

City of Riverside CalHOME Housing Rehabilitation Program



Rehabilitation Policy, Procedures, and Guidelines

Staffing And Authority:

Overall program oversight and monitoring is provided by the City of Riverside's Community Development Department staff ("City Staff"). Day to day operation and staffing of the program is provided by Riverside Housing Development Corporation (RHDC or "Program Staff"), a not for profit community housing development organization, under contract with the City of Riverside. RHDC provides all staffing necessary to generate and complete all eligible rehabilitation projects. Upon completion of projects, the City of Riverside's Community Development Department staff provides all loan servicing functions (billing and payment receipts, etc). A summary of the operational functions provided by RHDC are as follows:

- Program marketing and community outreach
- Application intake
- Underwrite and review applications to determine program eligibility
- Inspect and assess eligible properties for health & safety hazards and code violations
- Obtain all necessary environmental reports and reviews (Lead Based Paint, Historic, etc)
- Prepare scope of work/work write ups for all projects
- Maintain list of licensed and insured contractors and assist clients with obtaining contractor bids
- Provide clients with contractor bids and verify their contractor selection
- Verify appropriate funding sources and level of assistance available to project
- Recommend loan amount and terms for the City's approval
- Notify contractor of client selection and issue Notice to Proceed
- Conduct a pre-construction meeting with contractor and client, assist client with contract interpretation
- Monitor and provide assistance and coordination between client and contractor during construction
- Verify appropriate permits are obtained and approved for projects
- Inspect projects and obtain client approval for payment draws and provide funds disbursement to contractor
- Complete final inspection, check final permits, and file Notice of Completion
- Reconcile project funds and prepare files for close out
- Forward closed files to Community Development Department staff for loan servicing and storage
- Provide monthly activity reports to Community Development Department staff detailing program activity

All the above activities will be conducted in accordance with the CalHome Program Agreement including all exhibits, and in accordance with the Housing Rehabilitation Program Guidelines, which are incorporated

herein by reference.

Program Funds:

The City of Riverside will allocate \$500,000 of CalHOME (loans only) to provide housing rehabilitation loans. Each loan shall not exceed fifty thousand dollars (\$50,000) per household. RHDC will be provided an administrative allowance cap of \$3,500 per rehabilitation loan that has been, processed, approved, and completed.

Program Administrator:

The Program Administrator shall oversee all day to day operation of staffing of the Program. The Program Administrator shall be the Executive Director of the Riverside Housing Development Corporation (RHDC), or other designated individual.

Program Arbitrator:

The Program Arbitrator shall monitor and oversee the total operation and accomplishments of the Program. The Program Arbitrator shall be the Housing Project Manager of the City of Riverside Community Development Department, or other designated individual. The Program Arbitrator shall be responsible for settling all disputes or appeals regarding program eligibility, permitted program activities, contractor participation, homeowner complaints, etc. The Program Arbitrator shall render all decisions, interpretations, and recommendations in the best interest of the City of Riverside and the Housing Rehab Program at all times, keeping in mind the program's stated goals and policies.

Homeowner Complaints:

In cases where the Homeowner believes the contractor's work is substandard (i.e. the workmanship is shoddy or the work creates a health and safety hazard) or inconsistent with the signed Scope of Work, they must write a letter to the Program Arbitrator explaining the exact nature of their complaint. If the work in question has already been approved by a City Building Inspector, the Inspector's prior determination will stand.

If a Building Inspector has not approved the work, within 10 working days the Program Arbitrator and a City Building Inspector will inspect the work to verify whether or not it was completed to acceptable building standards, and is consistent with the Contract. If the Inspector and Arbitrator determine that the work is substandard or outside the Contract, payment will be withheld from the Contractor until the work has been completed to an acceptable standard. Costs for repairing substandard work will be borne by the Contractor (or the Program, as a payee of last resort), but not by the Homeowner.

The Program Arbitrator will only act when the healthy and safety standard rehabilitation work is in question. Under no circumstances will the City or RHDC arbitrate between the Homeowner and the Contractor on matters of aesthetics. It is incumbent upon the Homeowner and Contractor to negotiate issues of an aesthetic nature.

If the Homeowner believes the substandard work constitutes an immediate health and safety threat, the Program Arbitrator and Building Inspector will endeavor to make an inspection of the work within 72 hours of receiving the Homeowner's letter.

Exceptions to Program Policies

It is acknowledged that no set of rules can fit every individual circumstance. Exceptions to CalHome single family housing policies and procedures are allowable on an individual case-by-case basis. The Program Administrator, or designated Program Staff, may make written requests to the Program Arbitrator detailing the exception(s) being requested and the reason(s) supporting it. Exceptions will only be made in tandem with program guidelines. The Program Arbitrator shall be responsible for considering such exception requests and giving a written decision within ten working days.

