



## MEMORANDUM

**DATE:** April 6, 2011

**TO:** Housing Commission

**FROM:** Douglas Frederick  
Housing Manager

**RE:** **Consideration of changes to the Housing Rehabilitation Loan Program**

The current guidelines for the Housing Rehabilitation Loan Program was written in 1991 and last updated in 2005. Since that time there has been a significant change in the source of funds for the program and other changes that warrant reconsideration of some aspects of the program. Up until a couple of year ago, the program was funded through the County's allocation from the Community Development Block Grant (CDBG) Program. At that time County administrators decided to no longer fund rehabilitation activities. With the end of County funding, the City budgeted \$500,000 per year from the redevelopment agency Housing Set-Aside Fund. It appears that this funding will continue into the future, provided, of course, that the State doesn't step in and take all redevelopment funding. Current proposed redevelopment legislation provides a means for cities to continue their housing activities, however, so even if the State eliminates redevelopment agencies, funding for the rehab program should continue.

Changes that are proposed for the program are:

- Expansion of income eligibility from 80 percent of the area median household income to 120 percent of the area median household income. The current limitation to 80 percent was a provision of the CDBG Program and a federal requirement. The City currently offers Purchase Assistance Loans (PAL) to homebuyers who earn up to 120 percent of the area median household income. A recent buyer is interested in using a rehab loan to make improvements to their house, but their income exceeds the 80 percent limit imposed by the CDBG program. Since we are no longer using CDBG funding, the requirement is no longer applicable.

Redevelopment agency law allows use of redevelopment funding for households earning up to 120 percent of the area median household income. Staff would like to see the limitation raised in order to provide rehab loans to households who have purchased homes with PAL loans. This would provide a consistent income requirement between the programs and allow the City to market PAL and rehab loans together as an option for homebuyers looking to purchase older homes.

- Increase the maximum loan amount to \$100,000 from the current \$85,000 limit, and allow the Loan Committee to use its discretion in increasing that amount as needed to ensure that all rehabilitation needs are met. The \$85,000 limit was also a product of using CDBG funding.
- Increase the maximum Emergency Repair Loan to \$15,000 from \$10,000. Emergency Repair Loans are used to address limited repair needs, such as a new roof, installation of accessibility features, or replacement of single glazed windows. Many of these projects are exceeding the current \$10,000 limit. Increasing the limit would give staff more flexibility in meeting the homeowners' needs.
- Relax the requirement that the after rehab loan to value be no more than 80 percent. A 90 percent loan to value would make it a little easier for homeowners to qualify for the loans, particularly as home values have slipped significantly in the current housing market. Loan to value is simply the total of outstanding liens against the property divided by the after rehab value of the home.
- Finally, our program currently allows for bedroom additions in the event that the household is overcrowded. The guidelines, however, do not make provisions for an additional bathroom. Most of the homes in the redevelopment area have a single bathroom. An additional bathroom would simplify the morning preparations for school and work, particularly for larger households. Staff recommends that the total size of a bedroom and bath addition be limited to 240 square feet.

Attached is a copy of the current Housing Rehabilitation Loan Program Guidelines for your review. Please consider the changes requested above and be prepared to provide a Commission recommendation that can be taken to the City Council at a later date.

**CITY OF MENLO PARK**

**HOUSING REHABILITATION LOAN PROGRAM GUIDELINES**  
Including Emergency Repair Loan Program Guidelines

**Effective as of January 1991**  
**Updated MAY 2005**

**Housing and Redevelopment**  
**City of Menlo Park, Civic Center**  
**Menlo Park, CA 94025-3483**

REHABILITATION LOAN PROGRAM GUIDELINES

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A. INTRODUCTION

The City of Menlo Park Housing Rehabilitation Loan Program is generally defined by these guidelines. These guidelines apply only to the housing rehabilitation loans funded by the City's Housing Rehabilitation Loan Program under the Housing and Community Development Act of 1974, and the Community Development Agency of and the City of Menlo Park, and to emergency repair loans supported by City of Menlo Park funds. These guidelines shall be amended, as necessary, by the Housing Commission. Guidelines for additional housing rehabilitation programs the City may choose to pursue will be developed at a later date. All Federally assisted projects must comply with HUD Lead Based Paint Regulations.

