

CITY OF SOUTH LAKE TAHOE



NEIGHBORHOOD STABILIZATION PROGRAM 2 (NSP2) GUIDELINES

Established June 16, 2009 – Subject to NSP2 Grant Approval and HUD modification

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Cover Letter From Mayor

TO BE ADDED

CITY OF SOUTH LAKE TAHOE

NEIGHBORHOOD STABILIZATION PROGRAM 2 (NSP2)

GUIDELINES

INTRODUCTION

The Neighborhood Stabilization Program (NSP) was established by the Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008, referred to as NSP1. NSP2 refers to the funds authorized under the American Recovery and Reinvestment Act (the Recovery Act) of 2009. Both programs were created for the purpose of stabilizing communities that have suffered from foreclosures and abandonment through the purchase and redevelopment of foreclosed and abandoned homes and residential properties.

PROGRAM DESCRIPTION

¹The City of South Lake Tahoe's NSP2 program includes the purchase, rehabilitation (including rehabilitation to energy efficiency standards) and reselling or renting of homes through the City's Homebuyer Assistance Program (HAP) to low, moderate and middle income homebuyers² with a household income below 120% of the Area Median Income (AMI). 25% of the NSP2 funds will be used to assist persons at or below 50% of the AMI. On June 16, 2009, the South Lake Tahoe City Council authorized staff to submit an application to HUD to utilize NSP funds for the following eligible NSP activities:

- Strengthen the City's Homebuyer Assistance Program by establishing financing mechanisms for the purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft/silent-seconds, loan loss reserves, and shared equity loans to help qualified, income-eligible homebuyers purchase an eligible home in the City; and
- Acquire and rehabilitate foreclosed or abandoned homes and residential properties in the City and sell or rent homes to qualified income-eligible homebuyers; and
- Acquire and redevelop demolished or vacant properties into housing for qualified, income-eligible homebuyers.

TASK FORCE

All homes rehabilitation must meet the approval of the City's NSP2 task force; The task force at the time of the application to HUD includes a Green Builder (certified through www.EnergyStar.gov) website or another nationally recognized Green Building Association, a general contractor, mortgage banker or lender, two real estate professionals from unrelated real estate brokerage firms, two city employees from the Housing Rehabilitation Program, one person from escrow, title, or appraisal industry and two community partners.

¹ *These guidelines will become program policy if the City's application to the U.S. Housing and Urban Development Agency (HUD) for NSP2 funding is awarded, pending any suggested modifications by HUD.*

² *Low, Moderate and Middle income households as defined by HUD in the NSP2 NOFA or thereafter as modified by HUD.*

ACTIVITIES DESCRIPTION

Homebuyer Assistance

NSP funds will be available on a first-come, first-served basis to qualified homebuyers. Homebuyer Assistance may include a grant or loan for down-payment, closing costs and rehabilitation costs to improve efficiency standards and program goals (see Eligible Repairs and Improvements and Rehabilitation Priorities). Qualified homebuyers may be eligible to receive financial assistance to acquire a home in the City's target census tracks.

Households at or Below 50% AMI (Low Income)

Eligible households with incomes at or below 50% of Area Median Income may receive a grant up to \$20,000 to assist with down-payment and reasonable closing costs, and a "silent/soft second" loan up to \$25,000 to assist with principal reduction and housing rehabilitation improvement costs (rehabilitation must meet the Housing Rehabilitation Guidelines and requirements specified herein and be approved by the City's Rehabilitation Inspector prior to initiation of work).

Homebuyers in this category, who are also First Time Homebuyers (have not owned a home in the immediately three years prior to the closing date), may also apply for assistance through the City's First Time Homebuyer Program (Homebuyer Acquisition Program). If such a City NSP recipient is eligible and accepts financial assistance through the City's First Time Homebuyer Program, such recipient's NSP funding assistance will not be impacted or discounted; however, grants for closing costs available through the First Time Homebuyer Program will not be awarded to NSP2 recipients in addition to NSP2 grant funds.

Households above 50% AMI and Below 80% AMI (Moderate Income)

Eligible households with incomes at or below 80% of Area Median Income may receive a grant up to \$15,000 to assist with down-payment and reasonable closing costs, and a "silent/soft second" loan up to \$25,000 to assist with principal reduction and housing rehabilitation improvement costs (rehabilitation must meet the Housing Rehabilitation Guidelines and requirements specified herein and be approved by the City's Rehabilitation Inspector prior to initiation of work).

Homebuyers in this category, may also apply for assistance through the City's First Time Homebuyer Program (Homebuyer Acquisition Program) if they have not owned a home in the three years preceding the NSP application. If such a City NSP recipient is eligible and accepts financial assistance through the City's First Time Homebuyer Program of at least \$75,000 and up to the maximum amount authorized (\$150,000), such recipient's NSP funding assistance will be allowed for down-payment assistance, reasonable closing costs and housing rehabilitation improvement costs, but will not be allowed for additional principal reduction. In addition, grants for closing costs available through the First Time Homebuyer Program will not be awarded to NSP2 recipients in addition to NSP2 grant funds.

Households above 80% AMI and Below 120% AMI (Middle Income)

Eligible households with incomes at or below 120% of Area Median Income may receive \$15,000 to assist with down-payment and reasonable closing costs, and a "silent/soft second" loan up to \$15,000 to assist with principal reduction and housing rehabilitation improvement costs (rehabilitation must meet the Housing Rehabilitation Guidelines and

requirements specified herein and be approved by the City's Rehabilitation Inspector prior to initiation of work).

Homebuyers in this category, may also apply for assistance through the City's Moderate Income Homebuyer Program paid through Redevelopment funds, depending on fund availability. If such a City NSP recipient is eligible and accepts financial assistance through the City's Moderate Income Homebuyer Program of any and up to the maximum amount authorized (\$100,000), such recipient's NSP funding assistance will be allowed for down-payment assistance, reasonable closing costs and housing rehabilitation improvement costs, but will not be allowed for additional principal reduction. In addition, any grant funds available through the Moderate Income Homebuyer Program will not be awarded to NSP2 recipients in addition to NSP2 grant funds.

Additional Loan Amounts

Additional loan amounts may be available on a first-come, first-served basis depending upon the amount of the final NSP2 award from HUD, if any; and depending upon the percentage of funds awarded to each income level group, which may be adjusted to meet HUD's NSP2 requirements of assisting the low-income TIG with 25% of NSP2 funds.

Purchasing Requirements

Only foreclosed homes in the target area as identified in the City's grant application are eligible for NSP funding assistance. Foreclosed homes available to purchase must have been vacant or occupied by the homebuyer (see Property Eligibility). Foreclosed homes must be acquired at discount that is at least 15% below the appraised value. The home must be appraised within 75-days prior to the close of escrow. The City's Housing Division, NSP Program must approve the appraisal and the sales price, prior to the City's NSP application being presented for approval to the City's Loan Committee. At the City's sole discretion, one or more additional appraisals may be ordered to verify the market value of the home to be purchased.

Homebuyers must successfully complete a minimum of eight hours of free HUD approved homebuyer education at a course approved by the City (upon City's successful grant application being awarded, the HUD-approved course will be identified).

City's Acquisition and Rehabilitation of Homes

The City may use a portion of the NSP funds to acquire and rehabilitate foreclosed or abandoned homes and residential properties in the City and sell or rent homes to qualified income-eligible homebuyers. The City's Housing Division, NSP Program staff and the City's NSP Task Force will be involved in locating, evaluating best opportunities for acquiring foreclosed homes and residential properties, and rehabbing the homes to meet program goals and efficiency standards.

Should the City acquire foreclosed properties for rehabilitation, the City's Program staff will follow the same guidelines herein for rehabbing and improving the properties as to eligible and ineligible repairs and improvements. Exceptions to the eligible repairs and improvements are gut-rehabilitation should it be deemed more cost effective or would achieve higher market value, achieve higher green-ratings, or achieve better quality housing for low to moderate income persons, depending upon fund availability. The maximum amount of funds expended on City-acquired rehabilitated homes for rehabilitation shall not exceed after-improvement appraised equity.

City's Acquisition and Redevelopment of Demolished or Vacant Properties

The City may use a portion of the NSP funds to acquire and redevelop demolished or vacant properties into housing for qualified, income-eligible homebuyers. The City's Housing Division, NSP Program staff and the City's NSP Task Force will be involved in locating, evaluating best opportunities to achieve the best outcomes to provide quality affordable housing, stabilize the housing market and stimulate the local economy as to which, if any, properties are to be redeveloped into housing.

Should the City acquire demolished or vacant properties, the City's Program staff will follow the same guidelines herein for redeveloping the properties into housing and improving the properties as to eligible and ineligible repairs and improvements. Exceptions to the eligible repairs and improvements are gut-rehabilitation should it be deemed more cost effective or would achieve higher market value, achieve higher green-ratings, or achieve better quality housing for low to moderate income persons.

