Single-Family Rehabilitation and Reconstruction Program

Purpose

The SFRRP program offers financial assistance to low-income homeowners in rural Utah, at or below 80% AMI, whose homes are in need of rehabilitation or replacement. Currently the program is administered through the following Rural Provider Agencies:

- Neighborhood Nonprofit Housing Corporation (NNHC):
  - Box Elder, Cache, Morgan and Rich
- Uintah Basin Association of Governments (UBAOG):
  - Daggett, Duchesne, Uintah
- Six County Association of Governments (SCAOG):
  - Juab, Millard, Piute, Sanpete, Sevier, and Wayne
- Southeastern Utah Association of Local Governments (SEUALG):
  - Carbon, Emery, Grand, and San Juan
- Mountainlands Association of Governments (MAOG):
  - Utah, Wasatch, Summit and Tooele

Local Rural Provider Agencies

Rural Provider Agency (RPA) Responsibilities

Rural Provider Agencies (RPAs) are expected to provide leadership to support affordable housing initiatives for their service area. RPA staff has an opportunity to engage other housing providers, service organizations, elected officials, client groups, and citizen housing activists to make a difference for people in need. In a technical assistance role, HCD staff will support capacity building of local agencies and will monitor the achievements of the statewide program.

Each RPA should:

- Contract with HCD to administer the SFRRP and comply with the contract terms.
- Partner and/or coordinate with other agencies in the same geographical area to avoid unnecessary duplication of housing rehabilitation programs.
- Comply with the funding, administrative costs, provisions against fee payments, and conflict of interest.
- Take part in state sponsored Housing Rehabilitation training programs and Technical Assistance programs.
- Initiate strategies and processes to meet production goals, including outreach and marketing.
- Leverage funding including housing and community development organizations, financial institutions, CDBG, U.S. Department of Agriculture - Rural Development (Section 502 and 504 monies), Weatherization program, and other housing programs operating in the same area, as possible.
- Implement a local application review process, complete site inspections, develop individual project specifications, assemble bids, and ensure reasonable and high quality workmanship for each project.
- Identify licensed and insured contractors and subcontractors with proven commitments to quality workmanship and cost containment.
- Provide conflict resolution between homeowner(s) and contractor(s).
- Promote client education (i.e., USU extensions services), and counseling (i.e., regulated and licensed businesses) to better enable clients to make informed financial decisions relative to debt, predatory lending, refinancing, etc.
- Process, review, and approve applications in accordance with the State of Utah's Olene Walker Housing Loan Fund Allocation Plan, SFRRP Application, and state statute.
- Finalize closing documents and prepare documents for loan closings.
- Because HCD will service SFRRP loans, the RPA will provide client interface with HCD on loan portfolio management issues, inspections, information, pictures, etc.
- Ensure the project is completed as outlined in the scope of work.
- Comply with monitoring requirements per the terms of federal regulations and the state contract.
- Submit quarterly project reports to HCD as requested.

Agencies may contact HCD for additional clarification and technical assistance on responsibilities and program guidelines. The RPA may submit a written request to HCD staff on any issues the RPA would like to be more restrictive than any of the SFRRP regulations, state statute, or Board's intent.

Funding and Administrative Costs

A contract between HCD and the RPA will be entered into before any funds are committed or released. This document provides detail on the contract purpose, scope of work, total funding allocation, budget, and reporting process. The RPA may incur administrative and planning costs directly associated with deliverables accomplished under the SFRRP, unless those costs have been charged to another program. For the purposes of this program, staff costs charged to each contract is determined by the following:

- Prorated share of salary, wages, and related costs of each person whose job includes any program administration assignments
- Actual hours for any agency-based construction laborers at given rate of pay and benefits (this includes weatherization crews temporarily assisting with non-weatherization rehabilitation)

Other direct costs that can be charged to administration include:

- Goods and services necessary for SFRRP administration (e.g., utilities, offices supplies)
- Administrative services under third party agreement (e.g., legal services)
- Providing public information on SFRRP (marketing brochures, advertising, presentations)
- Fair housing activities
- Complying with other federal requirements
- Preparation of work specifications
- Loan processing and underwriting
- Construction inspections and oversight
- Lead based paint inspections
- Project specific environmental reviews
- Budget counseling for clients
- Program coordination and fund leveraging
- Portfolio management issues
- Travel to HCD and other in-state SFRRP-related housing events, training, and conferences (out of state travel required to be approved in advance by HCD)

Provisions Against Fee Payment

The client loans shall not include any bonus, commission, or fee, to the RPA for the customary processing of a loan, including the preparation of work write-ups and cost estimates, construction oversight, project management, facilitating loan approval, or any concurrence required to complete the project work.

Training for the RPA

The HCD expects the RPA to participate in various single-family training workshops. These workshops will enable the RPA to meet state policy guidelines: contract terms, conditions, assurances, and other provisions, the intent of the Board, and HUD program requirements. As necessary, the HCD staff may meet one-on-one with the RPA to provide customized training and technical assistance. The training builds local program capacity for the RPA and may raise the levels of productivity and efficiency in meeting local affordable housing needs.

Program Management

The SFRRP will fund rehabilitation and reconstruction according to HCD's definitions. Due to the limited state set-aside funding for the SFRRP, the RPA should focus outreach to increase the number of rehabilitated units completed compared to reconstruction units. This allows the fund to serve the greater number of citizens while addressing the overall opportunity to maintain older units in Utah's housing base as affordable and habitable.

RPA Staff Roles

There are several strategic decisions, administrative and key construction management functions that will be undertaken by the RPA. Staff should be able to perform the following:

- Manages and coordinates all aspects of the project from conception to completion with the owners and contractors
- Oversees various construction items and reviews the work of contractors to manage changes and evaluate costs
- Monitors construction to ensure that is it accomplished within the specified scope of work and in accordance with state and local codes
- Fosters good working relationship with the planning and zoning department, fire marshal, city and county code inspectors, public work departments, utility companies, and city council members

RPA Staff Roles, cont.

- Improves the inspection process, maintains credibility, and meets the demands of the lower income community
- Uses analytical skills to predict and solve problems that might be presented by the job
- Maintains interpersonal and conflict resolution skills to communicate knowledge and concerns to owners and contractors
- Secures services with other agencies to assist with rehabilitation or replacement of units including the Weatherization Assistance Program, CDBG, Rural Development, etc.
- Ensures that units follow the rating process for Energy Star, as applicable
- Reviews and approves application and construction documents
- Collaborates with HCD staff to complete loan closing documents utilizing the templates provided from HCD; upon receipt, HCD will review loan documents for purposes of accuracy within 48 hours of completed application and all supporting documentation
- Schedules loan closings and manages closing details
- Involves procuring contractors for projects
- Identifies cost saving opportunities for construction labor, materials, and contractors

Eligible Property Types

To be eligible for assistance, an income-eligible owner required to occupy a property and be the owner's principal residence where the owner meets one or more of the following HUD criteria:

- has fee simple title to the property
- maintains a 99-year leasehold interest in the property (50 year leasehold on trust or restricted Indian lands)
- has a living trust where the land and home are in the trust, provided the beneficiary of the living trust is a co-signer and will occupy the property as their principal residence
- a townhouse in townhouse-style condominium may be considered a single-unit structure (provided each townhouse-style unit is separated by a one and one-half hour firewall from foundation to roof)
- a single-family dwelling unit in a multi-unit Condominium Project may be considered a single-unit structure
- a manufactured home/mobile home built after 1976 and is compliant with the Federal preferredManufactured Home Construction and Safety Standards and is located on occupant owned land

Eligible Activities

Rehabilitation is the improvement or repair of an existing structure to provide decent, safe, and sanitary dwelling units. This will include the provision of such sanitary or other facilities as are required by HUD Property Standards. Rehabilitation requiring work so excessive as to be equivalent to new construction or reconstruction of the property may be demolished and rebuilt under the guidelines below.