Conflicts of Interest

All applicants, contractors, and Program Staff must disclose any direct, or indirect, business or familial relationships they may have with one another. Program Staff may not be assigned or otherwise handle an applicant's file when such a relationship connection exists. Program Staff (RHDC) and City Staff employed by the Community Development Department are NOT eligible to personally participate in the Housing Rehab Program. Also, City Council members are NOT eligible to personally participate in the Housing Rehab Program due to their direct involvement in the allocation and use of the Program's funding. Conflict of interest standards run for the life of oversight committee membership, and for one year thereafter. These conflict of interest standards are mirrored in federal code Section 24CFR570.611.

Type of Funding

Deferred Loans - Maximum loan amount of \$50,000. Deferred loans accrue interest at 3% for 30 years and require NO monthly payments. Deferred loans become due and payable upon the resale, transfer of title, or refinancing of the subject property.

General Guidelines

The program's basic intent is to eliminate health and safety hazards, and code violations in the City of Riverside's affordable housing stock, and, to conserve, expand, and improve the condition of the affordable housing stock available to low income persons. Therefore, all projects funded through the Housing Rehab Program, at a minimum must correct all existing code deficiencies and/or health & safety related repairs needed.

Any and all existing construction found on-site that was done without City permits (room additions, garage conversions, patio additions, etc) must be either brought up to code and obtain approved building permits, or must be demolished, as part of the rehab project. Once the cost of repairing all existing code deficiencies and health & safety related items are totaled up, any additional program funding utilized by a recipient, up to the program limits, may be used to address general property improvements. Applicants may NOT receive funding to repair only a portion of their health and safety hazards, and code violations.

Applicant Eligibility

RHDC is responsible for applicant eligibility. The program is limited to persons and households with incomes at or below 80% of the county median income level and below, adjusted for household size, per the median income calculations published annually by the State of California.

U.S. Citizenship is no longer a requirement.

A Credit Report must be obtained to review an applicant's eligibility. Homeowner must provide copy of free credit report or RHDC can obtain a credit report for an approximate cost of \$20. Free credit reports can be obtained at www.annualcreditreport.com.

A bankruptcy must be discharged for a minimum of four (4) years (or two years if an exception from the City is obtained. (Keep in mind, exceptions are rarely approved and would need to involve circumstance such as a severe (documented) medical condition).

In addition, applicants must self certify that the value of all their "liquid assets" (all cash, bank checking and savings accounts, money market accounts, stocks, bonds, mutual funds, etc), excluding the value of their primary residence, real estate investments (revenue derived from rental property is counted under income), qualified retirement savings (revenue derived from retirements savings is counted under income), household furnishings, clothing, and cars, does not exceed \$50,000.

Finally, applicants must agree to comply with all State of California, City, or program requirements regarding lead based paint hazard inspections, lead based paint hazard reduction work, termite inspections, termite control work, City Code compliance issues, health & safety issues, and any other inspections requirements as

necessary.

Property Eligibility

RHDC is responsible for property eligibility. The program is limited to owner occupied single family homes located within the corporate boundaries of the City of Riverside that are owner occupied. Applicants must have owned the home for at least one year prior to receiving City approval and funding for their project. Applicant's owner occupancy status will be verified through a review of the property's most recent tax bill and homeowner's insurance policy.

Subordination

When a loan is made, it is intended that monies are lent to low income homebuyers for special purposes, and at terms not available in the private lending market. The City will subordinate loans to existing financing on a single family residence if the debt structure on the residence is reasonable. After a loan is made, the City will subordinate only for refinancing that does not weaken the City's equity position on title for the property (i.e., there must be no additional financing place ahead of the City Trust Deed). This policy allows for refinancing to lower interest rates. It is acknowledged that special circumstances may exist, and the City Manager may grant waivers based on hardships or extreme extenuating circumstances.

Underwriting Criteria

The program is intended to be a "lender of last resort" to assist low-income homeowners who might otherwise be unable to obtain rehabilitation financing through traditional financial channels due to income and credit related issues. Therefore, the program specifically utilizes loan terms (below market interest rates and deferred payment loans) and underwriting criteria (above market loan-to-value ratios, etc) that are favorable to the applicant, and are not normally available to low and moderate income persons.

