SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

9

January 5, 1988

Budget & Finance Committee of
the City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: Housing Rehabilitation Program Policy Revisions

SUMMARY

The attached report is submitted to you for review and recommendation prior to consideration by the Redevelopment Agency of the City of Sacramento.

RECOMMENDATION

The staff recommends approval of the attached resolution approving the proposed policy revisions.

Respectfully submitted,

William H. Edgar

WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COMMITTEE:

Jack R. Crist

JACK R. CRIST
Deputy City Manager

Attachment

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SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

January 12, 1988

Redevelopment Agency of the
City of Sacramento
Sacramento, California

Honorable Members in Session:

SUBJECT: Housing Rehabilitation Program Policy Revisions

SUMMARY

This report; a) briefly reviews Housing Rehabilitation Division performance for 1987, b) recommends approval of the attached Administrative Guidelines for the management of Community Development Block Grant funded Housing Rehabilitation Loan Programs and c) recommends that the Emergency Repair Program service provider contract be extended for a period of one year.

BACKGROUND

In 1986 the Housing Rehabilitation Programs were modified to induce broader participation in the program and move the backlog of funding which had accumulated. Two of the major changes to the program that were implemented in 1986 were; a) The opening of the program on a City- and County-wide basis and b) the introduction of a CDBG funded deferred payment rehabilitation loan offering a zero percent interest rate and loan principle forgiveness. Under this new program, funds were rapidly committed, and in fact over-committed, resulting in a February 1987 Resolution approving the cessation of the taking of applications under the program, and the shifting of funds from the Emergency Repair Program to the loan program to cover the over-commitment.

In 1987, despite the cessation of the deferred payment/forgiven loans, the program as a whole was very successfull. The Housing Rehabilitation Division funded over 275 rehab loans for owner-occupants and retrofit grants for a total commitment of approximately $2.9 million in CDBG funding and $1 million in Section 312 funding. Incidentally, Sacramento was the highest producer of Section 312 loans in Region IX of the Department of Housing and Urban Development.

Under the Rental Rehabilitation Program over 300 rental units were funded for rehabilitation for a total of approximately $450,000 plus matching private sector funds. An additional 46 rental units were rehabilitated under the Section 312 program for $189,000.

Although the majority of the Emergency Repair Program funding was shifted to the loan program in 1987, 155 grants were funded in January and February for a total of approximately $158,000.

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1-19-88
All Districts

Now that the backlogged funds have been moved, staff is recommending several changes to the owner-occupant rehabilitation loan programs. The general direction of the changes are to:

A. Make the programs more compatible with the HUD Section 312 Loan Program. At this time, Section 312 is the largest available source of funding for owner-occupant rehabilitation loans outside of the CDBG program. Recommended changes include adjusting the base interest rate and certain underwriting criteria on CDBG loans to conform with Section 312.

B. Reduce the depth of the public subsidy and insure that funding will revolve back into the program for future loans. This is particularly important in light of continuing funding cutbacks.

Specific changes to the programs are listed below.

Deferred Payment Loan Program (DPL): The current program, as stated earlier, has a forgiveness clause which provides for the incremental forgiveness of the principal balance of the loan. For those earning less than 80% of median income and age 62 or older, eligibility for this program is automatic regardless of the borrowers housing-expense-to-income ratio. Every five years the loan is reviewed, and one third of the loan is forgiven providing the borrower maintains occupancy. In the case of the non-elderly, the borrower must have a housing-expense-to-income ratio of over 30% to be eligible. Again, one third of the loan is forgiven after five years, providing the borrower maintains occupancy, however, the borrowers ability to begin repaying the loan is at this time reviewed. If the borrowers housing-expense-to-income ratio is such that they can afford to begin repaying the loan, amortization is commenced and no further loan principle forgiveness takes effect.

For 1988 staff is recommending that the loan principle forgiveness policy be eliminated. This will provide for more funding to eventually revolve back into the program and be re-loaned on future rehabilitation projects. While this will eliminate the "loan forgiveness" marketing strategy, staff anticipates that a sufficient number of lower-income families will participate in the program to expend all available CDBG loan funds.

Staff is also recommending that the automatic qualification for those 62 and older be eliminated and that the housing-expense-to-income ratio criteria be applied. To assist the elderly in qualifying when there are continuing medical expenses a new policy is being recommended. This policy provides that when reliable

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

medical opinion indicates that extraordinary medical expenses are likely to continue for more than one year, that the housing expense may be increased by an amount equal to the medical expense for the purpose of qualifying for a DPL loan. These expenses would also be considered at the time of the five year loan review.

The revised policies adjust the interest rate structure from a flat zero percent rate to; a zero percent rate for the initial five years of the loan term, and a four percent interest rate for the remaining ten years of the loan term. This structure will provide for a initial period where no payment of principal or interest is required and no negative amortization will occur. The four percent rate will automatically take effect after five years. The borrowers ability to begin making payments will also be reviewed at this time. If the borrowers housing-expense-to-income ratio is such that payments will be affordable, the borrower will minimally begin to make interest only payments and if possible make partial or full amortization payments. If anything less than full amortization is scheduled, the loan is again reviewed in five years. When scheduling of at least interest only payments is not possible negative amortization will occur between the fifth and fifteenth years. In the worst case scenario of; payment deferral for the full term, and the maximum loan amount, negative amortization will not total more than $6,000 after fifteen years. Providing the property is properly maintained, equity growth in the property over the fifteen-year term will normally be enough to cover this amount while still providing an equity position to the borrower. The interest rate of four percent is in keeping with the rate currently being charged on Section 312 loans.

Currently the DPL loan maximum is $27,000. Staff is recommending that the maximum DPL loan be reduced to $15,000. In all but the most severe cases, "Required Improvements", under the Property Rehabilitation Standards can be completed for under $15,000. In the event that Required or Optional Improvements exceed $15,000, or if the borrower wishes to complete General Property Improvements, additional funds may be borrowed under the Section 312 or the Agency Amortized Rehabilitation Loan Program, with interest only, partial or full amortization loan payments.

The loan maximum waiver policy has been modified to place a $5,000 cap on waivers. Waivers may only be used to correct serious deficiencies which have been uncovered during the course of construction.

The qualifying Housing-Expense-To-Income (HTI) ratio has been lowered from 30% to 28% and utilities have been eliminated as an eligible housing expense in the calculation. This revision will make the DPL more compatible with Section 312, and provide for easier coupling of the programs. With the Section 312 HTI maximum at 28%, and with the revised DPL HTI minimum at 28%, the two loans can be readily combined when an amortized as well as a deferred payment loan are required.

Agency Amortized Rehabilitation Loan (ARL): The loan maximum under the ARL loan has been revised to match that of the Section 312 loan at $33,500. The total of any other CDBG loan funding provided for the project, will be deleted from the maximum ARL amount as to provide a maximum CDBG loan subsidy of $33,500. As with the DPL loan, a maximum loan waiver limit of $5,000 has been added.

The Housing Expense to income ratio has been changed to 28% as with the DPL and the interest rate has been raised from 3% to 4%. The Section 312 loan carries a 3% interest rate plus a 1% risk fee, for an effective rate of 4%. The increase in the CDBG rate is being recommended in order to remove the competition between these programs. The borrowers choice in programs will not be dictated by a more favorable interest rate on our limited CDBG funding.

Target Area Loan Program (TAL): This program has only been changed in terms of the interest rate and the eligible areas.
The interest rate under this program is set by the income of the borrower according to Exhibit "A" of the Administrative Guidelines. The base interest rate has been raised from 4% to 5% for those earning more than 80% of the median income. The top rate, for those earning up to 120% of median income, remains at 8%.

The eligible areas have been expanded from concentrated areas within the Target Areas to the boundries of the designated CDBG rehabilitation target areas.

Emergency Repair Program (ERP): In March of 1986, the governing bodies approved three primary and two alternate contractors to provide services under the Emergency Repair Program (ERP). The resolution authorized the Executive Director to enter a one year contract with the option to extend the contract for an additional one year period.

At the end of the first year of the contract, an evaluation of the contractors was conducted. The evaluation included the review of homeowner questionnaires, Building Department Correction Notices, staff inspection findings and contractor response time for emergency repairs and warranties. Homeowner responses on the questionnaires were very favorable regarding the program, the quality of work and friendliness of the contractors. Correction Notices, staff inspection findings and contractor response time were within the limits established under the contract with few exceptions. Based upon the evaluation results, the Executive Director extended the contract for one year beginning January 1, 1987. However, in February 1987, due to a shortage of funding, ERP funds were shifted to the loan program. This essentially terminated the ERP for the remainder of the year and therefore services were not provided by the contractors. This report recommends, that due to the successful performance by the contractors in 1986, and the lack of funding to continue the services in 1987, that the contract be extended for one additional year ending December 31, 1988. Staff will begin the selection process for new contractors in September 1988 for the 1989 Emergency Repair Program.

FINANCIAL DATA

Funding breakdown for 1988 CDBG Rehabilitation Programs is as follows:

Program	City	County	Total
Loans/Retro Grants	300,000	400,000	700,000
Loans from Revolving Funds (projected)	300,000	300,000	600,000
Emergency Repair Grants	170,000	230,000	400,000
Total CDBG	770,000	930,000	1,700,000

Breakdown of other funding sources to be administered by the Housing Rehabilitation Division:

Section 312 (projected)	500,000	500,000	1,000,000
Rental Rehab (July 88)	390,000	398,000	788,000
Rental Rehab Carry-over	580,000	340,000	920,000
FHA 203(K) Purchase/Refinance & Rehab Loans	2,500,000	2,500,000	5,000,000
Total Other	3,970,000	3,738,000	7,708,000
Division Total	4,740,000	4,668,000	9,408,000

ENVIRONMENTAL REVIEW

Environmental review is not required for actions requested in this staff report. CEQA: Housing rehabilitation administration is not a project by definition and therefore exempt - 15378 (B) (3). NEPA: A "Finding Of No Significant Impact" (FONSI) was made in 1983 and is still in full force and effect with regard to housing rehabilitation administration.

POLICY IMPLICATIONS

Approval of the attached Resolution will put into place:

A. The attached Administrative Guidelines for CDBG Housing Rehabilitation Loan Programs for owner-occupied properties. The policies therein will be implemented within the existing procedural structure and staffing of the Housing Rehabilitation Division. The mentioned Administrative Guidelines incorporate the following recommended policy changes:

   1. Deferred Payment Loan Program

      a. Elimination of the loan forgiveness clause.

      b. Application of the Housing-Expense-to-Income ratio to all applicants for eligibility.

      c. Allowance for continuing medical expenses to be included as a housing expense for those 62 and older.

      d. Change in the interest rate to 0% for the first five (5) years of the loan term and 4% simple interest for the remaining ten (10) years of the loan term.

      e. Reduction of the maximum loan amount to $15,000.

      f. Placement of a $5,000 "ceiling" on loan maximum waivers, which may only be used to correct serious deficiencies uncovered during the course of construction.

      g. Reduction of the minimum qualifying housing-expense-to-income ratio to 28% and the elimination of utilities from the housing expense calculation.

2. Agency Amortized Rehabilitation Loan

   a. The increase of the maximum loan amount to $33,500.

   b. Placement of a $5,000 "ceiling" on loan maximum waivers. May only be used to correct serious deficiencies uncovered during the course of construction.

   c. Reduction of the maximum housing expense-to-income ratio to 28%.

   d. The increase of the interest rate to 4%.

3. Target Area Loan Program

   a. The change of the interest rate to:

Interest Rate	% of Median Income
5%	81 - 90%
6%	91 - 100%
7%	101 - 110%
8%	111 - 120%

   b. The expansion of eligible areas to the boundaries of the CDBG rehabilitation target areas.

B. The recommendations of this staff report to extend the Emergency Repair Program service provider contracts through December 31, 1988.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

VOTE AND RECOMMENDATION OF THE COMMISSION

At its regular meeting of January 4, 1988, the Sacramento Housing and Redevelopment Commission adopted a motion recommending approval of the attached resolution. The votes were as follows:

AYES: Glud, Moose, Simon, Simpson, Wiggins, Wooley, Yew, Amundson
NOES: None

ABSENT: Pettit, Sheldon

RECOMMENDATION

Staff recommends the approval of the attached Resolution which a) approves and adopts the also attached Administrative Guidelines for CDBG Housing Rehabilitation Loan Programs for Owner-Occupied Properties and b) approves the extension of Emergency Repair Program service provider contracts until December 31, 1988.

Respectfully submitted,

for WILLIAM H. EDGAR
Executive Director

TRANSMITTAL TO COUNCIL:

WALTER J. SLIPE
City Manager
Contact Person: John Molloy

1853R

RESOLUTION NO.

ADOPTED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO

ON DATE OF

January 19, 1988

ADOPTION OF HOUSING REHABILITATION PROGRAM ADMINISTRATIVE GUIDELINES AND EXTENSION OF EMERGENCY REPAIR PROGRAM SERVICE PROVIDER CONTRACTS

BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO:

Section 1: The Administrative Guidelines for CDBG Housing Rehabilitation Loan Programs for Owner-Occupied Properties January 1, 1988 and Exhibits thereto, as set forth in the staff report filed with this resolution, are herby approved and adopted.

Section 2: The Executive Director is authorized to execute an extension to the existing Emergency Repair Program Contracts with primary contractors Lowry Construction, Hanley and Sons Construction and Star Construction, through December 31, 1988, upon the same terms and conditions.

CHAIR

ATTEST:

SECRETARY

1100WPP2(24)

ADMINISTRATIVE GUIDELINES

For

CDBG FUNDED

CITY AND COUNTY OF SACRAMENTO HOUSING REHABILITATION LOAN PROGRAMS

FOR OWNER-OCCUPIED PROPERTIES

Sacramento Housing and Redevelopment Agency
488 I Street
Sacramento, California 95814

REVISED: January 1988

HOUSING REHABILITATION ASSISTANCE PROGRAM

CHAPTER ONE

PROGRAM PURPOSE

1.01 Introduction: The Sacramento Housing Rehabilitation Loan Program has been developed by the City/County of Sacramento and the Sacramento Housing and Redevelopment Agency. The Housing and Community Development Act of 1974 provided the initial authority and funding to establish housing assistance programs in the City and County of Sacramento, in order to conserve older and basically-sound residential neighborhoods. These guidelines complement other public and private funding sources and purposes to provide loans for property rehabilitation of homes for very low, low- and moderate-income families in the City/County of Sacramento.

The Sacramento Housing Rehabilitation Program will be administered by the Sacramento Housing and Redevelopment Agency.

1.02 Program Objectives: The Sacramento Housing Rehabilitation Program is designed to:

A. Improve neighborhoods and expand the supply of decent, safe and sanitary housing.

B. Expand employment opportunities for jobless and under-employed low-income persons.

C. Provide an environment for the social, economic and physchological growth and well-being of all inhabitants and property owners in the City and County of Sacramento.

1.03 Administrative Objectives:

A. Support the program objective of improving neighborhoods through a property rehabilitation loan program.

B. Offer options to property owners for improving their property, doing it within their means, thus, indirectly effect overall improvements that stimulate conventional private sector financial participation in the area.

C. Gradually produce a self-perpetuating loan pool as an economically-sound, cost-effective rehabilitation strategy. Utilize the existing fiduciary and socio-technical capacity of the City/County and Agency and offer the lowest costs to the participating public.

1.04 Legal Authority: The Housing Rehabilitation Program is authorized by Resolution Number ____________________ of the ____.

These guidelines are consistent with funding requirements stipulated by the United States Department of Housing and Urban Development Act of 1974, Title 24, Chapter V, Part 570, and action taken pursuant to State of California Health and Safety Code Section 34317.

1.05 Definitions: For the purpose of this loan program, the following terms shall mean:

Acceleration Clause - Provisions of a Deed of Trust and Promissory Note proving that the entire principal shall become immediately due and payable in the event of default.

Acceptance - The applicant's consent to enter into a contract and be bound by the terms of the offer.

Applicant - The person applying for a rehabilitation loan.

Annual Percentage Rate - The percentage relationship of the total finance charge to the amount of the loan.

Appraisal - A report made by a qualified person setting forth an opinion of value.

Appraised Value - Opinion of value reached by an appraiser based on knowledge, experience and a study of pertinent data.

Appraiser - One qualified by education, training and experience, to estimate the value of real and personal property.

"As is" Appraised Value - Property's current value, based upon an analysis of similiar recently-sold properties comparable to the subject property.

"After Rehabilitation" Appraised Value - Property's proposed value after rehabilitation, in the appraiser's opinion, based upon the current condition of the property and plans and specifications showing work to be performed on the property.

Blighted Area - A declining area where property values are adversely affected by economic forces, inharmonious property usages or rapidly-depreciating buildings.

Borrower - The person who receives funds in the form of a rental rehabilitation loan, with the obligation of repaying the loan in full with interest.

Change Order - A written order to a contractor agreed upon, signed by all parties, authorizing a change in the original contract.

City of Sacramento - Hereinafter referred to as "City".

City Building Official - The staff person responsible for making property inspections and identifying building code violations.

Community Development Block Grant Target Area - Area designated and approved by the City/County of Sacramento as eligible for Community Development activities under the Community Development Act of 1974 (hereinafter referred to as "CDBG area").

Conditional Loan Commitment - A commitment on a specific property for a definite loan amount with specific terms.

Construction Contract - An agreement between a general contractor and an owner stating the specific duties the general contractors will perform, according to the blueprints and specifications, at a stipulated price and terms of payment.

Contract - A contract represents an agreement between two parties. For the rehabilitation program, a written contract shall be required. The contract shall also include all documents necessary to properly perform all the work for the contract. For example, plans and specifications are such necessary documents.