Reconstruction refers to rebuilding a structure on the same lot where housing is standing. OWHLF partners with USDA for reconstruction projects; OWHLF will fund up to 20% of the project. Funds may be used to build a new foundation or repair an existing foundation. During the reconstruction, the number of rooms may change per unit, but the number of units may not. Reconstruction may be eligible if the existing home is not economically feasible to rehabilitate due to the current value in relation to the work and the need of the occupants. Units being replaced will be permanently removed from the housing stock through salvage and will **not** be sold as a home under any circumstances. Reconstruction units are preferred to be site-built to provide the highest long-term value to homeowners and as best security against OWHLF loans. Under special circumstances, where contractors or materials are not available due to the remoteness of sites or where the costs for site built housing are cost prohibitive, off-site construction units may be provided. Site built units are deemed cost prohibitive when the cost for the site built unit is approximately 18% or higher than an off-site built unit. All offsite and on-site construction units will meet the agency's specifications for quality workmanship and long-term value of the property. These units will have an estimated useful life of at least 30+ years.

Site improvements should be modest and in keeping with improvements made to typical surrounding properties such as sidewalks, utility connections, sewer and water lines that are essential to the repair of existing units. Off-site infrastructure is not eligible.

Off-site Construction: Manufactured Housing and Modular Homes

The Manufactured Home Construction and Safety Standards (MHCSS) established by HUD define a manufactured home to be "a structure, transportable in one or more sections, when erected on site, is three hundred twenty or more square feet, is built on a permanent chassis and designed to be used as a dwelling with/without a permanent foundation when connected to the required utilities, and includes the plumbing, heating, air-conditioning, and electrical systems contained therein".

The HUD regulations require the manufactured home to be located on land that is owned by the homeowner(s). Necessary repairs to manufactured or modular homes may be eligible if the recipient owns the home and site on which the home is situated; and the **home is manufactured after June 15, 1976**. If the homeowner(s) qualifies and receives the rehabilitation loan, the homeowner(s) is required to surrender the title on a manufactured home to the county assessor to be converted to real property.

Off-site Construction: Manufactured Housing and Modular Homes, cont.

Utility hook-ups are on-site, permanent, public, or private utility sources (for example, electric, water, sewer/septic, natural gas) for use by individual manufactured home units. The HCD regulation require manufactured homes assisted with HCD funds (except for existing, owner-occupied manufactured homes that are rehabilitated with HCD funds) to be connected to permanent utility hookups.

Manufactured Home: "Mobile home" and "trailer" were commonly used terms before 1976 when Congress adopted legislation using the term "manufactured home" to take their place. The term manufactured home refers to all types of non-motorized manufactured housing units (thus excluding recreational vehicles) that meet the definition in 24 CFR 3280.2. **Homes built pre-1976 are <u>not</u> eligible for rehabilitation loans**. Due to depreciation and durability issues, mobile homes are not considered long- term affordable housing solutions. Agencies should consider repairs to existing mobile homes using the Weatherization Assistance Program resources and other emergency and critical needs funds.

Modular Home: is built in sections in a factory, possesses a permanent chassis (defined at 24 CFR 3280.902 (a)), and will be designed and manufactured in compliance with the MHCSS. This modular home is built in sections in a factory to meet state, local or regional building codes. Once assembled, the modular unit becomes permanently fixed to one site.

Replacing a manufactured housing unit with a stick-built unit is considered a *homebuyer activity* even if the applicant/beneficiary owns the lot and existing manufactured unit (refer to Building HOME, March 2008, Chapter 2, pg. 2-6). Funds may only be expended for repairs to manufactured homes where the RPA verifies the capacity of the pre-rehabilitated unit to safely provide housing to residents for at least ten additional years or useful life. Loans cannot exceed the useful life of the rehabilitated unit. If manufactured home units are seriously dilapidated and unserviceable, the RPA should assist residents in finding other long-term housing opportunities.

State Construction Codes and Local Ordinances

Housing that is reconstructed or rehabilitated with HCD funds is required to meet all applicable state codes, local ordinances, and zoning ordinances at the time of project completion.

State Construction Codes and local ordinances are the legal regulations that each city and the state of Utah enact and enforce for all new and old buildings, including homes. The “Certificate of Occupancy” issued by the local building official certifies that the structure has met code.

Eligible Costs

Improvement and project considerations that may be included under this program:

- Correcting incipient deficiencies - incipient deficiencies are items that are still functioning as designed but have a life expectancy of 2 years or less
- Alteration, improvement, or modification of an existing structure to improve occupant health and safety
- Moving an existing structure to a new foundation constructed with funds
- Additions to dwellings only when it is clearly necessary to alleviate overcrowding
- General Property Improvements (GPI's) - should be reasonable and customary for the area and will be used in conjunction with correcting a deficiency and:
    - Extend useful life of a component in the home that results in reduced maintenance and/or will extend the useful life of a part of the property
- Work to expand livable space and eliminate inefficient design and to prevent overcrowding
- Purchase a parcel of adjacent land, if the property is required to bring the property into conformance with code requirements for minimum lot size and dimensions
- Reconstruct a kitchen, bathroom, or currently under-utilized space to improve efficiency
    - Not exceed 20% of the total amount of the OWHLF Loan
- Professional Services - the reasonable costs of architectural, engineering, and related professional services required if those services are beyond those normally provided by the RPA
- Contingency Reserve - a fund to cover unanticipated construction costs or to cover increases of other eligible loan costs up to 10% may be included
- Floodproofing requirements - the cost required by Executive Order 11988 and the National Flood Insurance Program should be included in projects, as applicable
- Historic Preservation Standards- if the property is on the National Register of Historic Places or eligible for inclusion on the National Register of Historic Places the work will be done in accordance with standards set by the U.S. Secretary of the Interior
- Lead Based Paint Remedying- the property owner will be informed the cost of remedying identified lead-based paint hazards for the property
- Termite Elimination- there may be an inspection by a termite inspector to confirm infestation of the elimination of the infestation
- Physically Handicapped Accessibility- rehabilitating the property so it is accessible to the physically handicapped household member(s)
- Energy Costs- including Energy Star-rated and other energy saving items that will reduce energy costs

Emergency Housing Situation Grant

As an option of last resort after all other funding sources are exhausted and within the limits, agencies may submit a request to HCD staff for grant assistance with special emergency housing situations. Emergency housing situations are defined as immediate health and safety problems affecting the ability of the homeowner(s) to remain in a home, conditions that threaten the long-term integrity of a home, or special emergency financial situations that threaten the ability of homeowner(s) to maintain ownership. The following requirements will be met to be eligible:

- The property is the primary residence and owner-occupied
- The homeowner(s) is considered very low-income (50% AMI or below)
- The homeowner(s) cannot afford an additional $25 monthly payment
- The grant may not exceed $5000.00
- One Emergency Housing Situation Grant per homeowner(s), per residence, per lifetime

Emergency grants may be awarded to homeowner(s) whose home is on reservation land or land trust where adequate security may not be available to protect a loan.

Ineligible Costs

- Luxury items - saunas, hot tubs, tennis courts, swimming pools, or other recreational facilities (but not the cost to fill in or eliminate a pool from the property)
- Personal Property - the purchase, installation, or repair of furnishings or personal property that is not a part of the property
- Labor - funds to pay the borrower(s) or immediate family members who live in the home for their labor
- Delinquent property taxes, construction liens and similar encumbrances are ineligible costs because they are obligations incurred by the borrower(s) prior to the rehabilitation of the property
- Relocation Expenses

Cost and Long-Term Quality

In developing SFRRP guidelines, the program will strike a balance between the desire to ensure a good quality of construction and the desire to keep project costs reasonable. The RPA should develop a cost estimate before bidding and compare bids with their estimate. The RPA should verify and certify that construction costs are reasonable. Administrative costs shall not exceed 30% of total construction costs.

Cost and Long-Term Quality, cont.

The reasonableness factor can be determined by pricing comparable work completed by other agencies statewide, through cost estimating software, or from agency records of recently completed projects. In addition, bids should be obtained from an adequate number of sources in accordance with the RPA procurement standards. If only one bidder has responded, and the bid is within the RPA cost estimate the RPA may accept that bid.