The Housing Rehabilitation Loan Program offers five basic types of loans:

- (1) Monthly Payment Rehabilitation Loans
- (2) Deferred Payment Rehabilitation Loans
- (3) Multi-family Rental Rehabilitation Loans
- (4) Housing Rehabilitation program for Income producing Properties owned by Non-Profit Organizations
- (5) Emergency Repair Loans

These guidelines describe the geographic area served by this program, eligibility requirements, the terms for each type of loan, and criteria used in assigning priorities to individual applications.

B. AREA SERVED BY THE HOUSING REHABILITATION LOAN PROGRAM

The Housing Rehabilitation Loan Program is offered citywide. Applicants receiving Amortized and Deferred Payment Rehabilitation Loans are also eligible for landscaping grants up to \$750 if their property is located within the boundaries of the Las Pulgas Project Area of the City's Community Development Agency. See map, Attachment D, for a delineation of the Las Pulgas Project Area Boundaries.

C. GENERAL ELIGIBILITY REQUIREMENTS

1. Applicants for housing rehabilitation loans must be the owners of record of the property.
2. Applicants for housing rehabilitation loans must be able to show both the willingness and ability to repay the loan.
3. Housing rehabilitation loans can be made only on property located within the City of Menlo Park.  
.Applicants for housing rehabilitation loans must have lower or very low incomes as defined by the U.S. Department of Housing and Urban Development (HUD) and must meet the other good lending standards.

D. GENERAL LOAN REQUIREMENTS FOR REHABILITATION LOANS

1. Loans can be used only for rehabilitation of residential structures and fences for security. Participating properties must eliminate code and health and safety related hazards.
2. All loans will be evidenced by a promissory note secured by a deed of trust, subject only to a first, and when necessary a second, deed of trust.
3. Applicants shall provide fire and other applicable insurance to cover the total value of the structure as a result of rehabilitation at the time loan documents are signed.
4. All rehabilitation loans will pay set-up and other applicable out-of-pocket expenses. Loan servicing fees will be covered by principal and interest payments of loan recipients.
5. All recipients of loans in the 100 Year Flood Plain will be required to purchase flood insurance to cover the total value of the rehabilitated structure.

6. The housing rehabilitation loan on any rehabilitated property sold or transferred to another party or refinanced prior to the mortgage pay-off will be due and payable unless the City agrees to subordinate its loan to the refinanced loan. See Section -D.7 for subordination guidelines.

7. Subordination Request Submitted When Refinancing Existing Loans

The Housing Manager shall review proposals for subordination of loans made under the Single Family Rehabilitation Loan Program, and approve those loans which meet the following criteria.

Upon the applicant's request, subordination requests which are denied may be submitted for reconsideration to the Housing Loan Advisory Committee. In this case, the Housing Manager will reconsider the request, based on the Housing Loan Advisory Committee's recommendation.

- a) The indebtedness after the refinance must improve the homeowner's financial situation.
- b) The applicant meets the Community Development Block Grant program's income eligibility requirements.
- c) All recorded indebtedness cannot exceed 75% of the appraised value of the home.
- d) The total monthly principal and interest payments shall not exceed 30% of the gross income of the applicant.
- e) The City's loan must be in second position.
- f) City staff will review the promissory note, deed, appraisal and title report to verify compliance with these criteria.
- g) No cash may be taken out for any purpose except for the reasonable cost of the loan.

8. Rehabilitation loans may not be used for the acquisition of land or real property.
9. All contractors performing work funded by this program shall be licensed. Any contractor found to be listed with a complaint at the Better Business Bureau or the Contractors Licensing Board may be considered for removal from the City's list.
10. Total indebtedness (existing plus program loans) shall not exceed 80% of the after-rehab appraisal by housing staff.
11. Any change in the title to the property between the time the application is submitted and the time the City's deed of trust is executed shall cause a re-evaluation of the application based on the Program's Guidelines, and may constitute cause for denial of the application.
12. The Rehabilitation Loan Program will reimburse the owner for up-front costs as required for the rehabilitation of their property through the proceeds of the loan. Eligible costs for reimbursements are: title reports, termite reports, lead base paint inspection, engineering as needed for structural deficiencies, drafting and architectural fees as needed to address overcrowded situations, and related fees prior to loan funding. In the event that the owner is not able to afford the above mentioned up front cost a bridge loan will be made available through the Emergency Repair Loan program for an amount not to exceed \$5,000.00. This loan will be paid off upon funding of the Housing Rehabilitation loan. For those cases which do not proceed to loan funding the owner will be responsible to comply with the terms of the Emergency Repair Loan.
13. Loan Approval Process