Contractor - A licensed individual or company who agrees to furnish materials and labor to do work for an agreed-upon price.

Deed of Trust - A type of security instrument conveying title in trust to a third party covering a particular property.

Deed Restriction - A limitation placed in a Deed, limiting or restricting the use of the real property.

Default - A breach or non-performance of the terms of a note or the covenants of a Deed of Trust.

Dwelling Unit - The living quarters occupied by a household.

Equity - The difference between fair market value and current indebtedness, usually referred to as "owner's interest".

Fee Simple - The greatest possible interest a person can have in real estate.

Foreclosure - A procedure taken by a lender, under the terms of the Deed of Trust, to have the property applied to payment of the debt.

Gross Income (family) - All income that is attributed to family prior to Federal, State, local income tax deductions.

Hold-back - Portion of contractor's draw held to provide additional protection for lender and owner.

Lender - Person, organization or financial institution that funds the loan.

Living Unit - A single unit providing independent living facilities for living, sleeping, eating, cooking and sanitation.

Loan Approval Committee - Committee appointed by the SHRA Commission to review and approve or disapprove direct CDBG Rehabilitation Loans.

Loan Officer - Staff person responsible for reviewing, determining subsidy required and recommendation to the Loan Approval Committee.

Net Worth - The value of all assets, including cash, less total liabilities.

Notice of Completion - Document recorded after completion of construction. Mechanic liens must be filed within a specific period thereafter.

Notice of Default - A notice recorded after the occurence of a default under a Deed of Trust.

Notice to Proceed - A document issued to contractor after Deed of Trust is recorded, advising him to proceed with construction work.

Origination Fee - A fee charged for expenses incurred or to be incurred in the evaluation, preparation and funding of a proposed rehabilitation loan.

Owner - The legal owner of the property, as shown by the official records in the County Recorder's Office.

Rehabilitation Loan - The total cost of repairs and improvements and other incidental costs for the rehabilitation of the property.

Rehabilitation Loan Agreement - A written agreement between the lender and borrower in which the specific terms and conditions of a rehabilitation loan are spelled out.

Property Rehabilitation Specialist - The staff person responsible for making property inspections, preparing or reviewing work write-ups and cost estimates, and recommending rehabilitation items with respect to the rehabilitation program.

Property Rehabilitation Standards - Standards for the inspection and evaluation of the condition of residential structures to be considered for rehabilitation. Provides minimum standards to which properties shall be inproved under certain Agency programs.

Work Write-up and Cost Estimate - A statement based on the property inspection report that describes the repair work to be done on the property and includes a total estimate of the costs.

CHAPTER TWO

ELIGIBILITY REQUIREMENTS

This chapter sets forth the eligibility requirements pertaining to the applicant and the property for a loan.

2.01 APPLICANT ELIGIBILITY CRITEREA:

A. An owner may be eligible to participate in the program, upon producing evidence of fee simple or equitable title to the property under consideration.

B. Owner must have owned and resided on the property for six months prior to applying for a loan, with the following exception:

Six month prior ownership and occupancy requirements are waived if the property is located in a CDBG target area or if the property has been deemed as Substandard and Unsafe To Occupy by the City/County Building Department; however, in either case, the applicant must demonstrate that he/she does not presently own the property that he/she is currently residing in, and that he/she intends to occupy the rehabilitated property.

C. Gross family income shall include the incomes of all permanent adult members of the household who can reasonably be expected to continue as members of the household for a substantial portion of the term of the loan and whose income is contributed in substantial part toward maintenance of the household, from all sources, including, but not limited to the following:

1. Wages, salaries, tips, payments for disability, AFDC, SSI, Social Security, retirement pensions, unemployment benefits, child support, alimony, net income from rental properties owned, interest, dividends, etc. For self-employed persons, income shall be determined by the average gross income minus business expenses for the last three years. (Depreciation is not an allowable expense.)

2. If title to the property is held by more than the occupants of the dwelling, the income of the occupants only shall be used to determine the eligibility for all loans.

3. Income shall also include 10% of the value of the family's assets. For this purpose, assets mean the value of equity in real estate other than the principal place of residence, savings, stocks, bonds, and other forms of capital investment.

D. A list identifying all dependents shall be required for submission with a loan or grant application.

1. A dependent shall be defined as a member of the family who is related by blood, marriage or operation of law and who shares the same dwelling unit.

2. Children are considered dependent when they are under the age of 21 and reside in the home, are 21 and over and attending school; or who are either physically or mentally handicapped, regardless of age. Verification of school attendance will be required for children 21 years of age or older.

3. Other persons included in the family composition, such as parents or other relatives residing permanently in the home may be considered dependents, upon proof of dependency verification. (Income to be included in total family income.)

4. If other questions arise regarding named dependents, the applicant may be required to submit proof per HUD Section 8 requirements, showing legal custody of the dependent, or receipt of income for the dependent.

E. Applicant must have sufficient income to be able to repay a) all existing long term debt and b) the rehabilitation loan (when not deferred). Total long term debt including the rehabilitation loan should not exceed 36% of gross family income. However, based upon; the applicant's credit history and financial interest in property, and the value of the security (property to be rehabilitated), this rating may be increased by the Loan Committee when it is determined to be an acceptable overall underwriting risk. When loan underwriting is being done by a private lender under a leveraging mechanism, lender underwriting guidelines will apply as the minimum requirement.

2.02 <u>PROPERTY ELIGIBILITY CRITEREA:</u>

A. The property must be located within the City or County of Sacramento.

B. The rehabilitation program guidelines are restricted to single-family, owner-occupied units and duplex units, of which the owner is required to occupy one of the two units.

C. Eligibility shall be based on a property receiving assistance.

D. A property will not be eligible for additional loan assistance if any previous rehabilitation loan, CD or Rehabilitation Grant or Housing Replacement Assistance Grant has been approved for that property, unless a hazardous building or health or safety code violation surfaces that was not a problem when the property was originally rehabilitated. Examples of possible repair needs include replacement of water, sewer or gas lines or replacement of inoperable furnaces or water heaters.

E. One basic requirement for participation in the housing rehabilitation program is that the property must have some Property Rehabilitation Standard deficiencies in order to qualify for assistance.

CHAPTER THREE

FINANCING PROGRAMS

3.01 AGENCY DEFERRED PAYMENT LOAN PROGRAM (DPL):

A. Purpose of Loan - The borrower agrees to use the loan proceeds to accomplish the rehabilitation of his/her property to the extent determined by the owner, the Agency and the Building Department.

Loan proceeds shall only be used to correct deficiencies as listed under the Required and Optional categories of the Property Rehabilitation Standards.

If the borrower wishes to borrow funds to make general property improvements, the borrower must borrow the funds through another Agency Loan Program and meet the eligibility criteria for that particular program.

B. Loan Criteria - To be eligible for the Deferred Payment Rehabilitation Loan Program, the following eligibility criteria must be met:

1. The Borrower shall meet all Applicant Eligibility criteria as defined in Section 2.01 of these guidelines.

2. Gross family income, as defined in Section 2.01, must be below 80% of median income for the Sacramento Metropolitan Statistical Area (Exhibit "A" attached hereto and as updated by the OMB).

3. Property shall meet all eligibility requirements as defined in Section 2.02 of these guidelines.

4. Borrower must have housing expenses that exceed 28% of gross family income. Housing expense shall be defined as all current and proposed debt (proposed as defined in 3.01, B.5. below) secured by property and including; principal, interest, taxes and insurance (does not include utilities).

5. Applicants who will need additional funds, over and above what they are able to repay under another program, to correct Housing Rehabilitation Standard deficiencies, will be able to borrow the additional funds required under the DPL as a junior lien to the amortized loan.

C. Maximum Loan Amount - The maximum loan amount shall be determined as the lesser of the following:

1. A maximum of $15,000 per unit.

2. An amount which, when added to the outstanding indebtedness relating to the property creates a total indebtedness which does not exceed 100% of the appraised value.

3. Should the cost of correcting all required work cost more than the maximum CDBG loan amount of $15,000, a waiver may be granted in extraordinary cases through the following process:

   a. Rehabilitation staff must make a finding of need for funds above the $15,000 maximum to correct concealed deficiencies when they have been been exposed during the course of construction, and only when all other means to correct the deficiencies have been exhausted.

   b. Loan maximum waivers shall not exceed the lesser of Five Thousand Dollars ($5,000) in additional funding or 100% of the appraised value ($20,000 DPL Loan Maximum.

   c. The findings of the rehabilitation staff will be reviewed by the Executive Director or Designee for reasonableness and accountability and forwarded to the Sacramento Housing and Redevelopment Agency Loan Approval Committee for approval.

D. Maximum Term - The maximum loan term shall not exceed fifteen years. Any extensions of the loan term beyond fifteen years shall be reviewed on an individual basis and approved by the Sacramento Housing and Redevelopment Agency Loan Approval Committee.

E. Interest Rate - The interest rate shall be 0% for the first five-year term of the loan and 4% simple interest per annum for the remainder of the loan term.

F. Loan Repayment: The rehabilitation loan payments will be deferred for the first five (5) years of the loan term. At the end of the first five (5) years of the loan term the loan will be reviewed and the following conditions applied:

1. If the property is no longer occupied by the borrower and is being rented, the loan will be repaid in equal monthly installments over the remaining term of the loan. Interest rate shall be calculated as described in Section 6.04 E. 3 of these guidelines.

2. If the borrowers housing expense-to-income (HTI) ratio is less than 28%, the remaining principal shall be repaid (amortized at a four percent (4%)

interest rate) in basically, one of three payment plans; fully-amortized, partially-amortized or interest-only. Payment plan selection will be based upon that plan which most effectively provides for maximum loan repayment while not exceeding 28% HTI.

a. A fully-amortized loan is repaid in equal monthly installments of principal and interest for the remaining term of the loan.

b. A partially-amortized loan is repaid with interest and partial principal (not to exceed 28% HTI), paid monthly with a balloon payment due at the end of the term. The loan is again reviewed at the end of first ten (10) years of the original term, at which time all conditions of this Section (3.01 F) are reviewed and applied.

c. An interest-only loan is repaid with interest paid on a monthly basis, with a balloon payment due at the end of the term. The loan is again reviewed at the end of the first ten (10) years of the original loan term at which time all conditions of this Section (3.01 F) are reviewed and applied.

3. At the time of review, if the borrowers HTI ratio is: a) more than 28% or b) 28% or less and interest-only payments increase HTI ratio to greater than 28%, the loan payments shall remain deferred, and interest will begin accruing at the four percent (4%) interest rate. The loan is again reviewed at the end of the first ten (10) years of the original loan term at which time all conditions of this Section (3.01 F) are reviewed and applied.

4. During the review process, the debt service of loans junior to the deferred loan (when not a part of the original rehabilitation project) will not be considered for the purposes of determining the HTI ratio.

G. Loan Assignment - All loans shall become due and payable upon the transfer or sale of the borrower's interest in the property, change of use from residential to commercial, or non-compliance with the rehabilitation plan.

H. Loan Security - The loan will be evidenced by a Promissory Note executed by the borrower and will be secured by a Deed of Trust, with assignment of rents recorded against the property. The note will:

1. be for the face amount of the loan, staff will review the loan every five years, unless fully amortized after the first five year term;

2. be repaid at such time or times, at such place or places as designated by the Agency;

3. be subject to such other conditions of repayment as shall be fully specified in the Promissory Note.

I. <u>Includable Loan Costs</u> - The following costs are considered to be eligible for inclusion in the rehabilitation loan. They include those costs attributable to the rehabilitation of the subject property, such as construction costs, appraisal, inspection fees and any other costs associated with the preparation of the loan or construction documents, including the following:

1. Credit report.

2. Policy of title insurance.

3. Structural pest control report.

4. Inspection fees: appraisal, property inspection reports and all building permit fees.

5. Architectural and/or engineering services up to a maximum of 6% of the total construction cost.

6. Loan fee (one-time charge, 1 1/4%) includes expenses incurred and to be incurred by Agency staff administering the loan.

7. Eligible Rehabilitation Construction Costs

8. Loan contingency: An amount not less than 3% nor more than 10% of the budgeted cost of all improvements is to be included in the rehabilitation budget, to cover cost overruns and required construction changes during the construction period. The borrower must authorize the use of this contingency by change order and the Agency must approve the disbursement. Should funds remain in the contingency account after project completion, this excess amount will be credited against the loan principal.

9. Special Lien and Judgement Financing: Special refinancing assistance up to $5,000 may be afforded to owner-occupants with incomes of 80% or less, and who reside in a CDBG-designated target area. This refinancing may be used to take care of liens

against the property, with the exception of personal loans which, if otherwise not paid off, would prohibit the owner from obtaining rehabilitation loan assistance. The maximum loan amount of $15,000 would be decreased by the amount utilized for this special refinancing.

J. Extraordinary Medical Expenses. When the prospective borrower is age 62 or older and has extraordinary medical expenses which reliable medical opinion indicates are likely to continue for more than one year, housing expenses may be increased by an amount equal to the medical expense for the purposes of qualifying for a loan under this section. Such expenses shall also be considered at the time of loan review.

3.02 AGENCY AMORTIZED REHABILITATION LOAN PROGRAM (ARL):

A. Purpose of Loan - The borrower agrees to use the loan proceeds to accomplish the rehabilitation of his/her property to the extent determined by owner, the Agency and the Building Department.

Loan proceeds shall only be used to correct deficiencies, as listed under the Required and Optional categories of the Property Rehabilitation Standards.

B. Loan Criteria - To be eligible for the Agency Amortized Rehabilitation Loan Program, the following eligibility criteria must be met:

1. The borrower shall meet all applicant eligibility criteria as defined in Section 2.01 of these guidelines.

2. Gross family income, as defined in Section 2.01, must be below 80% of median income for the Sacramento County Metropolitan Statisical Area (Exhibit "A" attached hereto and as updated by the OMB).

3. Property shall meet all Eligibility Criteria as defined in Section 2.02 of these guidelines.

4. The total of current and proposed housing expenses should not exceed twenty eight percent (28%) of gross family income. Housing expense to be defined as all current and proposed debt (proposed debt is defined as all indebted resulting from the rehabilitation of the property) secured by the property and including; principal interest, taxes and insurance, (does not include utilities)

5. Applicant must be unable to meet the eligibility or underwriting criteria of the lender for the outside funding sources such as Section 312.

C. Maximum Loan Amount - The maximum loan amount shall be determined as the lesser of the following:

1. A maximum of $33,500 per unit (includes all CDBG funding to be used for the rehabilitation work, i.e., direct amortized loan plus any additional funds to be used for the rehabilitation work provided through a CDBG deferred payment loan or subsidized loan programs). Additional funding above $33,500 from other sources such as HUD Section 312, HCD SB966, or private financing is allowed.

2. An amount which, when added to the outstanding indebtedness relating to the property creates a total indebtedness which does not exceed 100% of the appraised value.

3. Should the cost of correcting all required work cost more than the maximum CDBG loan amount of $33,500, a waiver may be granted in extraordinary cases through the following process:

   a. Rehabilitation staff must make a finding of need for funds above the $33,500 maximum to correct concealed deficiencies when they have been exposed during the course of construction, and only when all other means to correct the deficiencies have been exhausted.

   b. Loan maximum waivers shall not exceed the lesser of five thousand dollars ($5,000) in additional funding or 100% of the appraised value ($38,500 ARL loan maximum).

   c. The findings of the Rehabilitation Staff will be reviewed by the Executive Director or Designee for reasonableness and accountability and forwarded to the Sacramento Housing and Redevelopment Agency Loan Approval Committee for approval.

D. Maximum Term - The maximum loan term shall not exceed fifteen years. Any extensions of the loan term beyond fifteen years shall be reviewed on an individual basis and approved by the Sacramento Housing and Redevelopment Agency Loan Approval Committee for approval.

E. Interest Rate - The interest rate shall be 4% simple interest per annum. The interest rate may be achieved through a Leveraging Agreement between a lender and the Agency. The rate may be provided through an "upfront" interest subsidy, participation lending or compensating balance mechanism. However, when funding is provided under such mechanism the loan shall be fully amortized.

F. Loan Repayment - All loans shall be repaid in, basically, one of three payment plans: fully-amortized, partially-amortized or interest-only. Repayment plan selection will be based upon that plan which most effectively provides for maximum loan repayment while not exceeding a 28% Housing Expense-to-Income (HTI) ratio.

1. A fully-amortized loan is repaid in equal monthly installments of principal and interest for the term of the loan.

2. A partially-amortized loan is repaid with interest and partial principal (not to exceed 28% HTI) paid monthly with a balloon payment due at the end of the loan term. The loan is reviewed at the end of the first five-year term of the loan. If HTI ratio has been reduced, principal payment amount will be increased to adjust HTI to 28% or to full amortization whichever is less. If the loan remains partially amortized, it will again be reviewed at the end of the first ten-year term of the loan, at which time, all the conditions of this Section (3.02, F.) are reviewed and applied.

3. An interest-only loan is repaid with interest paid on a monthly basis and with a balloon payment due at the end of the loan term. The loan is reviewed at the end of the first five (5) year term of the loan. If HTI ratio has been reduced, payment of principle will commence to adjust HTI to 28% or to full amortization, whichever is less. If the loan remains interest-only or partially-amortized, it will again be reviewed at the end of the first ten (10) year term of the loan, at which time all conditions of this Section (3.02, F.) are reviewed and applied.

4. During the review process, the debt service of loans junior to the ARL loan (when not a part of the original rehabilitation project), will not be considered for the purposes of determining the HTI ratio.

5. If at any time the property is no longer occupied by the borrower and is being rented, the loan will be repaid in equal monthly installments over the remaining term of the loan. Interest rate will be calculated as described in Section 6.04 E. 3 of these guidelines.

