

HOUSING REHABILITATION AND GENERAL ADMINISTRATION POLICY & PROCEDURES MANUAL



City of Racine
Department of Housing



TABLE OF CONTENTS

	<u>Page Number</u>
Chapter 1: Introduction	6
Chapter 2: Loan Board of Review	7
Chapter 3: Eligibility Requirements	8
Property Requirements	8
Applicant Requirements	8
Chapter 4: Loan, Debt, and Other Underwriting Standards	11
Loan Limits	11
Debt Limits	11
Types of Loans	11
Chapter 5: Eligible and Ineligible Rehabilitation Costs	12
Eligible Costs	13
Ineligible Costs	14
Chapter 6: Loan Administration	16
Outreach, Public Information, Pre-Screening	16
Initial Processing of Applicants	16
Architectural, Lead-Based Paint, and Environmental Review	17
Specifications and Bidding	17
Debt Calculations	18
Loan Board of Review	18
Formal Contract and Closing	19
Progress Payment and Inspection(s)	20
Changes to Work	20
Disputes, Conflict Resolution	21
Special Procedures	21
Chapter 7: Definitions	23
Chapter 8: Affordable Rent	25
Chapter 9: Conflicts of Interest	26
Chapter 10: Contractor Qualification Policy	28

Chapter 11: Loan Compliance Review	31
Chapter 12: Loans in Default	32
Chapter 13: Miscellaneous Requirements	33
Chapter 14: Special Programs	34
Chapter 15: Property Disposition	36
Appendices	38

APPENDICES:**LETTER**

Loan File Checklist	A
Loan Worksheet	B
Uniform Residential Loan Application	C
Authorization for Release of Records	D
Notice to Housing Loan Applicants	E
Certificate of Receiving Pamphlet (Lead)	F
City of Racine HOME-funded rehab loan disclosure	G
Personal Data Form	H
Estimated Truth in Lending Disclosure	I
Good Faith Estimate (GFE)	J
Notice of Privacy	K
Notice of Reporting Negative Information to Credit Bureaus	L
Notice to Home Loan Applicant	M
Truth in Lending Disclosure	N
Settlement Statement (HUD-1A)	O
Mortgage Note	P
Real Estate Mortgage	Q
Right to Cancel	R
Loan File Checklist 1	S
Environmental Review Form and Backup Documentation	T
Housing Choice Voucher Inspection Form	U
Memorandum to Landmarks Preservation	V
Owner-Contractor Pre-Construction Meeting Documentation	W
Contractors Chosen Spreadsheet	X
Loan File Checklist 2	Y
Contractor for Housing Rehabilitation Work	Z
Agreement to Place Loan Proceeds in Escrow Account	AA
Owner's Payment Authorization	BB
Partial & Final Waiver of Lien	CC
Change Order	DD
Lead Hazard Abatement Costs for Rehabilitation Projects	EE
Satisfaction of Mortgage	FF
Authorization for Direct Payment of Loan	GG

Home is more than a house.

Home is where we make memories for a lifetime. Home is also an asset, an asset whose value the homeowner wants to protect. The City of Racine is committed to building a better quality of life for its residents and that includes insuring the city's homes remain safe and decent. Working through the Department of City Development, the City works to help homeowners protect what is probably their most valuable tangible asset, their home.

As a house ages,

it can develop aches and pains, which, if allowed to continue untreated, may cause it to become unsafe. If homeowners and their property qualify, the Housing Rehabilitation Program may be able to help them return their home to a safe, sanitary and decent condition.

This manual explains the policies and procedures that govern the Housing Department's Rehabilitation Loan Program. Anyone who has questions or wants more information about the Housing Rehabilitation Loan Program should contact the **City of Racine, Department of Housing at (262) 636-9197 or stop by our office at 730 Washington Avenue, Room 102, Racine, WI 53403.**



Chapter 1: Introduction

The purpose of this document is to describe all the program policies, guidelines, and procedures used in administration of the City of Racine's housing rehabilitation loan program. In general, rehabilitation loan assistance will be extended, depending on availability of funds, to eligible low-moderate income homeowners and eligible landlords who rent to low-moderate income tenants. The overall intent of the program is to rehabilitate, maintain and expand the supply of decent, safe and sanitary housing within the City of Racine. The Department of City Development and the Department of Housing work jointly on this effort and this policy guides both departments and within this document and departments are interchangeable.

Funding for this program has been provided by the Federal Government. Therefore, within the parameters set forth by the Federal Government, administrative control is exercised by the Department of City Development in conjunction with the Department of Housing with final policy-making and loan approval authority the responsibility of the Loan Board of Review. Programs will only be available as funding is available.

This policy manual is to aid in the compliance of federal and state regulations and may be updated as regulations change. The City also uses software such as FIPCO and Loan Ledger and pays a fee for updates in the software to stay in compliance with state and federal regulation. Forms generated from the software shall update automatically as needed.

Chapter 2: Loan Board of Review

A. **Membership.** The Loan Board of Review shall consist of the following members.

- a. Director of City Development , Chair
- b. Chief Building Inspector
- c. Director of Environmental Health
- d. City Attorney, a non-voting member
- e. Director of Finance
- f. One alderman, appointed by the Mayor

B. **History and Purpose.** The Loan Board of Review (LBR) was created by Council Resolution 6609 of February 1, 1980 which reads as follows.

“WHEREAS, the City of Racine Housing Rehabilitation Program was established by Resolution 5774-A (Sub D) of 11-8-78; and

WHEREAS, to facilitate the administration of the program the Department of housing was created by Resolution 6079 of April 16, 1979; and

WHEREAS, It is feasible and desirable to establish a Loan Board of Review to make recommendation relating to program policies, procedures, and administration and to act on Department of Housing recommendations for approval and disapproval of housing rehabilitation loans.