APPLICANT ELIGIBILITY

Homebuyers must meet HUD income limits households with incomes at or below 120% of Area Median Income (see NSP income limits). The City's Housing Department will determine income eligibility (see Application Process). 25% of NSP funds must benefit households at or below 50% of Area Median Income. Homebuyers must be able to qualify for the first mortgage and be approved through the City's Loan Committee (see Application Process). City NSP applicants must not assume approval for NSP funding assistance; only a letter from the City formally approving the homebuyer for NSP funding assistance in the amounts specified on the award letter will stand as an approved NSP funding award. Homebuyers must reside in the home as their primary residence for an affordability period determined by the amount of assistance received. Homebuyers must acquire a vacant foreclosed home with NSP funds; the home must be foreclosed. NSP funds may not be used to purchase homes in the pre-foreclosure status.

ELIGIBLE REHABILITATION REPAIRS & IMPROVEMENTS

All repairs using NSP funds must be authorized by the City's Housing Division, Neighborhood Stabilization Program *prior* to initiation of work (see Priority of Approved Repairs and Improvements). Any unauthorized work not be paid by the City with or without NSP funds. The City will inspect the home and determine the repairs needed to meet program goals and efficiency standards (see Application Process section and City's Housing Rehabilitation Program Guidelines for additional information).

NSP housing rehabilitation assistance funds may be used for the following repairs and improvements: (note, *items with an asterisk are required improvements):

- Energy and Water Efficiency Improvements
- City and Tahoe Regional Planning Agency Best Management Practice standards
- Tree Removal for defensible space improvements to reduce fire hazard
- Repairs including foundation, electrical, heating and plumbing
- Structural repairs, especially roofs, porches, windows, and doors
- Repairs needed to meet federal, state or City Codes
- Replacement of *essential* built-in appliances (microwaves excluded)
- ADA improvements such as installation of ramps, widening of doorways, grab bars, wheel chair accessible showers and counters.

INELIGIBLE REHABILITATION REPAIRS & IMPROVEMENTS

NSP housing rehabilitation assistance funds may not be used for any of the following repairs or improvements to a home purchased under the NSP program:

- Luxury items
- Flooring above the standard currently installed in the home
- Hot tubs, steam showers and luxury baths
- Patios or decks (except for health and safety repairs)
- House or room additions that alter or increase the square footage of the residence
- Installation of fireplaces
- Window treatments
- Repairs otherwise deemed ineligible by the City's Housing Division.

APPLICATION PROCESS

Applications will be accepted year-round until the goals of the program have been met and/or all funds have been committed. Generally, applications will be processed on a first-come, first-serve basis. Any ranking due to excessive applications will be completed in compliance with Fair Housing Act Standards. To apply for the Neighborhood Stabilization Program, please contact the City's Redevelopment & Housing Department (530) 542-6047 or download an application from the City's Website (www.sltmsp.org³). NSP2 funds will be allocated to income-eligible approved applicants in the order of application submission.

The City will accept applications from households who desire to purchase a home and are eligible according to the program guidelines. Buyers must be able to acquire a mortgage loan and must complete a HUD Certified Homeownership Training course. A second lien will be placed on the property by the City (the second lien is a no-interest, deferred, forgivable, typically five to fifteen-year term depending on the subsidy amount). All or a portion of the second lien is due and payable upon sale/transfer of the property unless the entire affordability period has been met (see Affordability Period). Repayment is also activated if the homeowner fails to occupy the house as their primary residence.

1. Income Verification

The first step in the application process is to submit an application to the City's Housing Division. Qualified applicants must fall into the category of low, moderate or middle-income groups as defined by the U.S. Housing and Urban Development (HUD) Department for the NSP2 program. These 3 groups are identified as the Target Income Group (TIG) and meet the following income limits.

- Low-income households are defined as at or below 50% of the Area Median Income (AMI). 25% of NSP funding must assist this low-income TIG.
- Moderate-income households are defined as at or below 80% of the Area Median Income (AMI).
- Middle-income households are defined as at or below 120% of the Area Median Income (AMI). *Note: this is a new definition by HUD in the NSP2 NOFA.*

³ To be established if NSP2 funding is awarded

All income received by the persons living in a household is used to determine eligibility (except that of minor children and care providers necessary for the health of a disabled or handicapped household member). Income is defined according to the federal Section 8 program. All persons 18 years of age or older, expected to live in the residence are required to provide documented proof of income. For employed persons a tax return or the previous year's earning statement will be required. For retired persons who do not file tax returns or persons receiving government subsidies, copies of benefit checks, benefit award letters or copies of bank statements indicating automatic deposit of benefit checks will be required. All documentation will be kept in the participant file and held in strict confidence.

Program eligibility will be based on income, a housing cost ratio, and a debt-to-income ratio. Participants will have incomes at or below 80% of the area median income adjusted for family size (**income limits**). Monthly payments of PITI (principal, interest, taxes and insurance) on the 1st loan must fall within the range of 30% to 37% of income. Lastly, monthly housing payments plus all revolving and installment credit cannot exceed 50% of your annual income. Applicants whose debt-to-income ratio exceeds 50% may be considered ineligible to participate in the program.

City program staff will review the income information submitted and conduct an evaluation and verify the income level of the household. City program staff may seek additional information from a third party source (e.g.: place of employment, banks, etc.). Once income verification is determined, the applicant will be notified by the City in writing of their eligibility, if any, and their income level (low-moderate-middle). Applicants will then be placed on the approved list of potential participants.

The 2009 income limits for the City of South Lake Tahoe are listed below (these income limits will be modified annually):

INSERT TABLES

2. Property Selection

NSP applicants may select a property to purchase before or after submission of an application to the program. However, it is recommended that potential applicants apply to the program as soon as they are interested in participating.

Location

Only foreclosed homes in the target area as identified in the City's grant application are eligible for NSP funding assistance. Foreclosed homes available to purchase must have been vacant or occupied by the homebuyer. Foreclosed homes must be acquired at discount that is at least 15% below the appraised value. The home must be appraised within 75-days prior to the close of escrow. The City's Housing Division, NSP Program must approve the appraisal and the sales price, prior to the City's NSP application being presented for approval to the City's Loan Committee. At the City's sole discretion, one or more additional appraisals may be ordered to verify the market value of the home to be purchased.

Properties eligible for NSP homebuyer acquisition and rehabilitation assistance include any foreclosed real property single-family housing whether the structures may be detached or attached (including a condo, town-house, duplex, or other multiplex). However, each housing unit acquired by an individual participant must be real property, with an individual deed and be included in the City's housing stock as identified in the City's Housing Element (Approved by the State of California's Housing and Community Development Department, December 2008). NSP funds may not be used to bring an illegal dwelling unit into compliance under the City's Illegal Unit Conversion Program.

DRAFT CONCEPT/TO BE CONFIRMED: Foreclosed mobile/manufactured home acquisition and rehabilitation will be considered if (a) the residence is identified as real property, (b) if the land upon which the home will reside is real property and included in the acquisition, and (c) if the home was manufactured after 1976.

In addition to the approved housing described above, the City's Housing Division may purchase a home or a multi-family foreclosed property to rehabilitate and resell or rent to qualified income-eligible households. Multi-family properties of eight (8) or more units acquired by the City's NSP must meet the additional requirements of the City's Multi-family Dwelling Inspection Program and be included in the annual inspection cycle.

All rehabilitation projects must at least meet Section 8 Housing Quality Standards (HQS) after completion. Any rehabilitation items not meeting HQS will be noted on the housing inspection forms to ensure that this minimum level of quality is obtained on all participating housing units. By using the HQS, the City will ensure that all health and safety deficiencies are addressed first and that a participant's completed rehabilitation meet basic "Performance Standards" set by the City.

3. HUD-approved Homeownership Counseling

City NSP applicants must complete a HUD-approved Homeownership Counseling within the preceding 24 month period prior to the close of escrow. The requirement may be met anytime during the application period. However, once 24 months have expired since the time an applicant has completed a class, applicants are required to attend another homeownership counseling session offered through a HUD-approved counseling program.

4. First & Second Mortgage Loans

If not already done so, the potential NSP assisted applicant must apply and qualify for a first mortgage in the maximum amount available. **Lenders with a Letter of Firm Commitment on file with the City for discounted fees and services for NSP properties must be given first opportunity to provide lending to the homebuyer.** First Mortgage Loans may be Conventional, FHA or VA. First Mortgage Loan interest rates may not exceed 2 1/2% above current Fannie Mae Market 30-year rate at a 15, 20, or 30-year

fixed rate. No sub-prime lending is permitted. No Adjustable Rate Mortgages (ARM), 2-1 Buy Downs, Seller Financed Transactions or Balloon Mortgages will be permitted (See Lender Guidelines for additional first loan requirements).

After obtaining the maximum first mortgage that the homebuyer's income will support, the City will provide a no-interest, 'silent/soft-second' loan in the amounts identified in Activities Description section to help homebuyers acquire and rehabilitate a foreclosed home in accordance with these Program Guidelines.

The City loan is secured by a second deed of trust on the property to be purchased.