A. *Loan-to-Value Ratio (LTV)* – Loans can be made up to a maximum LTV of 105% of a property's estimated market value. The property's estimated market value is based upon a "desktop" analysis of comparable sales & for sale properties in the subject property's surrounding neighborhood, per public information available through the County Recorder's office, local Title companies, the Board of Realtors' Multiple Listing Service (MLS), or other similar data sources.

B. *Borrower's Ratios* – The program's emphasis is to make rehabilitation funding available to low and moderate income households to the maximum extent possible. Therefore, the program focuses upon "collateral based" lending, per the LTV ratios stated above. "Credit based" lending criteria is intentionally de-emphasized because the program's target population often has a problem receiving credit. Thus, the strict application of typical "credit based" lending criteria would likely exclude large segments of the target population the program is specifically trying to assist.

A homeowner cannot obtain funding approval if they are behind in any debt obligations, which is verified through a credit report.

C. *Title and Escrow* – Due to cost considerations, no escrow or title policies are required. Title reports, at the cost of the applicant, will be obtained to verify if there are any existing liens or indebtedness recorded against a property. Applicants must self-certify the amount of existing debt already on the property by signing the Deferred Payment Agreement. This document provides the City of Riverside the documentation necessary to pursue legal remedies against an applicant if they try to place another undisclosed lien ahead of the City's loan, or otherwise misrepresent or fail to disclose all liens and debts recorded against their property.

D. *Security Instruments* – Applicants receiving loans must execute a Promissory Note, a Deed of Trust, and a Deferred Payment Agreement or Regular Loan Agreement. Additional documentation is provided in the form of a Loan Disclosure, Fair Lending Notice, and an Amortization Schedule.

E. *After-Rehabilitation Value* – The cost of the improvements that will increase the property's value will be calculated and added to the current median sales price of the property, as determined by using Corelogic, a government reporting source. The total amount will not exceed 105% of the current market value for the city

of Riverside.

Household Composition

Households are comprised of any and all individuals (minor and adult) living within the same home or housing unit. Non-income producing individuals must reside in the house for more than one year. A boarder renting a room within the home is excluded from the “household” composition. In the case of boarders, they do not count in the total number of household occupants, but the amount of their rental payment must be included within the household’s income calculation. Furthermore, joint tenant property owners who are on title (partial owners of the property), but do not live onsite, are not part of the household composition.

Calculation of Household Income (See attached gross income worksheet)

The total gross annual wages, salaries, commissions, fees, bonuses, and all forms of compensation received by all individuals within the household must be calculated and estimated for the next 12 month period. All individuals age 18 and above within the household must execute a “Statement of Benefits” detailing the amount of all types of wages, earnings, and financial benefits they receive. Pensions, Social Security benefits, Public Assistance, interest and dividends, alimony and child support, unemployment insurance, worker’s compensation benefits, and all other types of periodic and determinable income are included. Items NOT included in income calculations are casual or sporadic gifts, reimbursements received for medical expenses, educational scholarships, lump sum inheritances or lump sum insurance benefits.

Eligible Repairs

A. Code / Health & Safety Repairs – The first priority of the Housing Rehab Program is to eliminate, or otherwise “cure”, any and all pre-existing Code violations and Health & Safety hazards. Therefore, all rehab projects must correct any pre-existing code deficiencies and/or health & safety related repairs needed. This includes pre-existing construction found that was done without City permits (room additions, garage conversions, patio additions, etc). All such pre-existing construction must be either brought up to code and obtain approved building permits, or must be demolished, as part of the rehab project. If applicants interrupt or refuse to allow contractors to complete the abatement of Code Violations and/or Health & Safety hazards, their file may be closed and the applicant may not reapply for the program for 5 years.

B. Lead Based Paint Hazards – An additional priority of the Housing Rehab Program is to reduce any lead based paint hazards present in homes. Therefore, a Lead Based Paint test (XRF testing) and a Risk Assessment are required on all rehabilitate projects to identify the existence and scope of any lead based paint hazards in the home. When the physical scope of the rehabilitation project will disturb very little painted surfaces, or the actual cost of the rehab project is minor (\$5,000 or less of program funding), then the Lead Based Paint test (XRF testing) and Risk Assessment are not required, provided the contractor is notified to presume that lead based paint is present and to utilize “Safe Work Practices” during the disturbance of any painted surfaces. Reduction of any and all identified Lead Hazards (mitigation or abatement) is required if the actual cost of the rehab project is more than \$5,000 (excluding the cost of the lead reduction work).

C. Termite Repairs – The Program requires a Termite Inspection Report be prepared for every home by a licensed inspector. The owner may receive a copy of the termite inspection report at no cost. The report should identify any termite or dry rot damaged wood members in the home as well as whether or not there are any active termite infestations in the home. The program requires that any termite or dry rot damaged wood members in the home be replaced or repaired due to the health and safety risk they pose to the structural integrity of the home. Fumigation, or other treatments recommended to eliminate any active termite infestations are required.

