

## **REHABILITATION HOUSING PROGRAM GUIDELINES**

The owner-occupied housing rehabilitation program is designed to provide financial assistance to income-eligible homeowners for the rehabilitation of their homes. This financial assistance covers the cost of rehabilitation as defined by the program, but generally provides for repairs necessary to make the property meet public standards for safe, decent and sanitary housing.

The terms “Applicant,” “Homeowner” and “Borrower” refer to the person(s) who own and live in the property to be rehabilitated under the selected program. The terms “HAND Department” and “Department” include any successor to the Housing and Neighborhood Development Department that administers the program

### **I. ELIGIBILITY**

#### **A. PROPERTY ELIGIBILITY**

To qualify:

- Assistance may be made to residential properties containing one to four dwelling units located within the Bloomington City limits. However, assistance under this program to a property containing more than one dwelling shall only be for the unit that is the Applicant’s principal residence;
- The property must not be investor-owned, mixed-use, or non-residential properties;
- The property must not have received rehabilitation assistance through the HAND Department within the ten years immediately preceding application. The ten year period begins on the date of loan closing; and
- The property must need rehabilitation and meet rehabilitation standards, as defined in these guidelines.

#### **B. APPLICANT ELIGIBILITY**

To qualify:

- The Applicant must be an owner-occupant of the property to be rehabilitated. An Applicant owns the property if he or she has fee simple title, or maintains a 99 year leasehold interest, or has

ownership or membership in a cooperative, and does not have any restrictions or encumbrances that would unduly restrict the good and marketable nature of the ownership interest. The property must be the Applicant's principle residence;

- Applicants buying property under a purchase money mortgage in which the Seller is mortgagee and the Applicant is mortgagor may be eligible after review of the mortgage documents and approval by the City Legal Department;
- The property cannot exceed the program's loan to value ratio provision of One Hundred (100%) percent of the area value of the property, or the subsidy limits imposed by HUD for the Bloomington area. Additionally, the Department shall review the Applicant's total debt load and reserve the right to deny participation in the program if it is determined that the Applicant's financial status makes it inadvisable.
- The Applicant shall be current on any and all loans and in good standing with all governmental agencies

### C. INCOME ELIGIBILITY

#### To qualify:

- The Applicant's income, as adjusted per HUD requirements, must fall within the Program Income Guidelines listed below, or as amended by HUD. See attachment "A" for current guidelines.
- The Income Guidelines may change annually, and the current HUD Guidelines will be attached as HUD publishes them.
- Included in the determination of the Applicant's income are: the gross amount of income of all household members. This shall include Applicant's earnings; Applicant's spouse's earnings; all earnings by all adult household members eighteen (18) years of age and older; all funds received by the Applicant from all adult household members toward housing expenses; all other income regularly received by the Applicant or his or her family from any source; net income from real estate other than the property to be rehabilitated; all other net business income; and gross income from all rental units (if any) in the property to be rehabilitated.
- Individuals currently unemployed, laid-off, or experiencing other loss of income may be considered eligible. Income is computed by

determining Applicant's gross earnings for the current calendar year and projecting that amount for the balance of the year.

- The Applicant will be required to update his or her financial information if the loan closing has not been completed within six (6) months of loan approval.

## II. PROGRAMS

A. PROCEDURE; TYPES OF LOANS. HAND staff shall inspect the property to assess and determine the scope of the rehabilitation to be provided to the Applicant. Staff will advise the Applicant of the most appropriate type of loan to address the nature of the problem(s) of the property so that a reasonable and cost effective solution may be provided.