The City will not accept placement less than second position behind the first mortgage or first placement if no first mortgage is to be obtained. Should the NSP applicant acquire a loan through the City's First Time or Moderate Income Homebuyer Programs, which also requires second position placement, the NSP loan will accept third placement only behind the second position placement of the City's Homebuyer Acquisition Programs; if possible or practical, the City will make every attempt to combine multiple program loans into one loan document for efficiency standards provided the Program Income of both loans is appropriately and clearly distinctly separated.

NSP loans are non-assumable. Repayment of the loan is deferred for 20 years and is forgivable in the manner described below (Affordability & Loan Forgiveness Periods); or until the sale or transfer of the property unless the entire time of the affordability period has been met. If the homebuyer opts to sell the home during the first ten-years, the monthly forgiveness rate will not apply and repayment of the second lien to the City is due immediately upon sale; exceptions may be made in documented cases of hardship at the discretion of the City (decision to be made by the City's Redevelopment & Housing Department, appealable to the City Manager and thereafter, the City Council).

5. Appraisal

The foreclosed property to be purchased must be appraised as to the current and after-rehabilitation value by qualified real estate professional appraiser. **Appraisers with a Letter of Commitment with the City for discounted fees and services to NSP properties must be given first opportunity to conduct the appraisal.** If no such Appraiser is available, only then is another appraiser authorized to conduct the appraisal. The appraisal must include realistic comparisons of real estate transactions completed in within professional accepted time frame immediately preceding the sale proposed by the City's NSP applicant, or the City's proposed purchase of property. The City reserves the right to obtain more than one appraisal. The sale price must be at least 15% below market value.

6. Grant/Loan Approval

The City will initiate the estimation of the work to be performed (see Construction Process), prepare and offer bid packages for bidding by licensed general and subcontractors, and prepare a complete package of the Income Verification, First Mortgage Loan documents (loans must have pre-approval status from approved lender); Appraisal (current and estimated after work to be performed); and estimated costs needed for loan closing and rehabilitation. The Grant and Loan package will provide a detailed analysis of the applicant homebuyer's current financial standing and proposed financial standing should the home close escrow and the City's NSP2 grant funds be utilized. The Grant and Loan package will provide sufficient information to allow the City and/or Loan

Committee or City Council or other City official to make a determination of appropriate fund award.

Grants and Loan subsidies for one household totaling less than \$10,000 shall be authorized by the City's Housing Division, NSP program staff assigned as loan processing evaluators, subject to approval by the department director and/or the City Manager's office. Grants and loans for one application (household) totaling \$10,001 or more shall be approved by the City's Loan Committee (which shall consist of at least 3 members of the community and one member of the City's staff (not in the Housing Division) of which at least 3 members must be review the application and make approval determination [application review can be made via electronic submission of relevant materials to Loan Committee members provided the documents are sent via copy, print and write protected; approval may also be made in person at a per-determined time for Loan Committee meeting].

Loans requiring City Council approval may be submitted to the City Council prior to or after Loan Committee approval. The City Council must approval all loan and grant applications submitted by any member of the governing body, or city official, employee or agent of the City, nor any other person who exercises policy or decision making responsibilities in connection with the planning and implementation of the NSP program (including members of the loan committee and officers, employees, and agents of the loan committee, the administrative agent, contractors and similar agencies).

Once the subsidy amount is approved, loan documents, if any, will be drawn by the City's Loan Processing Specialists. Loan documents must be signed and notarized by the applicant/recipient following established standards as described below: Loan Payments

In some instances, loan payments will be made by the homebuyer (through refinancing, selling, or personal choice). Any and all loan payments will be made directly to the City of South Lake Tahoe. Loan payments will be accepted from borrowers prepaying loan amounts or making payments in full upon sale of the property or change in title. The City will maintain a financial record-keeping system to record payments and file statements on payment status. Annual statements will be provided showing balance of the loan.

Maximum Loan Amount

The maximum NSP loan amount for rehabilitation is described in Activity Description/Homebuyer Acquisition section and may be modified as additional funds become available or as program income is received or upon direction from HUD staff upon review of the City's program guidelines. Leveraged funds may be employed to cover rehabilitation costs that exceed the maximum amounts allowed under the City's NSP2. In most cases, the maximum loan amount will be limited to the equity in the property to secure the loan (maximum loan-to-value of 100%). The loan amount may include: the construction contract (the accepted bid price for the cost of materials and labor); a construction contingency; drafting, engineering and plan preparation fees, if any; appraisal and termite inspection charges; credit report; permit fees; site preparation for replacement housing; escrow, closing and recording fees; and title report and title insurance, title updates and/or related costs. **All service providers, contractors and agencies who have a firm Letter of Commitment on file with the City for discounted fees and services for NSP properties must be given first priority by the City and homebuyer in selecting such a service or professional.**

Rates and Terms

Loans are provided interest-free as ‘silent-soft/seconds,’ on the foreclosed property to be purchased. Loans are forgivable, non-assumable and linked to the affordability period (see Affordability Period). Loans are due upon transfer of title or when the borrower no longer occupies the home as his/her principal residence. Loans may become due when the homebuyer defaults on the first mortgage.

Loan Security and Underwriting Standards

Loans will be secured by a Promissory Note and Deed of Trust (all persons listed on the title to the property must sign the Promissory Note and Deed of Trust). The NSP loan amount cannot exceed the unencumbered after-rehabilitation value of the property. In most cases, value will be determined by an appraisal based on the current market value of similar property in the area in which rehabilitation occurs. If the cost of necessary rehabilitation for critical code deficiencies exceeds the unencumbered after-rehabilitation value of the property, the NSP Loan Committee can, on a case-by-case basis, accept a partially secured loan. In such cases, if a household is current with repayment on existing loans, a loan-to-value-ratio of up to 110% may be permitted. Grants will not be used in loan to value ratio. All borrowers must have sufficient fire insurance to cover all previous encumbrances plus the proposed NSP loan.

Borrowers may be subject to paying for the appraisal and other loan fees if they decline to participate in the program after receiving an approved loan. City staff will determine if there is an appropriate reason for them not to pay the fees.

Document Signing

Upon notice that the City has approved the loan, the borrower signs the Promissory Note and Deed of Trust and other statutory lending notices (right of rescission, truth in lending, etc.), then the deed is recorded with the El Dorado County Recorder’s Office. In cases of borrowers with bank leveraged lending, bank documents are also executed.

Changes in Title and Occupancy

Any changes in title or occupancy must be disclosed to the City. The City will have full approval for discretion in the changing of title of any property acquired or assisted with NSP funding. At the City’s sole discretion the City may demand payment in full if a title change occurs without the City’s prior consent

The recipient of NSP funds is required to disclose to the City on an annual basis (by returning forms provided with the annual statement) the occupancy of persons in the home during the affordability period. If any change in occupancy occurs, the homebuyer must notify the City’s Housing Division within 14 days of a change in occupancy and complete an income-verification process. If at any time during the affordability period a change in the occupancy results in the household no longer qualifying in the income-levels authorized by the NSP program, the loan will be in default and immediately due and payable.

Conversion to Use other than Residential

If the use of the property is converted to a nonresidential use, the NSP loan is in default and all loan funds are due and payable.

If an owner-occupant operates a business from his/her home but still lives there as his/her principle residence, loan terms are not affected.

Affordability & Loan Forgiveness Periods (DRAFT CONCEPT/TO BE CONFIRMED)

The affordability periods are linked to the total amount of subsidy provided (grants and loans combined) and are described on Table 1: Affordability & Loan Forgiveness. At the end of the affordability period, the second lien is released. The loan will be forgiven at a predetermined rate per month according to the following applicable affordability periods based on the total subsidy loan amount. **However, no forgiveness will be granted during the first five years of the loan; the amount of forgiveness will be calculated after the fifth year of homeownership (366 days).**

For example: an NSP2 applicant enters into an agreement with the City to purchase a foreclosed home and accepts \$3,000 in grant funds and \$20,000 in a silent/soft second loan, resulting in a fifteen year affordability period. The homeowner elects to sell their home four years and 340 days after the close of escrow of the NSP2 purchase. The homeowner will owe the entire amount of the loan (\$20,000) plus the amount determined by the equity-sharing schedule (See Equity Sharing). If the homeowner, under the same scenario elected to close escrow five years and one day following the close of escrow of the NSP2 purchase, the homeowner would realize a 1/180th per month forgiveness rate and no equity sharing.