The Housing Loan Advisory Committee has the responsibility of reviewing and recommending approval, approval with conditions, or denial of proposed rehabilitation loans. This Committee recommends actions to the Housing Manager, who would decide the final disposition on the loan application, taking into consideration the Housing Loan Advisory Committee's recommendations.

The Housing Manager reports all decisions on loan applications to the Housing Commission. Appeals would be heard and decided by the Housing Commission.

Subsequent to Housing Commission approval, staff is authorized to exceed the approved amount up to \$5,000. Approvals are in effect for 120 days prior to submittal to the participating lender. After 120 days, if the complete loan packet has not been submitted to the

lender, the application must again be reviewed by the Housing Commission to remain in effect.

14. Compliance with Federal Regulations/ Lead Based Paint Hazards

Federal law requires that all homes receiving Federal assistance for Housing Rehabilitation must comply with LEAD BASED PAINT HAZARD REDUCTION laws. Housing built prior to 1978 will be inspected for lead paint and lead hazards in compliance with HUD regulations by State Certified inspector assessors.

The owner and occupants will receive notices per regulatory requirements. All work shall be done using safe work practices in accordance with HUD regulations. All workers and contractors will be properly certified by the State Department of Health Services.

All lead Based Paint Hazards must be removed and proper clearances will be provided prior to occupancy of areas where work has been done per HUD regulations.

E. AMORTIZED REHABILITATION LOANS

Amount: \$1,500 - \$85,000 for regular rehab, including additions for overcrowded conditions. Requests for rehabilitation over \$85,000 shall be submitted to the Housing Loan Advisory Committee for approval. The Housing Manager, based on the Housing Loan Advisory Committee's recommendation, may exceed this \$85,000 limit on a case-by-case basis. Also loans may be made for amounts up to \$5,000 above the amount approved by the Loan Advisory Committee.

Amortized loans may be partnered with deferred loans to allow payments that the homeowner can afford.

Interest Rate: 3% per annum for owner-occupied single-family residential units. See Attachment A.

Repayment: Monthly payments over a maximum term of (30) years. If transfer of title, death, or refinancing occurs during this (30)-year period, the loan then becomes due and payable.

Eligible Costs: A minimum of 75% of the rehabilitation loan must be used to address code violations, housing quality standards, and health and safety and related hazards, and conditions of overcrowding. A maximum of 25% of the rehabilitation loan can be used for general property improvements. All code

violations and handicapped accessibility improvements must be addressed before general property improvements.

Income Limits: See Attachment A for HUD Very Low Income Limits and HUD Low Income Limits, which are based on 50% and 80% of the median income.

F. DEFERRED REHABILITATION LOANS ( RDA Funds)

Amount: \$5,000 - \$85,000. The Housing Manager, based on the Housing Loan Advisory Committee's recommendation and approval, may exceed this limit on a case-by-case basis. Also loans may be made for amounts up to \$5,000 above the amount approved by the Loan Advisory Committee.

Structure: Deferred loans may be made in conjunction with monthly payment loans, or alone under the circumstances described below. In both cases the total loan amount is set by the limits specified for monthly payment loans. Deferred loans without monthly payment loans may only be made to very low income homeowners (at or below 50% of median income under the HUD guidelines) with a total debt to income ratio greater than 30% and based on evaluation of the homeowner's specific income, credit, debt and cash flow circumstances.

Homeowners who are elderly, that is 62 years or older, are eligible for deferred loans up to \$85,000 without an income test, as long as they qualify for the program.

Interest Rate: 3% simple interest per annum for owner-occupied single-family residential units. (For loans approved by the Housing Commission before January 1, 1991, the interest rate is 0% even if loan documents are signed after that date.)