NOW THEREFORE IT BE RESOLVED, that there is hereby created a Loan Board of Review which shall be composed of the city of Racine Finance Director, City Planner, City Attorney, Environmental Health Officer, Chief Building Inspector, or their designees.

BE IT IF FURTHER RESOLVED, that the Loan Board of Review is authorized to approve or reject housing rehabilitation loan applications relating to the programs administered by the Department of Housing.”

Chapter 3: *Eligibility Requirements*

A. Property Requirements

In order to be eligible for rehabilitation loan assistance, a residential property must:

1. be owner-occupied or owner of rental property to be rehabilitated, with no more than 4 units and at least 51% of the building occupied by income qualified tenants;
2. be located in the City of Racine;;
3. require at least \$3,000 of rehabilitation work in order to meet the Housing Code and other appropriate City and State codes and rehabilitation standards;
4. in the judgment of the Housing Technician be structurally and financially able to be placed in a sound and readily maintainable condition;
5. at all times during the application process and the term of the loan, have all real estate taxes and special assessments paid or under a City-approved payment schedule;
6. if located within Zone “A” as shown on the latest edition of FEMA’s Flood Insurance Rate Map, have flood insurance coverage in an amount equal to at least the total after-rehabilitation debt against the property;
7. have mortgage payments, if any, in a current state and the property must be free of all judgments and liens which the City may consider to adversely affect its collateral position;
8. at all times during the term of the loan, have a hazard insurance policy with coverage equal to the total debt against the property or the full replacement value, whichever is less. If an owner allows a lapse in insurance, staff shall obtain forced insurance. A \$50.00 fee shall be imposed when forced insurance is purchased and placed on a borrower’s property for the first year. A fee will be imposed for each additional year forced insurance is purchased. The borrower will be invoiced for the fee and forced insurance premium. If the borrower fails to pay the invoice it will be charged as a special charge on the property tax bill.

B. Applicant Requirements

i. Owner-Occupied Residential Structures

In order to be eligible for a loan, an applicant must:

- (a) meet the current income eligibility requirements (Attachment A)
- (b) be an owner-occupant (on a permanent year-round basis) of a one (1) to two (2) unit structure used exclusively for residential purposes;
- (c) provide all financial data and other relevant information necessary to document the applicant's eligibility and give the City Housing staff permission to obtain verification of such information from appropriate sources;
- (d) agree to permit all property inspections by the City Housing staff, City inspectors (and State, Federal officials when requested); and
- (e) be the fee simple owner of the property or have title to a property subject to a mortgage(s). Ownership subject to a land contract will not be acceptable.

ii. Owner-Investor Residential/Mixed Use Structures

In order to be eligible for a loan, an applicant must:

- (a) demonstrate both the willingness and financial ability to repay the rehabilitation loan and meet any outstanding or likely future obligations related to the property;
- (b) provide all financial data and relevant information necessary to document the applicant's eligibility and give the City Housing staff permission to obtain verification of such information from appropriate sources;
- (c) agree to permit all property inspections by the City Housing staff, City inspectors (and State, Federal officials when requested);

- (d) be the fee simple owner of the property or have title to a property subject to a mortgage(s). Ownership subject to a land contract will not be acceptable; and
- (e) provide financial and household size information on the tenant(s) within the dwelling who reside in the unit(s) being assisted – if there are vacant units, the owner must provide household income information prior to leasing the property to new tenants. Staff will calculate tenants' income in the same manner as owner-occupied rehab income calculations, subject to 24 CFR Part 5.
 - 1. To ensure this requirement is met, the following language shall be part of "Other provisions" within the Promissory Note:
"Borrower agrees to provide lender with documentation of household income eligibility BEFORE leasing the property. (Program requires that the tenants meet income guidelines. If determined that the tenants occupy the unit and do not meet the income guidelines, the note will be immediately called due in full). Borrower is being provided with a tenant verification form that should be completed by tenant being considered to rent vacant unit. Borrower's initials: "
 - 2. In an effort to ensure tenant income verification is obtained, staff will follow up in writing and by phone on a quarterly basis with owners who have not reported occupants.

In the event there is a situation that does not fit i or ii above, it will be taken to the Loan Board of Review for consideration. This does not include properties that are larger than four (4) units, as the property will not qualify for this source of funding.

Chapter 4: Loan, Debt, and Other Underwriting Standards

A. Loan Limits

Subject to the debt limit constraints contained in subsequent sections of this manual, the following are the minimum and maximum loan amounts:

- (1) The minimum loan that will be made under this program is \$3,000
- (2) The maximum loan for a multi-family dwelling is \$30,000 per property for CDBG (not to exceed \$25,000 per unit). HOME funded projects will be assessed and approved by the Community Development Committee

The above loan limits are, however, subject to the debt limit constraint described below.

B. Debt Limits

The maximum ratio of total property debt (including the rehabilitation loan) to the property's after rehabilitation value is 120%.

C. Types of Loans

1. Owner-Occupied, Single-Family Residence – For all eligible owners who occupy a single-family residence, the loan shall be repaid as outlined in Attachment A.
 - a. For applicants whose income is below 30% of the median income, the loan is deferred (no monthly payments). The loan is repaid with 2% simple interest with a term of up to 20 years or paid in full when the property is sold or when the owner moves out of the property.
 - b. For applicants whose income is about 31% of the median income, but below 50% of the median income, monthly payments of principal and interest are required. The interest rate will be 2%.
 - c. For applicants whose income is about 51% of the median income but below 80% of the median income, monthly payments of principal and interest are required. The interest rate will be 3%.
2. Owner-Investor, multiple unit structure. Under this program, tenants income must be below the limits (see Attachment A).
 - a. At the time of closing, the landlord will be required to deposit 25% of the project cost into the City's escrow account. The City

will loan the remaining 75% of the project cost at 5% up to twenty (20) years. Monthly payments will not be deferred.