TABLE 1: Affordability & Loan Forgiveness

| <u>Total subsidy</u> | <u>Affordability Period</u> | <u>Monthly Forgiven Rate⁴</u> |
|----------------------|--------------------------------|--|
| Up to \$14,999 | Ten years (120 months) | 1/120 th per month |
| \$15,000 to \$24,999 | Fifteen years (180 months) | 1/180 th per month |
| \$25,000 to \$39,999 | Twenty years (240 months) | 1/240 th per month |
| \$40,000 and above | Twenty-five years (300 months) | 1/300 th per month |

Equity Sharing: Sale of Home Prior to Expiration of Affordability Period

“Monthly forgiveness” will be invalidated if the home is sold prior to the affordability period. Should the property be sold or ownership transferred prior to the end of the affordability period, in addition to the full amount of the loan being due, a percentage of the equity would also have to be paid. In general, equity is the difference between the original purchase price of the home and the price of the home when sold. The City’s share will be equal to the percentage that the City loan was in relation to the original purchase price. For example, if the City loan was equal to 30% of the original purchase price, then 30% of the appreciated amount is owed when the loan is repaid.

Refinancing during Affordability Period

Should the homebuyer elect to refinance at any time during the affordability period, the entire loan balance remaining will become immediately due and payable to the City of South Lake Tahoe and deposited into the NSP Repayment Program Income account following applicable HUD guidelines for reuse. The amount of the balance owned will be determined following the Affordability Period shown on Table 1, with the following

⁴ Monthly forgiveness rate or amount is realized only after five full years of homeownership (366 days following the close of escrow of the NSP2 assisted purchase).

exception. If the refinancing occurs during the first five years of homeownership (between day 1 and day 365), no loan forgiveness amount will be included. If the refinancing occurs on day 366 of homeownership or thereafter, the forgiveness amount and rate will be included in the balance owned.

Conflict between Affordability Periods

Should the homebuyer receive other funding to assist with the acquisition or rehabilitation of the home at any time either during acquisition or during the affordability period in which another affordability period is in conflict with the NSP affordability period, the period with the longest possible affordability shall be superior to the lesser affordability period.

Loan Defaulting

Conditions of default include transfer of title or the sale of the property. A loan is also in default if it is found that fire insurance or property taxes are not kept current. The City may use forced placed insurance, which will insure the property at owner's expense. The cost will be added to the loan balance until the owner obtains proper insurance. However, the City also has the option to make the loan due and payable. Each case will be evaluated independently. See "Foreclosure" for more information on Loan Defaulting.

7. Lead Based Paint: Testing and Remediation/Removal

Note, by October 2009, all contractors in California must take Environmental Protection Agency (EPA) accredited training before beginning renovation, repair or painting projects.

All houses acquired or assisted with NSP funding will be required to be tested for Lead Based Paint as part of the City's Lead Based Paint Testing and Remediation & Removal Program (LBPTRR).

Applicant/recipients who wish to purchase a foreclosed property constructed prior to 1978 will receive proper notification of Lead-Based Paint (LBP) hazards, subject to implementation of the Federal Lead-Based Paint Regulations by HUD. Prospective homebuyers will be notified and provided a copy of the Lead Hazard Information Pamphlet published by the EPA/HUD/Consumer Products Safety Commission. The City will seek approval from the owner of the foreclosed property (likely a bank-owner) to proceed with Lead Based Paint Testing as soon as the potential homebuyer is pre-qualified for a first mortgage. The homebuyer will not be charged for the cost of the testing.

If lead-based paint is found through testing or if presumption is used a Notice of Lead Hazard Reduction Activity and a Lead Hazard Evaluation Report will be provided. In addition, Federal Lead-Based Paint HUD Regulations require the following:

- A. If the total amount of federal assistance or the total amount of rehabilitation hard cost is up to and including \$5,000 the following is required:
 - (1) Paint testing or presume LBP, (2) clearance of disturbed work areas; and (3) Notifications listed above.
- B. If the total amount of federal assistance or the total amount of rehabilitation hard cost is more than \$5,000 the following is required:
 - (1) Risk assessment, (2) Paint testing or presume LBP; (3) Clearance of unit; and (4) Notifications listed above. If LBP hazards are identified, interim controls must be

implemented. This level will also require a notice of “Abatement of Lead Hazards Notification” at least five days prior to starting work.

- C. If the total amount of federal assistance or the total amount of rehabilitation hard cost is more than \$25,000 the following is required:

(1) Risk assessment, (2) Paint testing or presume LBP, (3) Clearance of unit, (4) Notifications listed above, (5) Abatement of all LBP hazards identified or produced and (6) Use of interim controls on exterior surfaces not disturbed by rehab. If LBP hazards are identified, interim controls must be implemented. This level will also require a notice of “Abatement of Lead Hazards Notification” at least five days prior to starting work.

All paint tests that result in a negative finding of lead-based paint are exempt from any and all additional requirements. A State-certified inspector/assessor must perform all paint testing, risk assessments and clearances. A trained supervisor may oversee interim controls, however, certified supervisors and workers must perform all abatement.

Lead Hazard Evaluation and Reduction Activities

The City will grant costs to perform the required risk assessment, paint testing and unit clearance. In addition, grants of up to \$7,500 will be provided for the cost of lead hazard reduction and/or abatement activities. Eligible costs under the grant are limited to the additional cost of paint stabilization above the cost of any normal rehabilitation activities. Grants provided for testing and remediation/removal of lead based paint shall not be deemed as granted to the homebuyer or included in the amount granted or loaned to the homebuyer in calculating the affordability periods.

Testing & Remediation Completed Before Applicant Moves In

Applicants may not move into the home until all LBP testing and remediation activities are completed. It is most likely these will be done during rehabilitation and prior to the applicant’s moving into the residence, but in the event there is a question, this section is intended to remove ambiguity. Applicants and their families are not permitted to move into the home until LBP testing and remediation is completed.

8. Housing Rehabilitation

Housing Rehabilitation work shall not begin until the close of escrow on the foreclosed property to be purchased using NSP funding assistance. An exception may be made in the case of the City purchasing (and taking ownership) a foreclosed property, which shall require a written agreement of the lender and owner, subject to review, evaluation and approval of the City Attorney and City Manager’s office. No exceptions to work commencing prior to title transfer and ownership recordation shall be made when the purchase will result private homeownership assistance.

Priority of Approved Repairs and Improvements

Rehabilitation needs will be addressed in the following priority to ensure funding is directed to the areas of highest need and to meet HUD’s NSP2 goals first:

- A. Health And Safety
- B. Energy & Water Efficiency and Conservation (includes “Green Building”)

- C. Extension of Useful Life
- D. Converting To Current UBC And Other Standards
- E. General Property Improvements

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- A. **Health and Safety:** Examples include correcting plumbing, electrical, structural, mechanical and roof deficiencies, modifications for handicap accessibility, room additions to resolve overcrowding and any other HQS items. All units shall have working smoke and carbon monoxide detectors. Properties constructed prior to 1978 will be required to comply with the current Lead-Based Paint abatement regulations (see Lead Based Paint section).

ADA Grants: Grants of up to \$7,500 will be made available to low-moderate income households in which a permanently disabled individual resides and in which the dwelling is in need of specific modifications to make it functional for the disabled individual. Eligible activities under this grant are: wheelchair ramps; enlarging doorways; installing grab bars in bathrooms; etc. Households who receive grants must be income eligible and must receive a loan to address any other health and safety issues so that the property will meet Housing Quality Standards (HQS). If the property already meets HQS, prior to any rehabilitation work, then the household may receive the grant without a loan.

- B. **Energy & Water Efficiency and Conservation:** As part of the American Recovery & Reinvestment Act (ARRA, aka “stimulus bill”), efforts to improve energy and water efficiency are of high concern and significant interest to the program designers (HUD). Therefore, this section will detail the many things the City will consider when implementing Energy and Water Efficiency and Conservation improvements and repairs.

NSP recipients may also participate in the City’s AB 811 Energy Efficiency Retrofit Program (funding dependant) that allows homeowners to install energy efficiency equipment and weatherization techniques (including solar improvements) repaid through a deduction on the property tax over 5, 10 and 20 year payment terms. Integration of the City’s programs will make the NSP funding extend for other uses not covered under AB811 (e.g.: water efficiency).

In general, examples in this category include insulation, reducing air infiltration through window and door replacement, weather-stripping and caulking, and replacing inefficient water heaters, refrigerators, clothes dryers, ovens, furnaces, and air conditioning appliances. Also the replacement of wood stoves not in compliance with the Tahoe Regional Planning Agency guidelines.

- Homes will be evaluated during escrow and in the rehabilitation planning phases of buying period and will use “Build it Green Checklists,” to look for opportunities to improve the green standards of the home.
- The City’s Adopted Sustainability Plan and Sustainability Commission Work Program will be integrated in designing energy and water efficiency improvements and repairs.
- Energy efficiency standards as defined by www.EnergyStar.gov will be utilized.

- Appliances installed will be Energy Star rated appliances.
- All gut rehab and general replacement of interior of a building that may or may not include changes to structural elements such as flooring systems, columns, or load bearing interior or exterior walls, of residential buildings up to three stories tall will be designed to meet the standard for Energy Star Homes. According to www.EnergyStar.gov this means that an ENERGY STAR home will meet strict guidelines for energy efficiency set by the U.S. Environmental Protection Agency. These homes are at least 15% more energy efficient than homes built to the 2004 International Residential Code (IRC), and include additional energy-saving features that typically make them 20–30% more efficient than standard homes.

