CITY OF PACIFIC GROVE

HOUSING REHABILITATION
LOAN PROGRAM GUIDELINES

Revisions Approved by City Council Resolution No. 18-043, November 7, 2018
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Revised 11/7/18
HOUSING REHABILITATION LOAN PROGRAM GUIDELINES

The City of Pacific Grove actively supports efforts to improve the City’s housing stock. The Housing Rehabilitation Loan Program (HRLP) described in these Guidelines are designed to encourage income-eligible City residents and property owners to improve their properties by accessing below market interest rate loans that are available from the City for home improvement projects. Applications for the City’s Housing Rehabilitation Loan Program can be obtained by calling the City of Pacific Grove at (831) 648-3199, at City Hall located at 300 Forest Avenue, Pacific Grove, or download an application from the City website at (https://www.cityofpacificgrove.org/living/community-economic-development/housing).

The HRLP is funded by Community Development Block Grant Funds (CDBG), CalHome Funds and City Housing Funds (loan repayments designated for housing programs and unrestricted by the State). The CDBG and CalHome Programs are administered by the State Department of Housing and Community Development (HCD). Due to differences in Guideline content requirements by HCD, the Guidelines are divided in two Sections. Section 1 contains CDBG funding requirements. Section 2 contains CalHome funding requirements. Since CalHome funds are meant to be “gap” financing, it is expected that a single rehabilitation project may be funded by more than one funding source. While the loan terms and eligibility requirements of the funding sources are identical in most cases, should there be a conflict in funding source requirements; the more stringent requirement will be applied.

Available funding for the HRLP varies depending on grant awards and loan repayments. When funds are limited, the City will strive to distribute funds to as many eligible households as possible. This may be accomplished by making smaller loans and/or limiting repairs to health and safety items only.

City staff will refer to the following publications when additional information or explanation is required regarding either funding source:

SECTION 1 – CDBG PROGRAM REQUIREMENTS

I. APPLICANT ELIGIBILITY

Temporary Relocation
Tenants will be informed of their eligibility for temporary relocation benefits if occupancy during rehabilitation constitutes a danger to health and safety of tenant or public danger or is otherwise undesirable because of the nature of the project. Relocated tenants will receive increased housing costs, payment for moving and related expenses and appropriate advisory services, as detailed in the “Housing Rehabilitation Program Single Family Temporary Relocation Plan” attached at the end of these Guidelines.

Owner occupants are not eligible for temporary relocation benefits, unless health and safety threats are determined to exist by the project coordinator/construction supervisor.

Conflict of Interest
No member of the governing body of the locality and no other official, employee, or agent of the city government who exercises policy, decision-making functions, or responsibilities in connection with the planning and implementation of the program shall directly or indirectly be eligible for this program, unless the application for assistance has been reviewed and approved according to applicable California Department of Housing and Community Development (HCD) guidelines. This ineligibility shall continue for one year after an individual's relationship with the City ends.

A contractor with a vested interest in the property cannot bid on a rehabilitation job. Such a contractor may act as owner/builder, subject to standard construction procedures. (Owner/builders are reimbursed for materials purchased which are verified by invoice/receipt and used on the job. Reimbursement occurs after the installation is verified by Housing staff to be part of the scope of work. Owner/builders are not reimbursed for labor.) The City reserves the right to determine if the owner is capable of owner/builder rehabilitation work.

Property Taxes
Property taxes must be paid and current in order to be eligible for a rehabilitation loan.

Income

Owner Occupant - To be eligible, household income must be equal to, or less than, the applicable HCD income guidelines. Owner will be required to provide income documentation as detailed in the “Annual Household Income
Definition/Income Limits” attached at the end of these Guidelines.

**Owner Investor** - There are no restrictions on the income of the owner investor unless the owner investor is a member of the Targeted Income Group (TIG) and is interested in qualifying for a Deferred Payment Loan. **Tenant** - If a rental is currently occupied, the tenant's household income must be equal to, or less than, the applicable HCD income guidelines. Tenant will be asked to cooperate by providing income documentation as detailed in the “Annual Household Income Definition/Income Limits” attached at the end of these Guidelines.

**Occupancy**
No unit to be rehabilitated will be eligible if it is currently occupied by an HCD ineligible household. Rental households occupying such units will be allowed to remain in the units. To prevent owners from evicting ineligible tenants before applying for the program, the owner must certify that no tenant has been forced to move without cause during the previous six months.

**Fair Housing**
This program will be implemented in ways consistent with the City's commitment to Fair Housing. No person shall be excluded from participation in, denied the benefit of, or be subjected to discrimination under any program or activity funded in whole or in part with Community Development Block Grant (CDBG) funds on the basis of his/her or her religion or religious affiliation, age, race, color, ancestry, national origin, sex, marital status, familial status (children), physical or mental disability, sexual orientation, or other arbitrary cause.

**II. PROPERTY ELIGIBILITY**

**Location**
Units to be rehabilitated must be located within current City limits.

**Rehabilitation Standards**
All repair work will meet Uniform Building Code standards. The priority will be the elimination of health and safety hazards. Additionally, all repair work will comply with any special design or construction standards established by the City to preserve historic buildings. Rehabilitation work should incorporate energy efficient/green building materials.

In the case of multi-family units in which the owner occupant is income eligible but a tenant is not, the rehabilitation shall be limited to those that benefit the overall structure (roof, exterior changes) and the interior changes for the income eligible household only.
**Property Improvements**
The goal of the City’s rehabilitation program is to remove deficiencies, improve energy efficiency, remediate lead based paint, extend the useful life of the property and comply with any special design or construction standards established by the City to preserve historic buildings. All improvements must be physically attached to the property and permanent in nature. General property improvements should be limited to 15% of the rehabilitation loan amount. Luxury items are not permitted. If building materials that are normally considered "luxury items" are necessary due to a medical condition of a household member or for reasons of accessibility, the City may approve the use of such materials.

Examples of eligible improvements include foundation construction and repair, electrical repair or rewiring, plumbing repair, roof repair or replacement, heating system installation and repair, window and door replacement and repair, repair of structurally significant damaged wood, and floor coverings where it poses a hazard.

Examples of non-eligible improvements include swimming pools, patios and patio covers, room additions that are for leisure, landscaping upgrades, hot-tubs, custom cabinets and high-end appliances.

Examples of general property improvements include improvements that bring the property into compliance with local zoning requirements, fence repairs, exterior paint or items to improve the appearance of the property but are not health and safety items.

**Lead-Based Paint**
Program participants rehabilitating homes constructed prior to January 1, 1978 must be provided with the proper disclosure notification concerning lead-based paint (LBP) hazards. Whenever pre-1978 houses are rehabilitated under CDBG, please refer to Chapter 20 of the CDBG Management Manual, Lead-Based Paint Requirements for guidance. The costs associated with meeting these requirements are eligible to be paid for with CDBG funds, and should be considered during program design.

**Manufactured Housing Unit/Mobile Home Rehabilitation**
CDBG funds may be used for the rehabilitation of a mobile home. An alternative to actual rehabilitation of a mobile home is to replace the unit with a used mobile home. To be considered eligible for rehabilitation costs, the used mobile home must have been occupied and not used as a demonstration model.

Should the residential dwelling or existing mobile home that is being considered for rehabilitation meet the criteria for reconstruction, discussed below, a new mobile home can be used for replacement. All costs associated with the purchase and transportation can be added to the applicant's loan.
Reconstruction
CDBG funds may be used to demolish and reconstruct TIG-owned and occupied residential structures. Reconstruction is defined as the demolition and construction of a structure. The City must document that the reconstruction costs are less than newly constructed housing and that the estimated cost of the reconstructed housing (including demolition, site preparation and temporary relocation) is less than the fair market value of the reconstructed housing and land combined.

III. FINANCING

Owner Occupant

Limits - An eligible owner may qualify for the full cost of the rehabilitation work needed to comply with Uniform Building Code standards. Maximum assistance with CDBG funds is $200,000. Total indebtedness against property will not exceed 80% of after rehabilitation value. Rehabilitation costs for CDBG funded jobs may be supplemented with personal financing or with other loan or grant programs, which are sources of leverage for the City.

