent or lower. They may move in with family and friends and still receive full or partial temporary assistance based on eligible cost incurred.

The housing rehabilitation loan specialist and/or the rehabilitation construction specialist will ensure that each tenant occupied unit under the program will receive a General Information Notice (GIN) (as soon as possible after a loan application is received). Additionally, the tenant will receive a Notice of Non-displacement (after loan approval), and each tenant occupied unit will have a temporary relocation benefits form completed for them. These notices will document that each tenant understands what their relocation rights are, and if they must relocate during construction, that they receive the proper counseling and temporary relocation benefits.

A tenant receiving temporary relocation shall receive the following:

1. Increased housing costs (e.g. difference in rent increase, security deposits) and
2. Payment for moving and related expenses, as follows:

- a. Transportation of the displaced persons and personal property within 50 miles, unless the grantee determines that farther relocation is justified;
- b. Packing, crating, unpacking, and uncrating of personal property;
- c. Storage of personal property, not to exceed 12 months, unless the grantee determines that a longer period is necessary;
- d. Disconnection, dismantling, removing, reassembling, and reinstalling relocated household appliances and other personal property;
- e. Insurance for the replacement value of personal property in connection with the move and necessary storage;
- f. The replacement value of property lost, stolen or damaged in the process of moving (not through the fault of the displaced person, their agent, or employee) where insurance covering such loss, theft or damage is not reasonably available;
- g. Reasonable and necessary costs of security deposits required to rent the replacement dwelling;
- h. Any costs of credit checks required to rent the replacement dwelling;
- i. Other moving related expenses as the grantee determines to be reasonable and necessary, except the following ineligible expenses:
  - i. Interest on a loan to cover moving expenses; or
  - ii. Personal injury; or
  - iii. Any legal fee or other cost for preparing a claim for a relocation payment or for representing the claimant before the Grantee; or
  - iv. Costs for storage of personal property on real property already owned or leased by the displaced person before the initiation of negotiations.

### **Rehabilitation Activities Requiring Permanent Displacement**

The City of Ukiah rehabilitation program will not typically trigger permanent displacement and permanent displacement activities fall outside of the scope of this plan. If a case of permanent displacement is encountered, then the staff that is

responsible for the rehabilitation program will consult with {City/County's} legal counsel to decide if they have the capacity to conduct the permanent displacement activity. If local staff does not have the capacity, then a professional relocation consultant will be hired to do the counseling and benefit determination and implementation. If local staff does wish to do the permanent displacement activity, then they will consult and follow the HUD Relocation Handbook 1378.

### **Rehabilitation Which Triggers Replacement Housing**

If the City of Ukiah rehabilitation program assists a property where one or more units are eliminated then under Section 104 (d) of the Housing and Community Act of 1974, as amended applies and the City is required to replace those lost units. An example of this would be a duplex unit converted into a single-family unit. In all cases where rehabilitation activities will reduce the number of housing units in the jurisdiction, then the City must document that any lost units are replaced, and any occupants of reduced units are given permanent relocation benefits. (This does not apply to reconstruction or replacement housing done under a rehabilitation program where the existing unit(s) is demolished and replaced with a structure equal in size without in loss number of units or bedrooms.)

Replacement housing will be provided within three years after the commencement of the demolition or conversion. Before entering into a contract committing the City to provide funds for an activity that will directly result in such demolition or conversion, the City will make this activity public (through a noticed public hearing and/or publication in a newspaper of general circulation) and submit to the California Department of Housing and Community Development or the appropriate federal authority the following information in writing:

- A description of the proposed assisted activity;
- The location on a map and the approximate number of dwelling units by size (number of bedrooms) that will be demolished or converted to a use other than as targeted income group dwelling units as a direct result of the assisted activity;

- A time schedule for the commencement and completion of the demolition or conversion;
- The location on a map and the approximate number of dwelling units by size (number of bedrooms) that will be provided as replacement dwelling units;
- The source of funding and a time schedule for the provision of the replacement dwelling units;
- The basis for concluding that each replacement dwelling unit will remain a targeted income group dwelling unit for at least 10 years from the date of initial occupancy; and,
- Information demonstrating that any proposed replacement of dwelling units with smaller dwelling units (e.g., a two-bedroom unit with two one-bedroom units) is consistent with the housing needs of targeted income group households in the jurisdiction.

The City of Ukiah CDBG Grants Administrator is responsible for tracking the replacement of housing and ensuring that it is provided within the required period. The City is responsible for ensuring requirements are met for notification and provision of relocation assistance, as described in Section 570.606, to any targeted income group displaced by the demolition of any dwelling unit or the conversion of a targeted income group dwelling unit to another use in connection with an assisted activity.