Repayment: No payment required until the full amount of the loan is due. The loan becomes due and payable five years after the date of the note. If transfer of title, death or refinancing occurs during this five-year period, the loan then becomes due and payable.

At the end of the five year period the applicant will be contacted to determine if they qualify for a renewal, to pay off or for amortization of the loan.

Extensions: See Section I. Due and Payable Loans.

Eligible Costs: No general property improvements may be made with deferred loans.

Income Limits: The income of applicants cannot exceed the Very Low Income Limits in Attachment A to qualify for a deferred loan, except in the case where their monthly debt is too high to qualify to make monthly payments.

#### G. CRITERIA FOR ASSIGNING PRIORITIES

The following criteria will be used in assigning priorities to loan applications:

Housing Condition: Preference given to structures with conditions hazardous to life, health and safety.

Time of Application: Applicants who apply at any earlier time or date will be given priority. Priority will be based on the order in which the applications are received.

Income: Preference given to those applicants with lowest income.

Payback Probability: Preference given to applicants who demonstrate both the willingness and the ability to repay a loan.

Ability to Secure Conventional Financing: Applicants must be unable to secure the necessary funds for property rehabilitation from banks and savings and loan associations under their normal criteria and interest rates. City Staff will normally make this determination.

- Assets: In reviewing a loan application, all assets besides the primary residence will be considered on a case-by-case basis by the Housing Loan Advisory Committee. Additional years' income tax returns may be requested.
- Use of Property: Residence may not be used for illegal activities of any kind.

#### H. DUE AND PAYABLE LOANS

Single Family Housing Rehabilitation Loans that come due are immediately payable in full. However under specific conditions described below, the Housing and Redevelopment Manager may approve repayment terms or a deferral of the loan. Applications for repayment terms or a deferral will be the same as applications for new loans. The applicant must qualify for the Program based on income, ownership and residence, or if the applicant no longer lives in the rehabilitated home, the applicant must have a qualifying income, no other rental property, and must rent the rehabilitated house to a qualifying tenant.

1. The loan is due and payable if:

- The original loan holder is deceased, or
- The original loan holder no longer holds title to the rehabilitated residence, or
- A senior mortgage against the property is refinanced and the application does not qualify for subordination of the Housing Rehabilitation Program loan, (See Section D.7.), or
- The applicant has an income that is higher than the maximum income eligible for the program, or
- The applicant no longer lives at the rehabilitated residence, except as stated above.

2. The loan may be paid off over time if:

- The applicant qualifies by income and residence and holds title, and is the original holder of the loan, and
- The applicant's financial situation is reviewed to determine the ability to support a monthly payment to retire the loan. An amortized loan or an amortized loan coupled with a deferred loan may be structured to meet the ability to pay.

Note: All new loans will conform to the terms of loans available through the Housing Rehabilitation Loan program at the time that the new loan is written.

3. The loan may be deferred for five years if:

- The applicant meets the requirements in 2. and does not have sufficient monthly income to support monthly payments.
- The applicant is over sixty two (62) years of age.

I. MULTI-FAMILY RENTAL REHABILITATION PROGRAM

1. Applicant Eligibility

The investor owner must meet banking standards of credit worthiness, and the property must be able to produce a positive (or net \$0) cash flow after rehabilitation. If the owner is obtaining his/her portion of the project costs from a loan secured by the property, the payments on this new loan must be factored into the cash flow analysis.

2. Eligible structures

Eligible rental unit structures must have a minimum of 60% low or very low income tenants as of the date of the application **OR** an equivalent number of low or very low income tenants and vacancies.

Eligible rental units are those that need rehabilitation. "Need rehabilitation" is defined as housing units that do not meet U.S. Department of Housing & Urban Development (HUD) minimum housing quality standards or local building health and safety standards.

### 3. Applicable Rents

At least 60% of the units (distributed among unit sizes in proportion to the overall distribution of units sizes in the development) must be rented to low or very low-income tenants at “affordable rents”. “Affordable rent” is defined by HUD for its HOME Investment Partnership Act, and is generally adjusted annually.