Chapter 5: Eligible and Ineligible Rehabilitation Costs

A. Eligible Costs

1. Code-Related

Code-related costs eligible for rehabilitation assistance include:

A. The costs of rehabilitation work needed to correct existing violations of the Building Code or federal Housing Quality Standards (HQS). Generally, the costs of needed rehabilitation work will be based on the use of the “least cost” work methods and material available that will bring the property into compliance with applicable property rehabilitation standards (e.g. Building Code, HQS, and where applicable the various State and local building, zoning, plumbing and energy codes). However, when the use of such work methods and materials would likely result in a recurrence of the violation(s) within a five-year period and/or require an unreasonable level of maintenance to avoid such recurrence, the cost of such work may be based on more expensive work methods and materials, or on the replacement of structure’s element;

B. The costs of rehabilitation work needed to correct “incipient violations” or the Housing Standards Code and other applicable property rehabilitation standards;

C. The costs of rehabilitation work needed to convert a non-conforming residential use to a conforming use; and

D. The costs of energy conservation work, including but not limited to insulation, caulking, weather stripping, and new efficient windows and doors, etc.

2. Other Eligible Costs

Other rehabilitation costs that are eligible for assistance include:

A. Costs needed, although not required by provisions of the applicable property rehabilitation standards, to place the property in a sound and readily maintainable condition. Such costs may include, but are not necessarily limited to:

1. The rehabilitation, removal, or replacement of existing elements of the structure, including the basic equipment (e.g. furnaces, water heaters, siding, roofing, flooring, plumbing, etc.);

2. Removal of other improvements such as fences and walkways may be done in conjunction with improvements to the residence. Reconstruction of porches, walkways, or driveways may be done in conjunction with improvements to the residence. Priority will be given to the residential structure, lead paint hazards, and code items.

B. The cost of repairing/replacing sewer and water laterals;.

C. Special alterations or costs related with making the dwelling more convenient or accessible for handicapped persons. All work performance in these units must comply with all applicable codes as well as Federal and State regulations.

D. All costs associated with the control of lead-based paint hazards must comply with 24 CFR 92.355.

E. Rehabilitation costs not specifically required by the housing rehabilitation standards but found necessary for the safety, health and general welfare of the occupants of the structure may be considered.

F. Where the applicant contracts the use of architectural and/or other design services to prepare plans and/or specifications for rehabilitation work, the reasonable costs of such services;

G. Administrative costs such as title reports, appraisals, credit reports, recording fees, etc.

B. Ineligible Costs

Except as otherwise provided in Section 1 of this Chapter, the costs that may be financed with the housing rehabilitation loan do not include the following:

A. The costs of construction, substantial reconstruction, expansion of a structure, or the finishing of unfinished spaces such as an attic or basement (unless the expansion or finishing is intended to relieve an overcrowded condition) and meets all applicable codes.

B. The costs of materials, fixtures, equipment, or landscaping of a type or quality which exceeds that customarily used in properties of the same general type as the property to be rehabilitated or which is not readily available from local dealers;

C. The costs to purchase, install, or repair furnishing or appliances; and

D. The costs of regular household maintenance items used for such activities as housecleaning, lawn care and snow removal.

Chapter 6: Loan Administration

A. Outreach, Public Information and Pre-Screening

The Director of City Development, the Assistant Director of City Development, Community Development Program Assistant, and the Consumer Lending Specialist are responsible for providing public information regarding the housing programs. Any person who contacts the Department of Housing for rehabilitation assistance will be given a pre-screening interview, whether in person or on the telephone which includes a thorough explanation of the program requirements and process. At this time, staff shall inquire as to the applicant's household, size, income, property location, and ownership information.

The above processing applies to owner-occupied, single-family homes, if the property is an owner-occupied two, three, or four-unit structure, or a landlord-owned rental residential property, initial processing will also involve the tenants completing forms.

B. Initial Processing of Applicants

If the applicant appears to meet the criteria, they will be referred either to the City's website to obtain a worksheet (See Attachment A including the "Request for Release of Information" form) and the lead based paint notices (Attachment J) for the program or mailed a hardcopy of the worksheet, notices, and release of information form.

In the case of any rental units, a request for information and tenant inquiry form will also be given to the landlord for the tenants; the landlord is responsible for making sure the forms are complete and returned to the Housing Department. Upon receipt of the completed worksheet and release forms, the file will be setup which includes the Loan File Checklist (see Attachment B) and various verification forms (see Attachment B) may be mailed for the purpose of confirming the applicant's employment, income, savings, other assets, and mortgage status. In addition, support staff will obtain an estimate of the property's present (before rehabilitation) value from the City assessment records.

Staff will request (aka: pull) a credit report to confirm good payment history, confirm liabilities secured against the property have been disclosed and that there are no open liens or judgments. City Housing staff will then prepare the Income Worksheet or Deck Sheet (see Attachment B) to determine if the applicant is eligible. The income is calculated using the 24 CFR Part 5 income calculation method and is

calculated no more than 4 months (120 days) prior to the closing of the loan (if their calculation is older than 120 days, city staff will re-qualify the applicant to ensure income eligibility).

Staff determines maximum loan amount by equity in the property and affordability using housing and total debt ratios. If eligible, staff will request a title search report to confirm that there are no liens and/or judgments on the property. If the applicant is deemed not eligible, staff will prepare and mail a formal letter to the applicant explaining the ineligibility.

C. Environmental Review, Architectural, Lead-Based Paint Assessments, and Energy Audits

City Housing staff, trained in environmental review, will also prepare an environmental review for the proposed activity. The City will utilize the HUD Statutory Worksheet (see Attachment C) and attach the necessary documentation to the environmental review. If the environmental review indicates a concern, the homeowner will be notified in writing of the issue and also the course of action to be taken by City Housing.