1. The "Deferred loan" provides funding up to \$38,500. An additional 10% of the rehab cost shall be added for a contingency allowance, unless increased as provided in these guidelines to address the cost of the actual and approved cost of code and program required work. Re-payment of this loan is required when the property is no longer the principle residence of the Applicant. This loan is available for applicants who are at or below 50% area median income.
2. The "Direct loan" provides funding up to \$38,500. An additional 10% of the rehab cost shall be added for a contingency allowance , unless increased as provided in these guidelines to address the cost of the actual and approved cost of code and program required work. Re-payment of this loan requires a monthly payment, amortized over 15 years, of the actual cost of the rehab. This loan is available for applicants who are between 66 – 80% area median income.
3. The "Deferred/Direct loan" provides funding up to \$38,500. An additional 10% of the rehab cost shall be added for a contingency allowance , unless increased as provided in these guidelines to address the cost of the actual and approved cost of code and program required work. Repayment of this loan is two-fold: part is paid when the property is no longer the principle residence of the Applicant and part requires a monthly payment amortized over 15 years. Applicants between 51 – 60% area median income will receive loans that are 50% deferred and 50% direct. Applicants between 61 – 65% area median income will receive loans that are 33% deferred and 67% direct.
4. The "Conditional Loan" provides additional funding up to \$7,500 for the approved cost of only exterior renovation and related work including historic retaining wall repair as determined by the HAND Staff. The

exterior conditional loan will be forgiven in full at the end of the loan term if the Borrower maintains the property as his or her principal residence for seven years after the date of loan closing. Should the Borrower sell, lease or otherwise transfer the property prior to the completion of the seven year period, the entire loan amount is due and payable, unless the buyer of the property is determined by the HAND Department to meet program guidelines, in which case the loan may be assumed by the buyer.

5. A grant allowance of up to \$15,000 shall be available to assist home owners with energy efficiency and lead-based paint issues. These funds shall be part of the maximum \$38,500 loan amount and in no instance shall the amount of the grant and loan for a rehab projects exceed \$38,500 plus contingency unless approval is determined by the Redevelopment Commission on a case-by-case bases as recommended by HAND staff. The grant amount will be determined by the HAND project manager from the selected general contractor's approved and accepted bid costs.

#### B. LOAN REQUIREMENTS.

1. The "Deferred" and "Direct" loan amounts shall include the following costs:
  - a. the cost of the actual and approved code and program required rehab;
  - b. the entire cost of the title search, property appraisal, credit report, and recording fees, and
  - c. a contingency fund of ten (10%) percent of the rehabilitation bid.
2. For residences that are listed or eligible National Register properties, the exterior rehabilitation must follow historic guidelines as prescribed by the Secretary of the Interior.
3. If the Department has given financial assistance to the residence within the ten (10) years immediately preceding application, the amount of the assistance received will be deducted from the maximum allowed under the deferred or direct loan program.
4. Any loan amount received shall not exceed one hundred (100%) percent of the entire value of the property, or the subsidy limits imposed by HUD for the Bloomington area.
5. Borrowers will be required to sign an affidavit annually attesting to the fact that the rehabilitated property is their principal residence, that they have not rented or sold the property, and that there has not been a transfer of ownership of the property. For the purpose of this affidavit, principal residence is defined as physically residing at the property for nine consecutive months of the period covered by the affidavit.

C. REPAYMENT; RECAPTURE; LIQUIDATED DAMAGES.

HUD regulations require HAND to recapture all or part of the loan if the housing does not continue to be Borrower's principal residence during the loan term.

1. Repayment of Loan: Except as provided herein, all loans require repayment of principal and liquidated damages when the property is sold, leased, transferred or otherwise no longer used as the principal residence of the Borrower. Payment is due within thirty (30) days of the date of sale, lease, transfer or cessation of use as the principal residence of the Borrower.
2. Recapture of Loan Amount in Event of Default.
  - a. If the property is sold or Borrower ceases to reside there as a result of a foreclosure action, and the net proceeds are not sufficient to allow HAND to recapture the full loan balance and also enable the Borrower to recover the amount of his or her downpayment and any capital improvement investment made by the Borrower since purchase, HAND may share the net proceeds. "Net proceeds" are the sales price minus loan repayment (other than HAND funds) and closing costs. The net proceeds will be divided proportionally in accordance with the formulas set forth in the HOME regulations at 92 CFR 254(a)(5)(ii)(A)(3)
  - b. If the default results from any event other than foreclosure, the amount to be recaptured shall be the original loan amount minus a pro rated amount for the time the Borrower owned and occupied the property.
3. Liquidated Damages for Transfer of Property with Direct, Deferred or Direct/Deferred Loan during Loan Term: One of the primary goals of the loan programs is to encourage owner-occupancy of the assisted properties, and the City will incur damages that may be uncertain and difficult to ascertain if assisted properties are transferred to other than program-eligible owners or their heirs during the term of the loan. To compensate the City for those damages, liquidated damages will be assessed in the following amounts if property subject to a direct, deferred or direct/deferred loan is sold, leased, or otherwise transferred except as provided in paragraph 3 below during the term of the loan:
  - a) If the transfer occurs during years 1 through 5 of the loan: Six percent (6%) of the loan balance.

