



City of Auburn, Maine
 Business & Community Development
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CDBG Housing Rehabilitation Program

I. PROGRAM SPECIFICS

A. PROGRAM GOAL

The goal of the Housing Rehabilitation Program is to improve the quality of housing by eliminating substandard housing conditions and upgrading the property. The Housing Rehabilitation Program is funded by the Community Development Block Grant Program and is subject to all the Community Development Program rules.

B. ELIGIBILITY CRITERIA

1. The property may be an owner-occupied, investor-owned, or owned by a non-profit agency. The property must be year-round residential structure or be converting to a year-round status.
2. A Low- to Moderate-Income (LMI) household must occupy a structure with one unit. Two-unit structures must have at least one unit occupied by a LMI household. If the structure contains three or more units, at least 51 percent must be LMI occupied.
 - a) Applicants will be required to provide source income if they are the occupant or tenant certifications of income. Applicants will be required to sign a Rent Regulatory Agreement to assure one- year occupancy after project completion by a low-income tenant.
3. Upon completion the property will be decent, safe, sanitary and in good repair and meet the following housing standards: Lead Safe Housing Rule, accessibility requirements of 24 CFR Part 8, Section 504 of the Rehabilitation Act of 1973, and standards of the International Existing Building Code. Community Development Office staff will determine the requirements for building improvements. An application may be deemed ineligible if the CDO staff determines a project is not feasible with the available resources.
4. Properties that have utilized a City of Auburn Housing Rehabilitation Program loan within the past 10 years are not eligible unless special permission is granted by the Program Director.

C. ASSISTANCE CATEGORIES AND TERMS

1. Loan Terms

a) Maximum loan assistance is \$35,000 per unit.

(1) Investor Owned:

- 75% amortized loan @ 4% APR
- 25% private match of total project costs.
 - The private match requirement may be waived by the Program Director based on cash flow or inability to obtain private financing in which case the ratio shall be 75% loan and a 25% deferred loan.

(2) Owner Occupied:

- 50% amortized loan @ 2% APR
 - If owner is below 65% of median income, APR of amortized loan shall be 0%
- 50% deferred loan

b) Amortized Loan term shall be established by the Program Director based on the financial capacity of the applicant. The maximum term is 25 years.

c) If the property is sold or transferred prior to the end of the repayment period, the principal balance of the loan(s) shall be immediately repaid.

2. Eligible Improvements

Improvements include rehabilitation of a permanent nature which may include:

- a) Architectural and engineering services relative to project improvements undertaken.
- b) structural repairs.
- c) energy improvements.
- d) elimination of lead paint hazards.
- e) weatherization.
- f) accessibility for disabled persons.
- g) repair or replacement of major housing systems.
- h) repair of code violations.
- i) general property improvements of a non-luxury nature.
- j) repair of retaining walls.
- k) utility connections.
- l) Finishing of unfinished space to add space to an existing dwelling unit to make it properly sized for the occupants.
- m) Driveway and yard repair.
- n) Earthwork limited to correction of a significant drainage or landscape

problem.

- o) Demolition, structural repairs or weather protection of garages, barns and accessory buildings.
- p) Fencing when required to correct a hazardous condition; and
- q) Any improvements which accomplish the goals of this program.

3. Ineligible Improvements

Improvements which are ineligible include:

- a) new construction.
- b) creation of additional unit(s).
- c) New paving.
- d) costs of equipment, furnishings, or other personal property not an integral structural fixture such as appliances.
- e) labor costs for property owners to rehabilitate their own property.
- f) improvements attributable to the non-residential portion of a mixed-use property.
- g) any costs incurred before an agreement is signed.

D. NATIONAL OBJECTIVES

Projects will be eligible under the low- to moderate-income benefit National Objective. The allocation of loan pool funds each year must be a minimum 75% for low-income projects. Projects will be processed under the low- income criteria whenever possible.

1. Low-Income Criteria

- a) Applicants will be required to provide source income if they are the occupant or tenant certifications of income. Applicants will be required to sign a Rent Regulatory Agreement to assure one- year occupancy after project completion by a low-income tenant.

II. APPROVAL PROCESS

A. PROGRAM QUALIFICATION ASSESMENT

The Community Development Office has responsibility for administration of the Rehabilitation Program. Community Development performs the underwriting and presents the loan request to the Program Director for approval based on achieving the national objective in part I-D above and part II-C below.

B. PRIVATE FUNDS

Private Funds: When matching funds are required, the applicant will have the option of using cash or borrowed funds. Match funds will be deposited into a segregated City account and will be subject to disbursement of funds procedures defined in this guideline.

C. LOAN CONSIDERATIONS

In approving or denying loan requests, the Community Development staff shall be guided by the following loan considerations:

1. Underwriting

- a) Cash flow - ability to repay the debt.
- b) Credit - credit history and reputation.
- c) Payment of taxes or acceptable arrangements.
- d) Collateral - Collateral coverage must be adequate as determined by the Community Development Staff.
- e) Security - other assets.
- f) Commitment of matching funds.