Upon verification and eligibility of environmental review compliance, staff will check to see if the property is a local or national designated landmark or in a historic district as part of the environmental review. If any of the previous applies, the project shall be referred to the Landmarks Preservation Commission for review and comment (Form E).

City Housing staff will also order a lead-risk assessment for the subject property if the loan exceeds \$5,000, subject to approval by the Loan Board of Review. The lead based paint risk assessment will be ordered and completed by a qualified contractor. If lead hazards are found, remediation must be completed, based on the nature of the hazard to ensure lead clearance is able to be given upon completion of the rehabilitation.

When practical and depending upon the funding source the Housing Technician may order an energy audit from an auditor approved by Wisconsin Focus on Energy. The audit will give direction on work that will reduce energy expenses for the residents, keeping the housing affordable.

D. Specifications and Bidding

After the receipt of verifications, the Housing Technician will make the Initial Inspection (see Attachment D) of the property and prepare a set of specifications to cover the proposed work. These specifications will be based upon the information in the lead based paint risk assessment and

the initial inspection of the property, as well as the items that the homeowner requested to be rehabilitated. The Housing Technician shall prepare a cost estimate for the proposed work. Cost estimates will be based on previous low bid amounts from similar prior projects. The cost estimates will be reviewed with the homeowner. The estimate(s) will be used as a guideline when reviewing bids.

Once the specifications for the work are prepared, the Housing Technician will schedule an appointment with the homeowner to review the specifications. For HOME matching grants, the Building Inspection Department shall identify all code violations which shall be addressed in the specifications. Property owners SHALL NOT bid on their own work or be their own contractor, or be paid for any work from City loan funds; any deviation from this policy must be approved by the Loan Board of Review and will be considered in extenuating circumstances only.

At this time, the City will prepare a "Request for Bids" cover sheet and attach it to the specifications (see Attachment D) and mail the request out to at least 3 approved contractors (see Contractor qualification Policy for Housing Rehab), which have been verified through the Excluded Parties List System (EPLS) as approved and not excluded. After the due date for the bids has been fulfilled the City will tally up the bids and schedule an appointment with the homeowner to review the bids and select the contractor(s) to perform the work. The homeowner will select the bids/contractors of their choice to complete the work.

E. Debt Calculations

After bidding, the Consumer Lending Specialist will combine the existing property debt with a proposed loan amount to determine a proposed after-rehabilitation debt. This figure is then compared to the City Assessor's estimate of before rehab value. If total after-rehab debt exceeds 120% of the Assessor's estimate, then an after-rehab appraisal shall be ordered, if the repairs are value added repairs. The total after-rehab debt must not exceed 120% of the after-rehab value. Should the debt limit cause a need to reduce the amount of work, code related, particularly health and safety items, will be given priority before non-code compliance work.

F. Loan Board of Review

Once the scope of work and bids have been tentatively accepted (although no contracts will have been executed at this time) by the Owner, the loan will be submitted for approval to the Loan Board of Review (LBR). Pursuant to the legal requirements for confidentiality of certain applicant information, information made available to the general public shall be

limited to name, address, loan amount and terms, and whether all program requirements have been met. LBR members will receive additional “confidential” information, including the property owners financial data, if necessary (see Attachment E). Confidential information may be discussed in closed session and loans shall be voted on in open session. Any exceptions to the guidelines are subject to approval by the LBR. However, any requirements mandated by the U.S. Department of Housing and Urban Development cannot be waived without their concurrence.

G. Formal Contract and Closing

Following the LBR’s approval, the consumer Lending Specialist and/or support staff will schedule a closing, and prepare the following documents:

1. The construction contract(s) including a list of specifications and a copy of the lead based paint risk assessment and any other attachments (three copies - Attachment F).
2. The mortgage note/contract (two copies- Attachment G);
3. The mortgage (two copies- Attachment H);
4. Truth in Lending Disclosure Statement (two copies – Attach I)
5. Borrower’s Right to Rescind (three copies - Attachment K)
6. Proceed Order signed by Owner (two copies- Attachment L)
7. Agreement to deposit loan proceeds in an escrow account (Attachment M)
8. Homeowner’s Guide, including the conflict/dispute resolution policy

At the closing, the Owner will be given a copy of each loan document and two copies of the borrower’s right of recession. If the property is a rental unit, the Landlord will be required to deposit 25% of the project costs in the City’s escrow account.

After the three days have expired for the borrower’s right to recession, the Consumer Loan Specialist or Support staff will register the mortgage. Copies of the construction contracts will then be sent to the contractor for signing. Once the contractor returns the contracts, a copy of the contract

and the Notice to Proceed will be sent to the contractor. Work normally would commence shortly thereafter.

H. Progress Payment and Inspection(s)

Progress payments can be made to contractors if the job exceeds \$2,000. However, payments will be limited to 90% of the work completed to date and inspected. All progress payments must be authorized by the Consumer Loan Specialist or the Housing Technician and the owner (see Attachment N). A copy of the invoice shall be attached to the pay request. Contractor shall furnish proof of permit for initial payment and proof of final inspection from the Building Department for final payment. A passing lead clearance test also required for final payment, although the lead risk assessment (LRA) and lead risk clearance (LRC) are both at the cost of the homeowner. Housing Technician may order lead clearance and deduct the cost from the final payment. A copy of the original invoice from the Contractor shall be processed by City Finance for preparation of the payment for the work.

Partial waivers of lien (see Attachment O) shall be obtained for all work that has been given partial payment. At the discretion of the Housing Technician, partial payouts for materials only may be authorized when written material cost estimates or invoicing is provided from vendors.

Final payments are made only after the job is completely finished, the home passes lead clearances inspected, and final lien waivers (see Attachment O) granted. The Disposition of Rehabilitation Funds (summary of the projects and payments) shall be completed and signed by the Owner. (Attachment P) Any monies remaining in the contingency fund must be applied to additional rehab work or used to reduce the outstanding balance of the loan. Twelve months after the closing, contingency funds will automatically be used to reduce the outstanding balance.