- b) If the transfer occurs during years 6 through 10 of the loan: Three percent (3%) of the loan balance.
  - c) If the transfer occurs during years 11 through 15: One and one-half percent (1.5%) of the loan balance.
4. Procedures upon Transfer of the Property: If property covered by any type of loan described in these guidelines is sold to an income-eligible person, liquidated damages will not be owed. The Borrower or his or her heirs or agent must notify the HAND department in writing in advance of the sale of their intent to sell the property. HAND staff will review the income documentation of the buyer of any property that is participating under one of the loan programs to determine the buyer's eligibility.

If the property is inherited by a program-eligible heir of the Borrower, liquidated damages will not be owed. The Redevelopment Commission may allow a loan to continue to a program-eligible heir by assumption of the mortgage or the loan may be refinanced under another Department program. The heir(s) must apply and meet the current eligibility standards at the time of assumption of the loan and maintain the property as his or her principal residence.

An heir or heirs of the Borrower who are not eligible for this or other HAND Department programs must repay the loan within 30 days of the settlement of the Borrower's estate or, if no estate is opened, within 30 days of the date the heir(s) take title to property.

5. When spouses or joint tenants are the Borrowers and one dies, the acquisition of sole ownership by the surviving spouse or joint tenant is not a transfer of ownership for purpose of the loan programs.
6. The Borrower or the Borrower's heir(s) may request in writing to have the Director of the HAND Department review the repayment provisions should extenuating circumstances exist. If the Director denies the claim of the Borrower and/or the heir(s), an appeal may be requested for review to the Redevelopment Commission.

D. LOAN SECURITY.

1. The Borrower will provide security for the loan in the form of a mortgage. A subordinate second mortgage is acceptable if it provides adequate loan to value ratio, as determined by the Redevelopment Commission's subordination policy.

2. The Borrower will agree to maintain the property in sound condition and permit the Redevelopment Commission or its designees to inspect the property during the term of the loan.
3. The Borrower will maintain insurance coverage adequate to cover the dwelling and the mortgage amount during the term of the loan. Failure to comply with this provision shall constitute default and may require an immediate repayment of the loan to the Department or the commencement of foreclosure procedures.
4. The Borrower shall sign a loan agreement incorporating the guidelines for participation for the selected housing rehabilitation program.

### **III. REHABILITATION REQUIREMENTS**

#### **A. DEFINITION OF CODE**

1. Building Codes -- as required and enforced within the corporate limits of the City of Bloomington and as adopted by the Indiana Department of Fire and Building Services.
2. Housing Rehabilitation Standards – as required and administered by the Department. These standards include general property improvements (beyond minimum Section 8 Housing Code Standards) that may be necessary to complete the thorough and proper rehabilitation of the property for the program selected. This list is not all inclusive: CABO one and two family code, the National Model Energy Code, Cost effective energy conservation standards as determined by HUD, National Electric Code, National Plumbing Code, all standards for product application as it relates to the project and the ADA standards for accessibility and adaptability will also be included in the property improvements as they relate to the selected program.