G. Loan Assignment - All loans shall become due and payable upon the sale or transfer of the borrower's interest in the property, change of use from residential to commercial, or non-compliance with the rehabilitation plan.

H. Loan Security - The loan will be evidenced by a Promissory Note executed by the borrower and will be secured by a Deed of Trust, with Assignment of Rents as appropriate. The note will:

1. be for the face amount of the loan;

2. bear interest per annum on the outstanding principal balance at the current approved rate;

3. be repaid at such time or times, at such place or places as designated by the Agency;

4. be subject to such other conditions of repayment as shall be fully specified in the Promissory Note.

I. Includable Loan Costs - The following costs are considered to be eligible for inclusion in the rehabilitation loan. They include those costs attributable to the rehabilitation of the subject property, such as construction costs, appraisal, inspection fees and any other costs associated with the preparation of the loan or construction documents.

1. Credit report.

2. Policy of title insurance.

3. Structural pest control report.

4. Inspection fees: appraisal, property inspection reports and all building permit fees.

5. Architectural and/or engineering services up to a maximum of 6% of the total construction cost.

6. Loan fee (one-time charge, 1 1/4%) includes expenses incurred and to be incurred by Agency staff administering the loan.

7. Service fee: Direct Agency loans shall provide for a service fee ranging from 1/8% to 1% annually on any unpaid principal balance.

8. Eligible Rehabilitation Construction Costs

9. Loan contingency: An amount not less than 3% nor more than 10% of the budgeted cost of all improvements is to be included in the rehabilitation budget, to cover cost overruns and required construction changes during the construction period. Borrower must authorize the use of this contingency by change order and the Agency must approve the disbursement. Should funds remain in the contingency account after project completion, this excess amount will be credited against the loan principal.

10. Special Lien and Judgement Financing: Special refinancing assistance up to $5,000 may be afforded to owner-occupants with incomes of 80% or less, and who reside in a CDBG-designated area. This refinancing may be used to take care of liens against the property, with the exception of personal loans which, if otherwise not paid off, would prohibit the owner from obtaining rehabilitation loan assistance. The maximum loan amount of $33,500 would be decreased by the amount utilized for this special refinancing.

3.03 <u>TARGET AREA LOAN PROGRAM (TAL):</u>

A. <u>Purpose of Loan</u> - The borrower agrees to use the proceeds to accomplish the rehabilitation of his/her property to the extent determined by owner, the Agency and the Building Department

Loan proceeds will only be used to correct deficiencies as listed under the Required and Optional categories of the Property Rehabilitation Standards.

B. <u>Loan Criteria</u> - To be eligible for the Target Area Loan Program, the following eligibility criteria must be met:

1. The borrower must meet all applicant eligibility requirements as defined in Section 2.01 of these guidelines.

2. Gross family income, as defined in Section 2.01, must be below 120% of median income for the Sacramento Metropolitan statistical area (Exhibit "A" attached hereto and as updated by the OMB).

3. The property shall meet all eligibility requirements as defined in Section 2.02 of these guidelines and, additionally, must be located in a CDBG Rehabilitation Target Area (Exhibit B attached hereto).

4. Rehabilitation must provide for the elimination of slums and blight.

5. Applicant must be able to meet the eligibility underwriting criteria of the lender.

C. Maximum Loan Amount - The maximum loan amount shall be determined as the lesser of the following:

1. A maximum of $33,500 per unit (includes all CDBG funding or funding subsidised by CDBG to be used for the rehabilitation work. Additional funding above $33,500 from other sources is allowed.

2. An amount which, when added to the outstanding indebtedness relating to the property creates a total indebtedness which does not exceed 80% of the appraised value.

D. Maximum Term - The maximum loan term shall not exceed fifteen years.

E. Interest Rate - The interest rate may be achieved through a Leveraging Agreement between a lender and the Agency. The rate may be provided through an "upfront" interest subsidy, participation lending or compensating balance mechanism. The rate to the borrower shall be at 4% to 8% and shall be set according to the income of the borrower per Exhibit "A" attached hereto.

F. Loan Repayment: - All loans shall be repaid in equal monthly installments of principal and interest payments for the term of the loan. If at any time the property is no longer occupied by the borrower and is being rented, the loan will be repaid in equal monthly installments over the remaining term of the loan. Interest rate will be calculated as described in Section 6.04 E. 3 of these guidelines.

G. Loan Assignment - All loans shall become due and payable upon the sale or transfer of the borrower's interest in the property, change of use from residential to commercial, or non-compliance with the rehabilitation plan.

H. Loan Security - The loan will be evidenced by a Promissory Note executed by the borrower and will be secured by a Deed of Trust, with Assignment of Rents as appropriate. The note will:

1. be for the face amount of the loan;

2. bear interest per annum on the outstanding principal balance at the current approved rate;

3. be repaid at such time or times, at such place or places as designated by the lender;

4. be subject to such other conditions of repayment as shall be fully specified in the Promissory Note.

I. Includable Loan Costs - The following costs are considered to be eligible for inclusion in the rehabilitation loan. They include those costs attributable to the rehabilitation of the subject property, such as construction costs, appraisal, inspection fees and any other costs associated with the preparation of the loan or construction documents.

1. Credit report.

2. Policy of title insurance.

3. Structural pest control report.

4. Inspection fees: appraisal, property inspection reports and all building permit fees.

5. Architectural and/or engineering services up to a maximum of 6% of the total construction cost.

6. Escrow service fee: actual fee incurred by Agency for progress payment disbursement service.

7. Eligible rehabilitation construction costs

8. Loan contingency: an amount not less than 3% nor more than 10% of the budgeted cost of all improvements is to be included in the rehabilitation budget, to cover cost overruns and required construction changes during the construction period.

   The borrower must authorize the use of this contingency by change order and the Agency must approve the disbursement. Should funds remain in the contingency account after project completion, this excess amount will be credited against the loan principal.

CHAPTER FOUR

LOAN PROCESSING

4.01 PRE-APPLICATION PROCESS:

Step 1 - Property owner will contact the Housing Rehabilitation Office for information regarding the housing rehabilitation loan programs.

Step 2 - The Housing Rehabilitation Division will explain the eligibility criteria and, if it appears that applicant will qualify for financial assistance, will set up an application appointment with a loan specialist.

4.02 LOAN PROCESS:

Step 1 - At the time of the appointment for application intake, owner prepares and submits a financial package to the Loan Specialist. The financial package shall include:

a. application for financial assistance;

b. authorization forms, signed and dated;

c. proof of ownership of property, i.e., copy of Grant Deed, title policy, etc.;

d. income verification, i.e., employment pay stub, award letter for Social Security or retirement benefits, verification of AFDC or SSI benefits, income tax returns, financial statement, etc.;

e. verification of mortgage status;

f. verification of bank accounts.

Step 2 - Loan Specialist will review application and, from the information submitted, determine whether homeowner meets eligibility requirements.

Step 3 - Loan Specialist will secure credit report, to see if any problems exist which will prevent providing financial assistance to property owner.

Step 4 - Loan Specialist will request a property inspection from Property Rehabilitation Specialist.

Step 5 - Loan Specialist will request preliminary title report.

Step 6 - Property Rehabilitation Specialist and owner will inspect the property. If it appears that the project is feasible, and owner wishes to continue with the rehabilitation of his/her home, Property Rehabilitation Specialist will submit a property inspection report and bidding instructions listing the requirements of the Agency, to the owner.

Step 7 - Property owner will contact one or more contractors and provide contractor with a copy of the inspection report, a list of other repairs that they wish to have made, and request that contractor provide them with a work write-up and bid for the work.

Step 8 - Property owner will select a proposal and submit a copy of the Contractor's Proposal to Property Rehabilitation Specialist for review.

Step 9 - Property Rehabilitation Specialist will review the work write-up, bid and contract form and, if it meets the program criteria, will forward the proposal on to Loan Specialist.

Step 10 - Loan Specialist will order an appraisal, forwarding a copy of the work write-up to determine if there is sufficient equity in the property.

Step 11 - Loan Specialist reviews financial package and determines loan program under which it is to be funded.

Step 12 - Loan is packaged for submission to the Sacramento Housing and Redevelopment Agency Loan Approval Committee and/or lender.

Step 13 - Loan Officer presents package to Loan Approval Committee and/or lender.

Step 14 - Approval or disapproval of loan by Loan Committee and/or lender.

Step 15 - Loan documents executed by property owners.

Step 16 - Deed of Trust is sent to title company for recording and issuance of ALTA policy.

Step 17 - Construction contract is executed by property owner and contractor.

Step 18 - Agency/lender sets up rehabilitation escrow account.

Step 19 - Property owner issues Notice to Proceed to contractor.

Step 20 - Property owner/contractor obtains the necessary permits.

Step 21 - Property owner and Rehabilitation Specialist inspect rehabilitation work and authorize Agency/lender to issue progress payments as provided in construction contract. (No payments to be issued without necessary permits.)

Step 22 - Property owner and Rehabilitation Specialist make final inspection of completed rehabilitation work and authorize final payment to contractor.

Step 23 - Property owner/contractor file Notice of Completion".

Step 24 - Agency/lender issue final payment to the contractor/owner for completed rehabilitation work.

Step 25 - Disposition of Funds Statement signed by property owner.

Step 26 - File closed.

4.03 LOAN SETTLEMENT: This section sets forth procedures for preparing the loan settlement documents, completing loan settlement and carrying out post-loan settlement.

A. Preparing Loan Settlement Documentation - The lender or Agency shall take the following actions to prepare for loan settlement:

1. Prepare a Promissory Note, Deed of Trust, Truth-in-Lending Disclosure Statement and recission notice as applicable.

2. Contact borrower to set up a time for loan settlement.

3. Request borrower to bring with him/her the original and memorandum copy of an insurance policy for fire and extended coverage, in accordance with the value of the property and indebtedness on the property after rehabilitation. The policy must include an endorsement showing Agency/Authority as the loss payee.

4. Request borrower to bring the original or a certified copy of the receipt for payment of the current insurance premium, plus his/her most recent property tax and/or special assessment payment receipts.

5. Inform borrower of any impound payments that will be required. If the first Deed of Trust holder is holding an impound account, borrower must bringverifications showing what has been impounded (taxes or insurance or both), amount of impound being collected each month and current status of the account.

B. Completing the Loan Settlement

1. Review the terms and conditions of the loan with borrower, to ensure that he/she understands what is expected of him/her.

2. Fully explain the Truth-in-Lending documents and obtain acknowledgment signatures on both the disclosure and rescission forms. Lender or Agency must witness acknowledgment by signing the disclosure forms as a witness thereto.

3. After thoroughly reviewing the contents of Promissory Note and Deed of Trust with borrower, obtain his/her signature on both documents.

4. Obtain the required insurance documents and tax receipts.

5. Advise borrowers with regard to:

   a. Name of loan servicer to whom monthly payment shall be payable and address of loan servicer, if applicable.

   b. Amount of first monthly payment and, if applicable, that first monthly payment will differ from subsequent monthly payment amounts because of an initial adjustment in interest payments.

   c. If settlement is completed on or before the 15th of the month, the first monthly payment by borrower will be due and payable on the first day of the next month after settlement has been completed. If loan settlement is completed after the 15th of the month, the first monthly payment by borrower will be due and payable on the first day of the second month after loan settlement has been completed.

C. Post-Loan Settlement - Lender or Agency shall record all recordable instruments and obtain evidence of recordation. A transmittal memorandum shall be prepared, advising loan servicer that a loan settlement has been completed and that the loan is being transferred for loan servicing. Preparation and transmittal memorandum, as well as accompanying documents, shall not be delayed pending receipt of the recorded instruments and evidence of recordation.
The transmittal memorandum shall contain the following information for each loan being transferred:

1. Loan number.

2. Name of borrower.

3. Amount of loan.

4. Amount and date of the first and subsequent payments.

5. Type of loan security.

4.04 ESCROW ACCOUNT MANAGEMENT: This section sets forth procedures for management and close-out of the rehabilitation escrow account.

A. Funding a Rehabilitation Loan: After settlement, the lender or Agency shall deposit the appropriate rehabilitation loan amount in the rehabilitation escrow account.

B. Rehabilitation Loan Supplemented by Other Funds: If a rehabilitation loan is to be supplemented by other funds, those supplemental funds shall be deposited in the rehabilitation escrow account with the rehabilitation loan account unless otherwise approved by the Sacramento Housing and Redevelopment Loan Approval Committee.

C. Management of Rehabilitation Escrow Account: A bank account shall be maintained as the depository of all rehabilitation loans that are funded, as well as for supplemental funds provided by applicant.

D. Separate Account for Each Borrower: The lender or Agency shall establish and maintain a separate accounting for each applicant who has received a rehabilitation loan. All receipts and disbursements made for applicant shall be recorded in the account.

E. Disbursements - Disbursements from the rehabilitation escrow account shall be made only for the following purposes, as appropriate for each applicant:

1. To make progress and final payments for rehabilitation work to the contractor, owner, subcontractor and supplier.

2. To make payment for eligible incidental costs.

3. To close out the rehabilitation escrow account, appropriately disbursing any un-utilized funds remaining in the rehabilitation escrow account to the rehabilitation loan balance of borrower.

F. Progress and Final Payment to Contractors - Upon receipt of a request for progress payment, and following the Agency's inspections of the work, Agency shall authorize payment due to contractor for the work satisfactorily completed. The remainder due contractor shall be withheld pending satisfactory completion of all the work as set forth in the contract. When all the work is found to be satisfactorily completed in accordance with contract, Agency shall obtain from the contractor a Release of Liens; the Agency shall authorize final payment to contractor no sooner than thirty-five (35) days following the recording of the Notice of Completion. The amount of the final payment check shall include, if applicable, any progress payment sums previously withheld, but due the payee.

G Adjustment and Close-out of the Rehabilitation Escrow Account - Usually, disbursements made for the purpose stated under Section 4.04 E "Disbursements" will close out the rehabilitation escrow account. However, if un-utilized funds remain in the rehabilitation escrow account because the actual rehabilitation costs were less than anticipated or for other reasons, the un-utilized funds shall be applied to the principal loan balance of borrower.

H Disposition of Funds Statement - After all funds have been disbursed from rehabilitation escrow account and the account has been closed, the Agency/lender shall prepare a Disposition of Funds statement in which lender or Agency shall account for the disposition of the full rehabilitation loan amount and any other funds deposited in the rehabilitation escrow account for applicant.

CHAPTER FIVE

CONSTRUCTION

5.01 DETERMINATION OF WORK TO BE DONE: The Property Rehabilitation Specialist (PRS) and the owner will inspect the property, and will identify deficiencies, per the Property Rehabilitation Standards which will be required to be completed with the rehabilitation loan. Other work may be identified that the PRS suggests should be done, but are not specific Agency requirements.

5.02 CONTRACTOR SELECTION AND BIDDING:

A. The PRS will provide owner with a borrower's guide which will include the following:

1. Instructions on how to find a contractor and obtain a bid.

2. Licensing and insurance requirements for contractor.

3. Instructions to the contractor.

4. A contractor's list.

B. Based on the property inspection report, contractor(s), selected by the owner, will provide a work write-up and cost estimate. The work write-up must describe the rehabilitation work to be done, and the cost estimate must be reasonable and reflect actual costs prevailing in the locality for comparable work. The PRS will review the submittal for compliance with Agency requirements.

Upon request and when needed, the PRS will provide additional assistance to the property owner in selecting a contractor.

C. Contractor shall be licensed, of good reputation, financially sound, and have adequate financial resources to carry out his/her bid and proposal to do the necessary work within the time specified by the contract.

5.03 CONTRACTING FOR REHABILITATION WORK:

A. Rehabilitation work shall be undertaken only through a written contract between a licensed general contractor and the property owner.

B. Award of Construction Contract - Execution of the contract documents by the property owner and contractor constitutes the award of a construction contract for the rehabilitation work. Copies of the executed documents will be distributed to:

1. the contractor;
2. the homeowner;
3. the lender;
4. the Agency construction and loan files.

C. Authority of Agency - The Property Rehabilitation Specialist shall assist the owner in working with the contractor, to ensure that the work is performed in accordance with the provisions of the construction contract and to protect the Agency's interest as lender. Agency and the Department of Housing and Urban Development shall, at all times, have access to the work during its progress, and shall be furnished with every reasonable facility for the control, supervision, and inspection for ascertaining that the materials, workmanship and equipment are in accordance with the requirements and intentions of the contract.

D. Inspections/Payments - Upon inspection and approval for payment by the owner, Agency shall inspect the job and determine if the repair work is satisfactory. Agency will then approve the payment request and route that request to either the lender contracted escrow company or Agency Finance Department, depending on the financial source.

E. Change Orders - Owner, without invalidating the contract, may order changes in the work within the general scope of the contract, consisting of additions, deletions or other revisions, the contract sum and the contract time being adjusted accordingly.

All such changes in the work shall be authorized by change order, and shall be executed under the applicable conditions of the contract documents. If contractor performs any extra work prior to receipt of an approved change order, he/she forfeits all right to extra payment for such work.

F. Completion of Work/Final Payment - Upon request for final completion inspection by property owner, Agency staff will inspect the property for compliance to the construction contract.

If there are items yet to be completed or need to be re-done, owner will provide contractor with a "punch list", identifying what remaining work items require correction. Once all work is satisfactorily completed, Agency/owner will:

1. approve all contract work;

2. obtain signed-off copies of all building permits;

3. obtain lien releases from contractor and all sub-contractors and suppliers, and

4. obtain all warranties and guarantees for owner.

