



**CITY OF VISALIA
FORECLOSURE ACQUISITION PROGRAM
POLICIES AND PROCEDURES**

DATED: February 18, 2009





Introduction

The City of Visalia has established a “Foreclosure Acquisition Program” in response to the crisis which has severely hit locally and nationally. This program is designed for the City to utilize approximately \$2.88 million dollars to acquire, rehabilitate (if necessary) and resale foreclosed homes in targeted neighborhoods. The City is utilizing Program: Neighborhood Stabilization Program (“NSP”) Community Development Block Grant (“CDBG”) Funds from the Department of Housing and Urban Development (“HUD”) a new funding source to support affordable housing, in the amount of \$2.38 million. The funds have specific requirements as to its use. This will be discussed in detail.

Purpose of Policies and Procedures

The “Policies and Procedures” serve as the guide to explain the key sources of funding for the Foreclosure Acquisition Program” and their requirements; the process to be utilized to purchase foreclosed homes; process to be utilized for the rehabilitation of homes; the process to be utilized for the sale of homes and the process if the City acts as a primary or secondary lender. Requirements for affordability covenants, lending requirements and loan servicing are discussed in detail. Definition of eligible target areas are found in the NSP Action Plan Substantial Amendment Plan.

1. Definitions

Affordable – Describes a specific financial obligation, means that obligation can be paid by the person or household, along with all of other financial responsibilities, without endangering the financial stability of the household.

AMI- is the Area Median Income of a family. HUD has posted the FY 2011 50% and 120% HUD Area Income Limits are for each area at <http://www.huduser.org/portal/datasets/NSP.html> (updated June 6, 2011), The income information is updated on an annual basis.

Annual Income - Annual income shall include income from all family or household members. NSP (under CDBG Regulations) See (Appendix “V), includes Gross Income requirements.

Applicant/Participant - person(s) applying for the program

Back-End Ratios – calculated by adding the total monthly mortgage payment (PITI) to the homebuyer’s other on-going debt obligations such as revolving credit, installment amounts (that have more than 10 months left to pay), child support and alimony. This figure is divided by the total monthly gross income.

Borrower – a homebuyer(s) who will participates in a City owned property transaction or City loan made from a local program funded pursuant to the regulations, signs the promissory note, and will be the homeowner of the property being financed.

Building Permit – a document issued by the City of Visalia’s Building Division/Department allowing completion of specific types of construction work.

Credit Worthiness

- a. Households shall have: i) acceptable credit 'score'; ii) minimum credit rating of "fair" as defined by underwriter and iii) sufficient credit worthiness to qualify for and obtain First Trust Deed as indicated previously.
- b. Derogatory credit information must be approved by the first mortgage underwriter and if more than 3 derogatory credit over the last three (3) years remarks, explanation is required.
- c. No bankruptcies within the past two (2) years.

Contractor/Loan Servicer – Loan servicing company that underwrites or services a City loan (primary or secondary financing) Currently AmeriNational Community Services, Inc. is contracted with the City of Visalia for such services.

Deed of Trust – a legal document in which title to property is transferred to a third party trustee as security for an obligation owed by the trustor (borrower) to the beneficiary (lender).

Developer- Habitat for Humanity shall act as a Developer for the use of a portion of the 25% set aside funds to acquire foreclosed homes, rehabilitate and resell to income qualifying households at or below 50% of the area median income.

Environmental Clearance completion of compliance with all applicable Federal environmental laws and authorities including historic preservation Section 106 review and consultation process is necessary before a FONSI finding can be made. The HUD policy is at 24 CFR 58.22 on limitations on activities pending clearance or 24 CFR 50.17 relating to decision points for projects subject to environmental procedures. See environmental review guidelines for details. Each property has a level of review, RER and other applicable environmental review and approval prior to expending funds.