I. Changes to Work

During construction, if the Owner requests changes to work, the Consumer Loan Specialist or Housing Technician will meet with the Owner to determine the extent of work needed. The Housing Technician shall document the cost reasonableness of the change order.

The Owner will have three options to pay for the work change. Either the Owner covers the expenses out of personal funds, or if there is a contingency fund in the project, the work change can be covered under this. If neither of these two options work, the City shall secure another

mortgage as a lien and allow the funds to be put into an escrow account to complete the work.

J. Disputes/Conflict Resolution Policy

It is the intent of Staff to assist the homeowner in every way with the loan and construction process. The following is in place to establish a policy and procedures for conflict resolution between the homeowner and their selected contractor and subcontractors, if any, to resolve disputed issues.

At the time of the loan closing the homeowner shall receive and sign a copy of the conflict resolution policy, acknowledging receipt and explanation of the policy.

- At the time of the award of the job, the contractor will be asked to review and sign a copy of the dispute/conflict resolution policy, acknowledging receipt and the explanation of the policy.
- At closing, staff will advise homeowner that it is their responsibility to communicate with the contractor about any job related concerns and, in addition, to relay the concerns to City staff.
- At the first sign of dispute with the contractor, the homeowner shall contact City staff about the issue and make staff aware of the concern or potential problem.
- If the concern is not resolved by the homeowner and the contractor, City staff will set up a mediation meeting with certified mediator to discuss the problem and resolution with both parties. A Determination will be made at the time as to what a reasonable resolution is and both parties will sign an agreement indicating what, if any corrective action will be taken.
- In the event the homeowner and the contractor cannot or will not come to terms, the homeowner can choose to terminate the contract and seek out another contractor from the approved list of contractors to finish the job. City staff will mediate re-numeration for work that has been completed to that point and both parties will sign an agreement for payment and release of contract.
- Staff will assist homeowner with securing a new contractor to complete the job.

In the event that either party fails to make a good faith effort to resolve the conflict, in a time frame specified by said agreement, the following may occur. The homeowner may be subject to immediate repayment of the loan, which could resolute in foreclosure action. The contractor may be terminated from the job and subject to probation or disqualification from future City contracts.

K. Special Procedures

- A. Repayment of Owner-Occupied Deferred Loans – All loans shall be repaid when the title of the property is transferred or it ceases to be the

owner's principal place of residence or when other terms of the loan are not met such as payment of real estate taxes.

- B. Repayment of Landlord-Owned Rental Residential Loans – If the owner transfers title to the property during the term of the loan; the remaining balance of the loan shall be payable upon sale
- C. Possible Need for Other Funding Sources – If the rehabilitation project involves work beyond the loan limits or within portions of structures occupied by non-LMI tenants, funds from private sources must be provided and placed into escrow account.
- D. Subordination of Mortgage – If at a future date, the applicant wishes to refinance the first mortgage or place additional debt on the property, the City will not subordinate its mortgage unless:
 - a. The applicant meet current guidelines;
 - b. The applicant follows the approved policy (see Attachment Q) and submits all the required paperwork.
 - c. The applicant submits a \$25 fee for processing.
 - d. The refinancing has better terms.
 - e. No cash may be taken out unless used for value added home improvements.
 - f. Closing costs must be reasonable.
 - g. Equity must be retained.
- E. Program Policy Decision Body

The Loan Board of Review shall be the Program Policy Board and shall be the overall control factor for a project. Any program criterion can be changed by a majority vote of all the Board members. Official action can be taken at Committee meetings when three members are present. The majority vote of those present will rule. This five-member Committee will serve as the final decision making body for all criteria on project funding.

Chapter 7 Definitions

- A. Assets – For the purpose of this program and the application of the asset limits, assets shall include all liquid assets such as cash, monies on deposit, stock, bonds, and other securities and any equity in non-homestead property. For purpose of this program, the owner's residence is not considered part of his assets.
- B. Basic Equipment – Includes such facilities as a heating furnace, hot water tank, electrical and sanitary fixtures and garbage disposal equipment.
- C. Emergency of Hazardous Condition – Includes unsafe condition caused by natural disasters, malfunction of heating equipment, sudden structural collapse, plumbing freeze-up, or similar conditions.
- D. Incipient Violation – An existing condition of a structural element that is not in violation of an applicable property rehabilitation standard at the time of inspection, but which will likely deteriorate into an actual code violation within a one- or two-year period.
- E. Income – (Per 24 CFR Part 5) Total household income shall include income from all sources of the household who is at least 18 years of age as well as unearned income for persons below 18 years of age. Annual household income includes, but is not limited to:
 - a. The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commission, fees, tips and bonuses;
 - b. The net income from the operation of a business or profession, or from rental of real or personal property;
 - c. Interest and dividends' from assets;
 - d. The full amount of regular, long-term periodic payments received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, or other similar types of periodic receipts;
 - e. Payments in lieu of earnings, such as unemployment and disability compensation, workmen's compensation and severance pay;
 - f. Public Assistance. If the public assistance payment includes an amount specifically designated for shelter and utilities, which is subject to adjustment by the public assistance agency, in accordance with the actual cost of shelter and utilities, the amount to be included as income consist of:

- i. The amount of the allowance or grant exclusive of the amount specifically designated for shelter and utilities, plus
 - ii. The maximum amount which the public assistance agency could in fact allow for the family for shelter and utilities;
- g. Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from persons not sharing the family household; and
- h. All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the household) who is the head of the family or spouse of the family head.
- i. Excluded in determining the annual household income is the income of any person who is under 18 years of age (with the exception of unearned income) or is a full-time student (and considered a dependent of the head of household), and any nonrecurring temporary income such as inheritances, insurance payments (including payments under health and accident insurance, and workmen's compensation), capital gains settlement for personal or property losses, and foster child care.