For quality control and costing issues, the RPA may also rely on in-house labor. Agencies hosting the Weatherization Assistance Program (WX) should utilize WX labor when demand for WX work allows and with hours paid under the SFRRP.

Asbestos

Where asbestos materials are identified or the RPA suspects the presence of asbestos materials, they will notify the owner of the hazards. Only qualified contractors experienced in asbestos removal will be allowed to work on the project.

Fund Leveraging

Where multiple housing agencies currently serve populations within the same service area, agencies are expected to coordinate their housing efforts within the proposed geographic area to:

- Avoid unnecessary duplication
- Develop funding partnerships for each unit such as loans and grants from CDBG, Weatherization, USDA Rural Development Section 504 and 502 grants and loans, financial institutions, and charitable organizations
- Jointly achieve the goals of an area's current Consolidated Plan
- Protect and spend the funds in a responsible manner
- Ensure the future of the program for generations to come
- Protect and spend the funds in a responsible manner

To concentrate SFRRP monies on those households with the greatest financial need, higher levels of leveraging are especially appropriate as households' approach 80% AMI. Many homeowners prefer utilizing CDBG and other grant funding rather than loan funds for housing improvements. However, with grant thresholds often in place those grant funds alone are unable to fully rehabilitate a unit to HUD standards, leaving an opportunity to "cap" the grant funding with loan funds. The RPA is advised to market OWHLF loan funds as part of an overall funding package that includes a loan with a buy-down grant.

Loan Amount Limit

SFRRP loans are no less than $1,000 and shall not exceed $50,000.

Site and Property Inspections and Decisions

There are three major types of inspections for construction management:

- Initial property inspection that determines and identifies a unit's needs, and the work required for those needs, and the cost feasibility
- Progress inspections to ensure that construction complies with the plans, building codes, performance standards, and done in a timely manner
- Final inspections that are carried out prior to final payment
    - a 10% retainage will be held from progress payments to contractors until the final inspection verifies that all work is satisfactorily completed

Developing Plans, Specifications, and Budget

To perform construction, contractors/subcontractors need to know the scope of work envisioned. Work write-ups, plans and specifications provide this vision to contractors/subcontractors by providing a detailed, accurate description of exact work to be performed. To prepare quality work write-ups the RPA will:

- Prepare - an inspection checklist, a cost database, and understanding of local codes and standards, and the SFRRP program requirements
- Budget - to indicate the amount of loan and what decisions can be made to the work write-up while still correcting deficiencies according to the program
- Property Inspection - note all defects; investigate the cause of the defects and prepare drawings with measurements; prepare a list of defects in a standardized format noting all deficiencies, incipient violations, and items that meet the program requirements
- Initial Cost Estimate - complete the initial cost estimate, feasibility assessment considering the project budget.
- Write Specifications - each work item should be described in sufficient detail so that the work will be performed exactly as desired to comply with the write-up
- Design Approval Process – If the scope of work warrants, prepare drawings for the work to be completed; there should be sufficient detail for contractors to bid on a project and for contractors to accurately build to the scope of work

Contractor Selection and Bids

Licensed and insured contractors shall be utilized to oversee all work performed under the SFRRP. The RPA's ability to recruit quality contractors will depend on local economic conditions, the presence of contractors in the area, and the management of their construction program. Quality workmanship and competitive pricing are also functions of the RPA's ability to manage and oversee projects.

In some cases, the RPA could work with other housing agencies through jointly selecting area-wide contractors. Much like a bulk purchase of commodities, these contractors may be more interested in remote projects if other projects are guaranteed in the overall package of work from the RPA and its partner agencies.

Here are some key elements in selecting and retaining quality contractors:

- Required to be licensed and insured
- Maintain a list of active contractors who participate regularly in the program (expand the list by contacting city and county building officials)
- Advertise and hold open informational meetings to build interest in the SFRRP
- Establish and follow a written procurement process for contractors with step-by-step description of the process and policy addressing relevant bid issues
- Have periodic meetings with updates to the program and discussion of the projects to bid
- Adhere to HUD's enforcement policies and procedures for action in cases of suspension and debarment
- Establish and follow procedures for handling disputes, client complaints, and change orders
- Develop inspection schedules with homeowner and contractor to assess the work being done
- Where state contracts provide materials (least costly source), then use contractors/subcontractors for installation only
- Select contractors who are open to new ideas including Energy Star

All contractors that bid for SFRRP projects should complete a contractor questionnaire form. The RPA will verify each contractor through the HUD debarred listing (the U.S. General Services Administration's list of Parties Excluded from Federal Procurement). The owners, RPA and contractors are prohibited from employing, awarding contracts, or funding any contractors or subcontractors that have been debarred, suspended, proposed for debarment, or placed in non-ineligibility status by HUD. The RPA will maintain records of each verification for a minimum of three years and will verify current contractors on an annual basis.

RPA Construction Oversight

The RPA shall keep a written policy and effective oversight of the project to keep costs reasonable and reduce unnecessary change orders, code and other violations, contractor/owner disputes, and delays in the payment process. Each RPA should:

- Develop and follow a schedule for project monitoring
- Review the work description with the contractor and homeowner at proceed before a contract is executed
- Include draw schedules and payment processes that are tied to scope of work completions and inspections
- Have change orders reviewed and approved by SFRRP Program Specialist before change order work is started, as applicable

Managing Disputes

Part of dispute resolution is proactively preventing situations from arising. The RPA should be proactive by ensuring the owner(s) and contractors know their roles and responsibilities: by getting a pre-construction agreement from owners and contractors on the work description, and clearly articulating workmanship requirements in the work write-up and specifications. In addition, when disputes arise, the RPA should facilitate resolution of disputes between contractors and the homeowners including:

- Encouraging property owners and contractors to make a good faith effort to resolve the dispute between themselves
- Facilitating property owners and contractors in arbitration with an RPA official, a professional arbitration association, or the RPA board

Project Completion

The RPA will ensure the project is completed as outlined in the scope of work. After project is completed, RPA will submit the following closeout documents to the SFRRP Program Specialist:

- Final claim for reimbursement (submitted through WebGrants with required documentation)
- Order to Proceed
- Waivers of Lien
- Certificate of Completion/Final Payment (completed and signed)
- Project completion documentation (after pictures)

Repeat Borrowers or Applications for the Same Property

Homeowners requiring additional assistance may apply for additional loan funds if the property has major items that need rehabilitation, and HCD's maximum loan amount has not been reached.

To be considered for additional funds, the current SFRRP loan should be paid off or in good standing with no late payments in the 6 months prior to application request. All other program eligibility requirements will be verified at the time of application.

Project Underwriting, Screening and Application

Application Priority

Applications may be submitted year round for funding consideration through the RPA Project Review Committee or other identified review process. Individual projects may be selected on a "first-come, first-serve basis".

Borrower's Eligibility

An initial determination of eligibility for a particular application is based upon, but not limited to, the following:

- Location of the property is in rural counties of Utah
- Property will be an eligible owner occupied, single-family dwelling
- Applicant(s) owns and occupies the property as a principal residence
- Improvements will address deficiencies that need correction
- Value of the property will support the Loan and be adequate to extend the useful life of the property
- Applicant(s) will be at or below eighty percent (80%) of Area Median Income as defined by HUD for their family size, and the county they reside in

To determine eligibility, the following should be completed by the applicant(s) and verified by the RPA:

- SFRRP Application (Excel version, signed and dated including the Eligibility Release form)
- Income Verification (for all adults 18+ in the household)
- Credit History
- Mortgage Statement, if applicable (current)
- Property Tax document (current, county location, ownership, and occupancy verification)
- Homeowners Insurance (current, ownership, occupancy, and residency verification)
- Title Report
- Project bid

After these documents have been reviewed by the RPA, they will be sent to the SFRRP Program Specialist for approval.