### **Record Keeping and Relocation Disclosures/Notifications**

The City will maintain records of occupants of Federally funded rehabilitated, reconstructed or demolished property from the start to completion of the project to demonstrate compliance with section 104(d), URA and applicable program regulations. Each rehabilitation project, which dictates temporary or permanent or replacement activities, will have a project description and documentation of assistance provided. (See sample forms in HUD Relocation Handbook 1378, Chapter 1, Appendix 11, form HUD-40054)

Appropriate advisory services will include reasonable advance written notice of (a) the date and approximate duration of the temporary relocation; (b) the address of the

suitable, decent, safe, and sanitary dwelling to be made available for the temporary period; (c) the terms and conditions under which the tenant may lease and occupy a suitable, decent, safe, and sanitary dwelling.

Notices shall be written in plain, understandable primary language of the persons involved. Persons who are unable to read and understand the notice (e.g. illiterate, foreign language, or impaired vision or other disability) will be provided with appropriate translation/communication. Each notice will indicate the name and telephone number of a person who may be contacted for answers to questions or other needed help. The notices and process below are only for temporary relocation. If permanent relocation is involved, then other sets of notice and noticing process and relocation benefits must be applied (See HUD relocation handbook 1378 for those forms and procedures) The Temporary Relocation Advisory Notices to be provided are as follows:

#### General Information Notice

As soon as feasible when an owner investor is applying for Federal financing for rehabilitation, reconstruction, or demolition, the tenant of a housing unit will be mailed, or hand delivered a General Information Notice that the project has been proposed and that the tenant will be able to occupy their present house upon completion of rehabilitation. The tenant will be informed that the rent after rehabilitation will not exceed current rent or 30 percent of their average monthly gross household income. The tenant will be informed that if he or she is required to move temporarily so that the rehabilitation can be completed. Suitable housing will be made available and they will be reimbursed for all reasonable extra expenses. The tenant will be cautioned that they will not be provided relocation assistance if they decide to move for personal reasons.

#### Notice of Non-Displacement

As soon as feasible when the rehabilitation application has been approved, the tenant will be informed that they will not be permanently displaced and that they are eligible for temporary relocation benefits because of lead based paint mitigation or substantial rehabilitation, or reconstruction of their unit. The tenant will also again be



cautioned not to move for personal reasons during rehabilitation, or risk losing relocation assistance.

Disclosure to Occupants of Temporary Relocation Benefits

This form is completed to document that the City is following its adopted temporary relocation plan for owner occupants and tenants.

Other Relocation/Displacement Notices

The above three notices are required for temporary relocation. If the City is attempting to provide permanent displacement benefits, then there are several other forms which are required. Staff will consult HUD's Relocation Handbook 1378 and ensure that all the proper notices are provided for persons who are permanently displaced because of housing rehabilitation activities funded by CDBG or other federal programs.

## ATTACHMENT B

### ANNUAL HOUSEHOLD INCOME DEFINITION

For the purposes of determining eligibility in accordance with HCD income guidelines,

Annual Income **will** include, for all members of the household:

- Gross wages and salary before deductions.
- Net money income from self-employment.
- Cash income received from such sources as rental units, Social Security benefits, pensions, and periodic income from insurance policy annuities.
- Periodic cash benefits from public assistance and other compensation, including Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), Worker's Compensation, State Disability Insurance and Unemployment benefits.
- Interest earned on savings and investments.

Annual Income will **not** include:

- Non-cash income such as food stamps or vouchers received for the purpose of food or housing.
- Capital gains or losses.
- One-time unearned income such as scholarship and fellowship grants; accident, health or casualty insurance proceeds; prizes or gifts; inheritances.
- Payments designated specifically for medical or other costs, foster children, or their non-disposable income.
- Income from employment of children under the age of 18.
- Payment for the care of foster children.

This is not meant to be a complete list.

The City of Ukiah will make the final decision in situations where the classification of income is not clear-cut. Any exceptions or other deviations from this definition of annual income will be considered by the City of Ukiah.

The City shall use the Income Guidelines published each year by HUD and HCD.

The maximum gross annual income for an eligible household shall be 80 percent of the area median income for the household size.