Fixed Rate- a fixed interest rate that does not adjust over the term of the loan and amortized for a certain period of time or term of the agreed upon loan. The City requires that the first mortgage be fixed rate and that the lender follow NSP referenced policy (Statement on Subprime Mortgage Lending)

Front-end ratio – the ratio between monthly household income and monthly housing cost, including first mortgage principal, interest, taxes and insurance. (PITI) divided by the total monthly gross income. This figure represents the percentage of the homebuyer's gross monthly income that will be used for mortgage payments.

Grant Deed-a type of deed to transfer title.

Gross income – all income as defined in California Code of Regulations (CCR) Title 25, Section 6914 attached as part of (Appendix "S" and "V") ("Gross Income" means the anticipated income of a person or family for the 12-month period following the date of determination of Gross Household Income, as more fully set forth in Appendix "T", "U" and "V", Determination of Gross Household Income)

HERA (Housing and Economic Recovery Act) The City of Visalia was awarded through the U. S. Department of Housing and Urban Development (HUD) funding under the Housing and the Housing and Economy Recovery Act 2008 (HERA), specifically, Title III, Division B, Emergency Assistance for the Redevelopment of Abandoned and

Foreclosed homes (Section 2301). Terms are defined in Section 102 of the Housing and Community Development Act of 1974 (42 U.S.C. 5302) for the redevelopment of abandoned and foreclosed upon homes and residential properties.

Rules of the use of the HERA funds are that they are considered Community Development Block Grant (CDBG) funds. The grant program is commonly referred to as the Neighborhood Stabilization Program (NSP).

Historic Home – Historic Preservation District, see municipal Code Chapter 17.56

Homebuyer education – a specific course of instruction, designed pursuant to the program requirements, to educate homebuyers regarding various aspects of purchasing and maintaining a home. The Program requires housing counseling.

Homeownership – for mortgage assistance: fee simple title on real property

Household –one or more persons occupying the same housing unit

Housing and Community Development (HCD)- Housing and Community Development

Housing and Urban Development (HUD)- U. S. Department of Housing and Urban Development. The terms HUD is defined in 24 CFR part 5.

Income Limits - all participants under the City programs will have their family income documented. Income documentation will certify that they meet the definition established by either the Housing and Community Development (HCD) for State funded programs, or U. S. Department of Housing and Urban Development (HUD) Federal funded programs. California Health and Safety Code (H&SC) Sections 50079.5, 50105 and 50106 provide that the State limits for the extremely low, very-low, low, middle and moderate income categories are to be the same as those in the equivalent levels established by the U.S. Department of Housing and Urban Development (HUD) for its Section 8 program. (See Appendix “S”- Sample 2011 income limits) attached for an example of the Tulare County limits in 2011. (or current year income limits)

The income limits in place at the time of loan approval by the City of Visalia will apply when determining applicant income eligibility. All applicants must have incomes at or below 120% of AMI, and 25% of the applicants participating in the NSP Program must have incomes at or below 50% of the AMI, adjusted for family size, for Visalia-Porterville-Tulare Metropolitan Statistical Area, California, County of Tulare. The definitions are as follows:

Extremely Low Income- persons and families whose income do not exceed the qualifying limits established and amended from time to time at thirty percent (30%) of area median income, adjusted for family size and revised annually.

Very Low Income household- persons and families whose incomes do not exceed the qualifying limits for very low income families as established and amended from time to time pursuant to Section 8 of the United States Housing act of 1937. The qualifying limits shall be published by the department in the California Code of Regulations as soon as possible after adoption by the Secretary of Housing and Urban Development. Very Low income for all geographic areas of the state are at fifty percent (50%) of area median income, adjusted for family size and revised annually. See Appendix “S”.

Low or Lower Income – a persons and families whose income does not exceed the qualifying limits for low or lower income families as established. An income that does not exceed eighty percent (80%) of the area’s median family income adjusted for family size, as established by the U. S. Department of Housing and Urban Development.