Comparing Annual Income to HUD Income Limits

Annual Household Income is based on the IRS FORM 1040 Adjusted Gross Income with adjustment to income as defined in HUD Rules 24 CFR 5.611. The Annual Household Income (AHI) should be calculated as the anticipated income during the next 12 months. Verifications cannot be dated earlier than six months prior to eligibility. A minimum of two months of income verification should be obtained to calculate income. Households required to qualify as low income at the time of loan approval. The RPA will use the current year HUD Income Limits (https://www.hudexchange.info/programs/home/home-income-limits/) by the family size and by geographic area (county or metropolitan area) to determine income eligibility. A child who is subject to a shared-custody agreement in which the child resides with the household at least 50% of the time may be counted as a dependent.

On the income guideline chart:

- Find the county in which the household is located on the chart
- Find the column that corresponds to the number of persons in the household
- Compare the verified income of the household with the low-income income limit for that household size

To determine household size for income purposes, do not count the following (see IRS website):

- Foster children, unless they live with you the entire year and are cared for like your own children
- Live-in aides and children of live-in aides
- Unborn children
- Children being pursued for legal custody or adoption who are not currently living in the household

Debt Part 1 (Application)

It is extremely important that all debt with a term of 6 months or longer for payments be inserted here. The debt of the borrower(s) will be a part of the criteria for the decision making of a loan payment. Do not include a medical deduction on the worksheet unless it is verified that over 7% of their gross income is medical costs. Include copies of the medical bills and documentation. If medical expenses are ongoing for more than a year, include a letter from a physician as to the disability.

Underwriting Part II

Annual income of the borrower(s) and any family members over the age of 18 shall be verified. All household members 18 years and older not working or providing income to the household shall complete and sign a zero income affidavit.

Once the underwriter has an idea of what types of income the borrower(s) have, estimates may be entered in the 1040 IRS format section (Annual Income) for the purpose of underwriting the loan.

The loan cannot exceed the smaller of the 31%/41% ratio unless agreed upon by the applicant and the RPA have determined it will not be a financial hardship.

Calculating Household Income

Based on the IRS form 1040 Adjusted Gross Income the following inclusions and exclusions apply:

Inclusions:

- All earnings, including salary and wages, tips, overtime, and bonuses, of the borrower(s), and of all adults living in the property (will also include the income of all persons on the title)
- Taxable interest and dividends
- Taxable refunds, credits, or offsets of state and local income taxes (there are some exceptions, refer to form 1040 instructions)
- Alimony (or separate maintenance payments received)
- Business Income (or loss)
- Capital Gain (or loss)
- Other gains or losses (i.e., assets used in a trade or business that were exchanged or sold)
- Taxable amount of individual retirement account (IRA) distributions (include simplified employee pension (SEP) and savings incentive match plan for employees (SIMPLE) (IRE))

Inclusions, cont.:

- Taxable amount of pension and annuity payments
- Rental real estate, royalties, partnerships, S corporations, trusts, etc.
- Farm Income (gain or loss)
- Unemployment compensation payments
- Taxable amount of Social Security benefits
- Other Income (includes prizes and awards; gambling, lottery, or raffle winnings; jury duty fees; reimbursements for amounts deducted in previous years; income from the rental of property if not in the business of renting such property; income from an activity not engaged in for profit)

Exclusions

- Child Support
- Alimony Payments
- Life insurance proceeds received as a result of someone's death

Deductions

- IRA Deductions
- Medical savings account deductions
- Moving expenses
- One-half of self-employment tax
- Self-employed health insurance deduction
- Keogh and self-employed SEP and SIMPLE plan
- Penalty on early withdrawal of savings
- Paid alimony

Refer to the IRS publications and website for greater detail for determining income and deductions as it pertains to each individual case.

Borrower(s) Ability to Repay Loan

The final step in the underwriting process involves making an initial calculation of how much money the borrower(s) can afford to borrow for the project. It is critical that the property can support the loan to minimize losses and to protect the borrower's interests in the property.

If the borrower(s) show sufficient income to meet all obligations within the qualified interest rate, the term of the loan may be shortened to allow for a larger payment and stay within the 31% housing expense ratio.

If the borrower(s) is very low income and cannot meet the criteria of the front and back end ratios, they could be considered for a lower payment adjusted for the income situation. The minimum monthly principal payment is $25 on amortized loans.

Total monthly debt includes the following payments:

- Monthly principal and interest payments for all current and proposed debt secured by the property, including debt on the SFRRP loan
- Monthly payments for real estate taxes and hazard insurance
- Payments on installment loans and monthly payment on revolving charge account debts with at least six (6) remaining payments
- Health insurance payments not paid through employer
- Alimony, or maintenance payments paid
- Non-reimbursable extraordinary medical costs that reliable medical opinion indicates are likely to continue for more than one (1) year

Applicants who exceed these limits should be referred for consumer debt counseling, allowing the applicant to better restructure their financial situation and afford SFRRP loan payments.

Agency Project Review

Once the actual income verifications have been received, bids have come in, total construction costs have been determined, and underwriting has been finalized, RPA staff to input the necessary information into the application and print the Agency Project Review sheet, or equivalent form, and present it to the RPA Project Review Committee, or RPA equivalent review process, for approval.

Submit documentation with the date of the RPA Project Review Committee approval to the State SFRRP Program Specialist. This commitment date is important to state and federal reporting.

Agency Project Review, cont.

If the amount of the Loan will not cover the total cost of the project, the borrower(s) will have to be able to obtain sufficient funds to complete the project without over-extending their ability to repay the debt. The borrower(s) may use RPA funds for grants (see Emergency Housing Situation Grants) to lower the amount of SFRRP and USDA-RD loans as a last resort when all other avenues have been expended.

If there are some funds the borrower(s) obtain through additional loans, the RPA will verify that these funds are indeed available to the borrower(s), and the RPA will add these funds to the calculations to determine if the borrower(s) can afford to take on an additional loan.

If the funds are to be provided from cash reserves or cash equivalents by the borrower(s), the sources, availability, and liquidity of the additional funds will be verified.

These additional cash reserves or cash equivalents may be cash on deposit, cash on hand, cash surrender value of life insurance, proceeds from the sale of marketable securities or other assets, gifts of cash, or cash equivalents. Required to be deposited in borrower(s) escrow.

Title

An Abstract of Title from the county should be obtained and reviewed before incurring cost of a preliminary title report during the pre-screening process.

Title will be cleared of all extraordinary liens and encumbrances including:

- Judgments
- Past due property tax liens
- Past due special assessment liens
- Mechanics liens
- Real estate contracts not between title owner and borrower
- Paid off mortgages not released
- Lawsuits
- Life Estates (will be reviewed and determined that residency is granted only to persons applying for loan)
- As to child support judgments, the Office of Recovery Services and the parent will come into agreement of payments until the judgment is cleared

Determine After-Rehabilitation Value

To establish project eligibility, after-rehabilitation value will be determined prior to any work being performed. Maintain documentation of the after-rehabilitation calculations for each project. One or more of the following methods may determine the after-rehabilitation value:

- estimates of value by the RPA may be used
- either a licensed fee appraiser or a staff appraiser of the RPA may be used;
- a comparable property located in the same neighborhood may be used to establish the after-rehabilitation value if the assessment is current and accurately reflects market value after rehabilitation

Maximum Property Value, FHA 203(b) Mortgage Limits

Housing that is currently owned by a family qualifies as affordable housing only if the ***value*** of the property, ***after rehabilitation*** does not exceed 95% of the median purchase price as stated in Section 215(b) of the National Affordable Housing Act (NAHA). These limits are updated annually. Total debt secured by the property includes the full amount of:

- Any lien(s) superior to the SFRRP Loan (principal only) secured by the property
- Amount of the principal of the SFRRP Loan

Verifying Information on Finances and Property

Verifying Income

A minimum of two full months of income verification (e.g., paystubs, social security letter) dated within 6 months of application. If income verification doesn't reflect accurate annual income, RPA may use a copy of the household's tax return Form 1040 and all schedules signed by the borrower(s) and filed with the IRS.