G. <u>Default on Work Requirements</u> - If the contractor should abandon, sublet, assign, be adjudged bankrupt, fail to perform or make prompt payment, the owner may, without prejudice and after giving proper notification, terminate the contract. Owner must give the Surety first choice to complete all work, if a Performance and Payment Bond has been provided by contractor, after which, owner shall have the right to take possession of the job and complete the work by whatever method owner may deem expedient. In such cases, contractor shall be entitled to only that portion of funds not required to complete the contract requirement. If such expenses should exceed the unpaid balance, the contractor shall be obligated to pay the difference.

CHAPTER SIX

GENERAL REQUIREMENTS - TERMS AND CONDITIONS

6.01 TRUTH-IN-LENDING REQUIREMENT: This section describes the Truth-in-Lending Act and disclosure requirements which must be followed in the settlement of loans.

A. Background/The Act - The Truth-in-Lending Act is Title I of the Consumer Credit Protection Act (Public Law 90-321; Title 15, U.S. Code 1601, etc. seq.), enacted by Congress on May 29, 1968. The act required that borrowers in "consumer credit transactions" be vested with certain rights and protections in connection with the transaction, and that they receive specified written information from their lenders. The disclosures must be made before credit is extended and before the borrower becomes obligated in connection with the transaction, i.e., before execution of a Promissory Note and Deed of Trust. Among the required disclosures are:

1. The amount of credit a borrower will have for his/her actual use (the AMOUNT FINANCED); and

2. The FINANCE CHARGE (consisting primarily of interest, but also other fees and charges), expressed both as a dollar amount and as an ANNUAL PERCENTAGE RATE.

B. Truth-in-Lending Disclosure Statement - An approved Truth-in-Lending Disclosure Statement is to be used at a loan settlement in meeting the requirement of the Truth-in-Lending Act.

1. Applicability: A completed Disclosure Statement shall be given to all borrowers of loans on residential property, except those borrowers which are corporations, partnerships, or otherwise organized as an independent entity or business firm under loan law.

2. Time of Furnishing Disclosure Statement to Borrower: The Disclosure Statement shall be given to borrower at loan settlement, but prior to the time he/she executes the Deed of Trust and Promissory Note obligating his or her repayment of the loan.

3. Receipted Copy of Disclosure Statement Retained by Agency: When the Disclosure Statement is given to

borrower, he/she shall be requested to sign and date the Statement in the presence of an authorized representative of Agency who shall also sign as witness. A signed and witnessed copy of the disclosure Statement shall be retained by Agency in the loan application file.

6.02 ADDITIONAL TERMS, CONDITIONS AND ASSURANCES: Specific legal provisions and conditions for a rehabilitation loan are set forth in the Deed of Trust, or other security instruments, and the Promissory Note. In addition, an applicant must agree to the following "terms and conditions":

A. Civil Rights - Borrower shall not discriminate upon the basis of race, color, sex, marital status, handicap, religion or national origin in the sale, lease, rental, use or occupancy of the property to be rehabilitated under this program.

B. Equal Employment Opportunities - As required, borrower shall comply with all applicable provisions of Federal statutes and regulations and City or County ordinances concerning equal employment opportunities for persons engaged in rehabilitation work undertaken in connection with Sacramento's Rehabilitation Program.

C. Use of Proceeds - Borrower shall agree to use loan proceeds only to pay for costs of services, materials and relocation, if applicable, necessary to carry out the rehabilitation work identified in the project work plan. Proceeds shall not be used to pay expenses for work completed prior to loan approval or authorization to proceed.

D. Insurance

1. There shall be a policy of title insurance on all secured loans in the amount of the rehabilitation loan.

2. Fire and extended coverage insurance shall be required on the property, naming lender or Agency as first loss payable or second loss payable per loan position.

E. Protect the Public Interest - Borrower shall allow no employee or official of Agency and/or City or County of Sacramento to have any interest, direct or indirect, in the proceeds of a loan.

F. Fees, Commissions or Gifts - Borrower shall pay no fees or commissions and make no gifts to any person exercising any function or responsibilities, direct or indirect, in connection with administration of the loan.

G. Minority Contractor Participation - Borrower shall agree to provide opportunities for participation in rehabilitation by minority and female business enterprises.

H. Loan Security Requirements - Borrower shall provide security for the loan in the form of a Promissory Note secured by a Deed of Trust with Assignment of Rents.

I. Escrow of Rehabilitation Loan Funds - Borrower shall authorize the City or County of Sacramento or its designee, to establish an escrow for, and/or act as escrow agent of, the rehabilitation loan and to authorize disbursement of such funds to borrower and contractor, as set forth in the contract between them. In the case of multiple ownership, where borrowers hold title, the signature of every title-holder will be required on all documents where signature of the borrower is required, unless a properly-executed power of attorney is filed with Agency.

J. Records - Borrower shall keep such records as may be required by the City or County, or its agent, in connection with the rehabilitation work.

K. Owner Displacement (Relocation) - If the structure is occupied at the time of rehabilitation, work shall be conducted in such a manner which minimizes displacement. If displacement is anticipated, borrower agrees to be responsible for the cost of the temporary relocation at another location. Relocation costs may be funded as part of the loan process, or in cash by borrower.

L. Inspections - Borrower shall permit inspection of the property by Agency staff and by local building inspectors for compliance with the contract documents. Borrower shall permit any other inspectors deemed necessary by the Agency to further inspect the job with regard to the property, the rehabilitation work, and all contracts, equipment, materials, payrolls, and conditions of employment pertaining to the work.

M. Permit Required - No work shall be done without first obtaining the necessary permit or permits issued by the Building Inspection Department.

N. Eligible Contractors - Borrower shall award contracts for rehabilitation work only to contractors who are registered and licensed by the State of California. Applicable lien releases are to be obtained by the contractors and submitted to Agency before final disbursement can be made.

O. Hold Harmless - Borrower shall hold Agency harmless from any injuries to borrower's property or personal belongings during the rehabilitation of the property.

P. Owner Responsibilities of Rehabilitation Work:

1. Borrower must be willing to ensure the building will meet the minimum rehabilitation standards.

2. In the event of borrower's or his/her agent's failure to perform, Agency will cause satisfactory completion of the remaining work. Any loss to Agency, attributable to this failure to perform, could constitute a lien on the property and would result in an increase in the loan. Renegotiation of the loan will establish a revised payment plan.

3. Borrower also agrees to maintain the security of the rehabilitation loan in a decent, safe and sanitary condition, following completion of the rehabilitation work.

6.03 CHANGE IN BORROWER STATUS: At the option of Agency, all loans shall become due and payable when:

A. title to the property is transferred.

B. use of the property changes from residential to commercial.

C. the term of the loan expires.

D. the work itemized in the Property Rehabilitation Work Plan is not completed within contract term, or a reasonable time thereafter.

E. the owner significantly deviates from the Property Rehabilitation Plan without consent of Agency.

F. owner fails to adhere to relocation provisions.

G. the property becomes non-owner occupied.

6.04 ASSUMPTION OF CITY/COUNTY-FUNDED REHABILITATION LOANS: In the event borrower, without prior written consent of the Agency, sells, agrees to sell, transfers or conveys its interest in the real property or any part thereof or any interest therein, Agency may, at its option, declare the loan immediately due and payable, provided that Agency shall not declare the loan due and payable if all of the following conditions are met:

A. The transfer or conveyance occurs solely as a result of the death of borrowers or one of them.

B. The transferee(s) is deceased borrower's father, mother, son, daughter or spouse.

C. The transferee(s), and all of them, meet the program eligibility requirements for the loan at the time the property is conveyed or transferred.

D. If the property is a single-family residence, and the transferee(s) makes the property his/her residence within six months subsequent to the transfer, the following conditions apply:

1. The interest rate on the assumed loan will be the same as the interest rate in effect at the time the loan was originally made.

2. Whether the assumed loan will be amortized or deferred will be determined by the policy/regulation in effect at the time the loan is assumed.

NOTE: The existing policy for determining whether applicants may qualify for a deferred loan is as follows:

"The maximum housing expense for homeowners after rehabilitation shall not exceed 28% of the borrower's income."

All loans which are not fully amortized reviewed every five-years.

OR

E. If the transferee(s) does not make the property his/her principal place of residence within six months subsequent to the transfer, and/or rents or leases the property, the terms and conditions of the Section 8 Moderate Rehabilitation Loan Program will apply in rewriting the assumed loan. The major provisions of the Moderate Rehabilitation Loan Program that will apply in these instances are as follows:

1. Payback: All loans shall be fully-amortized loans, repaid in equal monthly installments of principal and interest for the term of the loan.

2. Loan Term: The loan term will be for a maximum fifteen-year period.

3. Interest: Interest rates on loans will be determined on an individual case basis. Agency Loan Officer will be responsible for determining the interest rate of the loan necessary, following the guidelines of the Section 8 Moderate Rehabilitation Program. The following steps would be utilized:

   a. Compute the base rent of the units. Base rent is calculated on actual and projected annual costs of the following items:

      1) Existing debt service (principal and interest payments) of loans senior to rehabilitation loan.

      2) Insurance (fire and extended coverage).

      3) Taxes (real and personal property).

      4) Utilities (paid by property owner).

      5) Management and maintenance.

      6) Reserve for replacement (capital expenditure items; hot water heaters, etc.).

      7) Rate of return on investment not to exceed 8%, or rate allowed under specific funding program.

   a. Once the debt service has been determined, then:

   b. Determine Section 8 Fair Market Rents (FMRs) for the units.

   c. Rehabilitation Loan debt service is the difference between No. 1 and No. 2.

   d. Determine interest rate project can afford. (In no instance shall the interest rate charged be less than the rate in effect at the time loan is assumed.)

   e. Transferee(s) execute such assumption documents as may be necessary to bind him/her to all covenants of the Deed of Trust and the Note secured thereby.

   f. Consent to one such transaction shall not be deemed to be a waiver of the right to require such consent to future or successive transactions. The terms "borrower" and "Agency" include their successors.

6.05 CANCELLATION AND ACCELERATION OF AMOUNTS DUE: At its option, Lender and/or Agency or their designees reserve the right to cancel and termination this rehabilitation loan, by sending written notice of cancellation to applicant at his/her mailing address as set forth in the application if, for a period of 45 days from the date of rehabilitation loan approval, applicant shall have failed or refused to cause the commencement of physical rehabilitation work on his/her property, or if the applicant shall have failed or refused to comply with such rehabilitation work within a reasonable time. Agency and/or lender's failure to exercise this right shall not be deemed a waiver thereof, as long as the rehabilitation work remains incomplete.

6.06 LOAN PREPAYMENT: All loans may be repaid at any time, in whole or in part, with no prepayment penalty.

6.07 DEFAULT AND FORECLOSURE: Agency is authorized to declare, at its option, all or any part of such indebtedness immediately due and payable upon the happening of any of the following events:

A. Failure to pay the amount of any installment of principal and interest, or any other charge payable on the note, which shall have become due, prior to the due date of the next installment.

B. Non-performance by the Trustor of any of the terms and conditions of this Deed of Trust, or of the Promissory Note, or of any other agreement heretofore, herewith or hereafter made by the Trustor with the beneficiary, in connection with such indebtedness, after Trustor has been given notice by the beneficiary of such non-performance.

C. Failure of Trustor to perform any covenant, agreement, term or condition in any instrument creating a lien upon the conveyed property, or any part thereof, which shall have priority over the lien of this Deed of Trust.

D. Beneficiary's discovery of Trustor's failure in any application of Trustor to beneficiary, to disclose any fact deemed by beneficiary to be material, or in the making therein that would have prevented the Trustor from being eligible for the rehabilitation loan program,or in any of the agreements entered into by Trustor with the beneficiary (including, but not limited to, the Note and this Deed of Trust) of any misrepresentation by, on behalf of, or for the benefit of the Trustor.

E. Upon default by Trustor in payment of any indebtedness secured hereby, or in performance of any agreement hereunder, beneficiary may declare all sums secured hereby immediately due and payable, by delivery to Trustor of written declaration of default and demand for sale, and of written notice of default and of election to cause the property to be sold, which notice Trustee shall cause to be duly-filed for record. Beneficiary shall also deposit with Trustee, this Deed, the Note, and all documents evidencing expenditures secured hereby.

After the lapse of such time as may then be required by law, and following the recordation of said Notice of Default and Notice of Sale, Trustor shall sell said property at the time and place filed by it in said Notice of Sale, at public auction to the highest bidder, for cash in lawful money of the United States, payable at time of sale. Any person, including Trustor, Trustee or beneficiary, may purchase at the sale. Trustee shall apply the proceeds of sale to the payment of:

1. the expenses of such sale, together with the reasonable expenses of this Trust, which shall include legal fees if any are incurred;

2. cost of any evidence of title procured in connection with such sale, and revenue stamps on Trustee's Deed;

3. all sums expended under the terms hereof, not then repaid, with accrued interest at the rate provided on the principal debt;

4. all other sums then secured hereby; and

5. the remainder, if any, to the person or persons legally entitled thereto.

Exhibit "A" to Attachment I

Exhibit "A" to Attachment I

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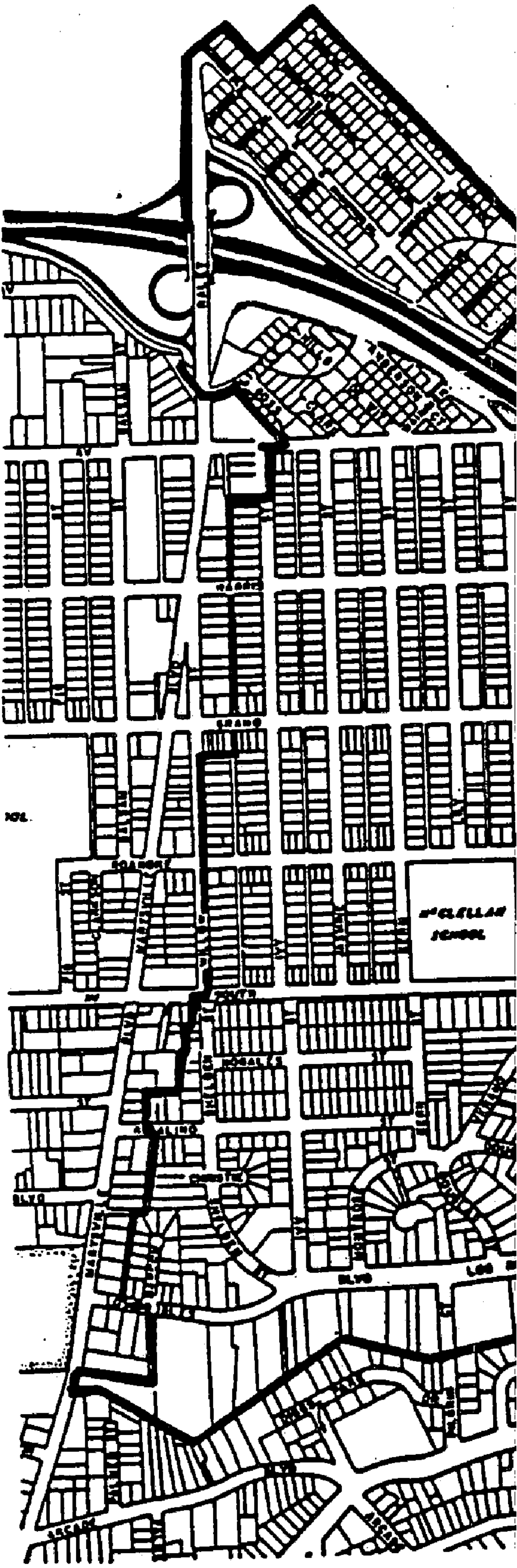
SMSA Date 2/20/87
Guide Date 12/01/87

1988 INCOME QUALIFYING GUIDE

INTEREST RATE	PERCENT OF MEDIAN INCOME	FAMILY SIZE 1	2	3	4	5	6	7	8+
4%	80%	17,700	20,250	22,750	25,300	26,900	28,450	30,050	31,650
5%	90%	19,890	22,800	25,600	28,450	30,700	33,050	35,300	37,550
6%	100%	22,100	25,300	28,400	31,600	34,100	36,700	39,200	41,700
7%	110%	24,310	27,830	31,240	34,760	37,510	40,370	43,120	45,870
8%	120%	26,550	30,400	34,100	37,950	40,950	44,050	47,050	50,050
Statistical info. only	50%	11,050	12,650	14,200	15,800	17,050	18,350	19,600	20,850

MONTHLY PAYMENTS PER REHAB LOAN AMOUNT

INTEREST RATE	$1,000	$5,000	$10,000	$15,000	$20,000	$25,000	$30,000
4%	7.40	37.00	74.00	110.00	148.00	185.00	220.00
5%	7.91	39.55	79.10	118.65	158.20	197.75	237.30
6%	8.44	42.20	84.40	126.60	168.80	211.00	253.20
7%	8.99	44.95	89.90	134.85	179.80	224.75	269.70
8%	9.56	47.80	95.60	143.40	191.20	239.00	286.80