## **ATTACHMENT C**

### **LOAN SERVICING POLICES AND PROCEDURES**

The City of Ukiah here after called “Lender” has adopted these policies and procedures in order to preserve its financial interest in properties, whose “Borrowers” have been assisted with public funds. The Lender will to the greatest extent possible follow these policies and procedures, but each loan will be evaluated and handled on a case-by-case basis. The Lender has formulated this document to comply with state and federal regulations regarding the use of these public funds and any property restrictions, which are associated with them.

The policies and procedures are broken down into the follow areas: 1) making required payments or paying off a loan’s principle and interest; 2) required payment of property taxes and insurance; 3) required Request for Notice of Default on all second mortgages; 4) required Rent Limitation Agreement and monitoring of investor properties; 5) loans with annual occupancy restrictions and certifications 6) required noticing and limitations on any changes in title or use of property; 7) required noticing and process for requesting a subordination during a refinance; 8) process of foreclosure in case of default on the loan.

### **Loan Repayments and Discounting of Notes**

When the rehabilitation project is completed and the amount used to complete the project is less than the amount loaned, the Lender will notify the title company holding the escrow account to refund the unused balance to the Lender. The Lender will reduce the amount of principal accordingly and recalculate the interest.

The Lender will collect monthly payments from those Borrowers who are obligated to do so under an Installment Note, which are amortized promissory notes. Late fees will be charged for payments received after the assigned monthly date. The Lender will provide

to the Borrower a debt amortization schedule and will maintain said schedule to account for the loan repayments and any penalties.

For Straight Notes, which are deferred payment loans; the Lender may accept voluntary payments on the loan. Loan payments will be credited to the interest first and then to principal. The Borrower may repay the loan accrued interest and principal at any time with no penalty.

The Lender will maintain an accurate listing of all loans including but not limited to the following information, Borrower's name, address, loan closing date, amount of principal, interest rate, calculation of interest, total payoff amount, maturity date, property taxes and insurance current.

Lender is notified that the Borrower intends to pay off a loan, the Lender will provide a demand letter with the payoff amount. This includes the amount of principal, accrued interest, any recording or late fees or other penalties, and a per diem amount (interest per day) and an interest through date (typically the same date at the demand letter).

The Lender will process and record a Substitution of Trustee and Full Reconveyance upon loan satisfaction. A conformed recorded copy is mailed to the Borrower along with the original Deed of Trust and Promissory Note within 30-days of receipt of payoff funds. The original Deed of Trust and Promissory Note are to be stamped paid in full with the date and an initial of the responsible staff person processing the documents. Copies of the reconveyance, deed, and promissory note, showing as paid in full are to be kept in the Borrower's file.

### **Payment of Property Taxes and Insurance**

As part of keeping the loan from going into default, Borrower must maintain property insurance coverage naming the Lender as loss payee in first position or additional insured if the loan is a second mortgage. If Borrower fails to maintain the necessary insurance, the Lender is notified in writing by the insurance company. If this occurs the

Lender may take out forced place insurance to cover the property while the Borrower puts a new insurance policy in place. All costs for installing the necessary insurance will be added to the loan balance at time of installation of Borrower's new insurance. The City needs to ensure that interest on any costs added to the loan accrue interest from the point the cost was incurred.

When a property is located in a 100-year flood plain, the Borrower will be required to carry the necessary flood insurance. A certificate of insurance for flood and for standard property insurance will be required at close of escrow. The lender may check the insurance on an annual basis.

Property taxes must be kept current during the term of the loan. If the Borrower fails to maintain payment of property taxes, then the lender may pay the taxes current and add the balance of the tax payment plus any penalties to the balance of the loan. Wherever possible, the Lender encourages Borrower to have impound accounts set up with their first mortgagee wherein they pay their taxes and insurance as part of their monthly mortgage payment.

All Borrowers will be evaluated semi-annually by the Lender to confirm timely payments of property taxes. In January and May of each year the Lender will access the County Treasurer-Tax Collector website and view the Borrower's tax bill to determine if tax payments have been made.

### **Required Request for Notice of Default**

When the Borrower's loan is in second position behind an existing first mortgage, it is the Lender's policy to prepare and record a "Request for Notice of Default" for each senior lien in front of Lender's loan. This document requires any senior lien holder listed in the notice to notify the lender of initiation of a foreclosure action. The Lender will then have time to contact the Borrower and assist them in bringing the first loan current. The Lender can also monitor the foreclosure process and go through the necessary analysis to determine if the loan can be made whole or preserved. When the Lender is in a third

position and receives notification of foreclosure from only one senior lien holder, it is in their best interest to contact any other senior lien holders regarding the status of their loans.

Note: If Lender's address has changed, a new Request for Notice of Default, signed by the appropriate City representative must be recorded. If this process is not completed, the Notice of Default will be mailed to the address on file and possibly never received by the Lender.