For a period of one (1) year from completion of the work, the Property Owner shall be required to maintain existing, pre-rehab rents on **all** units. One year from the filing of the Notice of Completion, Housing and Redevelopment will notify the Owner of the Affordable Rents and Household Incomes that apply at that time. These limits will apply to 60% of the units. In the event existing rents are higher than the Affordable Rent, the owner will not be required to reduce the rents but must keep the rent static until the Affordable Rent meets or exceeds the existing rent.

In the event a qualifying tenant’s income should later exceed the allowed income figures, the unit shall be allowed to be “out of compliance” without penalty until such time as another comparable unit becomes available at which time the restriction shall transfer to that unit. Until the restriction can be transferred to another unit, the rent on the existing unit shall remain restricted.

### 4. Loan Amounts

The minimum loan amount per project will be \$5,000.

In projects with 4 or fewer units, the maximum loan amount will not exceed (100,000). In projects with 5 or more units, the maximum loan amount will not to exceed (\$250,000).

The Property Owner may be required to provide funds in excess of the maximum loan amount in order to bring the amount of funds available up to the level necessary to complete the project.

A loan amount in excess of loan limits may be applied for on a specific case basis by applying to the City of Menlo Park Housing Manager for Housing and get approval from the Loan Advisory Committee.

5. Term and Interest Rate

The term of the loan shall be a maximum of thirty (30) years.

The interest will be at a rate of six (6%) percent annually. The first five years will be subject to a pre-payment penalty clause. Should the property be sold or change use during the first five (5) years, a pre-payment penalty in an amount calculated at 6% of the original loan amount multiplied times five (5) will be added to the balance of the loan and the reconfigured principal and interest balance will be due and payable in full. On the first day after the five year anniversary, the penalty clause no longer applies.

Interest shall start on the first day of the fourth month following the date of Pre-Construction conference. Payments shall commence on the first day of the fifth month.

6. Loan to value ratio

The total of all mortgage debt after rehabilitation cannot exceed 80% of the market value of the property after rehabilitation as determined by an independent licensed and certified appraiser selected by City. The Property Owner shall be required to pay for the appraisal up front, but the cost of the appraisal may be included in the loan amount and reimbursed to the Property Owner from the escrow.

7. Annual Monitoring

As a part of the Terms and Conditions of the loan, the Property Owner will be required to complete and return to Housing an annual tenant profile of the restricted units. Housing and Redevelopment will provide the report format to be used. Housing reserves the right to review Owner's records to ensure compliance with the Terms and Conditions of the loan.

The Owner shall also be required to maintain the units at all times so that they comply with federal Housing Quality Standards.

In addition the Owner shall not allow occupancy of the unit(s) to exceed the following occupancy standard:

2 persons per bedroom plus 1

studio = 2 persons

1BR = 3 persons

2BR = 5 persons

3BR = 7 persons

### Fees

The Property Owner shall pay a non-refundable Application Fee of \$250 submitted with the Loan application. This fee shall cover Housing expenses in reviewing the application.

If the Owner and Property meet lending standards, the Property Owner shall be informed of the estimated cost of the project and any other expected costs. If the Owner chooses at this time to proceed with the loan, an additional Loan Fee of \$250 must be paid. This fee covers title reports, credit reports, recording fees, document preparation and processing costs.

The Owner shall be required to provide Housing with a current appraisal. The appraiser shall be selected by Menlo Park Housing. The appraiser shall be paid directly by Owner.

Additional costs may be incurred for termite and structural pest control reports, engineering and blueprints. If any of these items are required, and they are paid for by Housing in advance, they must be reimbursed from proceeds of the loan. The Property Owner may elect to pay these costs in advance.

**NOTE: The Property owner shall agree in writing to be responsible for all of the above items and, in the event of withdrawal from the program prior to loan closing, will reimburse Housing within 45 days of notification to do so.**

Any fees or expenses paid by the Owner may be reimbursed from the proceeds of the loan after payment of all costs of the construction.

J. HOUSING REHABILITATION PROGRAM FOR INCOME PRODUCING PROPERTIES OWNED BY NON-PROFIT ORGANIZATIONS

1. Purpose of Loan

The purpose of the loan is to finance the moderate and substantial rehabilitation of income producing housing projects owned by recognized Non-Profit Organizations. These projects must be located within the City of Menlo Park and shall directly benefit low or very low-income tenants.