As defined by EnergyStar.gov (the following can be found on www.energystar.gov), the NSP housing will include the following:

ENERGY STAR qualified homes can include a variety of 'tried-and-true' energy-efficient features that contribute to improved home quality and homeowner comfort, and to lower energy demand and reduced air pollution:

1. Effective Insulation: Properly installed and inspected insulation in floors, walls, and attics ensures even temperatures throughout the house, reduced energy use, and increased comfort.

2. High-Performance Windows: Energy-efficient windows employ advanced technologies, such as protective coatings and improved frames, to help keep heat in during winter and out during summer. These windows also block damaging ultraviolet sunlight that can discolor carpets and furnishings.

3. Tight Construction and Ducts: Sealing holes and cracks in the home's "envelope" and in heating and cooling duct systems helps reduce drafts, moisture, dust, pollen, and noise. A tightly sealed home improves comfort and indoor air quality while reducing utility and maintenance.

4. Efficient Heating and Cooling Equipment: In addition to using less energy to operate, energy-efficient heating and cooling systems can be quieter, reduce indoor humidity, and improve the overall comfort of the home. When properly installed into a tightly sealed home, this equipment won't have to work so hard to heat and cool the home. Qualified Heating and Cooling equipment will be installed when practical (most Tahoe homes don't have standard Heating and Cooling equipment, but heating and cooling mechanisms (fans and wood stoves) will be evaluated for proper efficiency.

5. Efficient Products: ENERGY STAR qualified homes may also be equipped with ENERGY STAR qualified products including lighting fixtures, compact fluorescent bulbs, ventilation fans, and appliances, such as refrigerators, dishwashers, and washing machines. Qualified appliances, lighting, advanced lighting, high efficiency water heaters, are important components of an energy efficient home.

6. Third-Party Verification: With the help of independent Home Energy Raters, ENERGY STAR builder partners choose the most appropriate energy-saving features for their homes. Additionally, raters conduct onsite testing and inspections to verify the energy efficiency measures, as well as insulation, air tightness, and duct sealing details. Several certified Energy Auditors submitted firm Letters of Commitment for discounted fees and services to conduct energy audits and verify

energy savings. Homebuyers and the City must give first opportunity to those with Firm Letters of Commitment on file in the City's NSP.

7. Energy efficient mortgages (EEMs) are designed to help home buyers purchase energy efficient homes such as ENERGY STAR qualified homes. EEMs take into account the fact that energy efficient homes cost less to operate, giving borrowers greater buying power. EEMs can allow borrowers to qualify for larger loans, reduce closing costs, and/or offset the cost of a home energy rating. Bank of American is an EEM and is a local Tahoe lender.

Multi-family Dwellings

Housing Gut Rehabilitation of mid-or high-rise multifamily housing will be designed to meet the American Society of Heating, Refrigerating, and Air-Conditioning Engineer Standard 90.1.2004, Appendix G plus 20 percent (which is the Energy Star Standard for MFD piloted by the EPA and the U.S. Department of Energy).

Water Efficiency & Conservation Standards

In Lake Tahoe, Lake Clarity is a regional objective. Water itself is a critical resource. According to research conducted by the State of California residences use 5.6 million acre-feet of applied water annually. In Lake Tahoe, the urgency to conserve water is critical. The TRPA requires all property owners to install what is commonly referred to as the Best Management Practices (BMPs) to mitigate runoff, which is intended to conserve water usage, protect the environment and improve overall lake clarity.

Water usage will be minimized by installing equipment to meet water efficiency standards and those designed to meet the City's Sustainability and Tahoe Regional Planning Agency's Lake Clarity thresholds; thus, housing rehabilitation will include installation of water efficient toilets, showers, and faucets, such as those with a WaterSenses label, must be installed. Where relevant, the housing should be improved to mitigate disasters (eg: earthquake, hurricane, flooding, fires, etc).

Homes built and landscaped to use water wisely make a tremendous contribution to protecting our shared resources. An added benefit is lower expenses for the homeowner. Today's builders can take advantage of a new generation of cost-effective, high efficiency appliances and landscape water management systems.

Homes rehabbed as part of the NSP2 program that do not have a TRPA BMP certification, will include installation of BMPs toward achieving certification.

Examples:

Ultra-low flush or dual-flush toilets, fixtures with below standard flow rates (showers<2.5gpm, faucets<2.2gpm)

Grey water system, rainwater harvesting system, low-water landscaping, native landscaping, high efficiency irrigation system, smart irrigation control, no irrigation

Living "green" roof, stormwater management (e.g. bio-swales, permeable paving).

Other Energy Efficiency Standards

- Other rehab not specifically addressed in these guidelines, will meet these standards to the extent applicable to the type of rehabilitation work undertaken

- **General Energy Efficiency:** All housing rehabilitation work will meet the City's Sustainability Plan, Sustainability Commission Work Program and NSP Program guideline requirements for Energy Efficiency. For example, should an appliance be replaced, it will be replaced with an Energy Star rated appliance; if older windows, doors, lighting, hot water heaters, furnaces, boilers, air conditioning units, refrigerators, clothes washers, and dishwashers, dryers, these will be replaced with EnergyStar rated replacements.
- C. **Extension of useful life:** Examples include repairing siding and sheet-rock, painting, new flooring, new cabinets, new interior doors, gutters, foundation upgrades.
- D. **Converting to current UBC and other standards:** All work that may bring the property in compliance with City of South Lake Tahoe Municipal Code or other code requirements is also eligible. Examples include moving bathroom access to hallways or off of kitchen, stairs and porch upgrades. Also, paving driveways and other site work, including necessary landscaping, to meet existing Best Management Practices (BMP's) of the Tahoe Regional Planning Agency (TRPA). (For landscaping to be allowed under this Section, it must be required by TRPA and not exceed \$3,000.)
- E. **General Property Improvements:** Most general property improvements are not eligible. These include: luxury items, flooring above the standard currently installed in the home, fencing and non-required landscaping; pools or hot tubs, steam showers and luxury baths; Installation of fireplaces except to repair code violations (replacement of fireplaces are not eligible); window treatments; patios and decks (except to repair for health and safety only); remodeling, including additions to family rooms, dens, or where there are no code deficiencies; cosmetic improvements such as interior painting solely to change the color; and non-energy efficient improvements; and repairs otherwise deemed inappropriate by the City's Housing Division.

Only general property improvements that eliminate blighted conditions and enhance the overall exterior appearance of the property will be allowed under the program. Examples include demolition of any unsightly structures, removal of debris, and repairing or replacing of fencing, carports, and garages. A new garage or carport may be constructed if the property does not contain any sheltered parking. The conversion of a carport to a garage is also eligible. However, not more than fifteen percent (15%) of the rehabilitation loan may be used for general property improvements.

CONSTRUCTION PROCESS

The City's Housing Division prepares a detailed work write-up, cost-estimate and bid package of the work to be performed. When practical, this process may be initiated during escrow. Only licensed contractors paying prevailing wages may submit eligible bids for consideration by the City and/or homebuyer. Bids submitted by contractors shall include Contractor Performance schedule and indicate contractor(s) capacity to perform the work offered in a timely manner. NSP2 funds are intended to move foreclosed homes out of the City's housing stock and back into homeownership as quickly as possible and thus must be utilized in a timely manner. The City reserves the right to weigh contractor(s) capacity to perform the work in evaluating selection of contractor.

In the case of private homeownership where the City facilitates the rehabilitation work, the City's Housing Division will coordinate with the applicant homebuyer to ensure the work meets both the City's regulations and program goals and standards and the homebuyer's goals and expectations.

In the case of city-owned foreclosed properties, the City's Housing Division shall select an approved contractor from the lowest qualified and complete bids following a standard bid package placement (these NSP Guidelines do not supplant the City's approved bid processes for city-initiated contracts).

Work Commencement

The applicant homebuyer and/or the City sign the contract for NSP rehabilitation along with the selected contractor. The contract is subject to review by the City Manager, City Attorney and/or the City Council at any time.

The City will issue a Notice to Proceed and work will begin in accordance with the Performance Schedule supplied by the Contractor(s) with their bid for the work to be performed. A rehabilitation disbursement record is established to record all requests, disbursements and change orders. The City's Housing Division is authorized to approve all disbursements upon inspection of work in place, authorize progress payments and coordinate inspections with the City Building Inspectors. City Building Inspectors will only inspect items that require permits under the normal permitting process of the City. The City shall fast track permits whenever possible. The borrower is also responsible for examining the work and must sign that he/she approves payment to the contractor.

Change Orders

All change orders require the approval of the applicant homebuyer (by that time, homeowner), the contractor and the City's Housing Division. All three parties must sign the change order form prior to commencement of the work proposed in the change order.

Change orders for work performed on City-owned properties shall require the approval of the City's Housing Division Department Director and contractor and may be subject to approval of the City Manager and/or City Attorney.