Types and Terms of Financing: Deferred Payment Loan (DPL) - The City offers a three (3) percent simple interest deferred payment loan. The standard loan term is thirty (30) years. At the end of the period of deferral or if a disqualifying event occurs during the deferral period, the loan and accrued interest is due and payable in a balloon payment, unless the City approves an exception. Payback is required at the end of the 30 year deferral period or if the borrower sells or transfers title or discontinues residence in the dwelling, unless sold or transferred to an income eligible household (when allowed by the funding source).

Payments may be made voluntarily on DPLs. There are no prepayment penalties on this type of loan.

Determining Eligibility- Every owner occupant who is determined to be eligible for the CDBG program may receive DPL financing based on the availability of loan funds, their ability to repay the loan, lead based paint requirements and the type of repairs needed.

Grants
A. Total CDBG Program Income funds distributed as grants shall not exceed $90,000 per year.
B. Individual grants of up to $9,500 may be available for any one of the following qualifying factors:
   1. Senior Citizen – 62 years and older; or
2. Disabled – for only accessible modifications to a home with one or more disabled occupants who would function more independently if such modifications were installed; or
3. Lowest Targeted Income Group – with gross annual income less than 80 percent of County median income; or
4. Emergency Repairs – Repair must be needed to alleviate an immediate health and safety hazard and must be in accordance with allowable construction costs outlined under “Property Improvements” (page 4) and Section VII. Eligible and Ineligible Rehabilitation Constructions Costs (page 19); or
5. Actual costs of lead-based paint evaluation and reduction activities; or
6. Emergency grants shall be made to previous loan recipients to alleviate an immediate health and safety hazard.

C. Grants are provided for temporary relocation assistance. (See Temporary Relocation Plan starting on page 24) These grants are not subject to the $90,000 per year maximum amount. The limit for an Owner-Occupant is $5,000 per person.

**Owner Investor**

**Limits** - An owner investor may qualify for the full cost of the rehabilitation work needed to comply with Uniform Building Code standards. Maximum assistance from CDBG funds is $200,000. Two underwriting variables to consider are the loan-to-value ratio and the debt-to-income ratio. Total indebtedness against the property will not exceed 70% of after rehabilitation value. Applicants whose debt to income ratio exceeds 50% may be considered ineligible to participate in the program. An appraisal is required for owner investor loans. Rehabilitation costs for CDBG funded jobs may be supplemented with personal financing or with other sources of leverage.

**Types and Terms of Financing: Deferred Payment Loan (DPL)** - The City offers a three (3) percent simple interest deferred payment loan. The standard loan term is thirty (30) years. At the end of the period of deferral or if a disqualifying event occurs during the deferral period, the loan and accrued interest is due and payable in a balloon payment, unless the City approves an exception. Payback is required at the end of the 30 year deferral period or if the borrower sells or transfers title to the rehabilitated property.

**Restrictions: Rent Limitation Agreement (RLA)** - An owner investor who elects to rehabilitate a rental unit with CDBG financing must sign an RLA, which will be recorded. This agreement will specify:

1. In no instance shall rents exceed the U.S. Department of Housing and Urban Development (HUD) Fair Market Rent (FMR) schedule while the
RLA is in effect.

2. Base Rent – Vacant Unit - If the house is vacant, rent charges shall not exceed 30 percent of 80 percent of City median income for the appropriate household size in that unit. Owner investor shall affirmatively seek Targeted Income Group (TIG) households by contacting the local housing authority. Where such contact does not result in eligible TIG tenants, the owner investor shall contact the City for guidance.

3. Base Rent – Occupied Unit - If the house is occupied, rent charges shall not exceed 30 percent of the existing tenants' household income; or, where, before rehabilitation, rents already exceed 30 percent of the existing tenants’ income, no rent increases shall be allowed which provide for rents plus utilities over 30 percent of the tenants’ income.

4. Terms - Adherence to these rent limitations will be for the term of the loan.

5. Compliance – Failure to comply with these terms and conditions will result in the loan becoming due and payable. If necessary, foreclosure proceedings will be instituted.

**Maintenance Agreement** - As specified in the Rehabilitation Loan Agreement, an owner investor who participates in the program must maintain the property at post-rehabilitation conditions for a minimum of five years. Should the property not be maintained accordingly, the loan will become due and payable, and if necessary, foreclosure proceedings will be instituted.

**Loan Requirements**
Refer to “Loan Servicing Policies and Procedures” attached at the end of these Guidelines.

**Loan Documentation**
The City shall determine the loan amount based on the consideration of:

1. The selected bid contractual amount
2. 10 to 20% contingency
3. Plan or drawing preparation, if any
4. Pre-project inspections (termite report, LBP inspection)
5. Reduced escrow and title policy costs

The City shall provide the client with the loan disclosure information.

Once the client has approved the disclosure, the City shall process the loan for approval. The approval process shall require approval by the Loan Committee.
The client shall be notified of approval and/or denial.

**Loan Settlement**

1. The Client shall sign the following: Deed of Trust, Promissory Note, Disclosure Statement, Recission Notice, Loan Agreement, Request for Notice of Default and Sale (if applicable), and Rental Agreement (if applicable). A manufactured home in a mobile home park or on leased land that is not on a permanent foundation will be secured by an HCD 480.7 or an HCD 484 Statement of Lien.

2. The City Manager, acting on the behalf of the City, shall sign the loan documents as required.

3. If after the 3-day rescission period the client does not rescind the loan, the Deed of Trust and Request for Notices shall be recorded at the County of Monterey Recorder’s Office. The client shall sign the Construction agreement and Notice to Proceed.

4. Title insurance shall be requested and received.

5. The original loan documents shall be filed in the City vault. The following documents shall be included: Promissory Note, Deed of Trust, Rental Agreement and Loan Agreement.

6. The construction documents shall be filed in the Community Development Department.

7. The City shall deposit loan funds into an escrow account with a reputable title company, unless the loan amount is too small to warrant incursion of escrow fees.

**Maximum Loan Amounts**

The maximum for any one emergency repair loan shall be $10,000. Each fiscal year a specified amount of the Housing Rehabilitation Loan budget allocation shall be set aside for emergency repair loans.

The maximum for any one major rehabilitation project shall be $200,000.

Loans resulting in more than $200,000 for a single unit may be approved by the Loan Committee if the Committee finds that the proposed improvements funded by such a loan will be in conformance with the City’s housing policies as established by the City Council.
**Loan Approval**

**Emergency Loans (Up to $10,000)**
When the Housing Rehabilitation Loan Program staff is notified of a situation requiring immediate attention due to health and safety issues, the staff shall proceed with the necessary repairs to rectify the situation, without referral of the matter to the Loan Committee. Such repairs shall not exceed $10,000.

**Major Rehabilitation Loans (More than $10,000)**
1. Owner Occupied Projects – The Loan Committee is responsible for approving owner occupied loan applications.

2. Owner Investor Projects – The Loan Committee is responsible for approving owner investor loan applications.

In order to obtain CDBG financing, applicants must meet all property and eligibility guidelines in effect at the time of loan approval. Applicants will be provided written notification of approval or denial. Reason for denial will be provided to the applicant in writing.

**IV. RESIDENCY REQUIREMENTS**

**Owner Occupant**
Owner occupants will be required to submit to the City between January 1 and 15 of each year for the term of the loan:

1. Proof of occupancy in the form of a copy of a current utility bill.
2. Statement of unit’s continued use as a residence.
3. Declaration that other title holders do not reside on the premises.

In the event that an owner occupant sells, transfers title, or discontinues residence in the rehabilitated or purchased property for any reason, the loan is due and payable.

If the owner occupant sells or otherwise transfers title of the property to a targeted income group household, the City will consider subordinating the loan and continuing all or part of the lien as a DPL.

If the owner occupant dies, and if the heir to the property lives in the house and is income eligible, the heir may be permitted, upon approval of the City of Pacific Grove, to assume the loan at the rate and terms the heir qualifies for under current participation guidelines.

If the owner occupant dies and the heir is not income eligible, the loan is due and
payable.

If the owner occupant dies and the heir is not income eligible, but he or she chooses to rent the unit to TIG households and agrees to comply with owner investor restrictions, the heir may be permitted, upon approval of the City of Pacific Grove, to assume the loan at the same rate and terms offered owner investors under current program guidelines. If the heir/owner investor does not comply with owner investor restrictions, the loan is due and payable.

