

## **AUBURN-LEWISTON CONSORTIUM**

### **HOMEOWNER REHABILITATION LOAN PROGRAM GUIDELINES**

#### **A. INTRODUCTION**

The Cities of Auburn and Lewiston have formed a consortium to qualify for HOME Investment Partnerships Program funds whereby the grant is shared by both cities. The Home Owner Rehab Program guideline describes assistance that is available to enable low- and moderate-income households to improve the unit they occupy and is available in either city.

#### **B. PROGRAM OBJECTIVE**

The objective of the Homeowner Rehabilitation Loan Program is to improve the housing quality of low- and moderate-income property owners by eliminating substandard housing conditions by upgrading the property to meet code requirements for existing buildings, making the building energy efficient, and making general improvements to improve home livability. The Homeowner Rehabilitation Loan Program is subject to all HOME Investment Partnerships Program regulations.

#### **C. OUTREACH**

Community Development Department staff is responsible for providing outreach to encourage a full range of potential clients. This shall be accomplished through marketing to homebuyer education classes, newspaper articles, and advertising the availability of the Home Ownership Rehabilitation Program. Advertisements shall include a non-discrimination statement. Outreach shall be done in accordance with the Consortium's Affirmative Marketing Plan.

#### **D. PARTICIPANT ELIGIBILITY**

1. The applicant's household income is less than 80% of median income. An eligibility determination based on income shall be valid for a six-month period.
2. The unit to be improved must be owned by the applicant at the time of closing.
3. The unit will be occupied as the principal residence of the applicant. If the owner ceases to occupy the unit as principal residence during the affordability period, the loan will be considered in default and full repayment will be required.

#### **E. PROPERTY ELIGIBILITY**

1. The property must be located in Auburn or Lewiston.

2. The applicant must own or have a written agreement to purchase the property to be improved.
3. The property must be one of the following approved forms of ownership: fee simple title, 99-year lease, condominium, or cooperative housing.
4. The property must be a single family 1-4 dwelling units, manufactured or mobile home, condominium or cooperative unit. Mixed-use properties, properties containing commercial uses, are not eligible.
5. Only the owner's unit is eligible for HOME financing. For multi-dwelling properties with rental units, the units occupied by tenants must be improved to meet - Rehabilitation Standards and may be accomplished through other Community Development Programs.

#### **F. IMPROVEMENT STANDARDS**

1. After completion, the unit must comply with the program's rehabilitation standards -. Community Development Department staff (CDD) will determine the requirements for building improvements.
2. Eligible improvements are of an essential and permanent nature and may include but not limited to:
  - a. structural repairs;
  - b. energy improvements;
  - c. lead-based paint hazard reduction;
  - d. accessibility for disabled persons;
  - e. repair or replacement of major housing systems;
  - f. incipient repairs and general property improvements of a non-luxury nature;
  - g. retaining walls and utility connection;
  - h. finishing of unfinished areas to add space to a dwelling unit to make it properly sized for the occupants according to applicable HUD standards;
  - i. improvements which would generally increase the economic viability of the property;
  - j. engineering and architect costs;
  - k. landscaping limited to correction of a drainage problem;
  - l. non-living space limited to demolition of deteriorated structure, structural repairs, and weather protection; and
  - m. fencing when required to correct a hazardous condition.
4. Improvements that are ineligible are:
  - a. new construction;
  - b. paving;
  - c. appliances or furnishings;
  - d. rehabilitation costs attributed to other housing units in the property.