Work Completion

Upon completion of work, a final inspection is conducted by the City. The City must verify that all City and other governmental agency permits have been signed-off. A Notice of Completion is then filed at the El Dorado County Recorder's Office and the last payment is made to the contractor, which should include any funds previously retained.

PREVAILING WAGE

In accordance with the NSP2 NOFA, Section V, Paragraph L and Section 1606 of the American Reinvestment and Recovery Act, contractors and subcontractors hired with Recovery Act funds, which includes NSP2 funds, are required to pay prevailing wages to laborers and mechanics in compliance with the Davis-Bacon Act. The City will ensure contractors and subcontractors performing work funded by NSP2 pay prevailing wages. All general and subcontractors will be required to attend a City-sponsored training in prevailing wage documentation and will be required to comply with monitoring standards. The City will be responsible to perform monitoring activities and prepare and file reports with HUD or HUD's designee.

NSP2 CONTRACTS SUBJECT TO CURRENT LAWS

These Guidelines are subject to the City's contract law provisions and/or state and federal contract law where conflicts in these Guidelines and law arise. The City Attorney's office

will review the NSP2 standard agreements for compliance with state and federal contract law prior to the City offering work to be performed. These Guidelines may be modified to reflect any changes in the law or changes and modifications for compliance with NSP2 requirements. All NSP2 contracts shall be subject to standard laws and codes and should a conflict arise between these Guidelines and standard contract law code and procedures, the Guidelines shall be subject to and inferior first to U.S. Housing and Urban Development Agency's NSP2 requirements and the Recovery Act and second to standard contract law code and procedures.

Contracts for work to be performed for an applicant homebuyer shall include provisions subjecting the contract provisions and validation to the close of escrow, if the contract is signed prior to the close of escrow. Contracts for work to be performed that include work to be conducted during escrow, if any, shall include provisions contractor (including sub-contractor) will be paid for any work performed prior to the close of escrow (including permit processing, architectural and redevelopment or rehabilitation designs).

EXCEPTIONS AND SPECIAL CIRCUMSTANCES

Exceptions are defined as any action that would depart from policy and procedures stated in the guidelines.

Procedure for Exceptional/Special Circumstances

Consideration of an exceptional and special circumstance may be initiated by the City or its agent. A report on the situation will be prepared. This report shall contain a narrative, including the staff's recommended course of action and any written or verbal information supplied by the applicant. The City Council may make a determination of the exceptional and special circumstances request at a regular or special meeting. If necessary, their recommendation will be presented to the NSP Program Representative at HCD for a decision.

APPEAL PROCEDURE AND RESOLUTION OF GRIEVANCES

Program Complaint and Appeal Procedure

Representatives from City staff are primarily responsible to assure that the program is implemented in compliance with these Program Guidelines and State and Federal regulations in a timely and responsible manner. This includes developing accurate and professional files, work write-ups, contract documents, and follow-up through completion.

Any applicant denied a rehabilitation loan through the NSP program has the right to appeal that decision to the City Council. Furthermore, all staff decisions are subject to appeal during the operation of this program. Appeals must be filed with the City Clerk's Office within five days from the date of the decision and any applicable fee must be paid. Final appeal may be filed in writing with HCD within one year after denial or the filing of the project Notice of Completion.

Grievances Between Homeowners and Contractors

Disputes regarding the contractor's performance are not subject to direct appeal to the City Council. However, City staff may take steps to try and resolve any dispute between a borrower and a contractor as described below. As a method to try and reduce disputes from occurring, City staff attends the meeting between the borrower and the contractor when the contract documents are signed, and may facilitate in the clarification and/or

corrections of proposed work so a clear understanding is established between both parties.

During and after completion of construction, the contractor's work is monitored for code compliance by the City Building Inspector through the normal permit process and quality by the Rehabilitation Specialist. During this period, if either the borrower or the contractor has a concern or problem, the Rehabilitation Specialist might relay this information between the parties, or give opinions as to how work should proceed or be corrected. However, the contractual obligation for rehabilitation is ultimately between the contractor and the borrower.

If a situation occurs where the two parties are in conflict, the following steps may be taken in an attempt to resolve the matter quickly:

Step 1: Before an intervention occurs, the borrower or contractor communicate perceived problems or complaints in writing directly to the other party, in an attempt to resolve their differences, giving the other party an opportunity to respond or correct the problem.

Step 2: If Step 1 fails, the borrower or contractor may ask the Rehabilitation Specialist to informally intervene. This intervention might include telephone call(s) to the contractor or borrower, meeting(s) at the job site or in the office, or other actions as deemed appropriate, including such things as the establishment of written working guidelines, or other post-contractual agreement.

Step 3: If the Rehabilitation Specialist is unable to satisfactorily resolve the borrower - contractor differences, the borrower, contractor, or Rehabilitation Specialist may contact the Housing Coordinator, detailing the problem. The Housing Coordinator may offer an opinion on how to resolve the matter and/or try to mediate the dispute. In cases of building code compliance, a special inspection may be requested from the City Building Inspector. The cost for the special inspection may be split between the borrower and the contractor or incurred by the party requesting the inspection.

Step 4: If all forms of informal mediation has not worked, then the borrower and the contractor may each agree to enter into binding arbitration. This shall be done in writing and the parties involved must pay up front for any cost for the arbitrator. Most likely, a local attorney or construction contractor will be requested to arbitrate the dispute.

It is not necessary for the four steps to be followed in order if it appears that one of the steps may rapidly resolve the dispute. In addition, the Rehabilitation Specialist may also consider other alternatives to resolve the dispute if agreeable by both parties.

The borrower must be an active participant in resolving any dispute. If he/she is not seriously attempting to resolve the matter, then the Rehabilitation Specialist may decide to abandon any further efforts of intervention and close the rehabilitation project without releasing any further funds. If this occurs, all remaining funds for the project will go back into the loan pool and the borrower's loan will be adjusted accordingly. In extreme cases, the City may demand the loan due and payable in accordance with the terms of the loan agreement executed with the borrower.

It is hoped that the intervention process outlined above will offset other more serious actions, and every attempt should be made to remedy problems and resolve differences before drastic options are considered. However, it must be recognized that the borrower and contractor have other options which either party may choose to utilize, including the following:

- a) contacting the Contractors State Licensing Board and submitting a complaint;
- b) contacting the State Department of Housing and Community Development; and
- c) taking legal action.

ANTI-DISPLACEMENT POLICY AND RELOCATION ASSISTANCE

This program is subject to the "Relocation, Displacement and Acquisition" Amendment of the Housing and Community Development Act of 1977, URA, and Section 104 (d) of the Housing and Community Development Act of 1974. In most cases, NSP funded rehabilitation projects should not result in involuntary displacement.

All tenants who need to be temporarily relocated due to rehabilitation funded with NSP funds will be reimbursed for reasonable out-of-pocket relocation expenses. Tenants will be advised of the date and approximate duration of relocation; the address of suitable temporary housing; their rights to lease and occupy a suitable unit in the original building/complex after the completion of the rehabilitation project; and the financial assistance available to cover temporary relocation and moving costs.

An initial notice to tenants will be given to them when the owner-investor has submitted an application for the program. The notice will inform them that: the owner has applied for the loan; they will not be displaced as a result of the rehabilitation activity; and their after-rehabilitation rent and utility costs will not exceed the greater of: (a) their current rent/average utility costs, or (b) 30% of their average monthly gross household income. This notice will be sent as soon as a loan application is received from the owner-investor.

No tenant will be required to temporarily relocate without 90 days' advance written notice of the earliest date by which he or she may be required to move. Additionally, the specific date for when the property must be vacated will be communicated in writing at least 30 days in advance. Lists of possible rental properties for temporary relocation will be offered. (Contents of notices to tenants will adhere to requirements outlined in HUD Handbook, 1378, Tenant Assistance, Relocation and Real Property Acquisition.)

Owner-occupants participate in the NSP program on a voluntary basis, and therefore, relocation assistance for these participants will not be as extensive as for tenants. If they are required to temporarily relocate during rehabilitation of their home, owner-occupants will be eligible for up to \$500 per household to help pay for relocation costs. The funds may be used to help pay for the rent and/or utility costs of temporary housing and/or for the cost of moving, storing and returning furniture.

Payment for temporary relocation will be charged to a special set-aside within the rehabilitation program, earmarked as "Temporary Relocation Fund."

CONTRACTING REQUIREMENTS

Contracting Process

Contracting will be normally done on a competitive bid basis. The borrower will be the responsible agent and will select the contractor, but the City will prepare and advertise the bid package and assist in negotiating the contract. If the borrower is already committed to using a specific contractor, the Rehabilitation Specialist may forgo the bid process. However, the selected contractor must submit a bid within the reasonable cost estimate of the Rehabilitation Specialist. The Rehabilitation Specialist may reject any bids that are not

cost reasonable. Furthermore, the Rehabilitation Specialist may bid out sections of the rehabilitation project to subcontractors at his discretion to expedite the timely completion of the project. Each contract with every contractor or separate subcontractor will be required to have its own notice of completion filed.