McCLELLAN SCHOOL

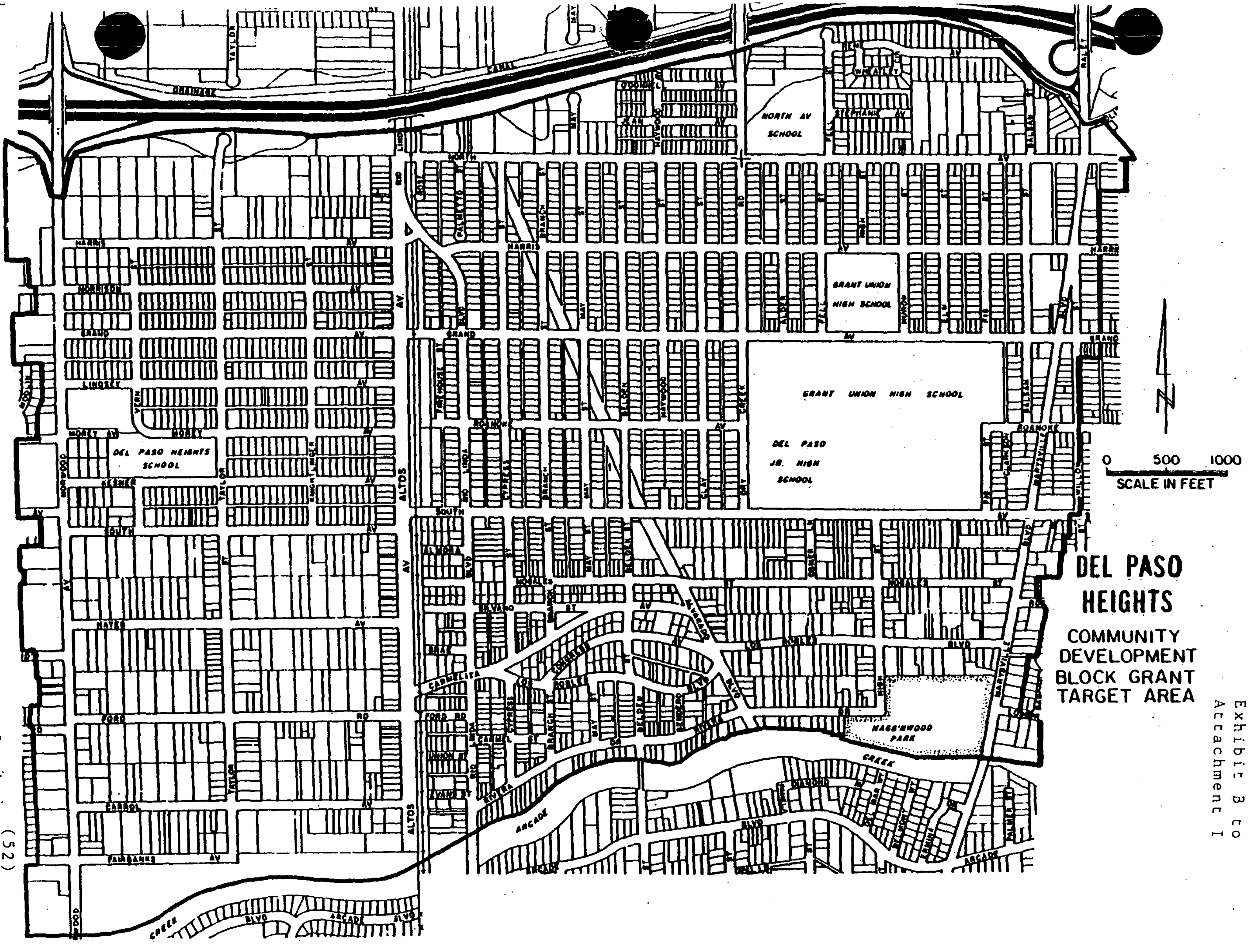


Exhibit B to Attachment I

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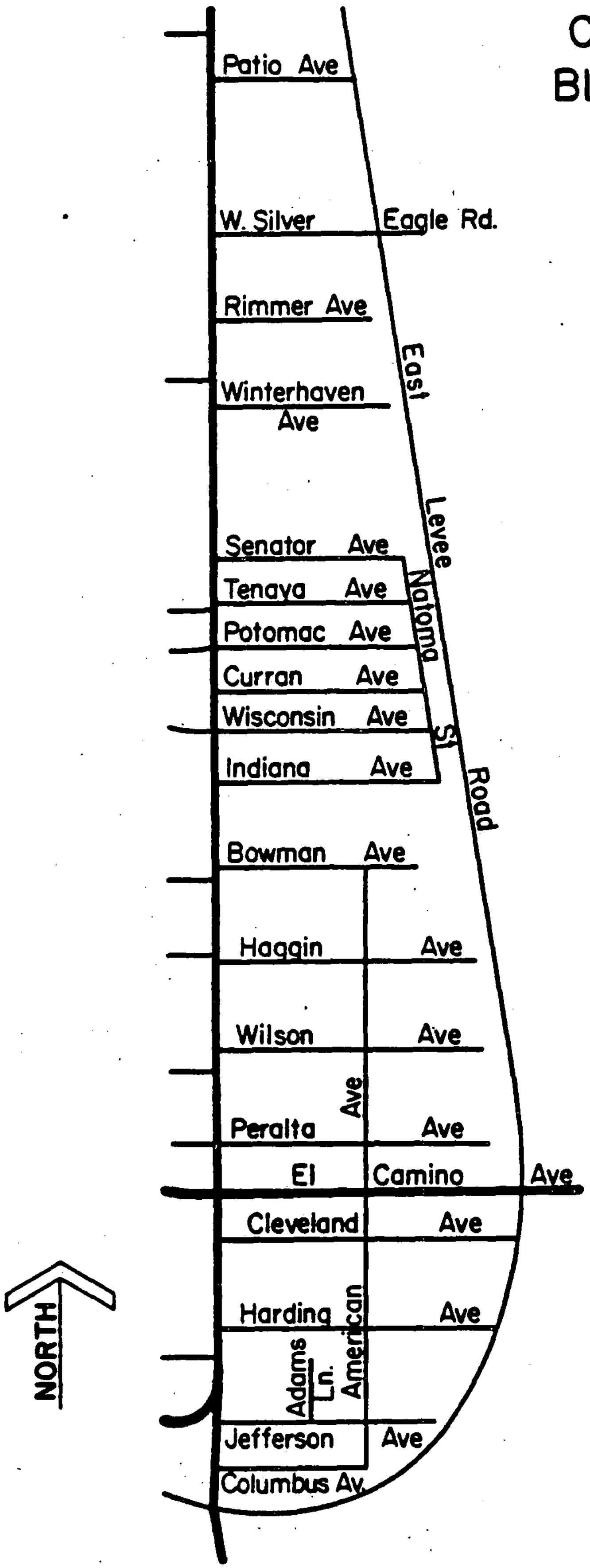
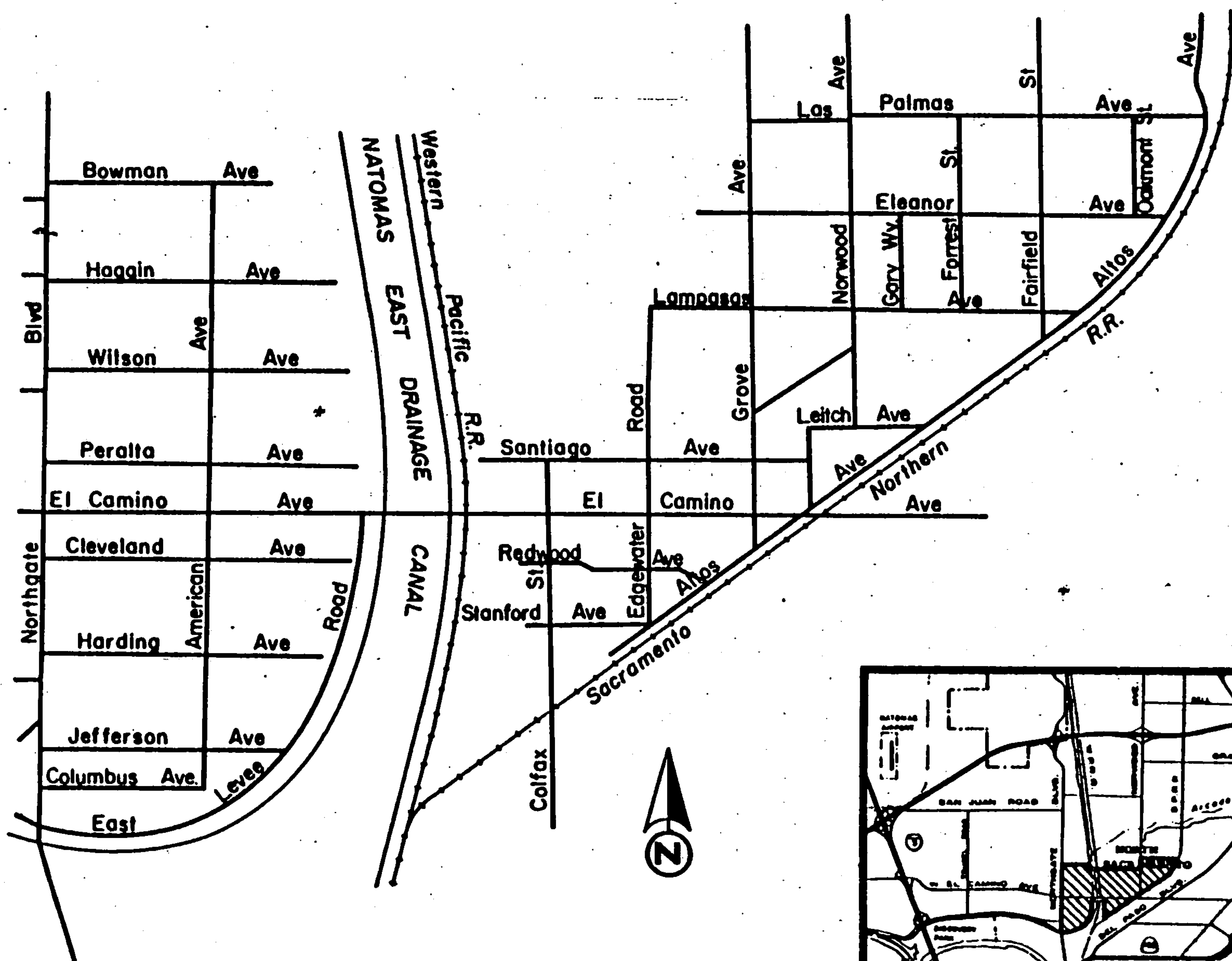
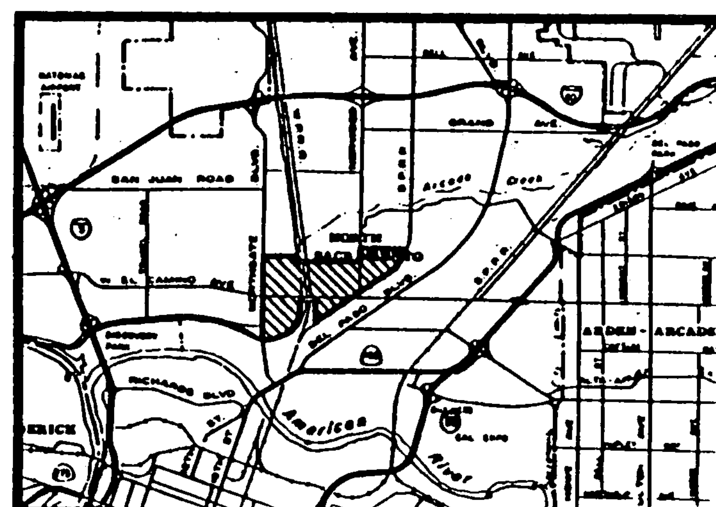
Exhibit B to
Attachment I

GARDENLAND
COMMUNITY DEVELOPMENT BLOCK GRANT TARGET AREA



GARDENLAND/NORALTO





VICINITY MAP

Exhibit B
to Attachment I

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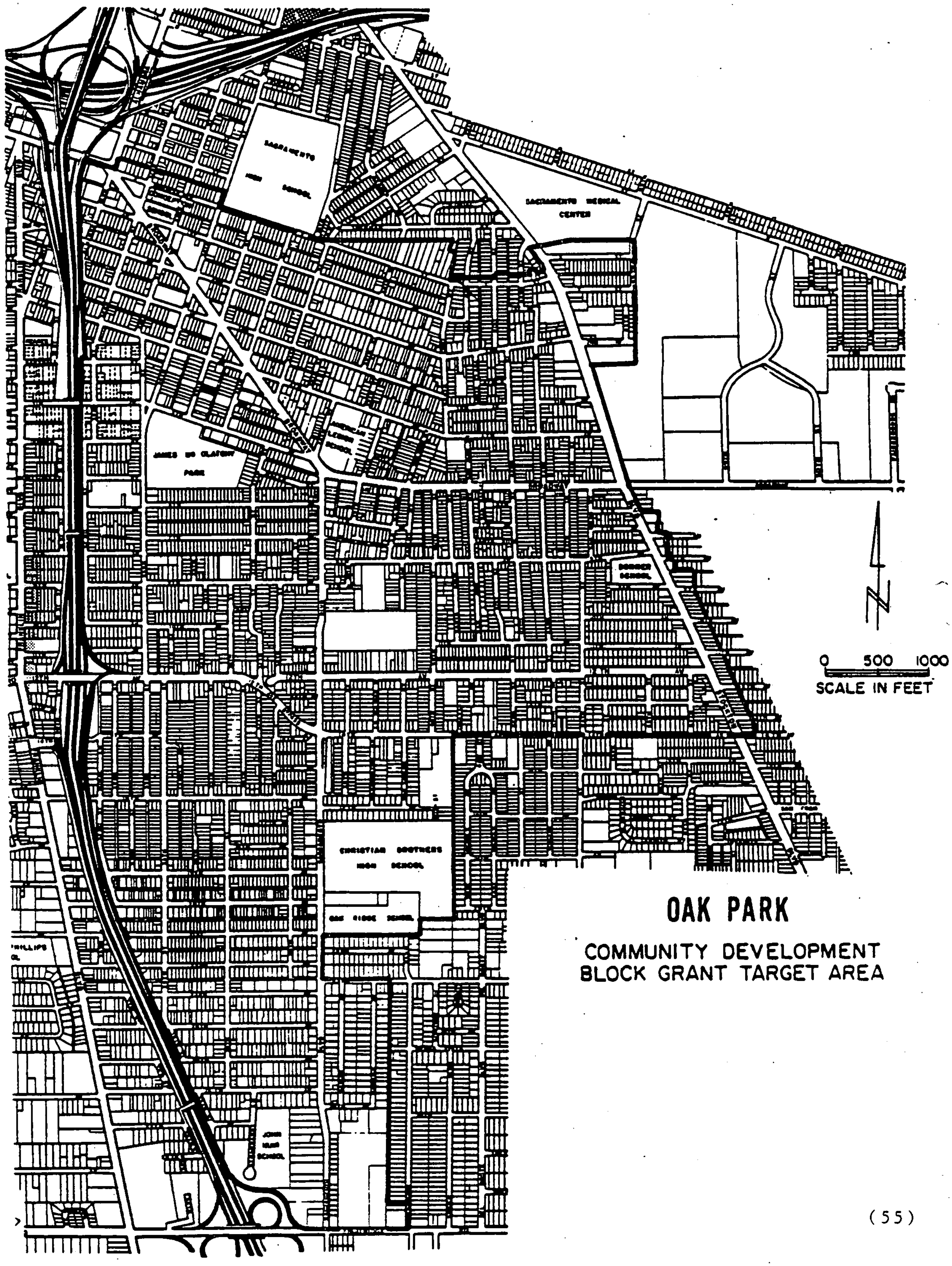
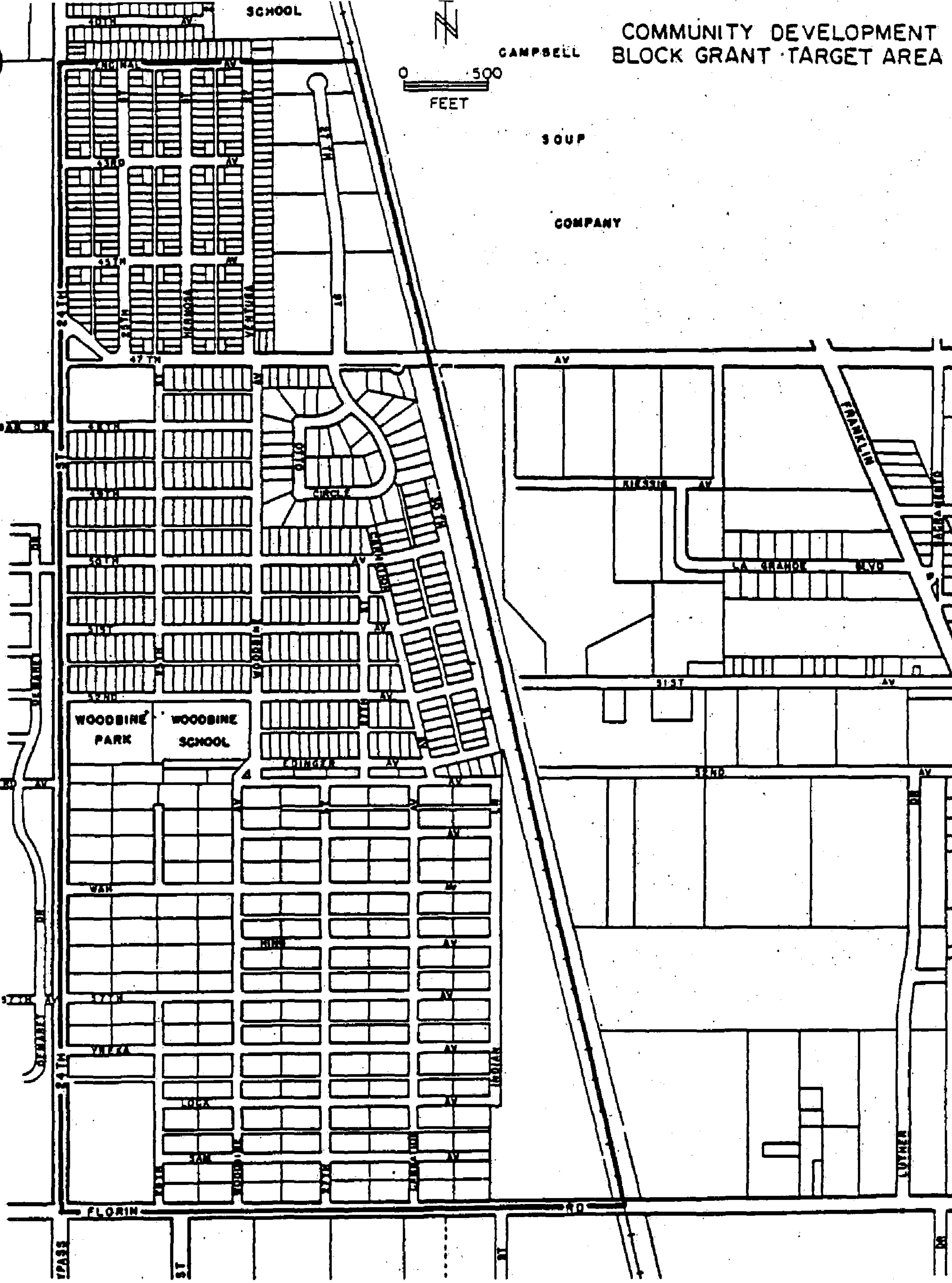