### **Required Rent Limitation Agreement for Investor Properties**

All owner investor properties which receive loans from the Lender will be required to enter into a rent limitation agreement (RLA), which restricts the tenants and the rents on the property for a fixed period of time, depending on the public funds used. The RLA will be recorded on title of the property and noncompliance with this agreement can lead to foreclosure action by the Lender. The RLA will be monitored annually to ensure that low or very low-income households occupy the owner investor units and that the rents charged to those households is affordable. Lender to contact both the tenant and the owner-investor to recertify annual income and rent charged. In some cases, the units must be inspected annually to ensure that they are up to minimum health and safety standards. At the end of the designated affordability period, the Lender will release the Borrower from the RLA, and the loan is due and payable.

### **Annual Occupancy Restrictions and Certifications**

All owner-occupied Borrowers will be evaluated annually by the Lender to confirm continuous owner occupancy status. Borrowers will be required to submit to the City of Ukiah between January 1 and 30 of each year for the term of the loan:

- Proof of occupancy in the form of a copy of a current utility bill.
- Statement, under penalty of perjury, of unit's continued use as a residence.
- Declaration that other title holders do not reside on the premises.
- Proof of property insurance, with the City of Ukiah named as additional insured and for guaranteed replacement cost.

- Proof of property taxes showing current paid status

Lender to check their local Recorder's Office online records and search to ensure the property title has not been transferred to another name – if so, loan is due and payable (perform every 6-12 months).

Lender to check with their local Coroner's Office to ensure any borrower has not yet passed away. If it is found that a borrower has passed away, the loan is due and payable. Lender is contact family heirs to work on any option available up to and including foreclosure of the property.

These loan terms are incorporated in the original note and deed of trust. If a Borrower sells, transfers title, or discontinues residence in the rehabilitated property, the loan is due and payable.

#### **Required Noticing and Restrictions on Any Changes of Title or Occupancy**

In all cases where there is a change in title or occupancy or use, the Borrower must notify the Lender in writing of any change. Lender and Borrower will work together to ensure the property is kept in compliance with the original program terms and conditions such that it remains available as an affordable home for low income families. These types of changes are typical when Borrowers do estate planning (adding a relative to title) or if a Borrower dies and property is transferred to heirs or when the property is sold or transferred as part of a business transaction. In some cases, the Borrower may move and turn the property into a rental unit without notifying the Lender. Changes in title or occupancy must be in keeping with the objective of benefit to the income qualified families.

#### **Owner-Occupant to Owner-Occupant**

Change from owner-occupant to owner-occupant occurs at a sale. When a new owner-occupant is not low-income, the loan is not assumable, and the loan balance is immediately due and payable. If the new owner-occupant qualifies as low-income,



the purchaser may assume all loan repayment obligations of the original owner-occupant, subject to the approval of the City of Ukiah Loan Committee.

If a transfer of the property occurs through inheritance, the heir (as owner-occupant) may be provided the opportunity to assume the loan at an interest rate based on family size and household income, provided the heir is income qualified. If the heir intends to occupy the property and is not income qualified, the balance of the loan is due and payable. If the heir intends to act as an owner-investor, the balance of the loan may be converted to an owner/investor interest rate and loan term and a rent limitation agreement is signed and recorded on title. All such changes are subject to the review and approval of the Lender's

#### Owner Occupant to Owner Investor

Change from owner-occupant to owner-investor occurs when an owner-occupant decides to move out and rent the assisted property, or if the property is sold to an investor. If the Borrower or new owner investor requests that the existing loan be assumed and agrees to the current Lender rates and terms for owner investor properties and the RLA, then the outstanding balance may be refinanced, subject to the review and approval of the Lender's Loan Committee.

Conversion to use other than residential use is not allowable where the full use of the property is changed from residential to commercial or other. In some cases, Borrowers may request that the Lender allow for a partial conversion where some of the residence is used for a business, but the family still resides in the property. Partial conversions can be allowed, if it is reviewed and approved by all agencies required by local statute. If the use of the property is converted to a fully non-residential use, the loan balance is due and payable.

### **Requests for Subordinations**

When a Borrower has a primary mortgage recorded in a senior position to the City's loan and wishes to refinance the primary loan, they must submit a written subordination

request to the Lender (City of Ukiah). The Lender will only subordinate their loan when there is no "cash out" as part of the refinance. Cash out means there are no additional charges on the transaction above loan and escrow closing fees. There can be no third-party debt payoffs or additional encumbrance on the property above traditional refinance transaction costs. Furthermore, the refinance should lower the housing cost of the family with a lower interest rate and the total indebtedness on the property should not exceed the current market value.