If an owner occupant wants to convert the rehabilitated property to a rental unit, the owner must notify the City in advance. If the City approves the conversion of an owner occupied unit to a rental, the owner will be required to comply with the provisions of the owner investor guidelines, including rent limitation provisions and financing arrangements.

If an owner wants to convert the rehabilitated property to any commercial or non-residential use, the loan is due and payable.

**Owner Investor**

If an owner investor sells or transfers title of the rehabilitated property for any reason, the loan is due and payable.

An owner investor may convert a rental property to his/her personal residence if all conditions below exist:

1. He or she can prove that the previous tenant was not evicted without cause.

2. He or she is income eligible.

3. He or she requests approval from the City.

If an owner investor converts a rental property, rehabilitated with CDBG funds, to his/her or her personal residence, but he or she is not income eligible, the loan is due and payable.

If an owner wants to convert the rehabilitated property to any commercial or non-residential use, the loan is due and payable.

**V. DEFAULT AND FORECLOSURE**

If an owner defaults on a loan, and foreclosure procedures are instituted, they shall be carried out according to the CDBG Foreclosure Policy as described in the “Loan Servicing Policies and Procedures” attached at the end of these Guidelines.
VI. INSURANCE

Fire Insurance
The applicant shall maintain fire insurance on the property for the duration of the loan(s). This insurance must be an amount adequate to cover all encumbrances on the property. The insurer must identify the City as Loss Payee for the amount of the loan(s). A binder shall be provided to the City.

In the event the applicant fails to make the fire insurance premium payments in a timely fashion, the City of Pacific Grove at its option may make such payments for a period not to exceed 60 days. The City may, in its discretion and upon the showing of special circumstances, make such premium payments for a longer period of time. Should the City of Pacific Grove make any payments, it may, in its sole discretion, add such payments to the principal amount that the applicant is obligated to repay the City under this program.

Flood Insurance
In areas designated by HUD as flood prone, the owner is required to maintain flood insurance in an amount adequate to secure the Rehabilitation Loan. This policy must designate the City as Loss Payee. The premium may be paid by the Rehabilitation Loan for one year.

VII. OUTREACH/APPLICANT LIST

Outreach
When loan funds are available, the City shall conduct a periodic program to advertise and promote the Housing Rehabilitation Loan Program so that all those in need of rehabilitation assistance are aware of the City program.

Efforts will be made to contact special needs households such as: elderly, single-parent households, women, disabled, and minorities.

Applicant List
1. Applications shall be received and processed as quickly as possible.

2. Applicants shall be placed on the applicant list at the time they apply for the program.

3. Applicants shall provide information needed for the income and property verification process and for construction in a timely manner. If information is not forthcoming in a reasonable time period, the applicant shall be informed that their position on the applicant list may be affected.

4. Unless there are emergency conditions that warrant more immediate action, projects will be funded based on the order of which they are received.
VIII. VENDOR QUALIFICATION AND SELECTION PROCESS

The procurement of all services and supplies by the City of Pacific Grove shall be governed by the City of Pacific Grove Municipal Code and the CDBG Management Manual.

IV. REPAIR CALLBACKS

In the event that a contractor must be called back to make corrections on rehabilitation work items that are not covered by the one year warranty, the City has the option to cover the costs through the current CDBG construction budget.

X. PROGRAM COMPLAINT AND APPEAL PROCEDURE

Complaints concerning the CDBG Program should be made to the Project Contractor first. If unresolved in this manner, the complaint or appeal shall be made in writing and filed with the City. The City will then schedule a meeting with the Loan Committee. The Loan Committee’s written response will be made within fifteen (15) working days. If the applicant is not satisfied with the Loan Committee’s decision, a request for an appeal may be filed with the City Council. Final appeal may be filed in writing with HCD within one year after denial or the filing of the Project Notice of Completion.

XI. GRIEVANCES BETWEEN PARTICIPANTS AND CONSTRUCTION CONTRACTOR

Contracts signed by the contractor and the participant include the following clause, which provides a procedure for resolution of grievances:

Any controversy arising out of or relating to this Contract, or the breach thereof, shall be submitted to binding arbitration in accordance with the provisions of the California Arbitration Law, Code of Civil Procedure 1280 et seq., and the Rules of the American Arbitration Association. The arbitrator shall have the final authority to order work performed, to order the payment from one party to another, and to order who shall bear the costs of arbitration. Costs to initiate arbitration shall be paid by the party seeking arbitration. Notwithstanding, the party prevailing in any arbitration proceeding shall be entitled to recover from the other all attorneys’ fees and costs of arbitration.

XII. CONTRACTING PROCEDURES

1. All housing rehabilitation work must be carried out using the adopted Housing Rehabilitation Loan Program Guidelines.

2. The City will prepare, advertise the bid package and assist the
3. The homeowner will select the contractor.

4. All general and sub-contractors must be checked and cleared with HUD'S federal debarred list of contractors.

5. All general and sub-contractors must be actively licensed and bonded with the State of California.

6. All general and sub-contractors must have public liability insurance to the City required limits, maintain Workers’ Compensation and Employer Liability insurance to the extent required by State Law.

7. All general and sub-contractors must comply with CDBG federal and state regulations.

8. A Notice of Completion must be recorded with the County Recorder.

XIII. SWEAT EQUITY

Participants who wish to perform sweat equity must obtain approval from the general contractor and sign a written commitment itemizing the work they will perform, a time schedule for completion and a dollar value of the contribution.

Owners that contribute sweat equity that involves painting will not participate in activities that include the abatement or mitigation of lead paint hazards without first being trained on Safe Work Practices as required by HUD and provide documentation of such in the project file.

XIV. AMENDMENTS

Amendments to these Guidelines may be made by the City and submitted to HCD for approval.

XV. EXCEPTIONS/PROCEDURES FOR EXCEPTIONAL CIRCUMSTANCES

Any case to which a standard policy or procedure, as stated in the guidelines, does not apply or an applicant treated differently from others would be an exception.

In the event of extraordinary or special circumstances, the Loan Committee may grant an exception to the guidelines as long as the exception does not violate the regulations of the funding sources.
The Housing staff may initiate consideration of an exception and prepare a report. This report shall contain a narrative, including staff’s recommended course of action and any written or verbal information supplied by the applicant. The request shall be presented to the Loan Committee for decision and consideration.

XVI. CURRENT HUD INCOME LIMITS ADJUSTED FOR FAMILY SIZE FOR CITY/COUNTY

For consistency in calculating household incomes, the City will use the most current income limits available when determining household income. The CDBG income limits are updated annually.

SECTION 2 – CALHOME PROGRAM REQUIREMENTS

I. LOAN PROCESSING AND UNDERWRITING

Loan Application
The City will require every applicant to complete a loan application package and submit it to the City. Upon receipt of the application package the City shall review the package to determine that support materials are present and that forms are complete. Support materials may include but are not limited to paycheck stubs, W-2s, mortgage statements, property tax bills, and income tax returns, when applicable.

The application requires sufficient information concerning the applicant’s financial position to enable the City to make an informed judgment about the applicant’s ability and willingness to repay the mortgage debt, and whether or not the applicant actually occupies the home that is to be rehabilitated.

The application will be compared to the credit report and the various verifications, as they are received, to backup what the borrower has stated on the application. If there are discrepancies between the documents, the City will determine what is factual and have the applicant explain the discrepancies.

Owner-Occupied Homeowner and Property Eligibility
The City will determine if the applicant is eligible to participate in the program by evaluating and verifying the applicant’s income eligibility, residency status, and property eligibility. The City will follow the method outlined in the “CalHome Operations Handbook”, chapter on Income Qualifying, to determine income eligibility. Reference 25CCR, Section 6914 for further information as to income inclusions and exclusions.
Household is defined as one or more persons occupying the same unit.

25CCR Section 7720. Eligible households.

To be eligible to receive the benefits of CalHome funding, an individual household shall:
(a) be a lower-income household, when considering the gross income of all household residents eighteen (18) years old or older.
(b) include as borrowers on the CalHome Program promissory note all persons who will be or are on title to the property; and be an owner-occupant and intend to continue occupying the home as a principal place of residence.