#### **G. LOAN TERMS**

1. The minimum loan is \$1,000.
2. The maximum loan amount is \$35,000.
3. The interest rate is 0% (non-interest bearing).
4. The loan term shall be established by CDD and Loan Committee based on financial capacity of the applicant. The maximum term is 30 years. When the project includes home purchase in the financing package, the term may be 40 years if the extended term is required to meet the loan underwriting standards.
5. There is no match requirement.
6. **Recapture**
  - a. Based on the combined HOME loans to applicant(s), the property to be purchased shall be occupied by the applicant(s) as a principal residence for the minimum periods as follows:
    - 1) 5 years if total of HOME loan(s) are less than \$15,000
    - 2) 10 years if total of HOME loan(s) are between \$15,000 and \$40,000;
    - 3) 15 years if HOME loans(s) are over \$40,000.
  - b. The recapture period shall commence when the HOME rehabilitation is complete and a project completion certification has been issued by CDD. If the property is sold, transferred, or the owner ceases to occupy the property prior to the end of the recapture period, the principal balance of the HOME loan shall be immediately repaid.

#### **H. UNDERWRITING**

1. The maximum HOME loan shall be based on the actual cost for the owner's unit and a proportional cost for common improvements based on the ratio of the owner's units to the total units in the building.
2. The after value of the HOME assisted property will not exceed the limits established under:
  - a. Section 221(d)(3)(ii) of the National Housing Act, and
  - b. 95% of the FHA median price purchase price limit.

Documentation shall include either an appraisal or a comparable tax assessment value as determined by the Tax Assessor.

3. All debt - shall not exceed 42% -of gross income.

## **I. APPROVAL**

### **1. Approval of Auburn Loans**

HOME Loans will be reviewed by the Community Development Loan Committee (Committee) who will be responsible for making decisions to approve or deny loan requests and to establish loan conditions.

### **2. Approval of Lewiston Loans**

HOME Loans will be reviewed by the Loan Qualification Committee (Committee) who will be responsible for making decisions to approve or deny loan requests and to establish loan conditions.

### **3. Appeal Procedure**

The reason(s) for rejection shall be given to the applicant. HOME Loans that have been denied may be appealed to the Committee for a period of thirty days after the date of rejection. The applicant(s) will be allowed to present his/her case to the Committee. The Committee may reconsider a prior vote to deny the application after the appeal review has been complete. A decision will be made by the Committee immediately after the appeal has been heard.

### **4. Loan Considerations**

In approving or denying loan requests, the Committee shall be guided by the following loan considerations: cash flow; credit; payment of property taxes or acceptable arrangements; collateral coverage, and broader implications of public benefits including health and safety of the applicant.

## **J. PROGRAM ADMINISTRATION**

### **1. 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.

### **2. Application Priority**

Applications shall be processed on a first-come, first-served basis. CDD 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 and if there is inadequate funding, then the application may be placed on a Homeowner Rehabilitation Waiting List.

### 3. Definitions

#### a. Household Income

1) When determining whether a household is income eligible, CDD will calculate annual income using the IRS Form 1040 method as defined by the Department of Housing and Urban Development.

2) For the purpose of determining eligibility, CDD will calculate annual household income by projecting the prevailing rate of income of each person at the time assistance is requested. Estimated annual income shall include income from all household members.

3) Income may include wages, salaries, overtime, bonuses, fees, tips, commissions, interest and dividend income, net rental income, child support/alimony, Social Security benefits, SSI, retirement, pension or annuity, TANF, unemployment benefits, worker's compensation, and disability or benefits from any source.

**b. Household** - Includes 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.

**c. 80 % of Area Median Income** - Is the maximum income a household can earn, adjusted by household size, in order to qualify as low- to moderate income and be eligible for the Homeowner Rehabilitation Loan Program. Income limits for Lewiston-Auburn SMSA are provided by the Department of Housing and Urban Development, and are revised annually.

**d. Community Development Department staff** - (CDD) is the contact person designated as the City's representative to process loan applications in Auburn or Lewiston.

**e. Rehabilitation Costs** -The total of contractor estimates from the lowest eligible contractors, self-help expenses, and the contingency determined to be reasonable by CDD.

**f. City** - Either the City of Auburn or City of Lewiston, as applicable.

### 4. Application Procedures

This section shall set forth the procedures for administering the Homeowner Rehabilitation Loan Program.

**a. Applications**

**1) Priority** -Applications will be processed on a first come, first served basis. CDD shall establish a priority processing list based on the receipt date of a complete application.