Approved Contractors

All contractors will be checked against the Federal List of Debarred Contractors. In addition, the State of California Contractor's Licensing Board will be contacted to make sure the contractor is in good standing and that the license is current. Lastly, the contractor will be required to provide proof of a City Business License, and liability and worker's compensation insurance. The borrower has the right to reject any and all bids.

Acceptance of Work

The Rehabilitation Specialist and the borrower must examine and accept the work prior to issuing any payment to the contractor. If the work is not acceptable to the Rehabilitation Specialist, the contractor is not paid until the work is corrected. If the work is not acceptable to the borrower, then the Resolution of Grievances Procedures may be followed to resolve the dispute. A contractor will not be paid without the borrower's approval. However, the borrower assumes all responsibility for non-payment of a contractor. Final payment will be made to the contractor after all development permits have been signed-off and the contractor has provided satisfactory evidence that all labor, materials and equipment rental services have been paid.

Contractor Termination Clause

Contractors will be invited to bid based on an approved Contractor's Eligibility List for which contractors have been determined eligible in accordance with the NSP2 Program Guidelines. The City shall have the right to terminate a contract's eligibility to participate in the program permanently upon the City and/or the Contractor receiving two written notices of unacceptable practice in any type of written form which are in conflict with the Rehabilitation Contract requirements as determined by City staff.

SELF-HELP CONSTRUCTION

Property owners may agree to participate in the construction by doing "self-help" rehabilitation to the structure. The "Work Write-Up" will indicate which tasks will be completed by the owner. As in private contractor jobs, the rehabilitation work is bid out, as in 11.0 above, the contractor's bid is the basis for determining the value saved by specifically itemized self-help tasks. The loan amount will include all items in the accepted bid, including self-help tasks. Upon completion of the total job, the labor saved through self-help will be adjusted from the total loan amount due.

In all cases where the owner agrees to perform rehabilitation work directly, a contract will be signed by the owner specifying tasks, completion times, the materials to be purchased, and the costs of those materials (documented by manufacturer's or retailers' invoices or price lists). Self-help applicants will also be required to specify their prior experience and ability to perform the requested work. If the work is not completed in a timely manner, then the contractor working on the job may be asked to complete the work. If there is no contractor working on the job, the City may require the owner to select a contractor to complete the work.

PROJECTS OF EIGHT OR MORE UNITS

The City may choose to rehab or redevelop a vacant multi-family foreclosed property to eliminate blight and stabilize the neighborhood. If the proposed project does not qualify as minor or moderate rehabilitation under the Federal NEPA environmental review

requirements, then a separate project specific environment review must be conducted before the project can proceed.

- A. Staff shall review the project against the City adopted Affordable Housing Development Requirements and Standards.
- B. Although not encouraged, the project may involve the permanent displacement of tenants who do not meet the income requirements of the project after the rehabilitation has been completed. If this is the case, a relocation plan needs to be prepared and the project must comply with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 as amended by the Uniform Relocation Act Amendments of 1987 (URA) and Section 104(d) of the Housing and Community Development Act of 1974, as amended.
- C. The project must be in the program target area used in the grant application process.
- D. The project must comply with any other applicable regulation or requirement of the NSP Program.

Scope of Rehabilitation

At the public hearing approving the project, the City Council shall review and approve the allowable rehabilitation improvements to be made with the NSP funds.

- A. The rehabilitation needs should be addressed in the same priority as any other NSP funded rehabilitation project with health and safety items addressed first and general property improvements addressed last.
- B. The scope of rehabilitation work may go beyond the items listed in these Guidelines. The use of NSP funds shall not be restricted by the 15% limit for general property improvements provided other funds are being used to make required improvements to bring the project into compliance with the rehabilitation standard listed below.
- C. If eligible under the NSP Program, the NSP funded rehabilitation work may include the construction of appropriate amenities such as play areas, laundry rooms, and community rooms that are to serve the low-income residents who will reside there.
- D. At a minimum, the property shall be rehabilitated to meet HUD's Section 8 Housing Quality Standards.
- E. The property once rehabbed shall be intended for resale at a time determined best for capturing the costs of the acquisition and rehabilitation.

Loan Terms

All loan terms will be negotiated by staff with the project developer/owner based on the financial analysis of the project. The City Council shall also approve the loan terms for the project.

Affordable Housing Deed Restriction

The project shall be deed restricted as affordable housing to low-moderate income households (and possibly middle-income households) for the longest feasible time using the requirements of the most restrictive funding source of the project. "Middle-income" as

defined by HUD in the NSP2 NOFA may be allowed as renters during the affordability period, the regulation of which shall be clarified by HUD following award of NSP2 funding to the City. A percentage of the renters for any multi-family housing project assisted with NSP2 funds may be specifically restricted to low-income households (earning less than 50% of the Area Median Income) to meet HUD's NSP2 expenditure requirement to expend 25% of NSP2 funds assisting low-income households.

FORECLOSURE PROCEDURE

During the affordability period, the City will be informed by the first-mortgage lender of any 30 day delinquencies, and Notices of default. The City will follow all current and applicable laws. However, City staff may consider using the following foreclosure procedures below when appropriate.

Thirty (30) day and sixty (60) day delinquencies: If 30-days delinquent on first mortgage: The City shall send the borrower a letter when informed by the first mortgage holder of the amount delinquent plus any late charges; the letter shall indicate the impact of any foreclosure upon NSP2 funds provided to the homeowner. The letter shall be followed by a telephone call reminding the borrower of the loan amount and due date owed to the first note, and asking the borrower how the City may be able to assist.

Ninety (90) day delinquency: The City shall send a registered letter noting the amount delinquent plus any late charges as informed by the first mortgage holder. In this letter, a date and time shall be set for a meeting between the borrower and City staff. At this meeting the following will be discussed: reasons for delinquency, any changes in the borrower's health, family circumstances or financial status that limits their repayment ability, amount in arrears.

At the conclusion of this meeting, the following will be determined: how and when the amount in arrears will be paid; if financial counseling is needed (the City may recommend to the borrower to participate in financial counseling); and/or if a personal emergency (loss of job, loss of spouse or co-borrower, serious illness) has restricted repayment ability. If, because of such an emergency, the borrower cannot afford to pay the full monthly installment to the first mortgage holder, the City (upon the approval of the City Council) may assist the borrower(s) with emergency financial assistance but no obligation of financial assistance will be implied by these Guidelines. In addition, **no financial assistance to avoid foreclosure may be provided by the use of NSP2 funds.**

It is the City's policy to prepare and record a "Request for Copy of Notice of Default." This document is used to request that a copy of any Notice of Default and/or Notice of Sale issued in connection with the non-judicial foreclosure of a certain deed of trust (specifically identified in said request by recording reference) be mailed by the trustee, to the party whose name and address appears on the document. Although practically anyone may execute the Request for Copy of Notice of Default and request that the above-mentioned copies be sent to practically anyone, the parties who would normally be interested in receiving a notice of a default would be lien holders, e.g., beneficiaries, of encumbrances which are subordinate (junior) to the specifically identified deed of trust. This notification of the default would then alert them that they must take whatever steps are necessary if they are to prevent their "junior" lien from being extinguished by foreclosure on the "senior" (prior) deed of trust.

The junior lien holder may cancel the foreclosure proceedings by "reinstating" the senior lien holder. The reinstatement amount must be obtained by contacting the senior lien

holder. This amount will include all delinquent payments, late charges, advances (fire insurance premiums, property taxes, property protection costs, etc.), and foreclosure costs (fees for legal counsel, recordings, certified mail, etc.).

Once the City has the information on the reinstatement amount, the City must then determine if it is cost effective to protect their position by reinstating the senior lien holder, keeping them current by submitting a monthly payment thereafter, foreclosing on the property possibly resulting in owning the property at the end of foreclosure, protecting the property against vandalism, and paying marketing costs (readying the home for marketing, monthly yard maintenance, paying a real estate agent a sales commission of 6% of the sales price).

If the City decides to reinstate, the senior lien holder will accept the amount to reinstate the loan up until five (5) days prior to the set "foreclosure sale date." This "foreclosure sale date" usually occurs about four (4) to six (6) months from the date of recording of the "Notice of Default." If the City fails to reinstate the senior lien holder before five (5) days prior to the foreclosure sale date, the senior lien holder would then require a full pay off of the balance, plus costs, to cancel foreclosure. If the City determines the reinstatement and maintenance of the property not to be cost effective and allows the senior lien holder to complete foreclosure, the City's lien will be "wiped out."

When the City is in a third position and receives notification of foreclosure from only one senior lien holder, it would be in the City's best interest to contact both senior lien holders regarding the status of their loans.