The RPA will use a "snapshot" of the household's current circumstances to estimate future income. The RPA will assume that today's circumstances would continue for the next 12 months unless there is verifiable evidence to the contrary. This method will be used even when it is not clear that the type of income received currently will continue in the coming year. The exception to this rule is when documentation is provided that current circumstances are about to change.

Some third party providers (such as banks) may charge a fee to provide information. In such cases, the RPA can use suitable documentation, for example, bank statements or a savings passbook. Costs associated with third-party verifications are considered eligible expenses and include verifying credit, income, employment, appraisals, and title evidence so long as the fees are reasonable and customary.

Other Forms of Income

If Self Employed, two years of IRS Tax forms will be averaged to determine income. The RPA will be careful to not include business deductions related to the dwelling unit being rehabilitated. Income should be adjusted to exclude one-time losses, windfalls, and paper losses. If self-employed a K-1 or a schedule C (revenue and expense) should be attached to the tax return.

If two years of tax forms are not available, where the principal source of income is from the borrower(s) business, whether owned individually or by a Corporation or Partnership, a copy of audited financial statements for the entity prepared by an accountant, including a currently dated balance sheet and statement of operations, or a signed copy of the legal entities current tax return filed with the IRS will be obtained for partnerships, this same information will be obtained from all general partners.

Income from Rental Units in two to four unit Owner Occupied properties will be included.

Regular Contributions or Payments from Others including funds contributed by other family members regardless of whether they live in the same dwelling as the prospective borrower(s) will be included in income verified with canceled checks written by the payer, bank statements showing deposits in the prospective borrower's account, or a written agreement concerning the contribution or payment.

Unemployment or Temporary Disabilities when calculating income for borrower(s) who are unemployed or temporarily disabled, use six (6) months unemployment or disability compensation plus six (6) months of income from the last job for a yearly income. If there have been periods of unemployment over the previous two years, the borrower(s) will explain the reason in writing.

Food Stamps, Welfare, Pension, Disability, Social Security or Social Service Benefits the acceptable methods of verifying such income include any of the following:

- An original benefits form obtained 3rd party or
- A copy of the award letter or benefit check (marked void) with a bank statement showing the same dollar amounts

Verifying Mortgage and Lien Status

Acceptable mortgage verification can be a mortgage statement, letter from the mortgagee, or the HUD 3rd party Mortgage Verification Form. The RPA should ensure that a current verification is utilized. The mortgage verification will also determine the terms of any future payments that may vary, such as:

- Adjustable Rate Mortgages
- Open-ended mortgages or Reverse Mortgages:
    - An open-ended mortgage permits the Borrower to add new advances to the lien; open-ended mortgages prior to (i.e., more senior than) the SFRRP Loan, the RPA will consider the amount of the lien to be the full amount that could be advanced (even if not yet advanced), unless the open-ended mortgage lender agrees in a recorded instrument to subordinate any future advances to the SFRRP Loan.
- Balloon Note:
    - A SFRRP Loan may be made to borrower(s) who have a Balloon Note secured by the property if one of the following conditions is met:
        - the balloon will be junior to the SFRRP Loan and is scheduled to come due after the completion of construction on the project; OR,
        - the balloon will be senior to the SFRRP Loan, if it was closed at least one year prior to the submission of the preliminary application, and the balloon payment is scheduled to come due at least five years after the expected date of settlement of the SFRRP Loan, and the loan to value ratio on all debt, including the SFRRP Loan, does not exceed 80% of the As-Is-Value.

Verifying Title

The RPA will obtain a title report showing all mortgages and liens on the property and verify the status of all mortgages and liens. The RPA is responsible for reviewing a preliminary title report prior to loan closing.

The preliminary title report will show:

- The borrower(s) have good and marketable title to the property being used for security
- The title is only subject to such liens and encumbrances as are approved by the RPA as part of the determination of acceptable risk

All encumbrances on the title will be specifically listed in the SFRRP application.

Verifying Hazard Insurance

The insurance policy will have OWHLF listed as “Mortgagee''. Insurance coverage will be in an amount equal to or greater than existing and proposed debt minus an amount equal to the land value and is required to be in place at the time each SFRRP Loan is closed. Insurance coverage is required for the duration of the loan. Division is to be shown as a co-insured on the Notice provided by the Insurance Company. Initial Notice will be placed in the file. A Notice of Renewal will be sent to HCD annually from the owner's Insurance Company.

Verifying Credit History – The Credit Report

The borrower(s) will have a credit history that demonstrates a consistent ability to meet financial obligations when due. The RPA determination about the borrower's credit history will be based upon the credit report.

Credit scores in the range of 580-669 indicate fair credit, above 670 are good.

All accounts listed in the credit report will be accounted for on the loan application, except installment loans with less than six payments remaining. A written explanation from the RPA should explain reasons for past credit problems appearing on the credit report and will be maintained in the file.

The following will be evaluated on the credit report and compared to the application:

- Payment history of revolving or installment debts that are more than 90 days late.
- Ratings on the outstanding debts
- Debts with the balances due or paid in full
- Data from a search of public and/or court records for liens, suits, foreclosures, bankruptcies, and judgments

Legal actions, including liens, judgments, garnishments, suits, and foreclosures will be satisfied in full or with terms arranged for payment. The credit history after the legal action will be current. The borrower(s) having judgments and collection accounts should not be considered for a loan unless the following items are met and deemed acceptable: (1) a letter explaining reasons for slow payments; and (2) a good credit report for approximately one year from the date of satisfaction of payment or resolution of above. The borrower(s) having had a bankruptcy should not be considered for a loan unless the following items are met and deemed acceptable: (1) a letter explaining reasons for bankruptcy; and (2) a good credit report for approximately one year after discharge on a Chapter 7 bankruptcy to show credibility in making payments or saving money. A Chapter 11 bankruptcy will show current payments for approximately one year from the filing date under the credit plan.

Research the Report

A credit report will be obtained from a reputable and independent credit reporting agency on each borrower signing the note and security instrument, whether as borrower, guarantor, co-signer, or surety.

A single agency credit report does inform on judgments, public records, and an overall indication of responsible debt management. The 40 point difference indicated by each credit reporting agency should not impact the approval or disapproval of a loan.

Loan Underwriting Guidelines

Security and Defaults

Loans are made when the borrower(s) are likely to repay and/or when there is adequate security in case of defaults. The RPA is required to evaluate the financial risks involved in each individual case and reject those applications deemed unacceptable. The RPA should provide the applicant with a written explanation of rejection.

Eligible loan costs should be covered with the loan and amortized over the loan term.

The borrower(s) may provide personal funds to cover any eligible and/or ineligible project costs.

There are six key variables that the RPA will evaluate when underwriting loans to determine if the borrower(s) are an acceptable risk. The RPA will use sound judgment in applying the principles established below:

- Affordability of the loan
- The borrower's income
- Long-term credit history
- The borrower's financial interest and motivation to retain the property
- The value of the security/property capable of supporting the loan
- The scope of the proposed project work

After all the Underwriting factors have been considered, the data has been processed and the potential borrower(s) are deemed an acceptable risk, the RPA should recommend approval of the Loan to the RPA Project Review Committee.

Types of Loans

There is a range of financing options that have been created to meet the variety of homeowner needs depending on the borrower(s) ability to repay the loan monthly. Repayment loans maximum term of up to 30 years. The term of a loan will be determined by the borrower's monthly income-to-debt ratio.

Interest Rates

The interest rate for the SFRRP Loan is dependent on the borrower's income and the Area Median Income of the residing county. Interest rates may change with each year's allocation plan. The interest rate is calculated for affordability to the homeowner, may be factored on a case by case basis, and does not guarantee the applicant the interest rates listed below:

- Special Cases may be 0% or with an interest only payment
- Below 50% AMI is 1-2%
- 51-60% AMI is 2.5%
- 61%-80% AMI is 3%

Interest bearing loans are non-recourse amortizing loans having a recorded Trust Deed and a Trust Deed Note. All Trust Deeds will include a "First Right of Refusal" for the OWHLF.