D. General Property Improvements – Once the cost of repairing all code deficiencies, health & safety items, lead based paint hazards, and termite repairs are totaled up, then any additional program funding utilized by a recipient, up to the program limits, may be used to address general property improvements. General property improvements may include a wide variety of items such as painting, replacement of fixtures, replacement of cabinets and vanities, replacement of flooring, etc. General property improvements may NOT include any materials or items that are of a type and quality which exceeds the standards for similar properties

in the area, or that far exceed the basic standards of “decent, safe, & sanitary”.

E. Timeliness – Program recipient’s will be made aware that the time is of the essence and all loan funds not expended after 18 months (excluding Planning & Permit time) may be reprogrammed at the City’s sole option with a credit or reconveyance to the loan, and that the lendee’s file will be closed. Loan recipients understand that housing rehab funds are special loan proceeds granted or lent under special circumstances.

Items that are specifically **NOT** eligible under the program are as follows:

Installation of swimming pools & hot tubs (spas). Pool repairs are eligible only when health and safety concerns exist;

Repair or purchase of furnishings or other non-realty (personal) property;

Repair or purchase of appliances such as stoves, dishwashers, etc. Large appliances can be repaired when they are physically “built-in” to a kitchen, and sanitary issues exist. Note that garbage disposals are considered a plumbing item and are eligible under the program. Refrigerators can be repaired when they are a physically “built-in” to a kitchen, and sanitary issues exist;

Acquisition of land or property;

Tools or raw building materials;

Any item determined by program staff to far exceed the program’s goals of providing decent, safe, & sanitary living conditions.

Room additions or “garage conversions” to create additional living space are only permitted in cases of overcrowding, where the number of household members exceeds the basic State of California standards of 2 persons per bedroom, plus 2 persons for ambient space. Thus, a three bedroom home must have more than 8 permanent household members to qualify as “overcrowded” (more than 10 permanent household members in a 4 bedroom home, etc). Furthermore, unless overcrowding is found to exist, a room addition is a low priority and is considered a “general property improvement” which can only be considered after all code, health & safety, lead based paint, and termite required rehab work was funded. In cases where a garage conversion was previously completed without City permits and approvals, it is considered a City code violation, and the program can fund the necessary repairs to bring the conversion into Code Compliance and obtain approved building permits, including construction of a new carport to meet the City’s onsite covered parking requirement.

The program will not fund repairs to “Granny flats” or separate living units, as a preponderance of these units may become rentals. The program is limited to use by owner-occupied dwellings and is not available for use on rental housing.

NOTE: No program funds can be paid out directly to the homeowner, since the homeowner is not allowed to perform any of the home improvement written in the scope of work. The program funds are to be used solely for payment of housing rehabilitation work (including permits, fees, inspections, plans, engineering, etc). Therefore, all funds are held in trust for payment to independent, third party contractors or vendors upon presentation, and signed approval by the homeowner, of valid invoices or construction draw requests.

Funding Approval

After the full scope of a Rehabilitation project has been determined, contractor bids have been received, and the homeowner has selected their contractor, Program Staff prepares an “Agenda package” that includes a project budget detailing the type of funding to be provided (loans), the applicant’s income eligibility, and the scope of work to be done. City Staff reviews the “Agenda package” and provides final approval.

Historic Review (Section 106)

If public records, from a Title Company Property Profile, City Building Department, or other official record, indicate that the applicant's home is more than 50 years old, then an historical assessment (Section 106 Review), and review of the intended scope of work, must be requested from the City Planning Department. Approval must be obtained through the Cultural Resources Specialist of the Planning Department. Planning staff will provide their written determination and recommendations, and send a copy to both Program Staff and the State Historical Preservation Office (SHPO).

Bidding Process

Competitive bids from at least three contractors are requested on all Rehab Projects, except health & safety emergencies which are handled on an emergency basis that does not allow time for competitive bidding. When the normal competitive bid process is used, the homeowner is provided copies of all bids received for their consideration and selection. If the homeowner is not satisfied with the bids they receive, then additional bids may be solicited from more contractors until the homeowner finds a contractor bid they want to use.