2. Assessment Private/Public Benefit

The Community Development staff will also consider the broader implications of private and public benefits.

III. REHAB PROGRAM ADMINISTRATION

A. NON-DISCRIMINATION

Administration of this program shall be in accordance with Title VI of the Civil Rights Act of 1964. No person shall, on the ground of race, color, national origin, be excluded from participation in, be denied the benefits of, or subjected to discrimination under this program.

B. APPLICATION PRIORITY

Applications shall be processed on a first-come, first-served basis. Community Development staff shall use the receipt date of a complete application to establish the order of priority. The applicant will be notified if there is funding available to proceed with the project, if there is inadequate funding then the application may be placed on a waiting list.

C. PARTICIPATION BY RELIGIOUS ORGANIZATIONS

- 1. Religious organizations can apply for Rehabilitation Loans with the understanding that loan funds cannot be used to support inherently religious activities such as worship, religious instruction, or proselytization. The organization can engage in such activities, but they must be offered in a different location. Religious participation by tenants must be voluntary.
- 2. The organization must not discriminate against a tenant or prospective tenant based on religious belief or refusal to participate in a religious practice.
- 3. Any units improved with rehabilitation funds must be available for occupancy on the open market.

D. AFFORDABLE RENT STANDARDS

1. Rental units that are improved with Community Development funds shall be available and affordable to low- and moderate-income households.
2. The applicant will be required to furnish rental information to enable Community Development staff to evaluate the impact of the project on rent levels. The applicant will submit the current amount of rental charges for all units in the housing project, utility types, who pays the utilities, and the names of tenants.
3. A rent cap shall apply to assisted units of which 51% will be occupied by low-income households. The maximum allowable rent shall be equal to the amount of rent and utility costs being paid by the tenant at the time of loan closing. The period of affordability shall be one year after the loan final inspection date.
4. Vacant units at the time of application shall be rented to low- and moderate-income households. The maximum allowable rent for vacant units shall not exceed the Fair Market Rent in effect when the rent is calculated with an adjustment for utility allowance based on Section 8 Existing Housing Allowances for Tenant Furnished Utilities and Other Services. The period of affordability shall be one year from the final inspection date.
5. The borrower will sign a Rent Agreement stipulating rent limitations at loan closing.

E. DEFINITIONS**1. Fair Market Rent**

An annually published rent level prescribed by the U.S. Office of Housing and Urban Development based on a specified number of bedrooms.

2. Household Income

- a) For the purpose of determining eligibility, Community Development staff will calculate income by estimating the annual income of a family or household by projecting the prevailing rate of income of each person at the time assistance is requested based on the IRS Form 1040 method as defined by the Office of Housing and Urban Development.
- b) If the project expects to use tax credits as part of the funding method an additional income qualification using the Part 5 method as defined by the Office of Housing and Urban Development will be required.
- c) Income of all members of the household is considered for computing income. This may include wages, salaries, overtime, bonuses, fees, tips, commissions, interest and dividend income, self-employment income, net rental income, income from estates or trusts, child support, alimony, Social Security benefits, SSI retirement, survivor or disability pension, VA payments, pension, or annuity, Temporary Aid to Needy Families, unemployment benefits, worker's compensation, and disability or benefits from

any source. Income will be based on the IRS Form 1040 method as defined by the Office of Housing and Urban Development.

- d) For the purpose of computing income, a household shall be defined as all persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together or any other group of related or unrelated persons who share living arrangements.
3. **Investor-Owner**
Absentee owner, who may receive rehabilitation assistance to improve housing conditions for the tenants.
4. **Mixed-Use**
A property used in some part for residential purposes and in some part for non-residential purposes.
5. **Owner-Occupied**
An applicant who holds the entire ownership interest of a property and lives in one unit of the property as a primary residence.
6. **Rehabilitation Costs**
The total of contractor estimates from the lowest eligible contractors, self-help expenses, and the contingency determined to be reasonable by the Rehab Coordinator.
7. **Residential Property**
A property used entirely for residential purposes (household living space).

F. INCOME LIMITS

To qualify applicants for various loans under the Rehabilitation Program, Community Development staff will use income limits for Lewiston-Auburn SMSA established by the Office of Housing and Urban Development. Revised charts will be used upon receipt.

G. APPLICATION PROCEDURES

This section sets forth the application procedures for rehabilitation loans.

1. **Initial Application** - Loan application may be obtained from the Community Development Office (CDO).
2. **CDO Responsibilities** - The City will make available the services of staff who will solicit applications, determine the scope of work, prepare specifications, document eligibility criteria and underwriting, secure approval, prepare loan documents, and act as a project manager including authorizing progress payments.
3. **Verifications**
 - a) **Income** - Copies of all income sources (i.e. check stubs, statements, W-2 forms, State and Federal income tax returns) shall be provided by the applicant. A certified financial statement or other documentation from an accountant or other acceptable source may be required of a corporation, partnership, or other business enterprise. Written verification may be required from income sources.