2. Eligible Applicant

Loans are available to eligible "Non Profit Organizations" which are defined as: Those organizations which have a tax exemption ruling from the I.R.S. under Section 501(c)(3) of the Internal Revenue Code of 1986 as evidenced by a certificate from the I.R.S.

The income of clients served must not exceed the low and very low-income definitions as published by the U.S. Department of Housing and Urban Development.

3. Eligible Structures

An eligible project under this program is defined as a structure, held in title by the Non-Profit Organization, which serves tenants whose incomes meet the low or very low-income guidelines. .

The structure must be in need of rehabilitation. "Need of rehabilitation" is defined as structural condition falling below U.S. Department of Housing and Urban Development minimum housing quality standards, and local minimum building safety codes.

4. Loan Amounts

Minimum loan amount per project will be (\$5,000.00).

The maximum loan amount shall not exceed (\$100,000 for 1-4 units and \$250,000.00 for 5 or more units), or the amount necessary to complete the work, whichever is less.

A loan amount in excess of loan limits may be applied for on a specific case basis through the "Request for Exception to Criteria" procedure.

5. Interest Rate

The interest rate will be zero (0%) for the first five years, then the interest rate will be three percent (3%) per year for the remaining twenty-five (25) years.

6. Terms of Loan

The first five years of the loan will be deferred and interest (0%) free. At the end of the five year term, the loan balance will be amortized over the next 25 years at 3% simple interest.

7. Applicable Rents

Eligible project rents may not exceed 90% of the maximum rent schedules and rates as determined by the U.S. Department of Housing and Urban Development through the local area Housing Authority Section 8 allowable rents schedule.

Any project exceeding the allowable maximum rent for unit size will be considered in violation of the Terms and Conditions of this loan and subject to the penalties prescribed.

8. Loan to Value Ratio

The total of all mortgage debts after rehabilitation cannot exceed 90% of the market value of the property after rehabilitation as determined by an independent licensed and certified appraiser. The appraiser will be approved by Housing and will be paid by the Property Owner, which cost will be reimbursable from loan proceeds after all costs of construction have been paid.

The maximum term of the loan will be thirty years (360 months).

The principal and interest of the loan will be deferred in five year increments. Interest will continue to accrue throughout the term of the loan.

9. Additional Costs

Additional costs may be incurred for termite and structural pest control reports, engineering and blueprints. If any of these items are required, and they are paid for by Housing in advance, they must be reimbursed from proceeds of the loan. Property Owner may elect to pay these costs in advance.

**NOTE: Property owner shall agree in writing to be responsible for all of the above items and, in the event of withdrawal from the program prior to loan closing, will reimburse Housing within 45 days of notification to do so.**

10. Annual Monitoring

As a part of the Terms and Conditions of the loan, the property owner will be required to complete and return to Housing a completed tenant profile of the restricted units annually. Housing will provide the report format to be used. Housing reserves the right to review Owner's records to ensure compliance with the Terms and Conditions of the loan.

The Owner shall also be required to maintain the units at all times so that they comply with federal Housing Quality Standards.

In addition the Owner shall not allow occupancy of the unit(s) to exceed the following occupancy standard:

2 persons per bedroom plus 1

studio = 2 persons

1BR = 3 persons

2BR = 5 persons

3BR = 7 persons

ATTACHMENT A

CITY OF MENLO PARK  
HOUSING DIVISION  
INTEREST RATES AND INCOME LIMITS FOR  
SINGLE FAMILY REHABILITATION LOAN PROGRAM  
AND EMERGENCY REPAIR LOAN PROGRAM

HOUSING REHABILITATION LOANS  
AND EMERGENCY REPAIR LOANS

<u>FAMILY SIZE</u>	<u>INCOME LIMIT</u> <u>FOR 3% LOAN *</u>
1	\$ 63,350
2	72,400
3	81,450
4	90,500
5	97,700
6	104,950
7	112,200
8	119,450

Note: 2009 HUD Low Income Limits

## ATTACHMENT B

### CONTRACTOR POLICIES

#### Competitive Bidding

Projects are bid competitively unless the homeowner has selected a contractor of their own choice. To be acceptable, bids must be submitted for an amount within the range of the in-house estimate. For those projects that are competitively bid, Notifications for Bid are mailed out to California licensed contractors in good standing on the City's eligibility list. Contractors are required to fill out an application with the Housing office, including proof of insurance and three or more references as to the quality of their work and character.