The City will obtain a preliminary title report to document the owners on title, and review all liens on the property.

The City will make rehabilitation loans on owner occupied single family dwellings – both traditional stick built and manufactured homes on a non-permanent foundation.

The loan-to-value ratio for an owner-occupied rehabilitation loan, when combined with all other indebtedness secured by the property, shall not exceed 80% of the estimated after-rehabilitation-value.

The City will estimate the after-rehab value of the home to determine that the value will not exceed 100% of the current median sales price of a single family home in the City of Pacific Grove. The current median sales prices will be obtained by the City from the Monterey County Association of REALTORS©.

Credit History
The City of Pacific Grove may require a credit report. A credit report indicates the borrower’s creditworthiness with previous mortgages, shows undisclosed debts, revolving accounts, installment accounts and any judgments, garnishments, liens and/or bankruptcies that are a matter of public record.

Applicants whose debt to income ratio exceeds 50% may be considered ineligible to participate in the program.

II. ELIGIBLE COSTS FOR THE REHABILITATION

The following costs are eligible uses of funds for rehabilitation loans:

1. Cost of rehabilitation of the property in accordance with the following definition: “Rehabilitation” means, in addition to the definition in Section 50096 of the Health and Safety Code, repairs and improvements to a manufactured home necessary to correct any condition causing the home to be substandard pursuant to Section 1704 of Title 25, California Code of...
Regulations. Rehabilitation includes reconstruction. Rehabilitation also includes bedroom and bathroom additions to alleviate overcrowding. Rehabilitation also means repairs and improvements which are necessary to meet any locally-adopted standards used in local rehabilitation programs.

2. Cost of building permits and other related government fees.

3. Cost of architectural, engineering, and other consultant services which are directly related to the rehabilitation of the property.

4. Non-recurring loan closing costs such as escrow or title charges. No loan fees are to be charged to the homeowner for the CalHome loan.

5. Replacement cost of a manufactured home not on a permanent foundation up to the maximum loan amount published in the current NOFA in the case where it has been determined by the City it is infeasible to rehabilitate the manufactured home.

6. A CalHome activity delivery fee in an amount not to exceed the maximum amount published in the current NOFA per assisted unit will be reimbursed in the form of a grant to the City.

7. Relocation costs during the project if required for health and safety, and if made part of the loan.

III. PROHIBITED USES OF FUNDS

1. Refinancing of existing loans with CalHome funds.

2. Costs associated with the rehabilitation or repair of property owned by a mobile home park owner.

IV. LOAN AMOUNT AND TERM REQUIREMENTS

1. The maximum CalHome loan per household is $60,000.

2. An owner-occupied rehabilitation loan for a stick-built home shall be secured by the real property and improvements. A manufactured home in a mobile home park or on leased land that is not on a permanent foundation will be secured by an HCD 480.7 or a HCD 484 Statement of Lien.

3. The CalHome Program loans shall have the following terms and conditions:
A. Principal and interest payments shall be deferred for the term of the loan. The City’s owner-occupied rehabilitation loan bears three (3) percent simple interest per annum. Loan principal shall not be forgiven.

B. Loan funds are available to eligible manufactured housing owner occupants for replacement or rehabilitation. Loans will be provided in the form of a secured loan to an individual household to rehabilitate, repair, or replace manufactured housing located in a mobile home park and not permanently affixed to a foundation. The loan shall be due and payable in 30 years while the home is owned and continuously occupied by the borrower.

4. The term for owner-occupied rehabilitation CalHome Program loans shall be 30 years. This term shall apply to both stick built homes and to manufactured homes on a non-permanent foundation.

5. A borrower may pay a portion of or the entire deferred payment loan amount at any time without penalty. Prepayments shall be first applied to interest and then to principal.

V. OTHER REQUIREMENTS

1. The City will require a loan agreement between the homeowner and the City governing the rehabilitation and the CalHome Program loan terms.

2. The loan-to-value ratio for an owner-occupied rehabilitation loan, when combined with all other indebtedness secured by the property, shall not exceed 80% of the estimated after-rehabilitation-value.

3. No financing, junior or senior to the CalHome loan, may have a balloon payment due before the maturity date of the CalHome loan.

4. Any cash out of escrow to the homeowner is prohibited. This is to ensure that CalHome Program funds are spent only in the amount required to pay for actual rehabilitation and non-recurring closing costs.

5. Prior to commencement of rehabilitation work, a loan-to-value ratio shall be determined for all existing and proposed encumbrances including the proposed CalHome loan. Since City staff has experience with determining values of local residential properties the comparable sales approach to determining value will be used and will include the pre-rehab value as well as the after rehab value.
A. The CalHome Program does not require an appraisal in the case of rehabilitation work of a manufactured home not on a permanent foundation. The City will be responsible to do an inspection on the manufactured home to ascertain if the manufactured home should be repaired or replaced.

B. The City will obtain title insurance in the amount of the CalHome Program loan at close of escrow.

C. Lead paint testing or lead hazard abatement for homes built before 1978, is an allowable cost. Such funds are made part of the loan and are not considered a grant.

D. Fire insurance (and Flood insurance where applicable) requirements are as follows:

   (i). The City will require borrowers to maintain insurance on the property in the amount at least equal to the replacement value of the improvements; or the value of the loans; and

   (ii). The City will be named as additional loss payee on the policy.

VI. REHABILITATION CONSTRUCTION REQUIREMENTS

1. The City shall determine the rehabilitation work to be performed on the property by conducting an initial property inspection.

2. The City shall ensure that the rehabilitation work funded pursuant to the Program guidelines shall be performed in a competent, professional manner at the lowest reasonable cost consistent with market conditions.

3. The City shall ensure that all general contractors and subcontractors selected by the borrower are licensed by the Contractors State License Board and that they maintain Workers’ Compensation and Employer Liability insurance to the extent required by State Law. The contractor selected shall complete the work in accordance with a construction contract executed between the contractor and the borrower and prepared by the City. At the City’s discretion, homeowner may be allowed to do his/her own work if he/she has a valid California Contractor’s license.

4. The City shall monitor construction for compliance with the construction contract and program requirements, and establish practices to ensure that
payments to the contractor are properly disbursed by, or on behalf of, the homeowner.

VII. ELIGIBLE AND INELIGIBLE REHABILITATION CONSTRUCTIONS COSTS

“Rehabilitation” means, in addition to the definition in Section 50096 and Section 50097 of the Health and Safety Code, repairs and improvements to a manufactured home necessary to correct any condition causing the home to be substandard pursuant to 25 CCR Section 1606 and Section 7716 (II). Rehabilitation includes reconstruction. “Reconstruction” means the demolition and reconstruction of an owner-occupied residential structure. The City must document that the reconstruction costs are less than newly constructed housing and that the estimated cost of the reconstructed housing (excluding demolition, site preparation and temporary relocation) is less than the fair market value of the reconstructed housing and land combined.

Rehabilitation also includes room additions to alleviate overcrowding. Room additions are restricted to bedrooms and bathrooms and cannot include home offices, family rooms or dens. Rehabilitation also means repairs and improvements where necessary to meet any locally-adopted standards used in local rehabilitation programs. Rehabilitation does not include replacement of personal property or furnishings.

Rehabilitation will address the following issues in the order listed. Eligible costs are included for each item.

1. Health and Safety Issues
   Eligible costs include repair or replacement of electrical, heating and plumbing systems. It also includes roof replacement, and repairs to remedy mold, dry rot, water damage or termite damage. Also included are energy-related improvements, lead-based paint hazard reduction and improvements for disability access.

   Eligible costs include additional work required to rehabilitate and bring it into compliance with current building codes and regulations. Painting, weatherization, energy efficient improvements and disability access are decided on a case by case basis.

   Painting, energy related improvements and weatherization, in and of themselves, are not eligible. They must be in conjunction with another repair required to address health and safety concerns, or to meet code or ordinance requirements.

   Disability access must be shown to benefit a borrower or household member who has a present need; it cannot be done for future need.
2. Demolition and Clean-up
CalHome funds may only be used on the living space or items which clearly impinge on the livability of the interior. Landscaping (including removal of weeds, junk, debris and garbage) is not eligible unless required under a local ordinance.