**2) Initial Application** – An application may be obtained from the Community Development Department. A complete application shall include verification of income. An incomplete application will be returned to the applicant.

**3) Income Verification** –The applicant(s) shall provide documentation of all income sources and a federal tax return. CDD shall make a determination of preliminary eligibility based on household size and income.

a) A certified financial statement or additional documentation from an accountant or other acceptable source may be required of an individual whose income is from corporation, partnership, or other business enterprise.

b) If a loan has not closed within six months from the initial income verification, the applicant(s) must submit new income documentation to re-establish eligibility.

**b. Multi-Unit Property** – If the property has rental units, the owner will provide rental costs, and information about tenants.

**c. Initial Inspection** – CDD shall make an initial inspection of all housing units within a building to determine -the scope of work. Community Development staff will identify the required improvements in writing. Once the owner has reviewed the inspection report, CDD will prepare technical specifications for contractor bidding.

**d. Meeting -Rehabilitation Standards** – HOME assisted properties must meet – rehabilitation standards, lead standards, -within six month of the loan closing. -.

**e. Lead** – A structure which requires more than \$5,000 of improvements per unit may require an assessment of lead conditions by a licensed risk assessor. The CDD must consider whether the rehabilitation calls for lead hazard control measures.

**1) Risk Assessment** – A risk assessment will identify whether lead hazards exist and what type of methods must be used to control them or CDD 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 CDD.

**2) Priorities**--The order of priority for repairs will be determined by the risk assessment report according to the following criteria:

- a) Surfaces that are found to contain lead-based paint levels greater than 9.9 mg/cm<sup>2</sup> and are in poor or fair condition.
- b) When a component that contains lead-based paint is being repaired because it is in fair condition, the entire surface area may be included in the scope of work.

**3) Displacement** -- The Contractor, owner and CDD will work closely to minimize the need to displace occupants of a dwelling unit. If a tenant must move in order to insure that they are not adversely affected by the corrective work, the owner and CDD will arrange for the relocation. CDD shall pay for temporary moves according to its Residential Anti-Displacement and Relocation Assistance Plan.

#### **f. Construction Bids**

- 1) The applicant may choose one of two options for obtaining construction bids.
  - a) Applicants may secure their own bids from contractors of their preference without the assistance of the Community Development Department. Three bids will be required.
  - b) Applicants may request that the Rehab Coordinator secure bids on their behalf. The Rehab Coordinator will notify all contractors on Auburn's Contractor List of the project, hold a pre-bid meeting on site, and accept bids on behalf of the applicant at a specified time and place.
  - c) Contractors may be selected from a list of eligible contractors as maintained by the City of Auburn CDD or contractors must be able to meet the Community Development Department's eligibility standards. No contractor may be selected who has been designated ineligible by the CDD.
  - d) The applicant is not bound to contract with the lowest qualified bidder, but in the event of choosing the higher bid the applicant must provide private funding for the difference in cost. All loan amounts will be calculated based on the lowest estimate.
  - e) Each contractor will give a proposal on the CDD specification/bid

form. The contractor must, if requested provide a cost breakdown on each portion of the work he is bidding. The contractor must sign the proposal sheet. The CDD may require that information pertinent to materials be submitted for approval.

**g. Contractor Eligibility Standards**

**1) Insurance** -- The contractor and subcontractors shall carry Worker's Compensation Insurance for all their employees in accordance with the Worker's Compensation laws of the State of Maine. The contractor and subcontractors shall carry Manufacturer's and Contractor's Public Liability Insurance with a limit of \$300,000 for personal injury or death and \$100,000 for property damage. The CDD may require bonding for contracts in excess of \$100,000. The CDD will require evidence of insurance prior to signing a construction contract.

**2) License and Qualifications** --The contractor shall have in effect a license if required by the State of Maine. The contractor must have completed a Department of Environmental Protection approved lead-smart renovator's course, if pertinent to the work being performed.

**3) Credit** -- The CDD may require a list of credit references, names of suppliers, name of bank where contractor does business, and names and addresses of recent home improvement customers.