#### Bid Opening and Contractor Selection Procedures

Sealed, faxed or e-mailed bids are submitted to the Housing Department for a specified deadline. The property owner reviews bids and selects a contractor of their choice. If less than three bids are received, the project may be re-evaluated and let out to bid again, unless the homeowner selects one of the acceptable bids. When a property owner selects other than the lowest eligible bid, they shall submit a letter explaining their choice. All project files shall contain a bid list of all bidders and their bid amounts.

#### Final Bid Price

The homeowner and the Housing Rehabilitation/Finance Specialist may negotiate all bids with the selected contractor.

#### Change Orders and List of Subcontractors

Change orders are required for any additions or deletions once the contract is signed. These changes must be approved by the property owner, the contractor and the Housing Rehabilitation/Finance Specialist. Health and safety standards, code items and housing quality standards take precedence over general property improvements.

#### Definition of General Property Improvement

General property improvements are items that the homeowner desires which do not correct code violations, overcrowding, or termite-related problems. They include, but are not restricted to, dishwashers, garbage disposals, skylights, bay windows, and an upgrade of materials from the middle grade, garage door openers, and burglar alarms. General property improvements may extend up to 25% of the loan amount.

## ATTACHMENT C

## EMERGENCY REPAIR LOAN GUIDELINES

### BACKGROUND INFORMATION

The Emergency Repair Loan (ERL) Program is designed to assist low income households with minor emergency repairs to their home. ERLs may also serve as short-term (bridge) funding for pre-construction services associated with the Housing Rehabilitation Loan Program. The ERL shall be repaid with rehabilitation loan funds.

The program is available to qualified owner-occupants and to qualified low income owners of residences rented and occupied by low income households located within the entire City limits of Menlo Park. Household income must be below the HUD Low Income Limits.

The maximum loan amount is ten thousand dollars (\$10,000) at 3% interest, with a loan term of five (5) years, ten (10) years or fifteen (15) years. Monthly payments commence within three months of loan funding and are to continue until the loan is paid in full. In special circumstances the Housing and Redevelopment Manager may defer payment of an Emergency Repair Loan for up to five (5) years.

Loans above five hundred dollars (\$500) are secured by a Promissory Note and Deed of Trust against the property occupied by applicant. Loans of five hundred dollars (\$500) or less are evidenced by the signing of a promissory note by the applicant.

### GENERAL INFORMATION

Amount: Maximum loan of \$10,000.

Interest Rate: 3% per annum for owner-occupied single-family residential units.

Repayment: Under this funding source, loans to \$500 are held by the City on an unsecured note with a five year term. Loans above \$500 are secured by a note and deed of trust with a five, ten or fifteen year term. There are two payment options: (1) Amortized Loan. Monthly payments are required over a 5, 10 or 15 year period. (2) Deferred Payment Loan. The total balance of the loan is deferred for up to 5 years. Only very low income households or prospective participants in the rehabilitation loan program are eligible for this option. In the case of rehabilitation loan program participants, the emergency repair loan is repaid at the time the rehabilitation loan funds become available.

Emergency Repair Loans are approved by staff and do not require the review of the Housing Commission. This program is offered citywide to owner-occupants of single family units.

**Eligible Costs:** In order to qualify for an emergency repair loan, the property must be in need of immediate correction of a code violation(s), which constitutes: (a) a serious and urgent, life threatening hazard that comes about suddenly and unexpectedly; and/or (b) an incipient health and safety hazard (i.e., a code violation that, if not repaired, will cause serious structural damage to the property).

**Income Limits:** The income of applicants cannot exceed the Low Income Limits (See Attachment A).

**Loan Requirements:** See General Loan Requirements (Section D, Page 2). Only Items 5, 6, and 7 apply to emergency repair loans.

**Repairs Considered as Emergencies:**

Any repairs necessary to provide the household members with safe and sanitary living conditions are considered an emergency. Examples are:

1. Plumbing - overflowing of toilets in bathrooms, defective hot water heater, blockage in sewer line, and defective heating system.
2. Electrical - shortage in electrical wiring, switches, exposed wires, etc.
3. Miscellaneous - leaky roofs or defective entrance doors with improper locking devices.