Middle Income (LMMI) HUD- NSP LOW AND MODERATE INCOME REQUIREMENT (Housing and Economic Recovery Act §2301(f)(3)(A)(i) and (ii)). Note that NSP redefines and supersedes the definition of “low- and moderate-income” of the CDBG program by allowing households whose incomes exceed 80% but are no greater than one-hundred twenty percent (120%) of area median income to qualify for NSP funds. HUD will refer to this new income group as “middle income,” but continue to use the CDBG definitions of “low-income” and “moderate-income.” HUD will use the term “low-, moderate- and middle-income” (LMMI) to refer to the national objective of the program.

For more information on the 120% of area median income requirement consult <http://www.huduser.org/publications/commdev/nsp.html>.

Moderate Income – a persons and families whose income does not exceed one hundred twenty percent (120%) of the area’s median family income adjusted for family size, as established by the U. S. Department of Housing and Urban Development. See Appendix “S”.

Loan-to-value-ratio – Loan-to-Value ratio is commonly referred to as LTV. The loan-to-value (LTV) ratio expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. For instance, if a borrower wants \$130,000 to purchase a house worth \$150,000, the LTV ratio is \$130,000/\$150,000 or 87%.

Low/Moderate/Middle Income (LMMI) Requirements (HUD) All NSP funds shall be used to benefit individuals and families whose incomes do not exceed 120 percent of area median income, measured as 2.4 times the current Section 8 income limit for households below 50 percent of median income, adjusted for family size.

- Note: An entitlement community receiving money from the state must apply the area median income levels applicable to its regular CDBG program; not the “balance of state” levels.
- At least 25 percent of NSP funds shall be used for the purchase of abandoned or foreclosed upon homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50 percent of area median income.

Monthly housing cost – the average of the estimated costs for the next twelve months for a homebuyer and shall include all of the following associated with that housing unit:

- a. principal and interest on a mortgage loan including any rehabilitation loans, and any mortgage insurance fees associated therewith;
- b. property taxes and assessments;
- c. fire and casualty insurance, including flood insurance when applicable, covering replacement value of property improvements;

d. homeowner association fees or dues, if applicable;

Mortgage – a deed of trust which is used to secure a lien on real property.

Mortgage lender – a bank or trust company, mortgage banker, mortgage broker, federal or state chartered savings and loan association, State or Federal governmental agency or credit union whose principal business is to originate, process, close and service loans for the purchase or development (if appropriate) of property. “Mortgage lender” also includes nationwide institutions whose primary purpose is to develop housing and provide first mortgage financing to low-income purchasers of the developed housing.

Non-Owner Occupant: Co-borrowers/co-owners, other than owner occupants will not be permitted. This rule is included specifically to prohibit investors from utilizing qualified persons to purchase a property for their own investment purposes and their financial gain.

NSP HUD’s new Neighborhood Stabilization Program will provide emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities. The Neighborhood Stabilization Program (NSP) provides grants to every state and certain local communities to purchase foreclosed or abandoned homes and to rehabilitate, resale, or redevelop these homes in order to stabilize neighborhoods and stem the decline of house values of neighboring homes. The program is authorized under Title III of the Housing and Economic Recovery Act of 2008.

NSP Renter: The renter of an NSP-assisted housing unit.

NSP Rental Unit: A dwelling unit in a one- to four-family property that will be occupied by an NSP tenant.

Primary Lender - loan company handling the first mortgage loan and assisting with the application for the second mortgage.

Program Administrator: The City may contract with a non-profit company to administer its program, otherwise, City Staff will administer the acquisition, rehabilitation and resale of the properties.

Real estate owned or REO is a class of property owned by a lender, typically a bank, after an unsuccessful sale at a foreclosure auction. Once a property is REO, the bank or lender will try to get rid of the property by either selling it directly themselves or through an established broker. Many larger banks such as Bank of America and Wells Fargo have REO/asset management departments that will field quotes and offers, oversee upkeep and handle sales.

Reuse account – an account established to recycle program funding returned from sales or monthly repayment of properties.

Single Parent: is an individual who is; 1) unmarried or legally separated from a spouse; and 2) has one or more minor children of whom the individual has custody or joint custody, or is pregnant.