This policy on determining income is taken from the Technical Guide for Determining Income and Allowances for the HOME Program, Third Edition, January 2005.

- F. Low- and Moderate-Income Household – A household having an income equal to or less than the lower income limits as determined by the U.S. Department of Housing and Urban Development (HUD).
- G. Housing Standards Code – Chapter 18 and 54 of the Racine Municipal Code is considered to be the Housing Standards Code.

Chapter 8 Affordable Rents

Rental rehabilitation loans shall be made with CDBG funds. At the time of the loan staff shall verify that tenants have income 80% of County Median Income (CMI), adjusted for family size and that the rent being charged is at or below the Fair Market Rent (FMR) for Racine County published annually by HUD and adjusted for utilities included or excluded in accordance with the Racine County Section 8 utility allowance.

Chapter 9: Conflicts of Interest (Updated May 19, 2011)

A conflict of interest may arise for loan applicants, contractors, suppliers, and for buyers of real property. This section applies to any person who is an employee, agent, consultant, officer, or elected official, or appointed official. The general rule is that no person who exercises or has exercised any functions or responsibilities with respect to activities assisted with grant funds or who is in a position to participate in a decision-making process or gain inside information with regard to such activities, may obtain a financial interest or benefit from the activity, or have an interest in any contract, subcontract or agreement or the proceeds whether for themselves or those with whom they have family or business ties, during their tenure and one year thereafter.

Family includes: Spouse, fiancée/fiancé, children and children-in-law, brothers and brothers-in-law, sisters and sisters-in-law, parents and parents-in-law, and/or anyone who receives more than 50% of their annual support from the person (e.g., adopted child, foster child).

No City official or employee, whether paid or unpaid, shall engage in any business or transaction or shall act in regard to financial or other personal interest, direct or indirect, which is incompatible with the proper discharge of his/her official duties in the public interest contrary to this article or which would tend to impair his independence of judgment or action in the performance of his official duties.

Following are steps to use to determine a potential conflict of interest:

- Identify covered persons.
- Add conflict of interest question to all applications and program forms.
- Inform applicants with potential conflict of interest that there will be public disclosure of their name.
- Publish "Conflict of Interest Publication Notice" one time on the Racine Journal Times.
- Submit an Affidavit of Publication of the Notice and a letter giving a brief narrative of the situation to the Loan Board of Review and City Attorney for review. City Attorney shall provide written opinion on the matter to be forwarded to HUD for final decision. No closing documents shall be signed until waiver is received.

Factors considered for an Exception to the requirements:

- Whether the person affected is a member of class of low-income person intended to be the beneficiaries of the assisted activity, and the exception will permit such person to receive the same interests or benefits as are being made available to the group or class;

- Whether the affected person has withdrawn from his/her functions/responsibilities or the decision-making process with respect to the specific assisted activity in question;
- Whether undue hardship will result either to the grantee or the person affected when weighted against the public interest served by avoiding the prohibited conflict;
- Any other relevant factors.

Sample conflict of Interest Publication Notice:

The City of Racine, hereby discloses its intention to make **(loan/grant/purchase)** of **(\$xx,xxx)** from the **(CDBG, HOME, NSP)** program to **(Name of Applicant)** for the purpose of **(home purchase, home improvement loan)**. **(Name of applicant)** is the **(relationship)** of a(n) **(employee/board member)** of the City of Racine. The **(employee/board member)** does not participate in the approval process for the **(loan/grant/purchase)**. Comments concerning this notice will be accepted no later than ten (10) days after publication of this notice to: City of Racine, Assistant Director of City Development, 730 Washington Avenue, Room 102, Racine, Wisconsin 53403.

More detailed information regarding the City of Racine's Code of Ethics can be found in the Municipal Code, Chapter 2, Article VII, Code of Ethics. Refer to 24 CFR 570.489(h) & 24 CFR 570.611 for additional information when Federal funding is involved.

The conflict of interest disclosure is part of the standard contract documents and is signed when a rehabilitation contract is executed.

Chapter 10: Contractor Qualification Policy for Housing Rehab

I. General

It is the intent of the City of Racine when undertaking housing rehabilitation projects to create a pool of responsible, qualified Racine contractors to bid on projects. Attached is the form required to be completed by contractors to be considered for the list of approved contractors. Staff will check tax status and for any recent judgments or changes of status prior to signing a contract or at least yearly.

II. Requirements

- a. Applicant Information. The contractor must provide contact information and information about the business including the type of business, FEIN or social security numbers. These projects are being funded with federal dollars and require use of a DUNS number. This can be obtained by going to http://www.whitehouse.gov/omb/grants/duns_num_guide.pdf. If a contract needs assistance obtaining the DUNS number, please call 262-636-9197 for assistance. You must fill the name of all members and officers of the partnership, LLC, LLP or corporation.
- b. References. Staff needs to ensure the contractor is capable of providing quality work. References must be provided so staff can review the quality of past work. Substandard work will be grounds for disqualification.
- c. Trade certification. Each trade requires, by Wisconsin Administrative Codes COMM 5 and DHS 163, certain registry and certifications. The City needs to ensure contractors are licensed to do certain work. In addition, any contractor that may disturb painted or varnished surfaces, after April 22, 2010 must be a certified Lead-Safe Company and have on staff a Certified Lead-Safe Renovator. More information can be found on this new lead rule at www.dhs.wi.gov/lead. Information on certificates or registrations needed for building trades can be found at <http://www.commerce.state.wi.us/SB/>.
- d. Insurance. The contractor must provide proof of insurance as indicated in the application. These values may be updated periodically. Staff will conduct annual (or more frequent, at the discretion of staff) checks on insurance and will contact contractors with any change in requirements.
- e. Responsibility. The City has an obligation to the federal government and taxpayers to make sure contractors are responsible, and the City needs to minimize the risk. A “yes” answer to any of the questions will not automatically disqualify a

contractor. Contractors shall provide written explanation for staff to review for any questions receiving a “yes” answer.