OAK PARK

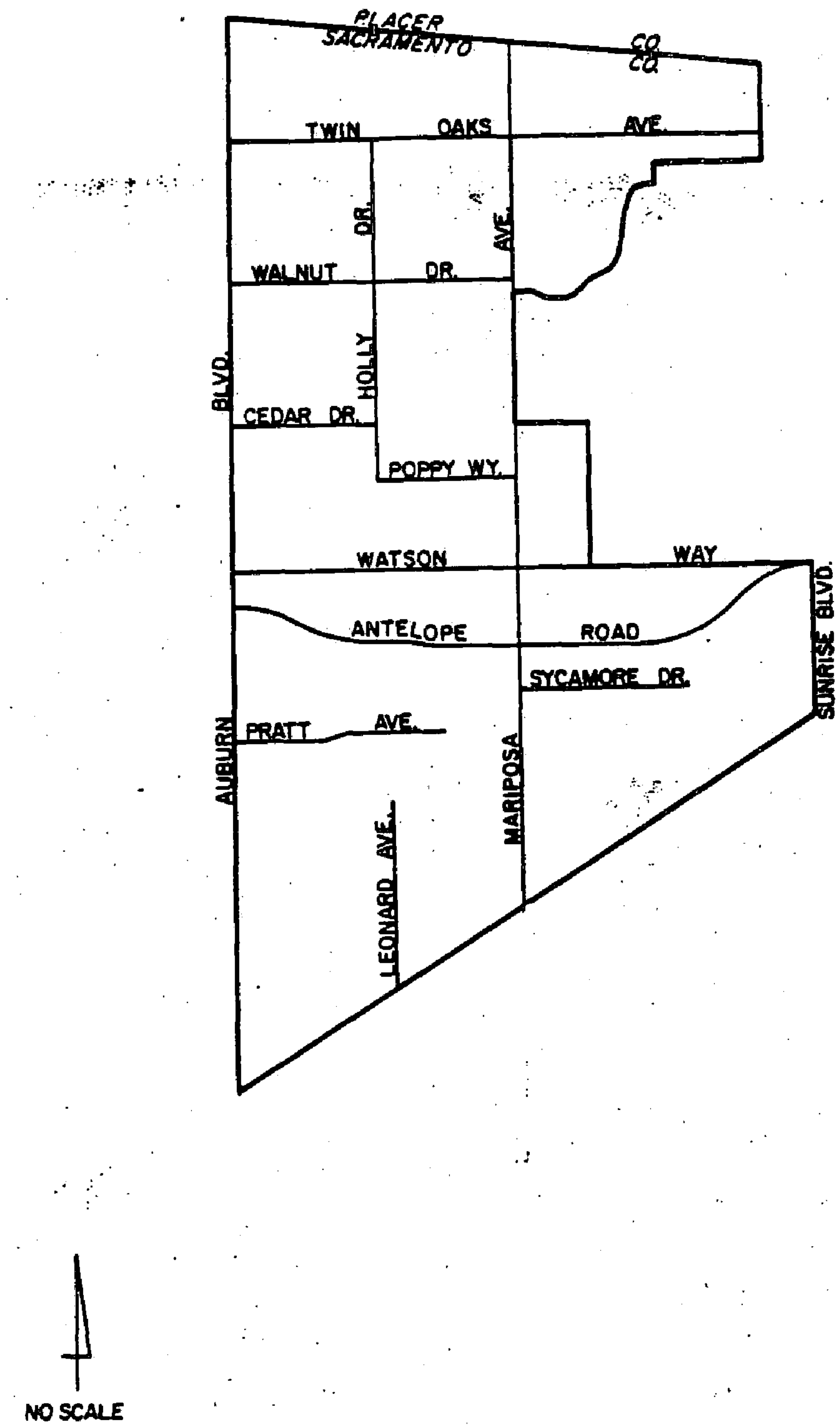
COMMUNITY DEVELOPMENT
BLOCK GRANT TARGET AREA

COMMUNITY DEVELOPMENT BLOCK GRANT TARGET AREA



CITRUS HEIGHTS COMMUNITY DEVELOPMENT BLOCK GRANT

Exhibit B
to Attachment I



CITY OF FOLSOM

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to Attachment I

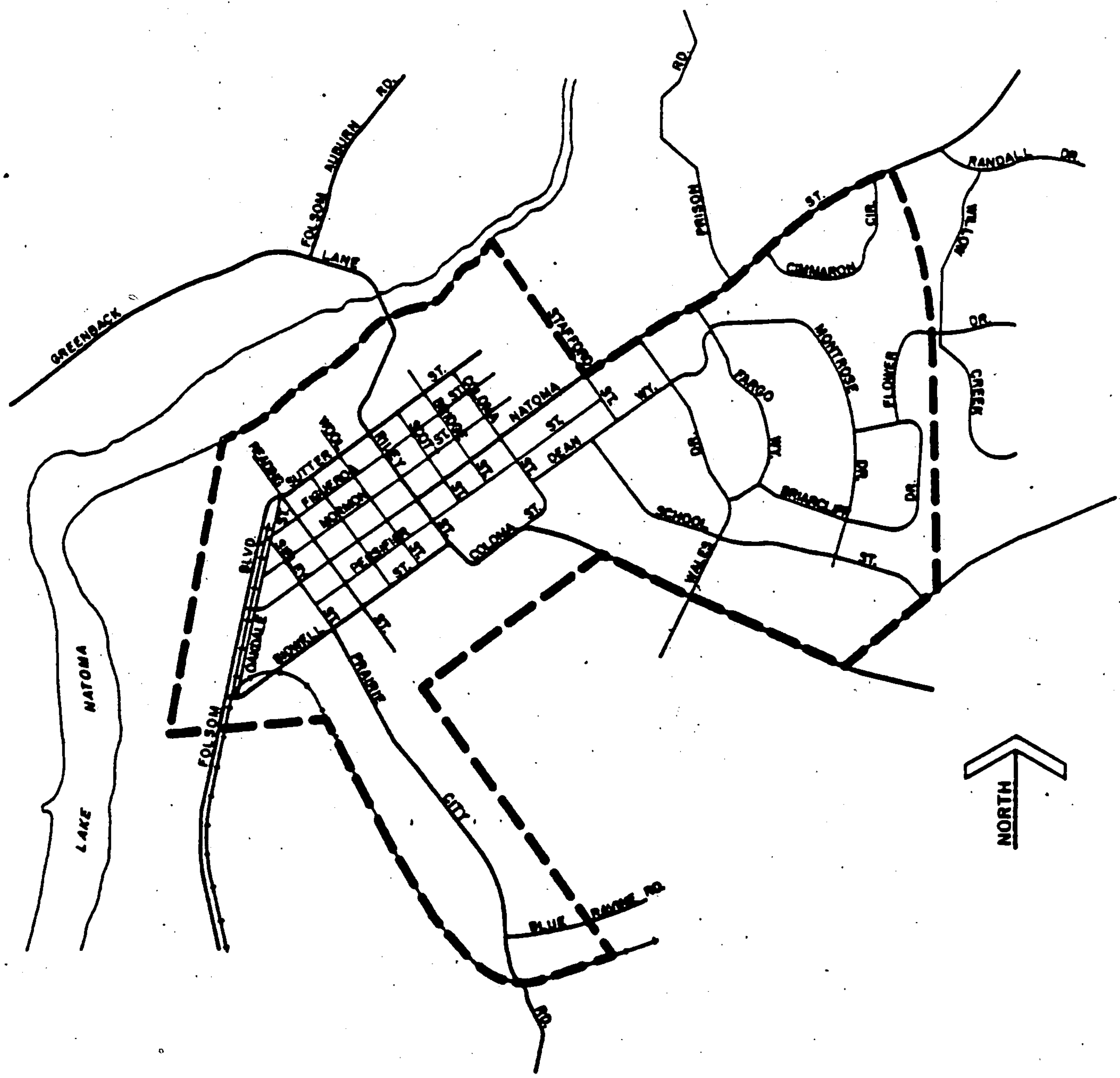
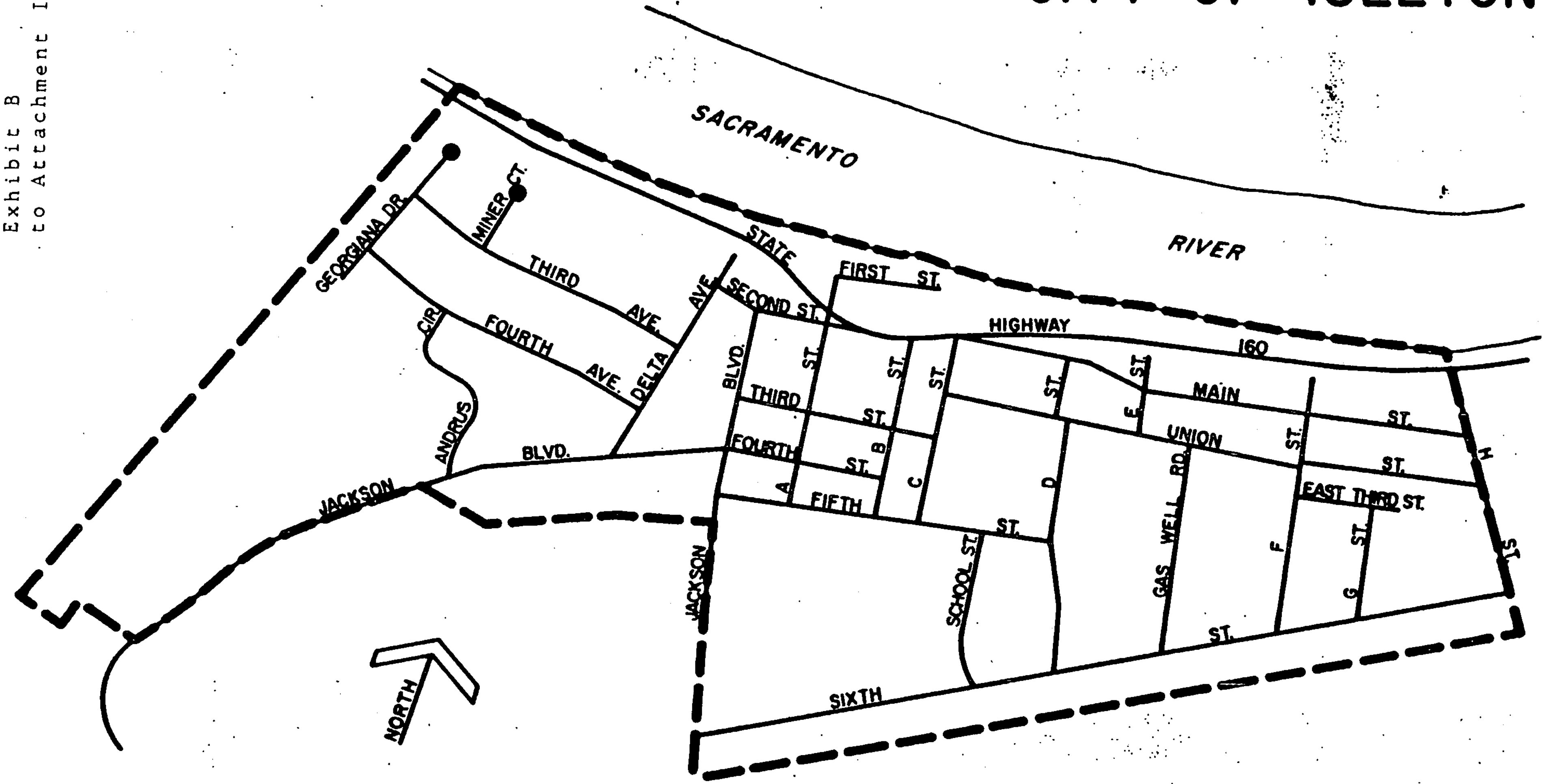
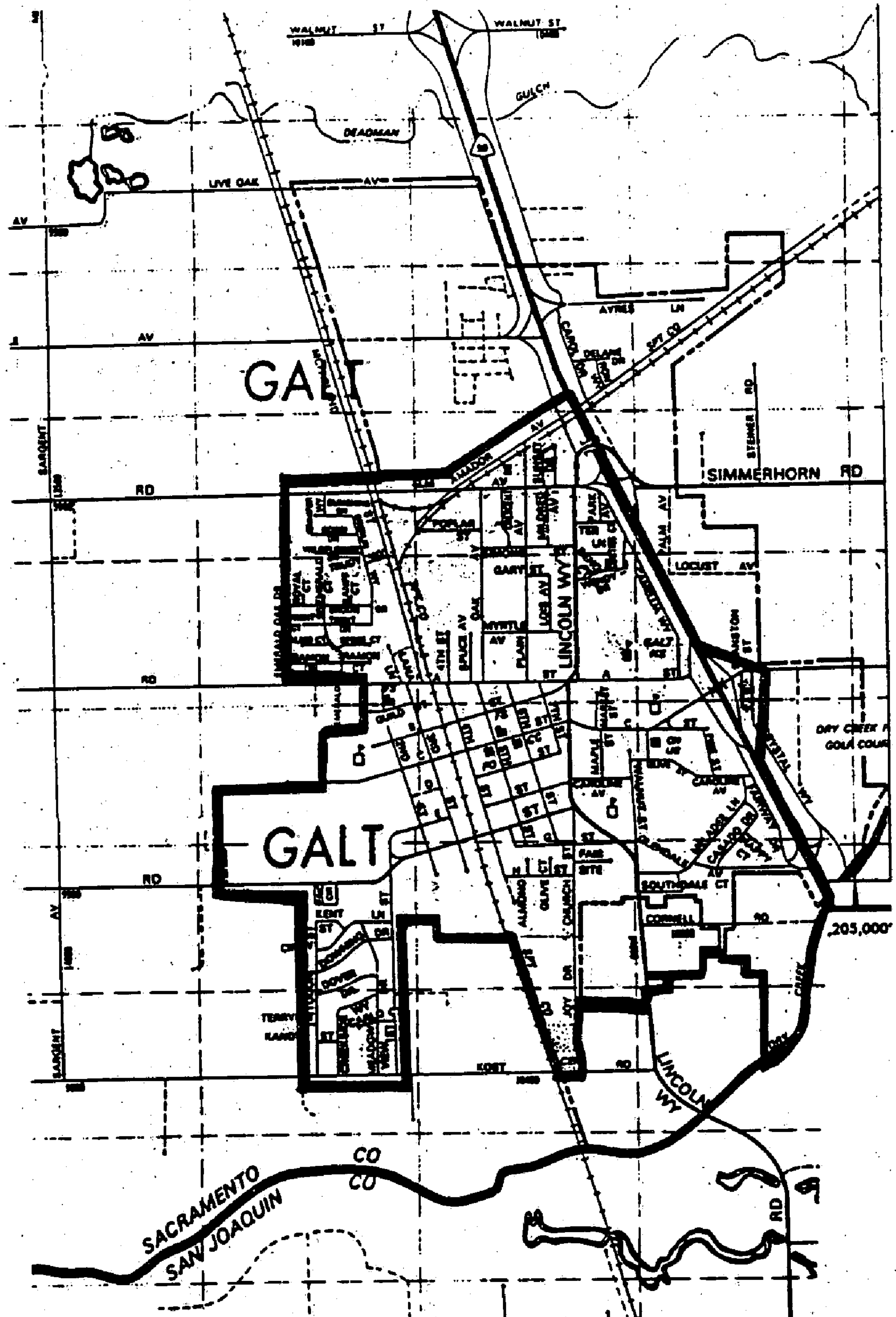


Exhibit B
to Attachment I

CITY OF ISLETON

(59)