Determining Loan Amount

Before the loan is underwritten, the RPA will calculate the exact amount of the loan. The loan amount is determined by adding all the following:

- The cost of the proposed project work
- Contingency reserve
- Closing costs

Determining First Payment Due Date

When establishing the first payment due date of a SFRRP loan (with or without the refinance of an existing mortgage), ***allow 6 months after the estimated completion date of the project before the first payment is due***. Schedule interest on loan to begin 30 days prior to the first payment due date. Calculate escrow of property taxes and insurance accordingly.

Refinance

Refinancing the unit's existing secured debt may be an eligible cost only to the extent that the homeowner is otherwise unable to afford payments for the SFRRP financing. The rehabilitation cost must be greater than the amount of debt that is refinanced. Under this circumstance, HCD is required to approve the loan.

Refinancing unsecured debt may be eligible if it is necessary to reduce the owner's overall housing costs, make the housing more affordable, and continue long-term affordability. Refinancing for the purpose of taking out equity is not permitted.

Exceptions for Extraordinary Circumstances

The borrower(s) monthly expense-to-income and debt-to-income ratios (31/41%) will not be exceeded except in extraordinary circumstances in which case approval will be obtained from the SFRRP Program Specialist. If such an approval is needed, the RPA will include a written justification in the case file. These exceptions may only be granted on a case-by-case basis. Examples of conditions that could justify higher ratios include but are not limited to the following:

- The demonstrated ability of the borrower(s) to successfully devote a greater portion of income to housing expenses
- The demonstrated ability of the borrower(s) to maintain an excellent credit history, to accumulate savings, and to maintain a debt-free position
- The substantial probability that the borrower's income will increase, based on their education, job training, or time employed or practiced in a profession within the next 12 months
- The borrower's net worth being substantial enough to evidence an ability to repay the loan regardless of income

If the PITI payment falls in between the front and back end ratios, the 31% for housing could increase if the back end ratio does not exceed approximately 41%.

RPA Project Review Committee Process

The RPA should establish a written policy for reviewing applications. The RPA should establish a committee to review each SFRRP application; the committee may deny any application that does not meet the criteria set forth in this document and accomplish the long-term goals of the program. All decisions should be signed and dated by the committee for federal and state reporting purposes.

RPA's Final Decision on the Loan

After the underwriting factors have been considered, the data has been processed and the potential borrower is deemed an acceptable risk, the RPA shall present the application to the RPA Project Review Committee for one of the following determinations:

- Approval: the RPA will notify the borrower(s) of the RPA Project Review Committee's final decision, retain a copy of that letter in the applicant file and follow next steps in submitting the loan packet to the SFRRP Program Specialist.
- Rejection: the RPA staff will provide the applicant with a letter stating the reason for rejection and inform the applicant of the appeal process and retain a copy of that letter in the applicant file.
- Follow-up: the applicant will be notified and the RPA will work with the applicant to obtain necessary information and resubmit the application at the next RPA Project Review Committee meeting.

Final Loan Approval & Loan Number

The "loan packet" will be submitted to the SFRRP Program Specialist for final review, approval, and assignment of loan number. The following documents must be submitted:

- Application (Excel version and a signed copy)
- Income verification (must be within the most recent 6 months of application)
    - Income calculation sheet & 2 months supporting documentation
- Credit History
- Mortgage Statement, if applicable (current)
- Property Tax (current)
- Homeowners Insurance (current)
- Title Report
- Project Bid (include before pictures of proposed project)
- RPA Project Review (i.e.,: signed board approval, approved minutes, etc.)

Client Appeal and Fair Hearing Process

If the borrower(s) loan application is denied, they may petition to have their case heard with the RPA Project Review Committee and anyone else the RPA deems to have participate at the hearing. The borrower(s) will submit in writing their concerns. The RPA shall make an appointment with the RPA Project Review Committee as soon as possible, once receiving the written concerns from the borrower(s).

The hearing process should be determined by the RPA's policy. A determination should be made within 60 days of receipt of borrower(s) letter of concerns. The RPA staff should provide documentation of the RPA Project Review Committee determination within 10 days of hearing.

Loan Closing

Closing Costs

The closing costs may be refundable if the borrower(s) cancels the loan in accordance with the Truth-in-Lending Act. These costs can include, but are not limited to:

- Credit reports
- Preliminary commitment for title insurance
- Title report
- Fees for recording and filing legal documents related to the loan
- Attorney fees
- Appraisal fees
- Energy audit
- Other fees as approved by SFRRP Program Specialist

When requesting the documents that come with fees, the RPA should request the borrower(s) sign a document that states if they do not proceed with the loan, they are responsible for the costs.

Preparation and Execution of Settlement Documents

Commitment for Title Insurance is required on project loans greater than $5,000.00.

The RPA will attend the loan closing conducted by a title company. Loans under $5,000 are not required to close at a title company, but still require the presence of the RPA and a Notary Public. The title company is responsible to ensure the validity and priority of the lien in accordance with the approved loan applications, compliance with all other settlement-related requirements, and all applicable laws and regulations.

The amount of funds collected in escrow for taxes and insurance will be determined prior to loan closing as per industry standards. The settlement agent (title company or escrow company assigned, or RPA) will have the required loan documents signed by the borrower(s). The required loan documents will be in a standardized form approved by the OWHLF.

The following loan documents will be prepared and executed:

- Truth-in-Lending Disclosure Statement (will be prepared for the borrower(s) by the title company or RPA for all loans)
- Right of Rescission (72 hour notice)
- Trust Deed Note (the legal instrument that establishes the legal and financial obligations of the borrower(s) with respect to repayment of the loan)
- Trust Deed (the standard form of Trust Deed, and will secure the Trust Deed Note approved by legal counsel and will provide the lender with an interest in, or a claim to, the mortgaged property as security for the loan)
- Escrow Worksheet (if applicable, showing amounts to be collected for insurance, taxes, and special assessments)
- Request for Notice (will be completed, signed, and recorded in the appropriate county Recorder's office if the OWHLF loan is subordinate to any other liens)
- Energy Star Certificate (as applicable, filed in the appropriate County Recorder's Office)

Supplemental Financing in Escrow

The borrower(s) may supply supplemental financing, and which will be placed at settlement into an escrow account that is controlled by the RPA. Supplemental financing being supplied will be set aside for the rehabilitation through a legally binding commitment provided at loan settlement.

Truth-in-Lending and Real Estate Settlement Procedures

The settlement agent for all loans will prepare the Truth-in-Lending Disclosure Statement for the borrower(s) to Owner Occupants. It includes the amount borrowed, the interest rate, the total finance charges, terms of the loan, payment due date, the loan closing costs, and a description of the security for the loan.

Right to Cancel: The settlement agent will inform the borrower(s) who is entitled to cancel the loan transaction of their rights in accordance with this paragraph and will provide such borrower(s) with a written Notice of Right to Rescission (NRR). If the loan is a second mortgage, there is a 3-day rescission period. First mortgage loans have no rescission period.

The settlement agent will give the borrower(s) two properly completed copies of the Notice (NRR) at loan settlement <u>before</u> the Trust Deed Note and Trust Deed are executed.

To compute the running of the three-day (3) cancellation period for entry on the Notice, treat the date of loan settlement as Day Zero, and the next business day as Day 1, and so forth. The right of cancellation expires on midnight of Day 3. A business day is any calendar day except Saturday and Sunday and a legal, Federal holiday (pursuant to 5 USC 6103 (a)), including the following holidays: New Year's Day, Birthday of Martin Luther King, Jr., Washington's Birthday, Memorial Day, Juneteenth National Independence Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day, Christmas Day.

The borrower(s) may exercise the right of cancellation by giving written notice within the cancellation period. One means, but not the only means, of giving notice is to sign and date the appropriate space on a copy of the Notice provided at settlement and return it. If there is more than one borrower with the right to cancel a particular loan, any borrower may cancel the entire transaction. To be effective, the borrower's notice will be given in writing within the three-day cancellation period.