- i. Litigation. Contractors may be disqualified for current litigation directly related to a rehab project and until the case is concluded. Contractor's file can be reconsidered after a court has made a final decision concerning the litigation.
- ii. Felony. Contractors may be disqualified for a felony directly related to contracting or fraud, or other crime related to Contractor's honesty or truthfulness.
- iii. Bankruptcy. Contractors may be disqualified for recent bankruptcy related to the renovation business. Bankruptcy concerning personal matters such as personal medical bills will not be held against the contractor.
- iv. Judgments and liens. Judgments and liens may need to be satisfied prior to qualification. If agreed upon by staff and the contractor, proof of a payment plan via direct payment or garnishment, including garnishment from payments made by City to contractor, may satisfy this provision. Staff retains the right to determine whether a payment plan or garnishment plan is acceptable for prequalification purposes.
- v. Contractors must be current on property and income taxes.
- vi. Contractors delinquent on child support may be subject to garnishment by the State of Wisconsin and should be aware of that possibility.
- vii. Contractors convicted on citations from the Building Inspection Department are subject to being disqualified.
- viii. Contractors must be current on any loans with the City. If there is a small delinquency staff may consider awarding a contract and garnishing the amount due from the first payment.
- ix. Staff will review cases and complaints made to Wisconsin Consumer Protection regarding contract work done in the past.

III. Disqualification. Applicants will be notified in writing if they are disqualified to be on the contractor bid list. Staff decisions may be appealed in writing to the Loan Board of Review within 30 days of disqualification. The Loan Board of Review will make the final decision. Contractors may re-apply after 6 months of being notified of disqualification.

IV. Probation. If a contractor is not fulfilling obligations pursuant to contracted obligations, staff, at its sole discretion, may place the contractor on probation for a period of 6 months. Staff shall notify the contractor in writing of the probation. During probation, the contractor may only have one contract at a time to ensure problems have been remedied. Contractors may appeal in writing to the Loan Board of Review ("Loan

Board") regarding being placed on probation, and the right to a final determination of probationary status shall be vested solely in the Loan Board. Probation may be extended by either staff or the Loan Board, depending on the circumstances at the end of the period of probation.

- V. Debarred. Contractors not fulfilling obligations of a contract or providing substandard work will be notified in writing of debarment by staff. Debarment shall be for a defined amount of time ranging from one- to three- years. Contractors may appeal in writing to the Loan Board if they are debarred. The right to a final determination on debarment shall be vested solely in the Loan Board. Contractors may re-apply after debarment period, if accepted they would be on probation for the first year.

Chapter 11: Loan Compliance Review Process

1. The housing Clerk/Typist shall check the listing of outstanding loans in February and again in August to make sure that the taxes are paid on each loan with an outstanding balance. The results will then be reported to the loan board in March and September of each year.
2. If a loan applicant has any other properties in the City of Racine the taxes need to be current or they won't qualify for a new loan, this is to be checked by the housing loan processor.
3. Letters will be sent out to loan customers to remind them to keep current on their property taxes. If they don't keep current we could foreclose or if they have a down payment loan then the loan won't be reduced by 20% each year until the taxes are current, this is to be done by the housing Clerk/Typist.
4. Escrow tax payments for loan customers could be collected monthly as a last resort to keep the property taxes current; this would be offered by the housing loan processor.
5. Down payment loans that have been foreclosed upon will need to be written off, this would be done by housing loan processor and finance.

Chapter 12: Loans in Default

- A. When a loan becomes four (4) months delinquent in his/her monthly payment, the file shall be referred to the City Attorney's office or outside council designated by the City Attorney.
- B. The Attorney shall mail (by regular first class mail) the delinquent borrower a "Notice to Cure" and copy the Finance Department and the Assistant Director of City Development.
- C. If the delinquent borrower responds to the "Notice to Cure" and desires to make arrangements to make up the arrearage, the Attorney and/or staff shall negotiate such arrangement. Loan Board shall approve repayment arrangements/agreements that require a re-write of the mortgage terms; all other payment plans are reported to the Loan Board and executed by City staff.
- D. If the client does not respond to the "Notice to Cure" or fails to abide by the agreed upon payment arrangement/agreement, the Loan Board shall be notified by the Attorney or staff and shall determine whether or not the Attorney shall proceed to foreclosures under the terms and conditions of the mortgage. The Attorney shall report to the Loan Board of Review the disposition of the case and any money judgments entered.

Chapter 13: Miscellaneous Requirements

- A. Civil Rights. Rehabilitation programs using federal funds are subject to the requirements of Title VI of the Civil Rights Act of 1974 (P.L. 88-352) and HUD regulation with respect thereto including the regulations under 24 CFR part 1. Housing rehab applicants and contractors shall be made aware of and not discriminate upon the basis of sex, race, creed, color, class, national origin or ancestry.
- B. Equal Employment Opportunity. Applicants and contractors shall be made aware of and comply with all applicable provisions of the Executive Order 11246 of September 24, 1965, and Section 3 of the Housing and Urban Development Act of 1968, (12th USC 170 LW), concerning equal employment opportunity in respect to City funded rehabilitation work.

Chapter 14: Special Programs

The City may apply for funding outside of the CDBG and HOME program. Staff shall comply with other program requirements and still follow this policy and procedure manual as closely as possible. Special programs may also be designed to meet certain community needs as needed.

- A. **Neighborhood Stabilization Program (NSP 1/3).** The City of Racine has received funds through the FY 2008 Housing Recovery Act via the Wisconsin Department of Commerce. Some funds are to be used to purchase, rehab, and sell homes. The rehab shall be done in accordance with this manual, minus the homeowner. Staff shall act as a general contractor and contracts shall be kept under \$25,000.