WALNUT ST
WALNUT ST
GULCH
DEADMAN
LIVE OAK AV
AV
AV
AYRES LN
GALT
SIMMERHORN RD
SARGENT
RD
RD
RD
LINCOLN WY
LOCUST AV
DRY CREEK
GALT
SOUTHDALE CT
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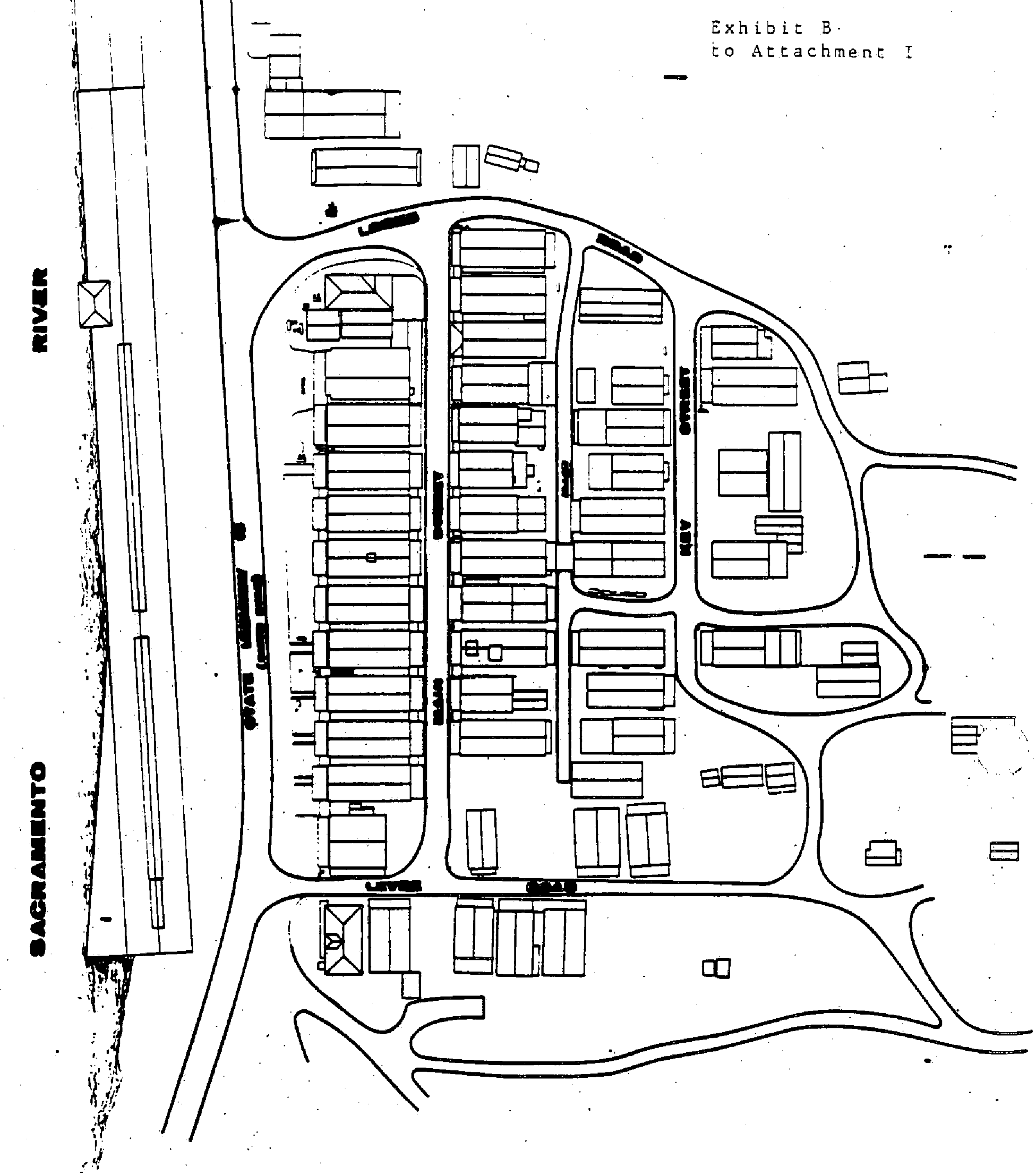
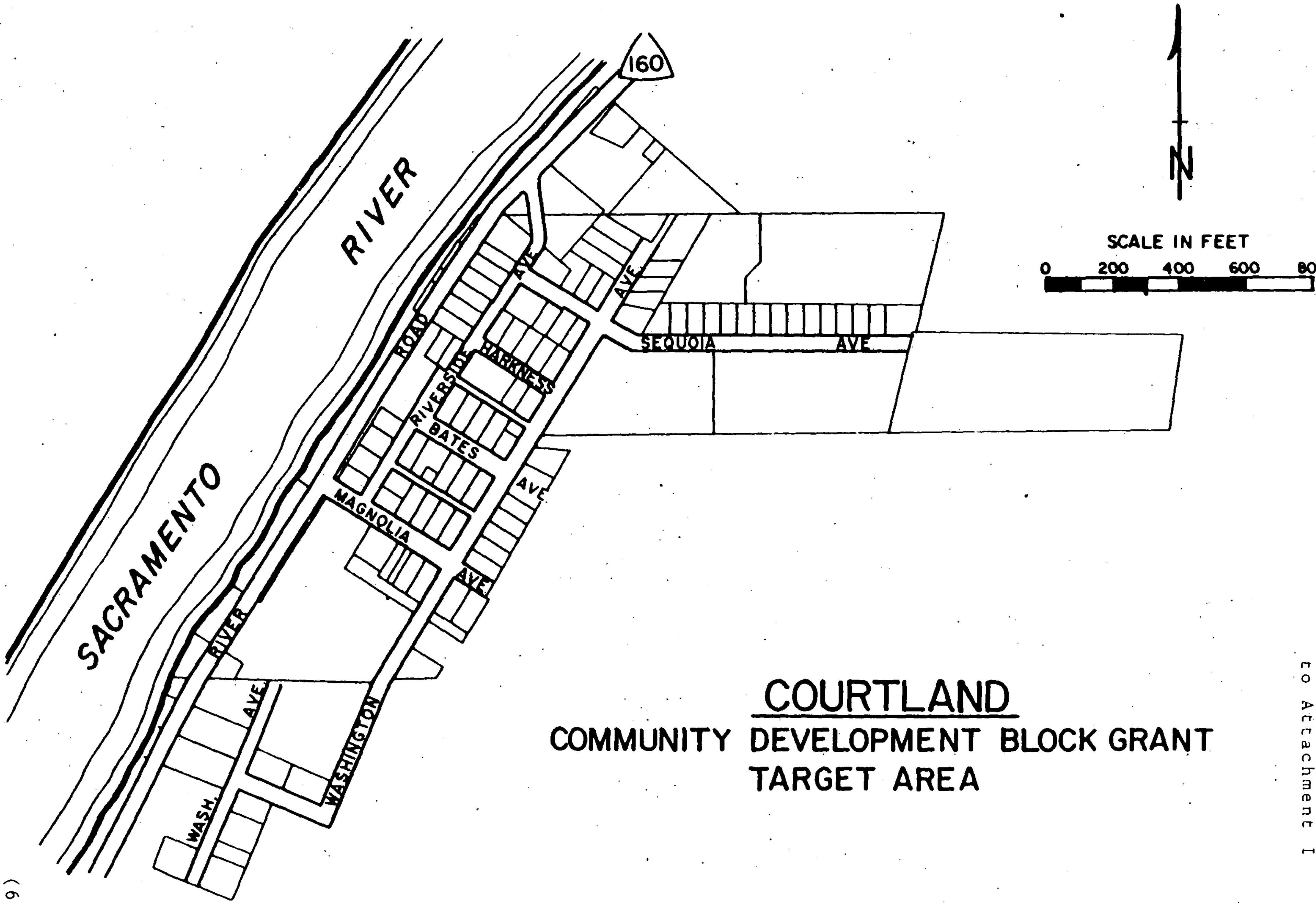
SAN JOAQUIN CO
205,000'

Exhibit B
to Attachment I



TOWN
OF
LOCKE
COMMUNITY DEVELOPMENT BLOCK GRANT TARGET AREAS

BASE MAP PREPARED BY



COURTLAND
COMMUNITY DEVELOPMENT BLOCK GRANT TARGET AREA

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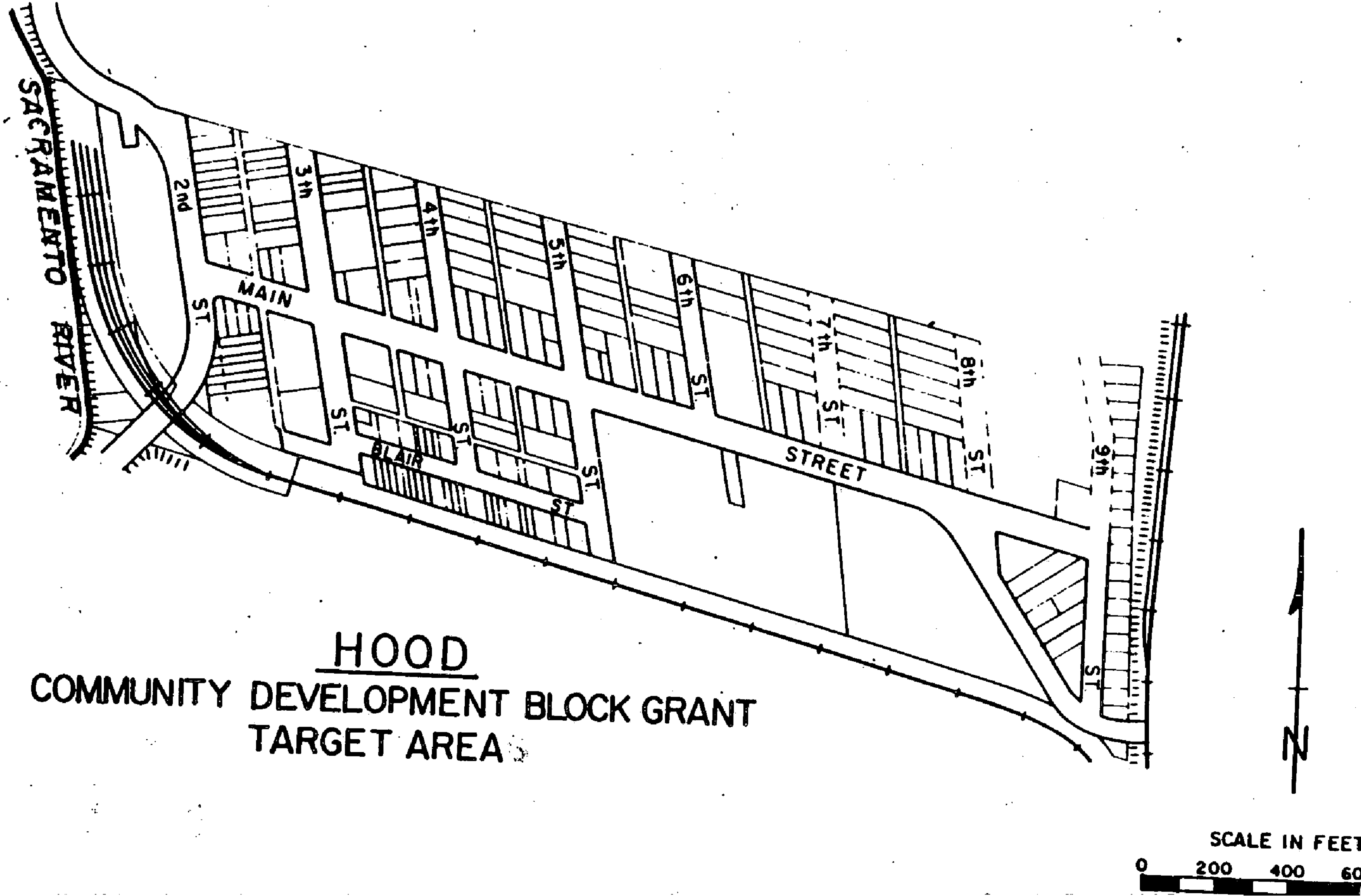

HOOD

COMMUNITY DEVELOPMENT BLOCK GRANT TARGET AREA

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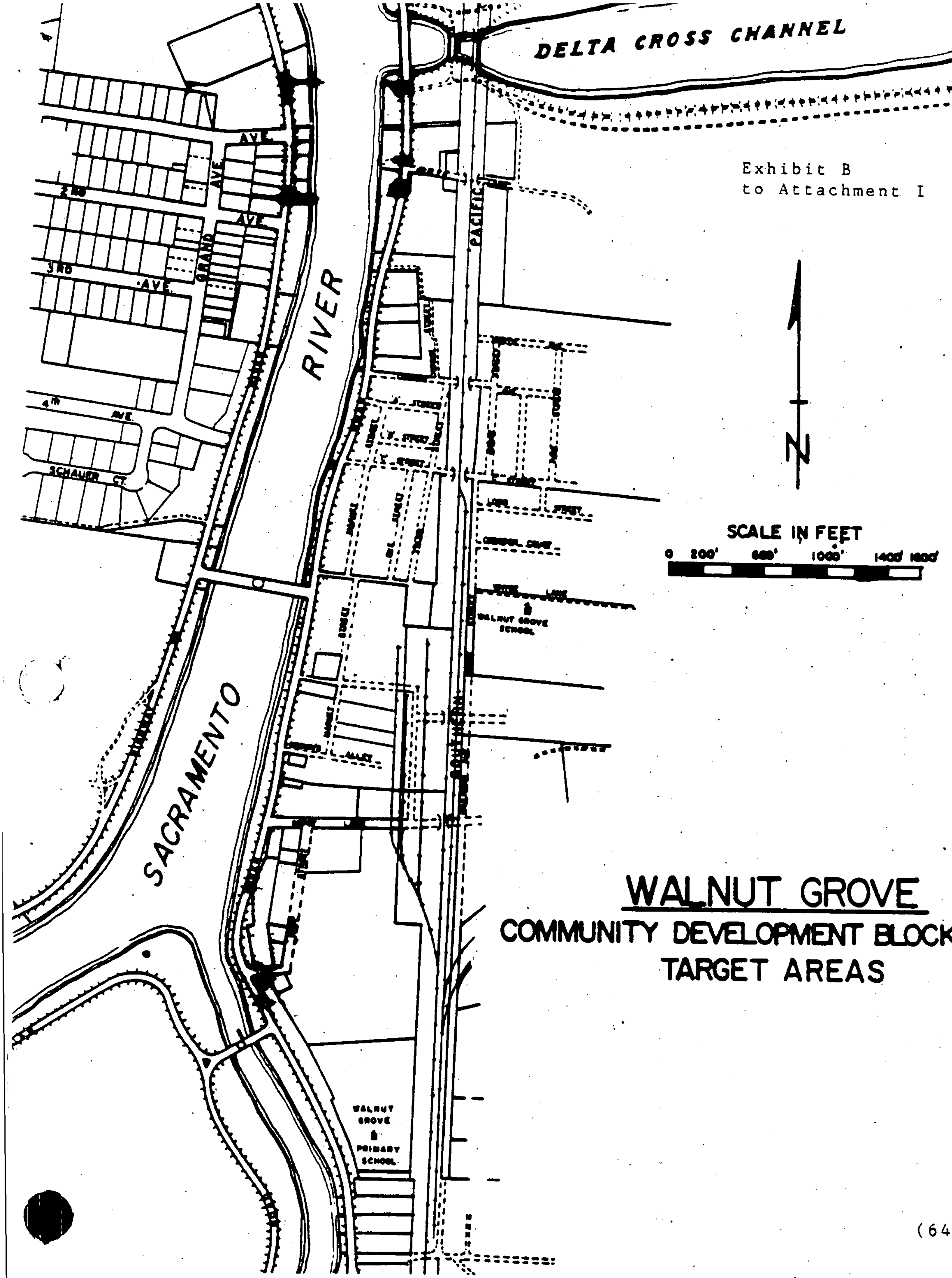

WALNUT GROVE
COMMUNITY DEVELOPMENT BLOCK GRAN
TARGET AREAS

NORTH HIGHLANDS COMMUNITY DEVELOPMENT BLOCK GRANT

TARGET AREA

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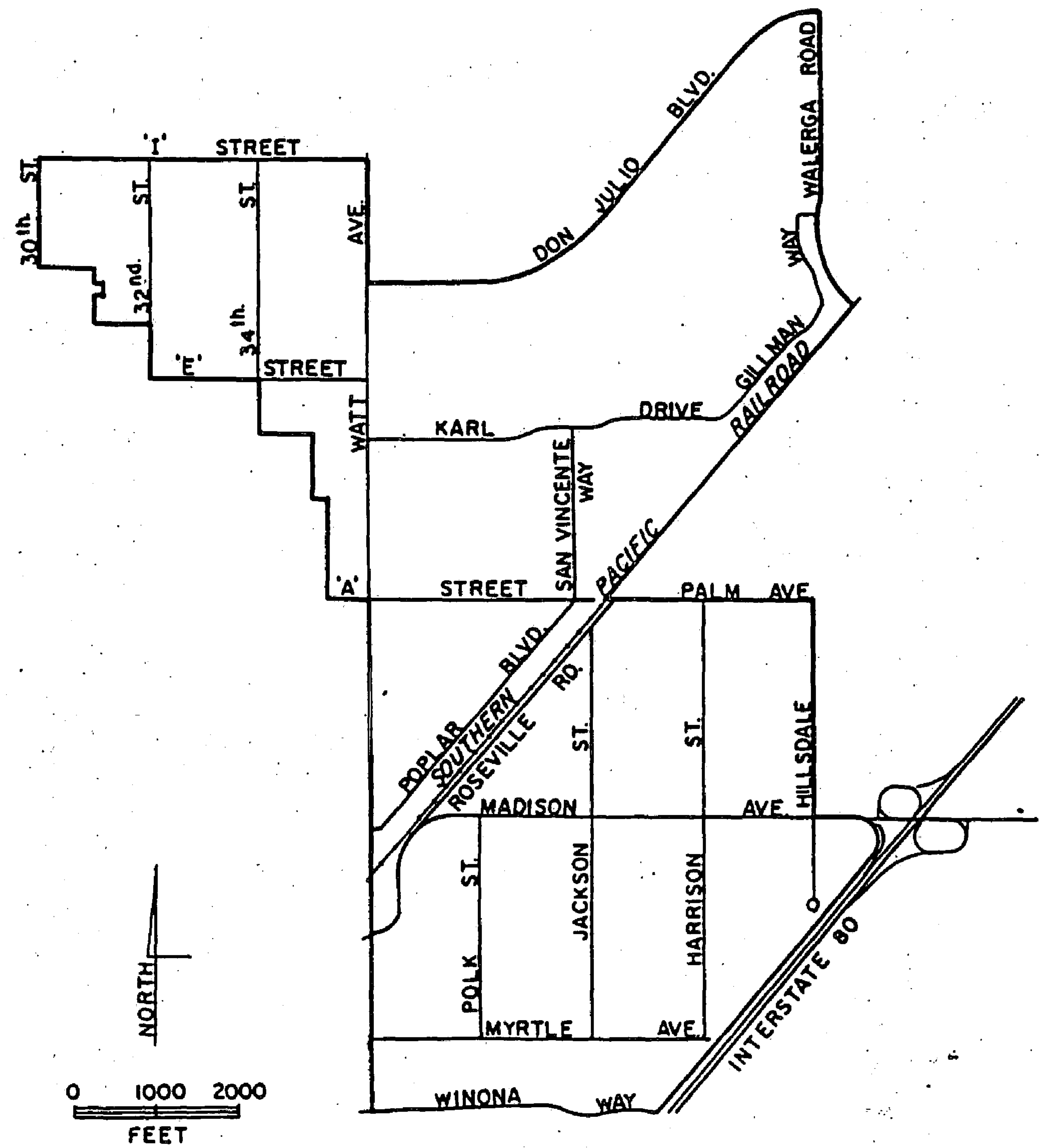