Small Families – four (4) or fewer persons

Statutory Liens are those that creditors get to obtain a security to satisfy a debt based on state or federal laws. Two most common are “mechanics” and “tax” liens.

Targeted Areas – there are five targeted areas within the city limits. These areas are known as Shannon Ranch Area, Bird Land Area, Northeast Visalia Area, Lincoln Oval Area and Washington School Area. The map is attached as (Appendix “A-1”- NSP Map of area) which also includes the Census Tracts and Thomas Guide reference of eligible area /properties.

2. Funding Sources

a. Use of NSP Funds

The total amount of NSP Funding awarded to the City of Visalia is \$2,388,331. The City of Visalia submitted a Substantial Action Plan Amendment (2008) before December 1, 2008, to describe its use of these funds. It is the City’s intention to acquire, rehabilitate, if necessary, and then sell the properties to family’s which meet the income requirements (\$600,000 up to 50% of the AMI; \$1,550,000 from 50% to 120% AMI). The use of NSP funds do require a 15 year covenant be placed upon the property to maintain affordability.

The purpose of the NSP Program established is for the purpose referenced above. Requirements for the use of the NSP funds are: 1) All of the funds made available under this section are to be used with respect to individuals and families whose incomes do not exceed 120% of area median income; 2) Not less than 25% of these funds are to be used for the purchase and redevelopment of abandoned or foreclosed homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50% of area median income. As per HUD regulations changed in 2012, 25% of all program income is to be directed toward households at or below 50% ami as well.

Note that NSP redefines and supersedes the definition of “low- and moderate-income” of the CDBG program by allowing households whose incomes exceed 80% but are no greater than 120% of area median income to qualify for NSP funds. HUD will refer to this new income group as “middle income,” but continue to use the CDBG definitions of “low-income” and “moderate-income.” HUD will use the term “low-, moderate- and middle-income” (LMMI) to refer to the national objective of the program.

The City has 18 months to obligate these funds, from the date of approval of the contract agreement and four years to expend funds. Congress was very clear that this money be put to work quickly. If the City does not obligate these funds within the time frame, HUD will recapture the un-obligated funds. Since inception, the City has utilized and recycled funds, meeting the deadlines established.

b. Use of Redevelopment Agency Low/mod Funds

On January 5, 2009, the Visalia Redevelopment Agency authorized the one time use of \$500,000 of RDA low/mod funds from its’ 2008/09 budget as a one-time allocation to support the acquisition, rehabilitation and resale of foreclosed homes in targeted neighborhoods throughout the City. The use of these funds is aimed to serve to

jumpstart the \$2.38 million NSP funds which are expected to arrive in late February or early March. If buyers of Redevelopment funded REO City properties, use their own financing, then a covenant is still placed on the property. If the City finances the property with Redevelopment funds, then a forty-five (45) year affordability covenant (resale restriction) is placed upon the property. Note: The Redevelopment Agency was dissolved through the passage of AB 1X 26 therefore, RDA funds are no longer applicable to this program.

c. Developer- Habitat for Humanity

Habitat for Humanity shall follow the rules and regulations set forth, as a Developer, in the use of Neighborhood Stabilization Program 1 funding. For additional reference, see Agreement established between the City and Habitat, as well as reference to the City Council Transmittal of approval and any substantial, minor or technical amendments.

Phase I- Acquisition

1. Acquisition of Homes

City staff is conducting outreach to Realtors/Brokers in the community through news articles, City website postings of program, word of mouth, cold calls and scheduled meetings with those interested in working with the City. The City has invited local realtors to submit properties which may meet the City's criteria for purchases. The City is pursuing foreclosed homes within targeted neighborhoods which meet the NSP criteria. :The list price is generally below \$150,000,00 and generally no larger than; a three bedroom two bath unit. The City hopes to purchase homes which require minimal improvements and which can be quickly sold to eligible buyers soon after the purchase. A check list to assist with the flow and or process has been included as Appendix "A-3".

a. Working with a Realtor

- The Realtor/Agent interested in working with the City to purchase a single family dwelling in foreclosure and/or at the REO bank owned level of foreclosure, shall provide data and/or list of properties within the targeted areas which meet the City's criteria;
- The City reviews listings and determines which home meets its criteria
- The Realtor conducts home tours of selected properties with Staff
- The Realtor, who serves as the City's buyer agent, may be given the opportunity to serve as the City's selling agent. The City may offer the buying realtor first opportunity to represent the City in the sale of the property.