In FY2011, the City received additional funding (NSP3) to continue the rehabbing of homes. All operations for NSP3 shall remain the same.

- B. **Street Assessment, Sidewalk Replacement Loan Policy (08-2565 & 09-1534)**

The Street Assessment Loan policy is designed to offer another option to assist low-to-moderate income households that would face a hardship paying the street assessments of \$2,000 or more. A low interest loan at 3-5% over 20 years would be offered to qualifying homeowners. Basic policy/criteria would include using HUD guidelines and existing loan policies, interest rates would be at 3% or 5%, based on loan policies, for a term of up to 20 years. This program shall be funded through Special Assessment Account # 801. The Street Assessment Loan Policy was amended to include sidewalk replacement orders of \$500.00 or more, with a maximum repayment term of 10 years. Sidewalks may also be addressed as part of a regular housing rehab loan.

- C. **Racine Energy Efficiency Pilot**

The Racine Energy Efficiency Pilot (REEP) is an example of a Property Assessed Clean Energy (PACE) program. The project pays for cost-effective energy efficiency measures, without credit checks or liens. Because the measures are cost-effective, customers should see a positive cash flow while enjoying updated systems and more comfortable indoor spaces. Unlike subsidy programs, REEP has income from customer repayment, so it will be able to finance additional efficiency improvements in the future.

Property owner(s) must 1) occupy the property, 2) be current with (each) mortgage(s), homeowners insurance and property taxes including special assessments. Applicants must submit \$25 enrollment fee with loan application; allow utilities usage and payments to be verified; agree to repairs recommended by the energy audit; repairs must total at least \$1000; agree to sign a work order with the contractor and finally, agree to sign a financing (and repayment) agreement (payment terms based on cost and savings involved, paid within 10 years). Delinquent loans will be added to property tax assessments.

D. HOME Match Grants

The Council approves the use of HOME funds to be used as loan match dollars. Loans up to \$10,000 are matched dollar per dollar for owner occupied properties only. The grant would be a forgivable loan - secured with a mortgage, forgiven at 20% per year as long as in compliance with terms of loan.

HOME funds require that the house be totally up to code upon completion of work. Housing Technician to order plumbing / electric / HVAC inspection on every property requesting HOME match funds. Property is not required to have equity for "grant match dollars" only for loan amount. Loan Board of Review and Owner to be notified when "grant match dollars" exceed equity in property.

E. Code Enforcement Grants

Code Enforcement Grants are limited to a one time grant up to \$1,500 for qualified owner occupants. Eligibility for code enforcement grants is limited to households whose income is less than 30 percent of the County Median Income (CMI) adjusted for household size. Only repair/rehabilitation code items which are ordered by the UNIT are eligible for assistance. The grant must be able to cover cost to comply with code, owner may contribute to cover cost. If funds do not cover entire cost to complete repairs, grant will not be given. Any deviations from this policy must be approved by the Loan Board of Review for extenuating circumstances.

Chapter 15: Property Disposition (added February 2011)

For special programs referenced in Chapter 13 and in the event the City takes back a property in foreclosure the Housing Department will need to dispose of, transfer, or sell real property. All transactions are subject to the Chapter 9 of this policy - Conflicts of Interest, and Chapter 2 of the Municipal Code – Ethics.

- A. Remnant Property. In the event that a property is not large enough to build a new home on (or not zoned properly), staff may approach neighboring property owners to sell the property to them. Staff may negotiate a price up to the assessed land value. Property may also be split between multiple adjoining neighbors to create more conforming lots.
- B. Rehabilitated Property. Homes that the City has rehabilitated shall follow the following disposition process.
 - a. A lead clearance test shall be conducted and passed.
 - b. Either a market analysis shall be performed by a real estate agent or an appraisal of the property shall be obtained to establish the initial listing price.
 - c. Property shall be listed with a real estate agent. At the time of listing the lead clearance test results shall be provided to the agent and indicated on the listing documents in compliance with State regulation. Note: No offers shall be accepted until the property has been listed on Multiple Listing Service to avoid any conflicts of interest or perceived conflicts of interest, and to allow anyone on the open market to make an offer.
 - d. Every 3 to 6 months staff shall review the listing and adjust the price to increase showings or interest if needed.
 - e. Staff shall review any purchase offers received for compliance with any applicable regulations tied to funding sources. If there is a clear violation of regulations, such as a person is over-income, staff may deny an offer. Staff may negotiate with the buyer. When staff is able to successfully negotiate an offer, it shall be referred to the Loan Board of Review.
 - f. The Loan Board may accept or reject and offer or authorize further counter offers. If the Board wishes to accept an offer it shall be contingent on Common Council approval and the Loan Board shall report to the Common Council its recommendation. To complete the sale a Common Council resolution is needed approve the disposition of the property.

As provided by State Statute any deliberations may be held in closed session for competitive or bargaining reasons.
- C. Other Homes. A non-profit housing agency may make an offer on a property that is in need of rehab or on vacant lots. The non-profit partner may use the process outlined in Section B, enter into a Memorandum of

Understanding, or into a Developer's Agreement that is in compliance with applicable funding sources.

- D. New Construction. Newly constructed home owned by the City shall be sold following the process outline in section B, except for the lead requirements.

Appendices

Attached are appendices that are supplemental documents to the manual itself and are critical in the proper documentation of information and execution of the program. Due to regulatory changes, suggestions from HUD and improvements to processes on behalf of the staff, the Appendices may change and vary.

Small, minor changes that do not affect legalities, qualifications or amount of Appendices will be changed internally (such as added verbiage for prudence, added lines within a checklist). Larger changes, or additions of appendices, will be executed through more formal means and, if significant, will be approved by the Loan Board of Review.