The Notice is considered "given" when it is mailed or filed for transmission electronically, when it is received. It is, therefore, quite possible that the HCD will not receive the Notice until sometime after the Notice has taken effect and the transaction has been canceled. For this reason, the settlement agent, at settlement, should inform the borrower(s) that they should telephone the HCD staff if they decide within the cancellation period to cancel the transaction.

Upon receiving a borrower's timely Notice under the Truth-in-Lending procedures, HCD will promptly take action necessary to release the borrower from the transaction.

<u>No</u> disbursements can be made until the cancellation period has expired and the Trust Deed has been properly recorded in the appropriate County Recorder's office.

Insurance, Taxes, and Special Assessments

The settlement agent will ensure that required insurance policies (including hazard or property insurance and flood insurance, if required) are adequate and in force. The borrower(s) are responsible to pay the cost of required insurance.

- Level of Coverage - hazard and flood insurance policies will cover existing secured debt, if any, plus the amount of the loan; if the property is vacant and is not readily insurable, it will be covered by a builder's risk policy.
- Mortgagee Clause - all insurance policies will include a mortgagee clause, respective to lien order on the property, designating the Olene Walker Housing Loan Fund, as beneficiary.
- Required Documentation - a copy of the insurance policy or a binder sufficient to support the insurance requirement, together with evidence of premium being paid.

Closing Costs will be collected in either of the following two ways:

- the Closing Costs may be paid at loan settlement with the borrower's own funds.
- the Closing Costs may be paid out of loan funds.

SFRRP Construction/Rehabilitation Contract

The RPA will assure that a SFRRP Contract has been executed by the parties thereto either before or at loan settlement. This contract will cover all work to be performed on the property under the approved loan application.

While execution of this contract may be delayed past the completion of loan settlement, the contract will be drafted so that no contractor is permitted to begin work, and materials are not delivered to the property, until the loan security instrument is recorded and, in the event that a Truth-in-Lending rescission period applies to the loan, until such rescission period has expired.

Additional documents that may be required at closing:

- Order to Proceed
- Scope of Services
- Bids
- Change Order
- Verification of Hazard and Flood Insurance
- Lead-Based Paint Certification
- Energy Rating

Involvement of HCD Legal Counsel

HCD legal counsel will participate as necessary to assure the legal enforceability of the loan documents, and the priority of the lien on the loan security instrument in accordance with the approved loan application, and that all the documents are legally enforceable.

Post Settlement

Following the completion of the loan closing, the settlement agent or title company will immediately record the documents required for all loans with the appropriate county recorder. Prompt recording is necessary to ensure the legal enforceability and the approved priority of the lien position. When the settlement is complete, the RPA should hold a proceed meeting with the homeowner and contractor. After reviewing the work to be done and agreed to by all parties, a proceed order should be signed and the contractor may begin work.

Due and Payable

The total unpaid principal balance, including any accrued interest and late charges becomes immediately due and payable:

- If the property is sold, conveyed, disposed, assigned, or transferred;
- If the owner of the property ceases to make the property their primary residence;
- If a senior lien is refinanced; or
- Upon the death of the borrower.

Flood Insurance

The National Flood Insurance Program (NFIP) is authorized by the National Flood Insurance Act of 1968 (Title XIII of P.L. 90-448, as amended, 42 U.S.C. §§4001 et seq.) and is the primary source of flood insurance coverage for residential properties in the United States.

Underwriting Loans in Special Flood Hazard Areas

The amount of flood insurance coverage will be for at least the outstanding principal balance of the loan and will be continued for the term of the loan. The loan file will include evidence that the OWHLF has been added as a lienholder on an existing flood insurance policy and the insurance is written in an amount sufficient to protect HCD interest. Proof of insurance will be documented with a fully executed copy of the flood insurance policy or binder issued by the insurance agent as a paid receipt.

Should the state lose its eligibility for participation in the National Flood Insurance Program (NFIP), flood insurance would no longer be available to program participants and the assisted owner's responsibility to renew an existing flood insurance policy would automatically be terminated.

Elevating the basement of the building or otherwise flood proofing (in accord with NFIP standards or in compliance with Executive Order 11988) does not remove the legal obligation to purchase and maintain flood insurance for the life of the loan, so long as the building remains located in the designated special flood hazard area; such precautions are generally designed to reduce the potential of flooding damage to buildings, but do not eliminate potential flooding or financial loss caused by flooding. To obtain information about the insurability of any particular property, the borrower(s) should contact their insurance agent or the NFIP's servicing contractor.

Government Records and Management Act (GRAMA)

A GRAMA request is an open records request. Requests for individual records will be made in writing. Requests will be signed and dated, indicate the records requested (including case number or PID), indicate where the records are to be sent, and provide a daytime telephone number where the requester may be reached, in case our office has additional questions. For more information on GRAMA requests, see https://jobs.utah.gov/department/contact/dwsdatashare/grama.html.

Right To Financial Privacy Act

Any person or organization acting for HCD, will comply with the Right to Financial Privacy Act (12 U.S.C. 3401) in obtaining financial records or information from any financial institution, concerning any individual or any partnership or five or fewer individuals in connection with any loan. Financial records and information may be used only for the purposes for which they were originally intended.

The Fair Housing Act

Title VIII of the Civil Rights Act of 1968 (Fair Housing Act), as amended, prohibits discrimination in the sale, rental, and financing of dwellings, and in other housing-related transactions, because of race, color, religion, sex (including gender identity and sexual orientation), familial status, national origin, and disability. It also requires that all federal programs relating to housing and urban development be administered in a manner that affirmatively furthers fair housing (42 U.S.C. §§ 3601-19).

The Equal Opportunity Act

The Equal Credit Opportunity Act [ECOA], 15 U.S.C. 1691 et seq. prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, because an applicant receives income from a public assistance program, or because an applicant has in good faith exercised any right under the Consumer Credit Protection Act. The RPA will pay particular attention to the ECOA when underwriting loans.

Portfolio Management

Loan Servicing Issues

Portfolio management is the responsibility of HCD. However, HCD may call upon the RPA as needed, to assist in minor loan servicing issues. This may include but is not limited to: driving by a property for inspection, picking up a payment, or meeting with contractors to secure an asset after foreclosure.

Hazard, Flood Insurance, and Taxes Follow-Up

All properties require adequate insurance coverage throughout the term of the loan. All properties are required to stay current on property taxes throughout the term of the loan. HCD will review property taxes and insurance policies annually for compliance.

Subordinations

OWHLF is not obligated to subordinate its interest in their loan for any reason, but may consider requests for a loan subordination that strictly meet criteria set by the HCD, as identified in the HCD loan subordination policy as follows:

- All requests for subordinations will be submitted to HCD, in writing or by email from the borrower(s), accompanied by documentation for the reason thereof; all subordination requests, after receipt of requested documentation, will require two weeks for staff to review
- Will be submitted within the first 5 years from the date of the Trust Deed Note to HCD from the borrower, otherwise the loan should be paid off
- For a FHA streamline refinance of the 1st mortgage, it will be for the purpose of lowering a fixed interest rate by one full basis point (1%) or greater; no cash out to the borrower(s) and the new loan amount to the 1st mortgage cannot exceed 95% combined LTV
- The borrower(s) give consent for the new lender to release their application with all verifications for review; these should include, but no be limited to: 3rd party employment verifications, good faith estimate, title report, appraisal and copy of the signed closing statement if subordination is approved
- The title company will prepare the subordination agreement to be signed by HCD stipulating the maximum amount of new loan that HCD has agreed to subordinate to
- All costs associated with the recording, etc. will be included in costs to the borrower at the time of closing.

Loan Assumptions and Restructuring

HCD policy is not to permit assumptions of loans, however, assumptions will be considered on a case-by-case basis, unless the note is identified as a non-assumable note. To be considered, the client should meet the following criteria:

- The new owner can assume all loans superior to the HCD with no increase in principal, and
- The new owner will meet the eligibility requirements for the specific loan type, and
- HCD will rewrite the interest rate, payment, and term of its original Trust Deed Note to meet the new borrower's financial ability.