**4) Skill and Equipment** -- The construction contractor can satisfactorily demonstrate that he/she and/or their subcontractor(s) have the necessary skills and equipment to perform the work in an efficient and expedient manner.

**h. Ineligible Contractors** - Where a contractor fails to comply with the eligibility standards set forth above, or commits one or more of the following violations, the CDD shall remove the contractor from the list of eligible contractors and shall designate the contractor to be ineligible. The applicant will not award any rehabilitation work, other services, materials, equipment, or supplies to be paid for, in whole or in part, with the proceeds of the loan to any contractor or subcontractor whom the CDD has designated as ineligible. The CDD shall designate a contractor to be ineligible if it finds that the contractor has:

1) Committed one or more material violations of its obligations under a rehabilitation contract and has failed to cure all such violations promptly after 10 days written notice by the applicant or the CDD.

2) Engaged in a pattern of delayed performance or failed to complete the work under a rehabilitation contract, and has received written notice of such delay.

3) Failed to communicate in a courteous, prompt and professional manner, and such failure continued after written notice by the applicant or the CDD.

- 4) Committed fraud and other illegal acts against the applicant or the City, including but not limited to kickbacks and collusion.
- 5) Failed to pay subcontractors or suppliers on a timely basis, allowed a lien to be placed on the applicant's property, or otherwise failed to maintain good credit, and such failure continued after written notice by the applicant or the CDD.
- 6) Threatened, intimidated, or harassed the applicant or CDD.

Once the CDD has designated a contractor to be ineligible, the Contractor shall remain ineligible for a minimum of two years, and shall remain ineligible thereafter until the CDD determines, in its sole discretion, that the contractor has taken all necessary steps to ensure that no further violations will occur, provided that in the case of violations of Sections 9 (d) or 9(f) above the Contractor shall remain permanently ineligible.

**i. Labor Performed by the Owner** -- A property owner may complete some or all of the tasks required to rehabilitate his/her property if he/she has the degree of skill required to perform the work involved. Self-help is usually appropriate for the accomplishment of tasks of an unskilled nature such as general cleanup, demolition, cartage and disposal of debris, and for work that involves minimal use of costly material and equipment.

**1) Materials and Workmanship** --The CDD will require information regarding the cost of materials for any self-help work prior to approval of the loan. The CDD may require evidence of workmanship on previous projects before accepting the owner's intention to do his/her own work. The amount of the loan may include funds to pay for the materials and rental of equipment to be installed by self-help.

**2) Self-Help Contract** – The Owner will be required to sign a self-help contract that describes the tasks to be accomplished and a deadline for completion. The project deadline shall be within 6 months of the loan closing date.

**3) Qualification** -- The owner must have completed a Department of Environmental Protection approved lead-smart renovator's course, if pertinent to the work being performed.

**j. Private Lender's Loan** – When additional funds are required to complete the project, the applicant will have the option of using cash or borrowed funds. Additional funds will be deposited into a segregated City account and will be subject to disbursement of funds procedures defined in this guideline. Any funds provided by the Owner or private lenders are subject to the same contractor and self-help requirements as the City's loan.

**k. Community Development Loan Committee** - The application is presented to the Committee who is responsible for awarding loans.

**I. Notices –**

**1) Acceptance**—Applicant(s) will be notified of acceptance through a written Commitment Letter.

**2) Rejection** – If the request is rejected, Community Development staff will notify the applicant(s) in writing and give the reason(s) for rejection.

**m. Tenant Notification** -- Letters shall be sent to the tenants if there will be permanent displacement.

**n. 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. The participant will sign a Rehabilitation Agreement stipulating additional conditions of the loan and Self-Help Contract for any work being done by the participant.

**o. Amended Loans** - If unforeseen project costs exceed the approved rehabilitation loan, the CDD may increase the loan by \$1,000 without approval of the Committee provided the amended loan will not exceed the maximum loan amount.