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RIO LINDA COMMUNITY DEVELOPMENT BLOCK GRANT

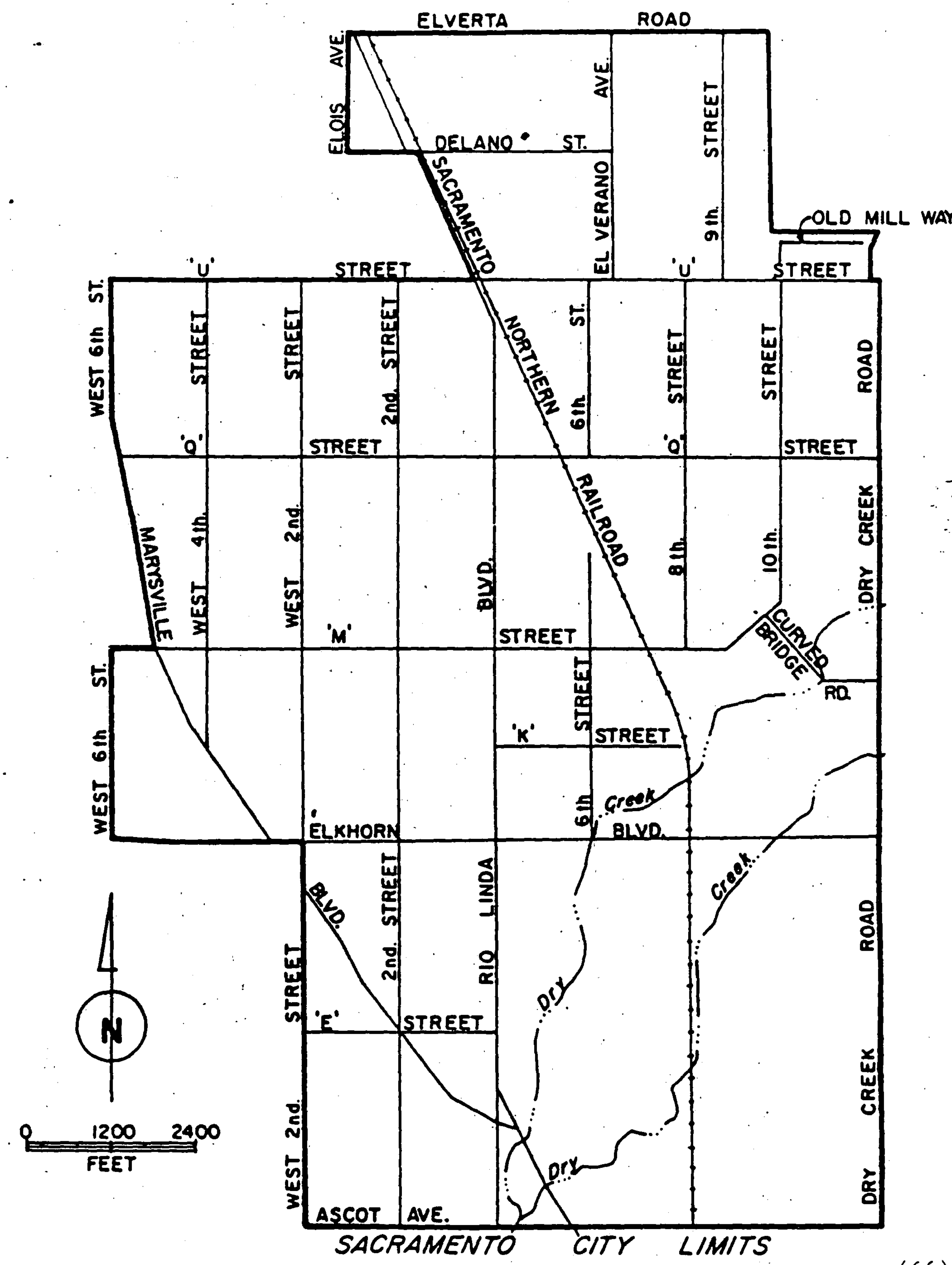
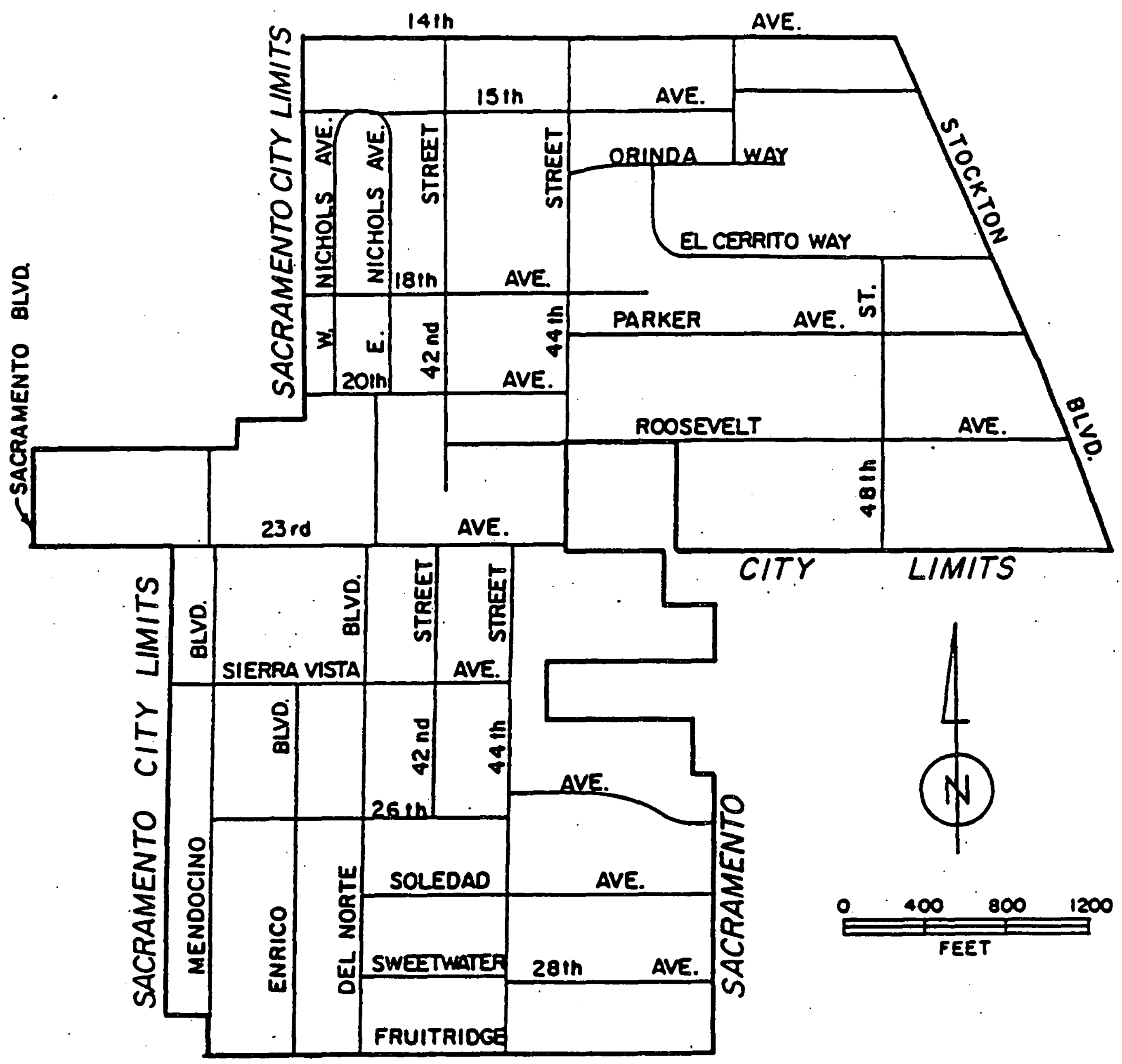


Exhibit B
to Attachment I

SOUTH SACRAMENTO COMMUNITY DEVELOPMENT BLOCK GRANT TARGET AREA

FRUITRIDGE-POCKET



SOUTH SACRAMENTO COMMUNITY DEVELOPMENT BLOCK GRANT
TARGET AREA
FRUITRIDGE-SOUTH

Exhibit B
to Attachment I

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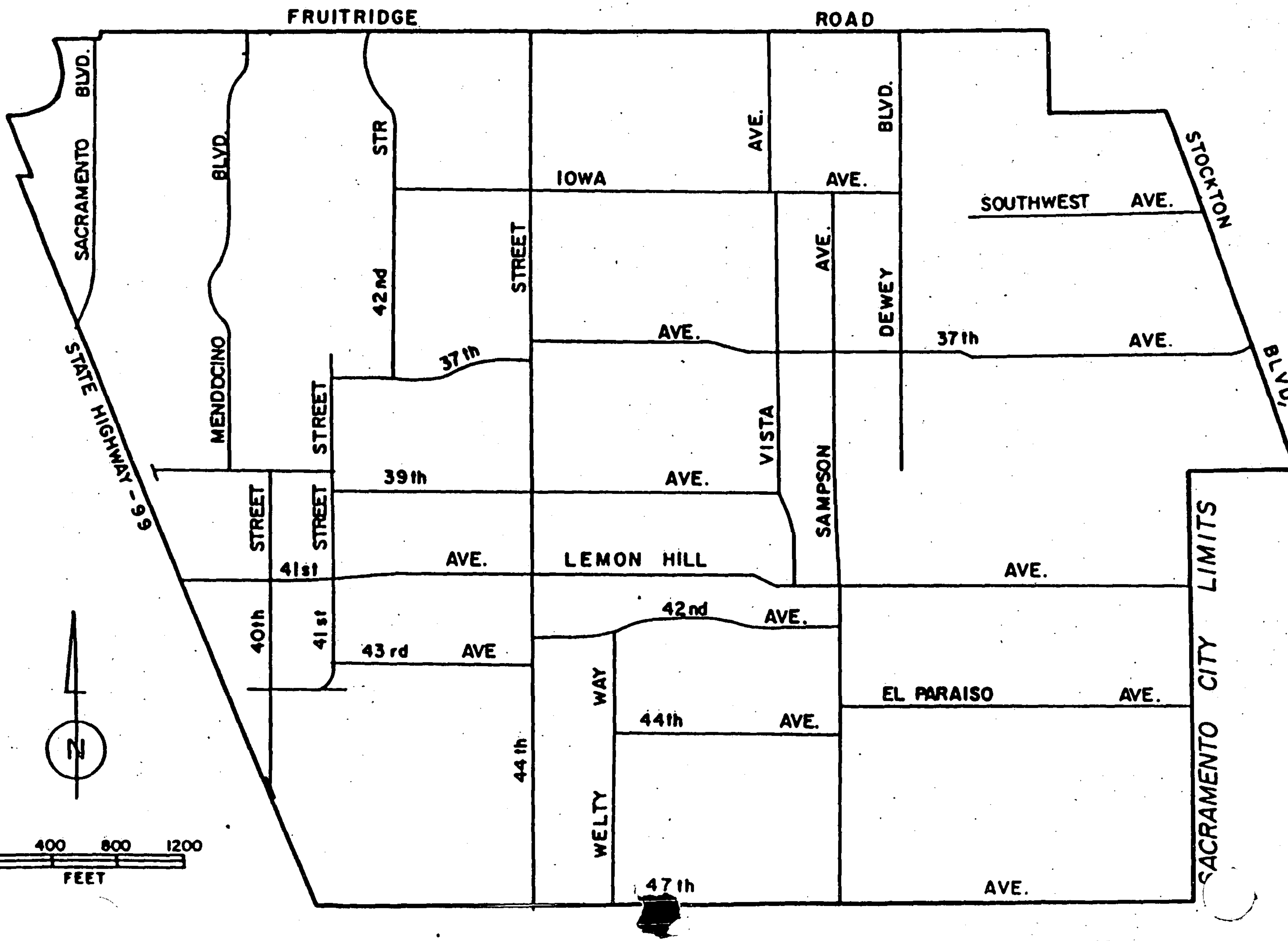

SOUTH SACRAMENTO COMMUNITY DEVELOPMENT BLOCK GRANT TARGET AREA

SACRAMENTO BOULEVARD

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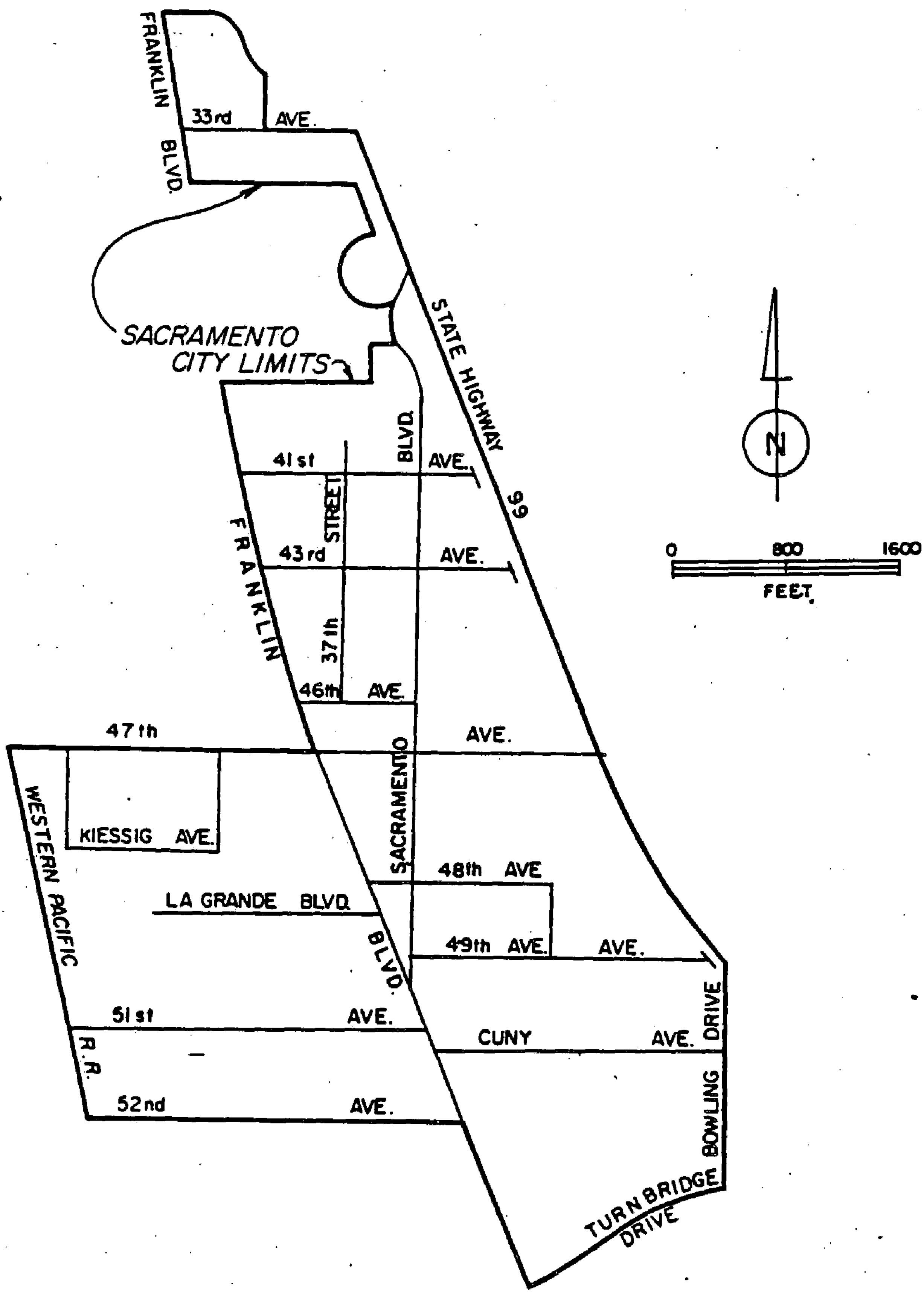
to Attachment I



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SOUTH SACRAMENTO COMMUNITY DEVELOPMENT BLOCK GRANT

FLORIN SOUTH