#### **B. INCLUDABLE CODE COSTS**

1. A Deferred, Direct, or Deferred/Direct loan may be made to cover the cost of rehabilitation as defined by the program and those repairs necessary to make the property conform to public standards for safe, decent and sanitary housing. As a result of the rehabilitation work financed by the loan, the property must, at a minimum, conform to current building codes, HUD program requirements and HAND Department standards. The loan may be used to the extent necessary to cover these costs.

Deferred, Direct and Deferred/Direct loans may include: The rehabilitation or removal of elements of the dwelling structure

or site, including basic equipment, trees, shrubs, etc., and of other improvements such as foundation repair/replacement, steps, reasonable fencing and historic retaining walls, walkways, and driveways. The provision for sanitary facilities for expansion and finishing of space necessary to accommodate those facilities. The provision of additional or enlargement of bedrooms. The repair, purchase, and/or installation of a kitchen range, refrigerator, and HVAC equipment for the dwelling. Energy effective items, provided they are reasonable and within the scope of the program and/or the budget, to lower the Borrower's utility costs. Reasonable grading, filling, or landscaping of the property as it applies to the rehab of the property. Elimination of health and safety hazards. Improvements for accessibility and adaptability for a disability. Items desired by the homeowner for the over all improvement of the dwelling provided those items are eligible, reasonable and within the scope of the rehab and the budget.

2. The grant allowance may be used to cover the costs of painting, component encapsulation, replacement, lead paint disposal, cleanup etc. For energy effectiveness, insulation, the price difference between an 80% efficient and 90% efficient heating system, high efficient water heaters, energy efficient windows and door upgrade. This list is not all inclusive. HAND staff will determine and approve those items that would qualify for the "grant" portion of the loan.
3. To allow the property to be brought to or maintained at new construction code, incipient code violations are eligible costs under this loan program. An incipient code violation exists if, at the time of the inspection, the inspector finds that the physical condition of an element in the structure will deteriorate into an actual violation in the near future (i.e., one to two years). Other eligible costs are: building permits and related fees that are required to carry out the proposed rehabilitation work, property surveys and reasonable housing inspections, if approved in advance.
4. Historic exterior improvements can include: foundations, exterior lighting, porches, historic retaining walls, steps/sidewalks, exterior doors and windows, siding removal and/or replacement, roof, completion of exterior work that is unfinished and appropriate to the historic character of the home and other carpentry work as it applies to the historic nature of the dwelling.
5. Non-historical exterior improvements will cover the costs as defined by the program and those repairs necessary as they relate to the exterior of the home and as determined by the HAND staff. As a result of the

rehabilitation work financed by the loan, the improvements must, at a minimum, conform to the current new building codes, and HUD's and HAND's program requirements. These costs can include:

- a) The rehabilitation or removal of elements of the dwelling structure or site, including basic equipment, trees, shrubs, etc., and of other improvements such as foundation repair/replacement, steps, exterior doors and window replacement and/or repair, guttering, reasonable fencing, walkways, steps, retaining walls and driveways.
  - b) Reasonable grading, filling, curb and sidewalk of the property, exterior painting and/or siding with exterior insulation, or reasonable landscaping of the property as it applies to the home.
  - c) Elimination of exterior health, accessibility and safety hazards.
6. The Department will determine the improvements to meet code standards that apply to the rehab of the property. Building permits and related fees that are required to carry out the proposed rehabilitation work are eligible costs. Property surveys and reasonable housing inspections, if approved in advance, are eligible costs.
  7. The Borrower may provide additional funds to be escrowed for items beyond the scope of the program selected, as provided in Section V. part A. of these guidelines, if approval is given by the Department and contractor prior to the signing of the contract. These funds will be held in escrow during the rehab of the property and dispersed by the Department as needed. Any remaining funds after completion will be applied to the loan.