**p. Insurance** – The participant is required to maintain fire, liability and other hazard insurance on the property for the full term of the note and for an amount at least equal to the total value of all mortgages held on the property, or an amount at least sufficient to cover coinsurance requirements in the State of Maine. The City will be named as a mortgagee on the policy and the participant shall provide evidence of insurance.

**q. Construction Contract** – The owner and contractor will sign a contract signed at the time of loan closing which is acceptable to the CDD. 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 CDD for approval of each phase of the work. No change to the rehabilitation contract work shall be allowed unless approved by the CDD, owner, and contractor. Any changes involving cost will be supported through the execution of a change order between the contractor and owner.

**r. Inspection** - The CDD shall have the right to inspect all rehabilitation work financed in whole or in part with the proceeds of the loan. The CDD will inform the owner and/or contractor of any noncompliance with respect to the rehabilitation work and the corrective action needed. The CDD will verify that all work has been completed 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 CDD is permitted to examine and inspect the rehabilitation work.

**s. Escrowing of funds** - The CDD will act as escrow agent for the City loan, as well as permit the CDD to disburse such funds to the owner and/or the contractor in the manner set forth in the contract between applicant and contractor. The CDD may require lien waivers as a condition of payment.

**t. Disbursement of Funds** - After receiving appropriate invoices, receipt of lien waivers for invoices over \$5,000, and inspecting the rehabilitation work, progress payments shall be authorized by the CDD. Unutilized funds may be applied to reduce the principal or may be used to complete additional work as approved by the CDD.

**u. Records** - The applicant agrees to keep such records as may be required by the CDD with respect to the rehabilitation work financed in whole or in 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 CDD 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 CDD may deem necessary, permit the CDD to have full and free access to its records with respect to the property.

**v. Assumability** -- Loans are generally not assumable with the exception of Home Owner projects where the applicant was a lessee.

**w. Subordination** – Subordination of the HOME loan is generally not allowed. Exceptions will be made for documented emergencies on a case by case basis by Community Development staff. CDD may request documentation in order to evaluate the request. Refinancing may be allowed for the following reasons:

- 1) limited to the existing first mortgage balance plus reasonable closing costs if refinancing places owner in a better economic situation and does not diminish the City's financial position in the property;
- 2) exorbitant medical expenses;
- 3) loss of husband/wife;
- 4) documented system failure (two estimates from reputable contractors); or
- 5) legal expenses incurred that would affect the health or stability of the household.

**x. Cancellation** – A loan approval shall be valid for 6 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 Loan Committee.

**K. FEDERAL AND STATE REGULATIONS, AS MAY BE AMENDED**

- a. Equal Employment Opportunity** – The applicant must abide by the provisions of Executive Order 11246 concerning equal employment opportunity.
- b. Flood Hazard Insurance** – If the property to be improved is located in a Designated flood hazard area, the applicant is required to provide evidence of flood hazard insurance coverage and abide by the regulations of the Flood Disaster Protection Act of 1973.
- c. Civil Rights** – The applicant will be required to comply with Title VIII of the Civil Rights Act of 1968 and the Fair Housing Amendments Act of 1988, barring discrimination upon the basis of race, color, religion, creed, sex, handicap, familial status, or national origin in the sale lease rental, use or occupancy of the subject property.
- d. Conflict of Interest** – No elected or appointed official or employee of the City of Auburn and no members of any municipal board or committee which exercises any decision making functions with respect to the Community Development Programs, shall participate in negotiating or shall exercise any influences in awarding or administering any contract in which he has a direct or indirect pecuniary interest as that terms is defined by 30 M.R.S.A. Section 2250
- e. Lead Based Paint** – If the project involves a property that was constructed prior to 1978, all Title X Lead Based Paint standards shall apply.
- f. Environmental Review Procedures** -- The city shall conduct an environmental review including, but not limited to determination of whether the property is historically significant and whether the property is located in a flood zone, and shall communicate any findings and special considerations to the applicant.
- g. Uniform Relocation Act** – The city shall comply with the Uniform Relocation Act with respect to tenants who may be permanently or temporarily displaced.