When the City is in a first position, or the senior lien holder, active collection efforts may begin on any loan that is 30 or more days in arrears. As stated earlier, attempts may be made to assist the homeowner in bringing and keeping the loan current. These attempts shall be conveyed in an increasingly urgent manner until loan payments have reached 90 days in arrears, at which time the City may consider foreclosure. City staff will also need to consider the following factors before initiating foreclosure:

Can the loan be cured (brought current or paid off) by the owner without foreclosure;

Can the owner refinance with a commercial lender and pay off the City;

Can the owner sell the property and pay off the City;

Does the balance warrant foreclosure (Under \$5,000, the expense of foreclosure may not be worth pursuing); and

Will the sales price of home "as is" cover the principal balance owing, necessary advances, (maintain fire insurance, maintain or bring current delinquent property taxes, monthly yard maintenance, periodic inspections of property to prevent vandalism, etc.) foreclosure, and marketing costs?

If the balance is substantial and all of the above factors have been considered, the City may opt to initiate foreclosure. The owner shall receive, by certified mail, a thirty-day notification of foreclosure initiation. This notification needs to include the exact amount of funds to be remitted to the City to prevent foreclosure (such as, funds to bring a delinquent below market interest rate loan current or pay off a deferred payment loan).

At the end of thirty days, the City will contact a reputable foreclosure service or local title company to prepare and record foreclosure documents and make all necessary notifications to the owner and junior lien holders. The service will advise the City of all

required documentation to initiate foreclosure (Note and Deed of Trust) and funds required from the owner to cancel foreclosure proceedings. The service will keep the City informed of the progress of the foreclosure proceedings.

When the process is completed, and the property has "reverted to the beneficiary" at the foreclosure sale, the City would then contact a real estate agent to market the home.

Forbearance Policy

Circumstances beyond a borrower's control may temporarily limit his/her repayment ability. Loan terms may be modified in cases of death of a family member, loss of job, divorce or major illness.

On a case-by-case basis, the City will evaluate a borrower's current situation and may, upon approval of the City Council, choose to help participants make payments on their first mortgage. Payment assistance may be made available through the City's adopted Program Income Reuse Plan, using existing program income in the City's Rehabilitation Revolving Loan Fund (from other sources of funds). The amount of payment assistance will be based on the need of the participant and the amount of funds currently available in the Revolving Loan Fund.

While the above policy outlines a system that can accommodate crises that restrict borrower repayment ability, it should in no way be misunderstood: The loan must be repaid. All legal means to ensure the repayment of a delinquent loan as outlined in the NSP Foreclosure Policy and Procedure may be pursued.

LENDER GUIDELINES

To participate in NSP activities, lenders are required to attend a lender orientation, which are free of charge to lenders. Lender guidelines can be reviewed at the following link (www.sltmsp.org/lenderguidelines.pdf). **Lenders with a Letter of Firm Commitment on file with the City for discounted fees and services for NSP properties must be given first opportunity to provide lending to the homebuyer.**

The following lenders have completed the NSP Lender Orientation and are approved to participate in NSP funded activities (www.sltmsp.org/approvedlenders.pdf). Lenders on the list with a Letter of Firm Commitment on file with the City are listed in bold with an asterisk.

Mortgage Loans may be Conventional, FHA or VA. First Mortgage Loan interest rates may not exceed 2 1/2% above current Fannie Mae Market 30-year rate at a 15, 20, or 30-year fixed rate. **No sub-prime lending is permitted. No Adjustable Rate Mortgages (ARM), 2-1 Buy Downs, Seller Financed Transactions or Balloon Mortgages will be accepted.**

First liens shall require property tax and insurance escrow accounts. No discount points will be charged to the borrower(s). The lender may charge an origination fee of 1%. Maximum lender fees cannot exceed \$800 in addition to the origination fee, without written approval from the City's Housing Division. Combined fees to include third party investor fee cannot exceed a total of \$1,300. City of South Lake Tahoe required inspection and initial appraisal fee will be paid outside of closing by the City with NSP funds. Borrower(s) inspection will be paid by the borrower outside of closing and listed on the HUD-1 as a P.O.C. The fee for the lender required appraisal may be included in the closing costs to be paid by the City with NSP funds at closing. Certification of Insurance (homeowner

policy) is required for a minimum of the appraised value of the property prior to the loan closing. The lender must inform the insurance carrier of the City's second lien position.

The City's Housing Division must have a final settlement statement (HUD-1) at least twenty-four (24) hours prior to closing. The City must approve the HUD-1 and requires forty-eight (48) hours notice of a scheduled closing.

The lender must ensure that the good faith estimate and HUD-1 reflect the following:

- Minimum \$1,000 personal investment from the homebuyer (a gift is authorized).
- All borrower's P.O.C.
- (1) Year home warranty (may be included in the closing costs paid by the City with NSP funds).
- The borrower(s) cannot receive money from the closing.
- The total amount of the second lien subsidy must be listed as payable to the 'City of South Lake Tahoe.' which includes down payment, principal reduction, closing costs and rehabilitation (if applicable).
- First lien is held by the lender. The City of South Lake Tahoe's NSP subsidy is the second lien holder. The NSP subsidy loan is a no-interest, deferred note that is forgivable throughout the affordability period. THIS IS A NON-ASSUMABLE LOAN.
- The City will accept no less than a second lien position, except in the case where the borrower will be receiving a second loan from the City's First Time or Moderate Income Homebuyer Programs, in which case and in only that case, the City will agree to subordinate to third position or aggregate the loan documents into one second position loan.
- At the end of the affordability period, the second lien is released. The loan will be forgiven at a pre-determined rate per month according the following applicable affordability period based on the TOTAL subsidy loan amount as described elsewhere in the Program Guidelines.

RENT LIMITATIONS FOR CITY-PURCHASED PROPERTIES

To guarantee that units funded with NSP dollars remain affordable to low- and moderate-income households, owner investors who purchase multi-family properties from the City must sign a Rent Limitation Agreement that requires the owner-investor to rent to qualified low-income families (Exhibit 2) – to be provided. The Rent Limitation Agreement will be binding for affordability period.

ENVIRONMENTAL REVIEW

In accordance with the environmental review conducted for the grant, the rehabilitation will be minor or moderate and will **not**: 1) increase unit density by more than 20%; and 2) involve changes in land use from residential to non-residential or non-residential to residential or from one class of residential to another. The estimated cost of rehabilitation must be less than seventy-five percent (75%) of the total estimated cost of replacement after rehabilitation. If a proposed project exceeds these above-mentioned thresholds, a

more extensive environmental review may be required pursuant to the National Environmental Policy Act (NEPA).

OUTREACH

Community members are informed of the details of the rehabilitation program and eligibility requirements through meetings, private interviews and program flyers distributed throughout the City. Written information may be provided in English and Spanish. When needed, bilingual personnel will conduct or assist with outreach and community meetings. The City anticipates outreach to the following groups, in the following ways:

- **Elderly:** Distribute information regarding the NSP program at local senior centers.
Disabled: Distribute information regarding the NSP program at local centers for the disabled.
- **Female Heads of Households:** Distribute information regarding the NSP program at local social service centers and through the Lake Tahoe Women’s Center.
- **Minority Households:** Bilingual staff are employed by the City and are utilized to reach out to organization that assists minority groups; presentations will be made to minority group associations and flyers and print materials will be available in Spanish.
- **Community Service Groups:** Distribute information regarding the NSP program and offer to make public presentation at their meeting if desired.
- **Areas Having a High Concentration of Low-Income Persons:** Distribute information regarding the NSP program door to door.
- **General Public:** Place information on the City’s website, issue Press Releases, place ads in the local newspapers, cable TV, local radio, and City-wide publications, such as the Parks & Recreation Activity Guide.

COMMUNICATION EFFICIENCY

In accordance with the City’s efforts toward a sustainable environment, NSP applicants and recipients may provide electronic mail (e-mail) addresses for authorized forms of communication, which will permit the City to send “written” notices and letters to the applicants/recipients via e-mail as attachments and .pdf documents. However, all electronic forms of communication are public record and shall be construed as such. For the purposes of clarifying communication, only official letters on City letterhead with signatures send via e-mail as attachments will be accepted as documented official forms of authorizations, approvals, denials, and program communications. Informal, casual staff communications shall not be construed as formal program approvals.

CODE OF CONDUCT AND CONFLICT OF INTEREST

Code of Conduct by all City employees, Loan Program Committee members and Task Force participants are subject to AB 1234 ethics rules and regulations (enacted by the California state legislature February 22, 2005). The City adheres to AB1234 Ethics Training requirements and all city employees, Loan Program Committee members and

Task Force members must have participated in AB1234 training within 24 months preceding their participation in the City’s NSP program.

Conflict of Interest Requirements: No member of the governing body and no official, employee or agent of the local government, nor any other person who exercises policy or decision making responsibilities (including members of the loan committee and officers, employees, and agents of the loan committee, the administrative agent, contractors and similar agencies) in connection with the planning and implementation of the NSP program shall directly or indirectly be eligible for this program. Exceptions to this policy can be made only after public disclosure and formal approval by the City Council.

The City of South Lake Tahoe assures equal housing opportunity to all without regard to race, color, religion, sex, national origin, marital status, size of household or disability.