C. INELIGIBLE REHABILITATION COSTS. The following items shall not be included in loans provided hereunder;

1. Items classified as luxury or portable items by HUD or the Department, such as: whirlpool tub (unless necessary by documented medical condition), hot tub, pool, spas, skylight, trash compactor, dishwasher, construction of a detached garage, outside storage shed, window air-conditioning units, gazebo, television antenna/dish, tennis court, outdoor fireplace, privacy fencing, gas grill, removable exterior lighting, outdoor furniture, enclosure or construction of a carport, window awnings, composting units, etc.
2. Materials, fixtures, equipment, or landscaping of a type or quality, which exceeds that customarily, used for properties of the same general type as the property to be rehabilitated.

3. Appliances or devices that are not required by code or housing rehabilitation standards.
4. The acquisition of land, or the new construction of a dwelling.
5. This list is not all-inclusive. Any items not referenced in these regulations will be reviewed on a case by case basis for eligibility.

#### **IV. LOAN APPROVAL**

Each loan or grant application will be submitted to the Department staff for review and approval in a specific amount, including bid price, credit report, recording fees and contingency prior to loan closing. If the Department staff rejects the Applicant's proposal, the Applicant may appeal the decision to the Director of HAND and if necessary the Redevelopment Commission for review.

#### **V. LOAN CONDITIONS**

##### **A. DISBURSEMENT OF FUNDS**

1. Use of proceeds. The Borrower will agree to use the proceeds of the loan only to pay for the costs of services and materials necessary to carry out the rehabilitation work for which the financing was approved.
2. Disbursement of Rehabilitation Funds . The Borrower will allow the Department, or the City, its agents or designees, to hold the proceeds of a loan or grant, including the Borrower's own funds if applicable; and to disburse such funds in the manner set forth in the contract between the Borrower, the contractor and the Department as a party to that contract, to ensure the proper disbursement of such funds. (Note that Community Development Block Grant and City funds cannot be escrowed; rather, they are committed for use but not drawn down to the local public agency until a claim is processed. Borrower's contributions, when applicable, being private funds, can be escrowed.)
3. Escrow Account. The Borrower will be required to set up an escrow account with HAND Department and the City's Controller's office for the amount the Borrower contributes from his or her own resources toward the cost of the eligible rehabilitation work. The Borrower agrees to permit the Department to access and distribute the escrowed funds as necessary for the rehabilitation of the property. The Department will provide documentation to the Borrower of all funds distributed from the escrow account. Any funds remaining in the escrow account after the rehabilitation has been completed will be applied to the loan.

## B. INITIAL WORK WRITE-UP, BIDDING AND CONSTRUCTION

1. Work Write-Up. After the initial application, an inspection of the property will be conducted to determine a list of all work necessary and proposed. The Department staff will then prepare a work write-up incorporating this report, and determine a cost estimate for the rehabilitation work to be financed with the loan or grant.
2. Bidding. Bids will be solicited by the Department from its list of approved contractors. The Borrower may choose a contractor from those submitting bids, so long as the bid of the contractor selected is within fifteen percent (15%) of the Department's cost estimate.
3. Standard Rehabilitation Agreement. The standard contract form provided by the Department staff will be used for all rehabilitation work financed in whole or in part with a loan. The Borrower and contractor will assure that the rehabilitation work will be carried out promptly and efficiently under a written contract signed only after prior written approval by the Department staff. Change orders to the rehab contract showing the proposed work and price will only be authorized by written approval signed by the homeowner, the contractor and approved and signed by HAND staff. The homeowner and the contractor cannot enter into a "side bar" agreement for any proposed work above and beyond the scope of rehab proposed and authorized by the Department. Any additional "side bar" work desired by the homeowner beyond the authorize rehab contract can only be provided by the contractor when the HAND Department has completed and closed out the project.
4. Contractor's Qualifications. To qualify for the program, a contractor must provide: a completed contractor's application, proof of insurance coverage in amounts required by the Department for this program; financial information, as requested by the Department; references; and a listing of past projects the Department can review for evaluation. The Department will determine the contractor's eligibility and reserves the right to reject unqualified contractors.
5. Restrictions on General Contractor and Subcontractors. Borrowers will not act as their own general contractor, nor as a subcontractor.
6. Completion of Work. What constitutes completion of the project will be specified in the written contract and determined by the Department. Any loan funds remaining after the completion of the rehabilitation will be applied to the loan.