Upon receiving the proper documentation from the refinance agency, the request will be considered by the Loan Committee for review and approval. Upon approval, the escrow company will provide the proper subordination document for execution and recordation.

### **Process for Loan Foreclosure**

Upon any condition of loan default: 1) nonpayment; 2) lack of insurance or property tax payment; 3) violation of rent limitation agreement; 4) change in title or use without approval; 5) default on senior loans, the Lender will send out a letter to the Borrower notifying them of the default situation. If the default situation continues then the Lender may start a formal process of foreclosure.

When a senior lien holder starts a foreclosure process and the Lender is notified via a Request for Notice of Default, the Lender, who is the junior lien holder, may cancel the foreclosure proceedings by "reinstating" the senior lien holder. The reinstatement amount or payoff amount must be obtained by contacting the senior lien holder. This amount will include all delinquent payments, late charges and fees to date. Lender must confer with Borrower to determine if, upon paying the senior lien holder current, the Borrower can provide future payments. If this is the case, then the Lender may cure the foreclosure and add the costs to the balance of the loan with a Notice of Additional Advance on the existing note.

If the Lender determines, based on information on the reinstatement amount and status of Borrower, that bringing the loan current will not preserve the loan, then staff must determine if it is cost effective to protect their position by paying off the senior lien holder in total and restructure the debt such that the unit is made affordable to the Borrower. If the Lender does not have enough funds to pay the senior lien holder in full, then they may choose to cure the senior lien holder and foreclose on the property themselves. As long as there is sufficient value in the property, the Lender can afford to pay for the foreclosure process and pay off the senior lien holder and retain some or all of their investment.

If the Lender decides to reinstate, the senior lien holder will accept the amount to reinstate the loan up until five (5) days prior to the set "foreclosure sale date." This "foreclosure sale date" usually occurs about four (4) to six (6) months from the date of recording of the "Notice of Default." If the Lender fails to reinstate the senior lien holder before five (5) days prior to the foreclosure sale date, the senior lien holder would then require a full payoff of the balance, plus costs, to cancel foreclosure. If the Lender, after exercising due diligence, determines the reinstatement and maintenance of the property not to be cost effective and allows the senior lien holder to complete foreclosure, the Lender's lien may be eliminated due to insufficient sales proceeds.

### **Lender as Senior Lien holder**

When the Lender is first position as a senior lien holder, active collection efforts will begin on any loan that is 31 or more days in arrears. Attempts will be made to assist the homeowner in bringing and keeping the loan current. These attempts will be conveyed in an increasingly urgent manner until loan payments have reached 90 days in arrears, at which time the Lender may consider foreclosure. Lender's staff will consider the following factors before initiating foreclosure:

- Can the loan be cured, and can the rates and terms be adjusted to allow for affordable payments such that foreclosure is not necessary?
- Can the Borrower refinance with a private lender and pay off the Lender?

- Can the Borrower sell the property and pay off the Lender?
- Does the balance warrant foreclosure? (If the balance is under \$5,000, the expense to foreclose may not be worth pursuing.)
- Will the sales price of home "as is" cover the principal balance owing, necessary advances, (maintain fire insurance, maintain or bring current delinquent property taxes, monthly yard maintenance, periodic inspections of property to prevent vandalism, etc.) foreclosure, and marketing costs?

If the balance is substantial and all the above factors have been considered, the Lender may opt to initiate foreclosure. The Borrower must receive, by certified mail, a thirty-day notification of foreclosure initiation. This notification must include the exact amount of funds to be remitted to the Lender to prevent foreclosure (such as, funds to bring a delinquent Below Market Interest Rate (BMIR) current or pay off a DPL).

At the end of 30 days, the Lender should contact and potentially procure reputable foreclosure services or local title companies to prepare and record foreclosure documents and make all necessary notifications to the owner and junior lien holders. The service will advise the Lender of all required documentation to initiate foreclosure (Note and Deed of Trust usually) and funds required from the owner to cancel foreclosure proceedings. The service will keep the Lender informed of the progress of the foreclosure proceedings.

When the process is completed, and the property has "reverted to the beneficiary" at the foreclosure sale, the Lender could sell the home themselves under a homebuyer program or use it for an affordable rental property managed by a local housing authority or use it for transitional housing facility or other eligible use. The Lender could contract with a local real estate broker to list and sell the home and use those funds for program income eligible uses.