Loan Recapture

See Single-family Loan Recapture Policy.

Increased Loan Amount

Unforeseen work during construction, which is required to bring the property into conformance with State Construction Codes and local ordinances, may make it necessary to increase an already closed loan. If the loan contingency or eliminating planned General Property Improvement (GPI) is not available, the RPA may increase the loan amount if all loan limits established in the Policy are met. If the original loan is increased the approval will be in place before the new loan is closed. The new loan will require a Modification Agreement, a Modified Escrow Agreement and additional escrow deposit (if applicable) and another loan closing.

Loan Payoffs and Reconveyances

When loans become paid in full HCD will reconvey the trust deed associated with that loan to the property owner. When a loan payoff or final payment is received, the following steps will be completed to assure the reconveyance is properly executed:

- A review of the loan history is done to determine that there is zero balance and signs a Request for Reconveyance
- The Request for Reconveyance is prepared and given to the Trustee along with the original Trust Deed Note and Trust Deed; the Trustee will then prepare a Deed of Reconveyance and record the reconveyance
- Once recorded, the Deed of Reconveyance is returned to HCD and a copy of the Deed of Reconveyance is placed in the loan file; the original is sent to the property owner.

State Contracts and Payments

Authorized Funding for Projects

State contracts provide authorized funding levels to the RPA for completion of specific scope of work items. The contracts require the state and agencies to abide by the various federal and state statutes and regulations incorporated as attachments to the contract.

Each agency under the SFRRP will receive an overall contract from HCD that includes an allocation for single-family unit production within the RPA service area, an allotment for performance-based administrative funds, a performance target, and a fixed performance period.

The contract's set-aside for agency administration is based upon unit production within the RPA service area. Contract terms and provisions such as the contract end date can only be revised by formal amendment to the original contract document.

Contract Period

The contract period begins no earlier than the OWHLF Board's approval of the annual allocation plan. The beginning and ending date of the state fiscal year may limit the contract period for state-funded contracts (contracts funded with state general funds). Whereas HOME funds along with SFRRP income funds (state and federal) allow for flexibility in the contract period. HCD intends to allocate state funds for the SFRRP.

Payment Requests

Agencies will submit claims for reimbursement via Webgrants with required documentation. The total amount of the claim shown on the Summary of Expenditures will match the amount requested in the corresponding Webgrants budget category to be processed for payment. In the event of discrepancy or questions of eligibility, the SFRRP Program Specialist will notify the RPA and put the claim in "Correcting" mode for the RPA to reconcile the claim and re-submit for payment.

Monitoring of RPAs

Monitoring

Effective monitoring is an ongoing process of planning, implementation, communication, and follow-up. As a result, monitoring activities will be scheduled throughout the program years. The state shall have the right to monitor the RPA's performance. Monitoring of performance shall be at the complete discretion of HCD, which will include but is not limited to the RPA's fiscal operations, and the terms, conditions, attachments, scope of work, and performance requirements of the contract. RPAs will be monitored as outlined in the contract scope of work.

The Monitoring Report

There are three stages of intervention: low-level-, moderate-level, and high-level, each starting with planning strategies or technical assistance for problems, moving to imposing probationary statues and the most serious to terminate and initiate legal action. Intervention will range from administering technical assistance to terminating the RPA funding.

HCD will develop a plan for correction of deficiencies with each RPA and will establish corrective actions should agencies fail to resolve deficiencies in a timely manner.

Concerns or Findings

A concern is a deficiency in program performance that is not based on a statutory or regulation requirement that HCD feels should be corrected to ensure program compliance. HCD will recommend actions to address the concern and provide technical assistance. A concern, if not properly addressed, could become a finding. A finding is a deficiency based on a statutory or regulatory requirement that HCD is authorized to apply sanctions or other corrective actions.

If it is discovered that the RPA is in default (not in compliance with the contract), RPA may be subject to sanctions. Those may include:

- Warnings
- Audits
- Temporary suspension of payments
- Termination
- Demand for the return of funds
- Suspension/debarment from participating in future state entity grants and contracts
  - Default may also result in the cancellation of other agreements between the RPA and the State.

Future Planning

HCD will assist or provide:

- Networking between the RPAs to share ideas and provide collaboration between each other to advise and guide proper administration of the program.
- Enhance the RPA knowledge of effective program administration through:
  - Orientation sessions
  - Workshops
  - Technical Assistance

Single-family Loan Recapture Policy (Board Approved 4/22/2021)

In the event that the borrower(s) does not have sufficient proceeds from the sale of a project that was funded by OWHLF, decisions will be made on a case-by-case basis on how to proceed to recapture the funds. After following all necessary steps as listed in the Foreclosure and Asset Management Section of this manual, a committee consisting of OWHLF staff and management will be authorized to make all decisions in lowering prices and accepting offers based upon the history and condition of the property. When a decision is made to lower the price of a property or to accept an offer that will not generate enough proceeds to pay off the OWHLF loan, the portion of the loan that cannot be recaptured will be considered a grant. For accounting purposes, this portion of the loan will be converted from a loan to a grant using object code 7512. For loans that were funded with HOME funds, repayment to the HOME account for the portion of the loan that is converted to a grant is not required and HOME affordability requirements will be considered satisfied. See HUD CPD Notice **here**.

The OWHLF Board will be notified for ratification when properties have sold in which more than $5,000 of a loan has been converted to a grant.

For all projects, single-family or multi-family, the OWHLF Board has authority to forgive principal and interest. In the event that principal is forgiven on a loan, the amount that is forgiven will be converted from a loan to a grant. The amount of accrued interest that is forgiven will be reversed in CLCS, the loan servicing system. The interest that is forgiven will also be reduced from reported program income.

Single-Family Loan Default Policy

In the event that a single-family loan becomes delinquent (over 90 days past due) staff will contact the borrower(s) to discuss, and better understand, their financial situation. Based on that conversation, staff will have the borrower(s) fill out a Single-Family Application. Staff will review the application and then meet with the Program Manager to decide the best course of action. Because each situation is unique, they will need to be reviewed on a case-by-case basis. Options that may help the borrower(s) stay current include but are not limited to a payment plan, modifying the Trust Deed Note, payment forbearance, or deferring the loan. If a modification to the Trust Deed Note is needed, the loan will be reviewed by the Attorney General's Office, who will also prepare the Modification Agreement.

The borrower(s) must still qualify for the program for which they were originally awarded funding, the home must continue to be their primary residence, and taxes and insurance must be current.

OLENE WALKER HOUSING LOAN FUND

Single Family Rehabilitation and Reconstruction Program
Project Checklist

Application Review

- Application (Excel version and a signed copy)
- Income verification (must be within the most recent 6 months of application)
  - ★ Provide annual income calculation sheet along with 2 months supporting documentation
- Credit History
- Mortgage Statement, if applicable (current)
- Property Tax (current)
- Homeowners Insurance (current)
- Title Report
- Project Bid (include before pictures of proposed project)
- RPA Project Review (ie: signed board approval, approved minutes, etc)
- Create Project in Webgrants (upload all attachments)

Prepare and Execute Settlement Documents

- Commitment for Title Insurance (for funding greater than $5000)
- Create Settlement Documents and send to SFRRP Program Specialist for review
  - ★ First payment due date a minimum of **6 months** after estimated completion date
- Settlement Documents (signed and recorded) sent to SFRRP Program Specialist
- SFRRP Rehabilitation Contract

OLENE WALKER HOUSING LOAN FUND

Single Family Rehabilitation and Reconstruction Program
Project Checklist, cont.

Project Management

- Change Order(s) will be submitted for approval from the SFRRP Program Specialist (if applicable)
- Loan Modification (if applicable)
- claim for reimbursement (submitted through WebGrants with required documentation)

Project Closeout

- Final claim for reimbursement (submitted through WebGrants with required documentation)
- Waivers of Lien
- Certificate of Completion/Final Payment (completed and signed)
- Project completion documentation (after pictures)