### STEPS NECESSARY TO PROCESS LOANS

1. Applicant must contact City staff regarding the emergency.
2. City staff inspects property to verify emergency. If not an emergency, staff recommends appropriate action, such as single family rehabilitation loan, or a PGE grant. If it is eligible for an ERL, go on to Step 3.
3. If deemed necessary by staff, applicant signs an authorization for inspection of property. Applicant will be charged a building inspection (permit) fee by the City. In some cases regarding installation of roofs, a termite inspection may be required. City will reimburse one hundred (\$100) dollars towards this termite inspection fee.
4. City staff will check Geobase to verify that the owner is on the title of the property.

5. Applicant must secure and submit up to three (3) estimates for the job from licensed contractors in good standing with the Contractors Licensing Board.
6. Upon receipt of estimate approved by applicant, City staff will prepare the following papers for applicant's signature.
  - a. Promissory Note
  - b. Short Form Deed of Trust and Assignment of Rents (not required for work under \$500)
  - c. Three-day rescission statement "Notice of Right to Cancel"
  - d. Notice Concerning Possible Assignment, Sale, or Transfer of Servicing
  - e. Federal Truth-in-Lending Disclosure Statement
  - f. Itemization of Amount Financed

The Short Form Deed of Trust (Item b) above, must be notarized. Also, a Request for Notice of Default and Sale form must be filled out, signed by an authorized City employee, and notarized.

7. City Staff takes both the signed deed, and Request for Notice of Default and Sale, with a copy of each to the County Recorder's Office to record the original of each. The conformed copy of each is brought back to this office to be filed in the case file. When the originals are returned from the County then copies are made for the case file and the originals are put in the vault.
8. Permits for the job must be obtained from the Building Division. The job must be inspected and passed by a City Housing Inspector before funds can be released to pay for work. In addition, the contractor must show that he or she has a Menlo Park Business License. All checks are made payable to the contractor upon the homeowner's approval of the work.
9. The City of Menlo Park and its Staff do not accept any responsibility for the quality of work performed. It is the responsibility of the property owners to release payment for work performed only if it meets their satisfaction.
10. The City of Menlo Park Building Division inspects for code compliance of work completed before a check is disbursed.

STEPS TO FOLLOW WHEN LOAN IS PAID IN FULL

A. Payoff Without Title Company:

1. Get client folder from safe to obtain original Promissory Note and, if applicable, Deed of Trust.
2. If there is a Deed of Trust then a Reconveyance must be made. Fill out "Substitution of Trustee and Deed of Reconveyance" form, which we have in our Rehab files. Note that this form requires a notarized signature. Be sure the "Exempt" stamp is on the side of the form.
3. Take the completed original of this Substitution plus a copy to the County Recorder's office.
4. Return with our numbered, conformed copy of the Substitution and staple it to our copy of the Deed of Trust. Keep in our file, with a copy of the Promissory Note.
5. Mail letter to client, Document u:erlpayof, returning the original Promissory Note and Deed of Trust, if applicable, both stamped "Paid in Full."
6. The Verification Sheet, Document u:erlverif, should be filled out, stamped "Paid in Full", and filed as the top sheet in the client's file.
7. Put the client's file with the other paid completed ones.

B. Payoff With Title Company:

1. If a title company requests a demand letter, prepare the demand letter and send it to the title company. Ask them how the Reconveyance will be handled. Sometimes it is paid for out of Escrow, sometimes they want Reconveyance procedures in the demand letter. If the Reconveyance is paid out of escrow and the title officer requests the deed, send a copy and explain that you will send the original deed after the payoff received.
2. If the Reconveyance hasn't been paid for out of Escrow, the title company may offer to do a Substitution of Trustee for no fee. If they do not, follow instructions above in "A - Payoff Without Title Company", (1 thru 7).

General Information

Due and Payable

Deferred Loans: See Due and Payable Loans (Section I). Only Items 1, 2 and 3 apply to Emergency Repair Loans. Emergency Repair Loans retain 3% interest rate if renewed.

Revised October 8, 2001