Contractor Selection

The homeowner is provided copies of all bids received and may choose any "reasonable" contractor bid they wish, they are not required to select the lowest bidder. However, Program Staff reviews all bids received to verify they are all within a "reasonable" range of typically no more than approximately 25% variation between the high and low bidders. If the homeowner wishes to select a contractor bid that is considered to be above the "reasonable" range of bids received, then they are required to either "negotiate" that contractor's bid down into the "reasonable" range or obtain a written explanation from the contractor that adequately explains, to Program Staff's satisfaction, why their bid is above the range.

The Construction Contract

The Construction Contract is between the owner and the contractor. Neither the City of Riverside, nor RHDC, is signatories to the Contract. The City and RHDC do not have any enforcement power over the contractual relationship between the homeowner and the contractor. A copy of the contractor's bid is attached to the Construction Contract to specify the scope of repairs and improvements included in the Contract.

Contractor Payments

For contracts less than \$5,000, only one draw payment is permitted to the contractor and no retention money is withheld from the payment. For contracts greater than \$5,000, up to three draw payments are permitted and 10% "retention" is withheld from each payment until 30 days after the project has been satisfactorily completed and a Notice of Completion has been recorded. The homeowner and the contractor must each sign the appropriate Payment Authorization form before any funds will be released. In addition, the contractor must provide an invoice, waiver/lien release, and copies of signed off permits as part of any request for payment.

Contractor Qualifications

An important element of a successful home rehabilitation program is good working relationships between the homeowners and the general contractors they select. Since most homeowners have limited prior experience with contractors, the Housing Rehab Program maintains a list of contractors who have provided copies of their appropriate insurance and license. The list is offered to homeowners as an aid in soliciting contractor bids and selecting a contractor. However, the homeowner is responsible for selecting the contractor and may use any contractor that provides the program with copies of their appropriate insurance and license.

Contractors participating in the program must provide evidence of a valid City of Riverside business license, a valid State contractor's license, current worker's compensation insurance coverage, and current \$1,000,000 general liability insurance coverage. Also, their insurance must list the program's administrator, Riverside Housing Development Corporation, as additionally insured. Since RHDC has had a policy requesting contractors to carry \$1,000,000 general liability insurance, no claims have been filed against the City or RHDC.

Only general contractor and sub-contractors who have applied and meet program requirements are eligible to enter into Rehabilitation Program construction contracts.

Adding contractors to the list is an ongoing process. Applications from local contractors (including women and minority contractors) are encouraged. Any contractor who meets the licensing and insurance requirements is eligible to apply for inclusion on the list.

Contractors who maintain their business credentials and comply with program guidelines and policies are automatically retained on the list. Contractors may be disqualified from participation in the program at any time for just cause. Disqualified contractors may reapply for participation in the program after one year, and must provide evidence of corrective measures taken to address the reason(s) why they were previously disqualified.

A. Contractor Applications – Applications are accepted from contractors at any time. Contractors interested in being included on the Contractor List and bidding for construction contracts must complete a standard application and submit copies of their current worker's compensation insurance, liability insurance, and state contractor's license.

B. Contractor Review – Contractor applications are reviewed by program staff. Staff will:

- Call the State Contractor Board, or check their website, to verify that the contractor is currently licensed.
- Verify that the copies of insurance coverages and business licenses are current.

Disqualification of Contractors

Contractors may be disqualified from participation in the program at any time for just cause. Evidence constituting just cause for contractor disqualification includes:

- Failure to maintain State Contractor's Board license and registration, or failure to maintain required insurance coverage or City business license.
- Insolvency, bankruptcy, or other conduct or conditions causing monetary loss for a homeowner, or the Housing Rehab Program, in connection with construction contracts.
- Activities in conflict with Housing Rehab Program policies or procedures, such as: bid rigging, kickbacks to homeowners, hiring homeowners for pay, failure to complete warranty work in a timely manner, abusive or repeated cost increases and change orders to contracts.
- A history of non-performance in fulfilling construction contracts.

- A history of contract performance judged unacceptable by the Housing Rehab Program due to poor work quality, lack of cooperation, or repeated conflicts with homeowners.
- Abandoning a job or repeated failure to complete contract work according to specified deadlines.
- Conviction of a crime in connection with contract work, contract payments, or any other funding administered by the City of Riverside.

The decision to disqualify a contractor shall be authorized by the Program Administrator (Executive Director of RHDC) upon the recommendation of any Program Staff. Disqualified contractors shall be notified in writing. A disqualified contractor may appeal the decision within ten days of receiving the written notification. Disqualification appeals shall be made to the Program Arbitrator (see below), who shall consider any additional information provided by the contractor and render a final decision within one week.

NOTE: Disqualified contractors may reapply for participation in the program after one year, and must provide evidence of corrective measures taken to prevent a reoccurrence of the reason(s) why they were previously disqualified.