Drainage to remove stagnant water next to a foundation may be considered eligible.

The removal of dilapidated structures not attached to the living space is not eligible unless they directly affect the structure or prevent usage of a primary walkway.

3. Closing Costs and Other Charges
Eligible costs include non-recurring closing costs for the loan paid to third party providers for such items as title searches, credit reports, notary fees, recording fees, escrow fees, or appraisals. The homeowner does not pay any costs for the loan such as application fees, loan processing or document fees. These costs are incurred by the City and reimbursed by CalHome to the City as Activity Delivery Fees. Other costs such as termite inspections, haul away, disposal bins, architect fees, permit fees, can be included in the loan.

4. Additions
Eligible costs include construction of additional bedrooms and bathrooms if needed to alleviate overcrowding. The program will not fund additions to a home for a den, home office or family room. No detached additions or buildings are permitted.

5. General Property Improvements
All improvements must be physically attached to the property and permanent in nature. They must remain with the home if the home is sold.

Driveways, landscaping and fencing are generally not eligible, but may be on a case by case basis. For instance, a driveway with a large crack can present a safety problem for a person in a wheelchair or a blind person; an ambulatory person would be expected to see and avoid such a crack.

A tree cannot be trimmed unless it affects the roof and the roof need repair or if a branch is ready to fall over a primary pathway.

Fencing may be allowable if there is a case for it based on disability, proximity to primary pathway, or protection from high-crime areas (areas where criminals are known to jump fences in back yards). Luxury items are not permitted to be paid with CalHome funds.
6. Appliances
Built in appliances such as garbage disposals, dishwashers, stoves and ovens may be replaced if they are broken. Free standing appliances such as refrigerators, washers and dryers are not included.

7. Relocation and Storage
Relocation costs and storage costs are considered secondary costs and allowed only when absolutely necessary for health and safety. These costs are part of the loan which must be repaid and are not a grant. Homeowners should be encouraged to stay with friends or relatives so that most of the funds are used for property improvements.

8. Rehabilitation Standards
All repair work related to health and safety conditions will meet Uniform Building Code standards. The priority will be the elimination of health and safety hazards and code compliance. The replacement materials will be of a similar grade and quality compared to the original construction. Substantial upgrades such as granite countertops, travertine tile or premium carpets are not permitted to be paid with CalHome funds.

9. Manufactured Housing Unit/Mobile Homes
Rehabilitation or Replacement of a manufactured home not on a permanent foundation is permitted. Rehabilitation of a manufactured home may include the replacement of the unit with a new or used manufactured home. A mobile home is eligible for replacement if the cost to rehabilitate it is not feasible. All costs associated with the purchase and transportation can be added to the loan.

10. Ineligible Costs and Improvements
Property improvements not related to health and safety are not permitted. A partial list of ineligible upgrades are: bar-b-ques, outdoor kitchens, patios, decks, patio covers, swimming pools, hot tubs, animal shelters, sports courts, storage sheds, workshops, fountains, security systems, TV antennas, plantation shutters, wall paper, upgraded carpet, built in entertainment centers, granite counter tops; travertine tile, and garage floor coatings.

VIII. ACTIVITY DELIVERY FEES

The CalHome Program allows $60,000 per rehabilitation project which includes the Activity Delivery Fees and the Promissory Note amount. The homeowner only pays for charges and costs that are performed by third party providers, not the City. Those one time charges are considered non-recurring closing costs and may be paid either at the time of closing or added to the loan that the homeowner pays back. Such closing costs could be for appraisal, title searches, credit reports or escrow charges. For example, if the homeowner has $1,000 in closing costs added to the loan, he/she only has $57,000 to spend on home repairs, but his/her loan is for $58,000.
IX. LOAN CLOSING PROCEDURES

The City is responsible for drawing the deferred payment loan documents, sending the documents and escrow instructions to escrow and closing the loan. The City will follow the procedures described in the “CalHome Operations Handbook”, chapter on Loan Closing Procedures.

X. LOAN SERVICING

Refer to “Loan Servicing Policies and Procedures” attached at the end of these Guidelines.
ATTACHMENTS

The following documents are attached and form a part of these Guidelines:

A - Housing Rehabilitation Program Single Family Temporary Relocation Plan
B - Annual Household Income Definition/Income Limits
C - Loan Servicing Policies and Procedures
HOUSING REHABILITATION PROGRAM SINGLE FAMILY
TEMPORARY RELOCATION PLAN

The Housing and Community Development Act of 1974, as amended, and the National Affordable Housing Act of 1990, require all grantees of Community Development Block Grant (CDBG) funds or Home Investment Partnership (HOME) funds to follow a written Residential Anti-displacement and Relocation Assistance Plan (Plan) for any activities which could lead to displacement of occupants whose property is receiving funds from these or other federal funding sources. Having been developed in response to both aforementioned federal legislations, this Plan is intended to inform the public of the compliance of the City of Pacific Grove with the requirements of federal regulations 24 CFR 570.606 under state recipient requirements and Section 104(d) of the Housing and Community Development Act of 1974 and 24 CFR 92 of the HOME federal regulations. The Plan will outline reasonable steps, which the City will take to minimize displacement and ensure compliance with all applicable federal and state relocation requirements. The City’s governing body has adopted this plan via a formal resolution.

This Plan will affect rehabilitation activities funded by the U.S. Department of Housing and Urban Development (HUD) under the following program titles: HOME, CDBG, Urban Development Action Grant (UDAG), Special Purpose Grants, Section 108 Loan Guarantee Program, and such other grants as HUD may designate as applicable, which take place within the City limits.

The City of Pacific Grove will provide permanent relocation benefits to all eligible “displaced” households either owner occupied or rental occupied units which are permanently displaced by the housing rehabilitation program. In addition, the City will replace all eligible occupied and vacant occupiable low income group dwelling units demolished or converted to a use other than low income group housing as a direct result of rehabilitation activities. This applies to all units assisted with funds provided under the Housing and Community Development Act of 1974, as amended, and as described in the Federal Regulations 24 CFR 570.496(a), Relocation, Displacement and Acquisition: Final Rule dated July 18, 1990 (Section 104(d)) and 49 CFR Part 24, Uniform Relocation Assistance (URA) and Real Property Acquisition Regulations Final Rule and Notice (URA) dated March 2, 1989.

All City programs/projects will be implemented in ways consistent with the City’s commitment to Fair Housing. Participants will not be discriminated against on the basis of race, color, religion, age, ancestry, national origin, sex, familial status, or handicap. The City will provide equal relocation assistance available 1) to each targeted income group household displaced by the demolition or rehabilitation of housing or by the conversion of a targeted income group dwelling to another use as a direct result of assisted activities; and 2) to each separate class of targeted income group persons temporarily relocated as a direct result of
activities funded by HUD programs.

A. Minimizing Permanent Displacement and Temporary Relocation Resulting from Housing Rehabilitation or Reconstruction Activities

Consistent with the goals and objectives of activities assisted under the Act, the City will take the following steps to minimize the displacement of persons from their homes during housing rehabilitation or reconstruction funded by HUD programs:

1. Provide proper notices with counseling and referral services to all tenants so that they understand their relocation rights and receive the proper benefits. When necessary assist permanently displaced persons to find alternate housing in the neighborhood.

2. Stage rehabilitation of assisted households to allow owner occupants and/or tenants to remain during minor rehabilitation.

3. Encourage owner investors to temporarily relocate tenants to other available safe and sanitary vacant units on the project site area during the course of rehabilitation or pay expenses on behalf of replaced tenants.

4. Work with area landlords, real estate brokers, and/or hotel/motel managements to locate vacancies for households facing temporary relocation.

5. When necessary, use public funds, such as CDBG funds, to pay moving costs and provide relocation/displacement payments to households permanently displaced by assisted activities.