## C. INSPECTIONS

1. The Borrower will permit inspections of the property by the Department, the City, or their agents or designees for compliance with the Housing Rehabilitation Standards and all other applicable local housing codes and ordinances. The Borrower will also permit all other inspections deemed necessary by the Department staff concerning the property, the rehabilitation work, and all contracts, materials, equipment, payrolls, and conditions of employment pertaining to the work. It is the responsibility of Borrower or his or her agent (i.e., the contractor) to obtain all required inspections and meet all code requirements.
2. Before payment(s) are issued, the Department's housing coordinator will inspect the work to ensure that materials have been installed. Any partial payments provided to the contractor will be determined by HAND staff. All inspections must be successfully completed before final payment will be issued. Should any problem arise regarding the inspection process, the Director of the Department will decide whether funds should be released and how they will be applied.
3. The final 10% of all funds held will not be released until the entire project has been completed, all warranties have been provided to the homeowner, all code inspections have been successfully completed and the Department has conducted the final inspection to close-out the project, there are no exceptions to this provision.
4. The contractor(s) will certify that they will conduct the scope of their work for the project in accordance with "good building practices" as accepted by the industry. Also, the contractor(s) will provide a one- year warranty for workmanship to the homeowner. The one-year warranty period begins on the date the project is closed by the Department.

D. NON-DISCRIMINATION

1. Civil Rights. The Department will not discriminate upon the basis of age, sex, race, creed, color, class, national origin, or ancestry in the sale, lease, rental, use or occupancy of the property to be rehabilitated with the assistance of any loan or grant. Further, the Applicant agrees to comply with the provisions of the program as directed by the Department, the Redevelopment Commission on behalf of the City of Bloomington, and the U.S. Department of Housing and Urban Development or its designee.
2. Equal Employment Opportunity. The Applicant will comply with all applicable provisions of Executive Order #11246 concerning equal employment opportunity in respect to a loan or grant, and will assist and actively cooperate with the City of Bloomington in obtaining the

compliance of contractors and subcontractors with such provisions, and with the rules and regulations and relevant orders of the Secretary of Labor.

#### E. NON-COLLUSION

1. Interest of Public Body. No member of the governing body, official, or employee of the City of Bloomington who exercises any functions or responsibilities in connection with the administration of the Department's housing rehabilitation programs will have any interest, direct or indirect, in the proceeds of the loan or grant, or in any contract entered into by the Borrower for the performance of work financed in whole or in part with the proceeds of the loan.
2. Bonus, Commission, or Fee. The Applicant will not pay any bonus, commission, or fee for the purpose of obtaining approval of the loan or grant application or any other approval or concurrence required by the Department or Redevelopment Commission to complete the rehabilitation work financed in whole or in part with the loan.

#### F. DISPUTE RESOLUTION

- Disputes concerning HAND's housing rehabilitation program should be communicated directly to the HAND Program Manager. In the event of a communicated dispute the HAND staff member will attempt to resolve the dispute informally in a reasonable time frame with reference to the Program Guidelines for the specific program and the contract documents. This will be done without partiality to any party involved in the dispute. If the dispute involves more than one party and cannot be resolved successfully between the parties by the HAND staff member, either party may submit a written dispute to the Director of HAND within 10 working days of non-resolution of the dispute between the parties. This written submission needs to describe the dispute, identify the section in the contract perceived to be violated, and provide a sequence of events affecting the project to date. This written submission should also include a request of a specific remedy to be considered. The Director of HAND will respond in writing within 20 working days to the involved parties. The Director's decision regarding the dispute shall be final.
- If a homeowner or tenant has a problem that arises during the one year warranty period the homeowner or tenant is encouraged to contact the contractor. If the homeowner or tenant does not receive satisfaction from the contractor, HAND reserves the right to

intervene to assist in coming to a satisfactory resolution of the problem. However, this does not mean that HAND will assume liability to correct the problem.

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