- b) Title - The CDO staff shall verify title by checking the records at the Androscoggin County Registry of Deeds.
- 4. **Initial inspection** - If it appears that the applicant and property are eligible for a loan, an initial inspection will be scheduled with the applicant and the Rehab Coordinator. Rehabilitation requirements will be determined during the initial inspection. An application may be deemed ineligible after initial inspection if the Rehab Coordinator determines a project is not feasible with the available resources.
- 5. **Inspection Report and Specifications** - An inspection report shall be prepared by the Rehab Coordinator and mailed to the applicant. The inspection report shall list the rehabilitation requirements to bring it into compliance. Once the owner has reviewed the inspection report, the Rehab Coordinator creates technical specifications for contractor bidding.
- 6. **Lead** - The Rehab Coordinator must consider whether the rehabilitation calls for lead hazard control measures.
 - a) A risk assessment will identify whether lead hazards exist and what type of methods must be used to control the identified hazards, or the coordinator may presume surfaces are covered by lead-based paint. It will be necessary to perform clearance testing of the construction area to confirm the absence of lead hazards after the work is completed. All testing costs will be paid by the CDO.
 - b) The Contractor, owner and Rehab Coordinator will work closely to minimize the need to displace occupants of a dwelling unit. If a tenant must move to ensure that they are not adversely affected by the corrective work, the owner and CDO will arrange for the relocation. CDO shall pay for temporary moves according to its Residential Anti-displacement and Relocation Assistance Plan.
- 7. **Bidding & Contractor Eligibility** – The bidding process and selection of a contractor will be conducted in accordance with the Community Development Office’s Rehab Bidding and Contractor Eligibility Policy.
- 8. **Private Lender's Loan** - Interest rates and terms of the portion of the rehabilitation work to be funded by the private lender shall be individually negotiated between the loan applicant and the respective lending institution. The private lender's funds are subject to the same contractor and self-help requirements as the City's loan.
- 9. **Loan Closing** - A loan closing shall be completed prior to contractors starting work and shall include, but not be limited to a mortgage instrument to be recorded at the Androscoggin Registry of Deeds, and a promissory note in the full amount of the City's loan.
- 10. **Assumability**- Loans are generally non assumable.
- 11. **Cancellation** - A loan approval shall be valid for 3 months. If there has been no loan closing or commencement of work, it will be necessary for such a loan to be reconsidered by the Community Development staff.
- 12. **Construction Contract** - The owner and contractor will sign a contract at the time of loan closing which is acceptable to the CDO. Assurance will be required of the contractor and owner that the

rehabilitation work will be carried out efficiently and within a reasonable period of time. The contractor shall secure all necessary permits prior to the start of work at his/her own expense. The contractor shall contact the Rehab Coordinator for approval of each phase of the work.

13. **Change Orders** - No change to the rehabilitation contract work shall be allowed unless approved by the CDO, owner, and contractor. Any changes involving cost will be supported through the execution of a change order between the contractor and owner. No change orders will be able to exceed the approved loan amount without approval of the Program Director.
14. **Inspection** - The CDO shall have the right to inspect all rehabilitation work financed in whole or in part with the proceeds of the loan. The CDO will inform the owner and/or contractor of any noncompliance with respect to the rehabilitation work and the corrective action needed. The CDO will verify that all work has been done according to the specifications. No payment shall be made until the work is acceptable. The owner will take all steps necessary to assure that the CDO is permitted to examine and inspect the rehabilitation work.
15. **Records** - The applicant agrees to keep such records as may be required by the CDO with respect to the rehabilitation work financed in whole or in part by the loan and, furthermore, when the rehabilitated property contains rental units, the applicant agrees to keep such records as may be needed by the CDO with respect to income received and expenses incurred from this property. The applicant will, at any time during normal business hours, and as often as the CDO may deem necessary, permit the CDO to have full and free access to its records with respect to the property.
16. **Escrowing of funds** - The CDO will act as escrow agent for the City loan, as well as any supplemental funds required to meet the amount of the construction contracts. The owner permits the CDO to disburse such funds to the owner and/or the contractor in the manner set forth in the contract between applicant and contractor. The CDO may require lien waivers as a condition of payment.
17. **Disbursement of Funds** - After receiving appropriate invoices and receipt of lien waivers for invoices over \$5,000, and inspecting the rehabilitation work, progress payments shall be authorized by the Program Manager. Unutilized funds may be applied to reduce the principal of the City and private funds to maintain the 75% City and 25% private participation level or may be used to complete additional work as approved by the CDO.

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Program guidelines approved:

Phil Crowell, City Manager

Date