B. Lead Based Paint Mitigation Which Causes Temporary Relocation:

On September 15, 2000, the Final Rule for Lead Based Paint Hazard Control went into effect. Among other things, it requires that federally-funded rehabilitation must use safe work practices so that occupants and workers can be protected from lead hazards. At no time should the tenant-occupant(s) be present in work areas or designated adjacent areas while LHC activities are taking place in any dwelling unit interior, common area, or exterior. As such, occupants may not be allowed to remain in their units during the time that lead-based paint hazards are being created or treated. Once work that causes lead hazards has been completed, and the unit passes clearance, the occupants can return. The tenant-occupants may not reoccupy a work area or adjacent area until post-lead hazard reduction clearance standards have been achieved and verified with laboratory results. The final rule allows for certain exceptions:

1. The work will not disturb lead-based paint, or create dust-lead or soil-lead hazard; or
2. The work is on exterior only and openings are sealed to prevent dust from entering the home, the work area is cleaned after the work is completed, and the residents have alternative lead free entry; or

3. The interior work will be completed in one period of less than 8-daytime hours and the work site is contained to prevent the release of dust into other areas of the home; or

4. The interior work will be completed within five (5) calendar days, the work site is contained to prevent the release of dust, the worksite and areas within 10 feet of the worksite are cleaned at the end of each day to remove any visible dust and debris, and the residents have safe access to kitchen and bath and bedrooms.

If temporary relocation benefits are not provided because the City believes that the project meets one of the above criteria, then proper documentation must be provided in the rehabilitation project file to show compliance. It is up to the City to ensure that the owner occupant or tenant in the project does not get impacted by lead paint mitigation efforts. In most cases where lead paint mitigation is taking place, occupants (tenants or owners) will be strongly encouraged to relocate even for just a few days until a final lead clearance can be issued by a certified lead based paint assessor. Occupants who are temporarily relocated because of lead based paint mitigation are entitled to the same relocation benefits as those who are relocated because of substantial rehabilitation or reconstruction activities.

C. Temporary Relocation of Owner Occupants:
Owner occupants are not allowed to stay in units which are hazardous environments during lead based paint mitigation. When their home is having lead based paint mitigation work done which will not make it safe to live in, then they are eligible for temporary relocation benefits up to $500, which will be provided as a grant. In the same way, a unit requiring substantial rehabilitation (with or without lead based paint mitigation) which will not allow the family to access a bath or kitchen facility, or if the unit is being demolished and reconstructed, then the family will be eligible for temporary relocation benefits up to $500, which will be provided as a grant. In no case shall the grant for temporary relocation exceed $500 for any one owner occupant.

Owner occupants will be encouraged to move in with family or friends during the course of rehabilitation, since they are voluntarily participating in the program. The housing rehabilitation loan specialist and/or the rehabilitation construction specialist will complete a temporary relocation benefits form to document that the owner occupant understands that they must relocate during the course of construction and what benefits they wish to be reimbursed for as part of their relocation.
D. **Temporary Relocation of Residential Tenants:**

If continued occupancy during rehabilitation is judged to constitute a substantial danger to health and safety of the tenant or the public, or is otherwise undesirable because of the nature of the project, the tenant may be required to relocate temporarily. The program administrator or construction supervisor will make determination of the need for temporary relocation. The temporary relocation period will not exceed 180 days. All conditions of temporary relocation will be reasonable. Any tenant required to relocate temporarily will be helped to find another place to live which is safe, sanitary and of comparable value and they have the first right to move back into the original unit being rehabilitated at the same rent or lower. He or she may move in with family and friends and still receive full or partial temporary assistance based on eligible cost incurred. The housing rehabilitation loan specialist and/or the rehabilitation construction specialist will ensure that each tenant occupied unit under the program will receive a General Information Notice (GIN) (as soon as possible after a loan application is received) and the tenant will receive a Notice of Non-displacement (after loan approval), and each tenant occupied unit will have a temporary relocation benefits form completed for them. These notices will document that each tenant understands what their relocation rights are, and if they must relocate during the course of construction, that they receive the proper counseling and temporary relocation benefits.

A tenant receiving temporary relocation shall receive the following:

1. Increased housing costs (e.g. rent increase, security deposits) and

2. Payment for moving and related expenses, as follows:

   a. Transportation of the displaced persons and personal property within 50 miles, unless the grantee determines that farther relocation is justified;

   b. Packing, crating, unpacking, and uncrating of personal property;

   c. Storage of personal property, not to exceed 12 months, unless the grantee determines that a longer period is necessary;

   d. Disconnection, dismantling, removing, reassembling, and reinstalling relocated household appliances and other personal property;

   e. Insurance for the replacement value of personal property in connection with the move and necessary storage;

   f. The replacement value of property lost, stolen or damaged in the...
process of moving (not through the fault of the displaced person, his/her or her agent, or employee) where insurance covering such loss, theft or damage is not reasonably available;

g. Reasonable and necessary costs of security deposits required to rent the replacement dwelling;

h. Any costs of credit checks required to rent the replacement dwelling;

i. Other moving related expenses as the grantee determines to be reasonable and necessary, except the following ineligible expenses:

   1) Interest on a loan to cover moving expenses; or
   2) Personal injury; or
   3) Any legal fee or other cost for preparing a claim for a relocation payment or for representing the claimant before the Grantee; or
   4) Costs for storage of personal property on real property already owned or leased by the displaced person before the initiation of negotiations.

E. Rehabilitation Activities Requiring Permanent Displacement
The City rehabilitation program will not typically trigger permanent displacement and permanent displacement activities fall outside of the scope of this plan. If a case of permanent displacement is encountered, then the staff responsible for the rehabilitation program will consult with City legal counsel to decide if they have the capacity to conduct the permanent displacement activity. If local staff does not have the capacity, then a professional relocation consultant will be hired to do the counseling and benefit determination and implementation. If local staff does wish to do the permanent displacement activity then they will consult and follow the HUD Relocation Handbook 1378.

F. Rehabilitation Which Triggers Replacement Housing
If the City rehabilitation program assists a property where one or more units are eliminated then under Section 104 (d) of the Housing and Community Act of 1974, as amended applies and the City is required to replace those lost units. An example of this would be a duplex unit which is converted into a single family unit. In all cases where rehabilitation activities will reduce the number of housing units in the jurisdiction, then the City must document that any lost units are replaced and any occupants of reduced units are given permanent relocation benefits. (This does not apply to reconstruction or replacement housing done under a rehabilitation program where the existing unit(s) is demolished and replaced with a structure equal in size without in loss number of units or bedrooms.)

Replacement housing will be provided within three years after the
commencement of the demolition or conversion. Before entering into a contract committing the City to provide funds for an activity that will directly result in such demolition or conversion, the City will make this activity public (through a noticed public hearing and/or publication in a newspaper of general circulation) and submit to the California Department of Housing and Community Development or the appropriate federal authority the following information in writing:

1. A description of the proposed assisted activity;

2. The location on a map and the approximate number of dwelling units by size (number of bedrooms) that will be demolished or converted to a use other than as targeted income group dwelling units as a direct result of the assisted activity;

3. A time schedule for the commencement and completion of the demolition or conversion;

4. The location on a map and the approximate number of dwelling units by size (number of bedrooms) that will be provided as replacement dwelling units;

5. The source of funding and a time schedule for the provision of the replacement dwelling units;

6. The basis for concluding that each replacement dwelling unit will remain a targeted income group dwelling unit for at least 10 years from the date of initial occupancy; and,

7. Information demonstrating that any proposed replacement of dwelling units with smaller dwelling units (e.g., a two-bedroom unit with two one-bedroom units) is consistent with the housing needs of targeted income group households in the jurisdiction.

The Grant's Coordinator at the City is responsible for tracking the replacement of housing and ensuring that it is provided within the required period. The City is responsible for ensuring requirements are met for notification and provision of relocation assistance, as described in Section 570.606, to any targeted income group displaced by the demolition of any dwelling unit or the conversion of a targeted income group dwelling unit to another use in connection with an assisted activity.

G. Record Keeping and Relocation Disclosures/Notifications

The City will maintain records of occupants of Federally funded rehabilitated, reconstructed or demolished property from the start to completion of the project to demonstrate compliance with section 104(d), URA and applicable
program regulations. Each rehabilitation project, which dictates temporary or permanent or replacement activities, will have a project description and documentation of assistance provided. (See sample forms in HUD Relocation Handbook 1378, Chapter 1, Appendix 11, form HUD-40054)

Appropriate advisory services will include reasonable advance written notice of (a) the date and approximate duration of the temporary relocation; (b) the address of the suitable, decent, safe, and sanitary dwelling to be made available for the temporary period; (c) the terms and conditions under which the tenant may lease and occupy a suitable, decent, safe, and sanitary dwelling.

Notices shall be written in plain, understandable primary language of the persons involved. Persons who are unable to read and understand the notice (e.g. illiterate, foreign language, or impaired vision or other disability) will be provided with appropriate translation/communication. Each notice will indicate the name and telephone number of a person who may be contacted for answers to questions or other needed help. The notices and process below is only for temporary relocation. If permanent relocation is involved then other sets of notice and noticing process and relocation benefits must be applied (See HUD relocation handbook 1378 for those forms and procedures) The Temporary Relocation Advisory Notices to be provided are as follows:

1. General Information Notice: As soon as feasible when an owner investor is applying for Federal financing for rehabilitation, reconstruction, or demolition, the tenant of a housing unit will be mailed or hand delivered a General Information Notice that the project has been proposed and that the tenant will be able to occupy his/her or her present house upon completion of rehabilitation. The tenant will be informed that the rent after rehabilitation will not exceed current rent or 30 percent of his/her or her average monthly gross household income. The tenant will be informed that if he or she is required to move temporarily so that the rehabilitation can be completed, suitable housing will be made available and he or she will be reimbursed for all reasonable extra expenses. The tenant will be cautioned that he or she will not be provided relocation assistance if he or she decides to move for personal reasons.

2. Notice of Non Displacement: As soon as feasible when the rehabilitation application has been approved, the tenant will be informed that they will not be permanently displaced and that they are eligible for temporary relocation benefits because of lead based paint mitigation or substantial rehabilitation, or reconstruction of their unit. The tenant will also again be cautioned not to move for personal reasons during rehabilitation, or risk losing relocation assistance.
3. **Disclosure to Occupants of Temporary Relocation Benefits:** This form is completed to document that the City/County is following its adopted temporary relocation plan for owner occupants and tenants.

4. **Other Relocation/Displacement Notices:** The above three notices are required for temporary relocation. If the City/County is attempting to provide permanent displacement benefits then there are a number of other forms which are required. Staff will consult HUD’s Relocation Handbook 1378 and ensure that all the proper notices are provided for persons who are permanently displaced as a result of housing rehabilitation activities funded by CDBG or other federal programs.
ANNUAL HOUSEHOLD INCOME DEFINITION

For the purposes of determining eligibility in accordance with HCD income guidelines, Annual Income will include, for all members of the household:

1) Gross wages and salary before deductions.
2) Net money income from self-employment.
3) Cash income received from such sources as rental units, Social Security benefits, pensions, and periodic income from insurance policy annuities.
4) Periodic cash benefits from public assistance and other compensation, including AFDC, SSI, Worker's Compensation, State Disability Insurance and Unemployment benefits.
5) Interest earned on savings and investments.

Annual Income will not include:

1) Non-cash income such as food stamps or vouchers received for the purpose of food or housing.
2) Capital gains or losses.
3) One time unearned income such as scholarship and fellowship grants; accident, health or casualty insurance proceeds; prizes or gifts; inheritances.
4) Payments designated specifically for medical or other costs, foster children or their non-disposable income.
5) Income from employment of children under the age of 18.
6) Payment for the care of foster children.

This is not meant to be a complete list. The City of Pacific Grove will make the final decision in situations where the classification of income is not clear-cut. Any exceptions or other deviations from this definition of annual income will be considered by the City of Pacific Grove.

The City of Pacific Grove will refer to 25 CCR Section 6914 for CalHome measurements of income inclusions and exclusions.

The City shall use the Income Guidelines published each year by HUD and HCD.
The maximum gross annual income for an eligible household shall be 80% of the area median income for the household size.

**2018 Income Limits Example**

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LOAN SERVICING POLICIES AND PROCEDURES

The City of Pacific Grove hereafter called “Lender” has adopted these policies and procedures in order to preserve its financial interest in properties, who’s “Borrowers” have been assisted with public funds. The Lender will to the greatest extent possible follow these policies and procedures but each loan will be evaluated and handled on a case-by-case basis. The Lender has formulated this document to comply with state and federal regulations regarding the use of these public funds and any property restrictions, which are associated with them.

The policies and procedures are broken down into the follow areas: 1) making required payments or paying off a loan’s principle and interest; 2) required payment of property taxes and insurance; 3) required Request for Notice of Default on all second mortgages; 4) required Rent Limitation Agreement and monitoring of investor properties; 5) loans with annual occupancy restrictions and certifications 6) required noticing and limitations on any changes in title or use of property; 7) required noticing and process for requesting a subordination during a refinance; 8) process of foreclosure in case of default on the loan.

1) Loan Repayments and Discounting of Notes

The Lender will collect monthly payments from those borrowers who are obligated to do so under an Installment Note, which are amortized promissory notes. Late fees will be charged for payments received after the assigned monthly date. The Lender will provide to the Borrower a debt amortization schedule and will maintain said schedule to account for the loan repayments and any penalties.

For Straight Notes, which are deferred payment loans; the Lender may accept voluntary payments on the loan. Loan payments will be credited to the interest first and then to principal. The borrower may repay the loan balance at any time with no penalty.

The Lender will maintain an accurate listing of all loans including but not limited to the following information, borrower’s name, address, date of loan, amount of principal, calculation of interest, total payoff amount and date of payoff. When Lender is notified that the Borrower intends to pay off a loan, the Lender will provide the payoff amount, including the amount of interest accrued up to the day identified as the payoff date.

The Lender will process and record a Substitution of Trustee and Full Reconveyance upon loan satisfaction.

When the rehabilitation project is completed and the amount used to complete the project is less than the amount loaned, the Lender will notify the title company holding the escrow account to refund the unused balance to the
Lender. The Lender will execute a Loan Reduction document. The Lender will reduce the amount of principal accordingly and recalculate the interest.

2) Payment of Property Taxes and Insurance

As part of keeping the loan from going into default, borrower must maintain property insurance coverage naming the Lender as loss payee in first position or additional insured if the loan is a second mortgage. If borrower fails to maintain the necessary insurance, the Lender is notified in writing by the insurance company. If this occurs the Lender may take out forced place insurance to cover the property while the Borrower puts a new insurance policy in place. All costs for installing the necessary insurance will be added to the loan balance at time of installation of Borrower's new insurance.

When a property is located in a 100 year flood plain, the Borrower will be required to carry the necessary flood insurance. A certificate of insurance for flood and for standard property insurance will be required at close of escrow. The lender may check the insurance on an annual basis.

Property taxes must be kept current during the term of the loan. If the Borrower fails to maintain payment of property taxes then the lender may pay the taxes current and add the balance of the tax payment plus any penalties to the balance of the loan. Wherever possible, the Lender encourages Borrower to have impound accounts set up with their first mortgagee wherein they pay their taxes and insurance as part of their monthly mortgage payment.

All Borrowers will be evaluated semi-annually by the Lender to confirm timely payments of property taxes. In January and May of each year the Lender will access the Monterey County Treasurer-Tax Collector website and view the Borrower's tax bill to determine if tax payments have been made.

3) Required Request for Notice of Default

When the Borrower's loan is in second position behind an existing first mortgage, it is the Lender's policy to prepare and record a "Request for Notice of Default" for each senior lien in front of Lender's loan. This document requires any senior lien holder listed in the notice to notify the lender of initiation of a foreclosure action. The Lender will then have time to contact the Borrower and assist them in bringing the first loan current. The Lender can also monitor the foreclosure process and go through the necessary analysis to determine if the loan can be made whole or preserved. When the Lender is in a third position and receives notification of foreclosure from only one senior lien holder, it is in their best interest to contact any other senior lien holders regarding the status of their loans.
4) **Required Rent Limitation Agreement for Investor Properties**

All owner investor properties which receive loans from the Lender will be required to enter into a rent limitation agreement which restricts the tenants and the rents on the property for a fixed period of time, depending on the public funds used. The rent limitation agreement will be recorded on title of the property and non-compliance with this agreement can lead to foreclosure action by the Lender. The rent limitation agreement will be monitored annually to ensure that low or very low-income households occupy the assisted investor units and that the rents charged to those households is affordable. In some cases the units must be inspected annually to ensure that they are up to minimum health and safety standards. At the end of the designated affordability period, the Lender will release the Borrower from the rent limitation agreement.

5) **Annual Occupancy Restrictions and Certifications**

All owner occupied Borrowers will be evaluated annually by the Lender to confirm continuous owner occupancy status. Owner occupant Borrowers will be required to submit to the City between January 1 and 15 of each year for the term of the loan:

1. Proof of occupancy in the form of a copy of a current utility bill.
2. Statement of unit’s continued use as a residence.
3. Declaration that other title holders do not reside on the premises.

These loan terms are incorporated in the original note and deed of trust. In the event that an owner occupant sells, transfers title, or discontinues residence in the rehabilitated property, the loan is due and payable.

6) **Required Noticing and Restrictions on Any Changes of Title or Occupancy**

**For CDBG Funded Loans:** In all cases where there is a change in title or occupancy or use, the Borrower must notify the Lender in writing of any change. Lender and borrower will work together to ensure the property is kept in compliance with the original program terms and conditions such that it remains available as an affordable home for low income families. These types of changes are typical when Borrowers do estate planning (adding a relative to title) or if a Borrower dies and property is transferred to heirs or when the property is sold or transferred as part of a business transaction. In some cases the Borrower may move and turn the property into a rental unit without notifying the Lender. Changes in title or occupancy must be in keeping with the objective of benefit to the Targeted Income Group (TIG) families.
Change from owner-occupant to owner-occupant occurs at a sale. When a new owner-occupant is not low-income, the loan is not assumable and the loan balance is immediately due and payable. If the new owner-occupant qualifies as low-income, the purchaser may either pay the loan in full or assume all loan repayment obligations of the original owner-occupant, subject to the approval of the Lender’s Loan Committee.

If a transfer of the property occurs through inheritance, the heir (as owner-occupant) may be provided the opportunity to assume the loan at an interest rate based on family size and household income, provided the heir is in the TIG. If the heir intends to occupy the property and is non-TIG, the balance of the loan is due and payable. If the heir intends to act as an owner-investor, the balance of the loan may be converted to an owner/investor interest rate and loan term and a rent limitation agreement is signed and recorded on title. All such changes are subject to the review and approval of the Lender’s Loan Committee.

Change from owner-occupant to owner-investor occurs when an owner-occupant decides to move out and rent the assisted property, or if the property is sold to an investor. If the owner converts any assisted unit from owner occupied to rental, the loan is due in full. If the Borrower or new owner investor requests that the existing loan be assumed and agrees to the current Lender rates and terms for owner investor properties and the rent limitation agreement, then the outstanding balance may be refinanced, subject to the review and approval of the Lender’s Loan Committee.

Conversion to use other than residential use is not allowable where the full use of the property is changed from residential to commercial or other. In some cases, Borrowers may request that the Lender allow for a partial conversion where some of the residence is used for a business but the family still resides in the property. Partial conversions can be allowed if it is reviewed and approved by any and all agencies required by local statute. If the use of the property is converted to a fully non-residential use, the loan balance is due and payable.

**For CalHome Funded Loans:** CalHome Program loans shall be repayable upon sale or transfer of the property, when the property ceases to be owner-occupied, upon the loan maturity date or upon repayment. However, if it is determined by the Lender that repayment of the CalHome Program loan at the maturity date causes a hardship to the homeowner; the City has two other options. They are:

A. Amend the note and deed of trust to defer repayment of the amount due at loan maturity, that is the original principal and the accrued interest, for up to an additional 30 years (at 0% interest), this may be offered one time; or
B. Convert the debt at loan maturity that is the original principal balance and any accrued interest, to an amortized loan, repayable in 15 years at 0% interest.

By statute, CalHome Program loans are not assumable.

The following transfers of interest shall not require the repayment of the loan:

A. transfer to a surviving joint tenant by devise, descent, or operation of law on the death of a joint tenant;

B. a transfer, in which the transferee is a person who occupies or will occupy the property, which is:

   (i). a transfer where the spouse becomes an owner of the property;

   (ii). a transfer resulting from a decree of dissolution of marriage, legal separation agreement, or from an incidental property settlement agreement by which the spouse becomes an owner of the property; or

   (iii). a transfer into an inter vivos trust in which the borrower is and remains the beneficiary and occupant of the property.

7) Requests for Subordinations

When a Borrower has a primary mortgage recorded in a senior position to the City’s loan and wishes to refinance the primary loan, they must submit a written subordination request to the Lender (City of Pacific Grove). The Lender will only subordinate their loan when there is no “cash out” as part of the refinance. Cash out means there are no additional charges on the transaction above loan and escrow closing fees. There can be no third party debt pay offs or additional encumbrance on the property above traditional refinance transaction costs. Furthermore, the refinance should lower the housing cost of the family with a lower interest rate and the total indebtedness on the property should not exceed the current market value.

Upon receiving the proper documentation from the refinance agency, the request will be considered by the Loan Committee for review and approval. Upon approval, the escrow company will provide the proper subordination document for execution and recordation.
8) **Process for Loan Foreclosure**

Upon any condition of loan default: 1) nonpayment; 2) lack of insurance or property tax payment; 3) violation of rent limitation agreement; 4) change in title or use without approval; 5) default on senior loans, the Lender will send out a letter to the Borrower notifying them of the default situation. If the default situation continues then the Lender may start a formal process of foreclosure.

When a senior lien holder starts a foreclosure process and the Lender is notified via a Request for Notice of Default, the Lender, who is the junior lien holder, may cancel the foreclosure proceedings by "reinstating" the senior lien holder. The reinstatement amount or payoff amount must be obtained by contacting the senior lien holder. This amount will include all delinquent payments, late charges and fees to date. Lender must confer with Borrower to determine if, upon paying the senior lien holder current, the Borrower can provide future payments. If this is the case then the Lender may cure the foreclosure and add the costs to the balance of the loan with a Notice of Additional Advance on the existing note.

If the Lender determines, based on information on the reinstatement amount and status of borrower, that bringing the loan current will not preserve the loan, then staff must determine if it is cost effective to protect their position by paying off the senior lien holder in full and restructure the debt such that the unit is made affordable to the Borrower. If the Lender does not have sufficient funds to pay the senior lien holder in full, then they may choose to cure the senior lien holder and foreclose on the property themselves. As long as there is sufficient value in the property, the Lender can afford to pay for the foreclosure process and pay off the senior lien holder and retain some or all of their investment.

If the Lender 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 Lender 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 Lender, after exercising due diligence, determines the reinstatement and maintenance of the property not to be cost effective and allows the senior lien holder to complete foreclosure, the Lender's lien may be eliminated due to insufficient sales proceeds.

**Lender As Senior Lien holder**

When the Lender is first position as a senior lien holder, active collection efforts will begin on any loan that is 31 or more days in arrears. Attempts will be made to assist the homeowner in bringing and keeping the loan current. These attempts will be conveyed in an increasingly urgent manner until loan payments have reached 90 days in arrears, at which time the Lender may consider...
foreclosure. Lender’s staff will consider the following factors before initiating foreclosure:

1) Can the loan be cured and can the rates and terms be adjusted to allow for affordable payments such that foreclosure is not necessary?

2) Can the Borrower refinance with a private lender and pay off the Lender?

3) Can the Borrower sell the property and pay off the Lender?

4) Does the balance warrant foreclosure? (If the balance is under $5,000, the expense to foreclose may not be worth pursuing.)

5) 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 Lender may opt to initiate foreclosure. The Borrower must receive, by certified mail, a thirty-day notification of foreclosure initiation. This notification must include the exact amount of funds to be remitted to the Lender to prevent foreclosure (such as, funds to bring a delinquent BMIR current or pay off a DPL).

At the end of thirty days, the Lender should 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 Lender of all required documentation to initiate foreclosure (Note and Deed of Trust usually) and funds required from the owner to cancel foreclosure proceedings. The service will keep the Lender 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 Lender could sell the home themselves under a homebuyer program or use it for an affordable rental property managed by a local housing authority or use it for transitional housing facility or other eligible use. The Lender could contract with a local real estate broker to list and sell the home and use those funds for program income eligible uses.