2. Selection of Homes

Staff will confirm that the property meets the target area requirements. Properties will be purchased within the designated areas for both Redevelopment and NSP funded activities. (Attached map as Appendix "A-1", Map of Area).

City Staff, including a building inspector, shall tour the property and identify any necessary upgrades, repairs or improvements. The Building Inspector will obtain cost

estimates and oversee the selection of contractors and their work. Typical improvements to be expected include: new flooring, interior and/or exterior painting, general cleanup, roofing, plumbing, electrical and front yard sod. Staff will take into consideration the costs to repair or replace health, safety and/or housing quality standard issues/items when determining the purchase price. (See Appendix "B", Inspection Sheet) Some of the upgrades will include meeting the American Disability Act (ADA Compliance), energy efficiency improvements and may incorporate modern green building. In determining Asbestos Hazards, reference is provided in Appendix "B-1"

Note: Also look for Code Enforcement violations/fees and bring this to the attention of the Community Development Director or Designated Staff Member or Designated Staff Member. Once staff concludes there's interest in a particular property, the Community Development Director or Designated Staff Member or Designated Staff Member or Designated Staff Member and appropriate staff will meet with the City Manager to recommend the purchase.

a. Appraiser selection

The City (as per NSP requirements- Appendix "C-2" and shown below) established criteria for determining the minimum qualifications and competency of appraisers. Qualifications were made consistent with the scope of work for the assignment. City Staff reviewed the experience, education, training, certification/licensing, designation(s) and other qualifications of appraisers, and shall be utilizing those determined to be qualified. Staff requested quote proposals to conduct appraisals to assist in purchasing foreclosed residential properties. It was noted by HUD, if the NSP grantee (City of Visalia) uses a contract (fee) appraiser to perform the appraisal, such appraiser shall be State licensed or certified in accordance with title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) (12 U.S.C. 3331 et seq.).

The Appraiser must maintain a license that meets the federal requirements at a minimum and is consistent with the Uniform Standards of Professional Appraisal Practice (USPAP) and any other applicable federal requirement established by HUD and/or the funding source utilized. City Staff will obtain an appraisal to assist with the offering price of the property.

- The appraisal shall be provided within 48 hours, if able, and finalized within five working days.

b. Appraisal

The following guidance on appraisals pertains only to City acquisitions of foreclosed homes and residential properties which meet the applicable voluntary acquisition requirements of 49 CFR 24.101(b) and reflects applicable URA requirements and the NSP requirements, including the URA appraisal requirements of 49 CFR 24.103.

- i. If NSP funds are to be used to acquire a foreclosed home or residential property (other than through donation), the City must ensure that the purchase price includes a discount from the value established by an appraisal that meets the following requirements:

- a. The appraisal must have been completed within 60 days of the offer made for the property (HUD advised that an initial offer can be made, subject to the completion of the appraisal within 60 days of a final offer).
 - b. The appraisal must meet the URA definition of an appraisal (see 49 CFR 24.2(a)(3) and the five following requirements (see 49 CFR 24.103(a)(2)):
 1. An adequate description of the physical characteristics of the property being appraised (and, in the case of a partial acquisition, an adequate description of the remaining property), including items identified as personal property, a statement of the known and observed encumbrances, if any, title information, location, zoning, present use, an analysis of highest and best use, and at least a 5-year sales history of the property.
 2. All relevant and reliable approaches to value. If the appraiser uses more than one approach, there shall be an analysis and reconciliation of approaches to value used that is sufficient to support the appraiser's opinion of value.
 3. A description of comparable sales, including a description of all relevant physical, legal, and economic factors such as parties to the transaction, source and method of financing, and verification by a party involved in the transaction.
 4. A statement of the value of the real property to be acquired and, for a partial acquisition, a statement of the value of the damages and benefits, if any, to the remaining real property, where appropriate.
 5. The effective date of valuation, date of appraisal, signature, and certification of the appraiser.
 - c. The appraiser shall disregard any decrease or increase in the fair market value of the real property caused by the project for which the property is to be acquired or by the likelihood that the property would be acquired for the project, other than that due to physical deterioration within the reasonable control of the owner. This means that the appraisal is based on "as is" approach. The appraiser will not deduct for any rehabilitation costs required in his appraisal.
- ii. The NSP grantee (City of Visalia) has a legitimate role in contributing to the appraisal process, especially in developing the scope of work and defining the appraisal problem. The scope of work and development of an appraisal under these requirements depends on the complexity of the appraisal problem. HUD's guide to preparing an appraisal scope of work under the URA is available in HUD Handbook 1378- Appendix 19 or through the following link: <http://www.hud.gov/offices/adm/hudclips/handbooks/cpdh/1378.0/1378x19CPDH.pdf>

c. Tax liens

Some properties may have unpaid taxes and other liens on the property. When utilizing NSP funds, the City will need to negotiate the purchase price. Any statutory lien "back

taxes,” clear tax liens or other liens, etc if they are associated with acquisition costs, must be considered when determining offer price because the lien holder will need to be paid at the close of escrow, therefore, as stated.

There are some situations where NSP funds could be used to pay these taxes, but the options are limited. The City cannot use NSP funds to repay taxes that it levied (Weed Abatement, Code Enforcement). However, if the tax was levied by another jurisdiction (County of Tulare, State of California), then the City may pay off the taxes owed.

If a property has title or other legal issues associated with it that could delay the acquisition, it is strongly encouraged, to move on to the next property. Time is of the essence in the use of the NSP funds (18 months).

d. Title Report

The contracted title company, currently Chicago Title Company will be contacted if the City has the option to identify the title company for the transaction. A title report will be reviewed to identify the latest available assessment in respect to the land requested (address of property), the last document (s) in the chain of title (Conveyed to), if the property is subject to any conflicts in boundary lines, or discrepancies that would be revealed by a survey (legal description), and from the chain of title showing any mortgages or liens.

This is to be reviewed to confirm that there are no outstanding judgments or liens on the property. Look for second liens, unpaid taxes, or unpaid contractors (called a mechanic's lien). These liens remain intact until they are repaid, by the former or current owner.

3. Offer on Homes

The City Manager shall authorize the Community Development Director or Designated Staff Member to negotiate specific terms and conditions, however, the final purchase price and documentation will be approved by the City Manager. A memo will be provided to the City Manager with photos, appraisal and recommended price to purchase the property. Staff will request an appraisal be completed prior to finalizing an offer on a property.

Following review of the proposed purchase price, estimated cost of necessary improvements, the City's Manager will direct staff to negotiate an official offer and a purchase agreement will be made, with a good faith deposit provided on the property. Upon City Manager giving approval for the purchase of the home, City Manager also authorizes the Community Development Director and/or the Housing Specialist to finalize accepted offers to acquire, rehabilitate, and resell. If the offer is not accepted, the good faith down deposit will be returned. This applies to the Residential Purchase Agreement or other applicable purchase agreement required by California law, including any counter offer, if applicable.

a. Offer to Purchase

- Original guidelines referenced that an offer (for NSP funded properties) shall be made at 15% below appraised market value at a minimum, with additional consideration for cost of improvements. As of June 19, 2009, a “Bridge”, Volume

74, No. 117 was completed through the federal register which lowered the percentage to one percent (1%) below appraised market value. (RDA 15% requirement removed – approved by RDA Board May 18, 2009) amended 12-29-09

- City Staff will provide an analysis to the City Manager and make an offer. The City Manager, as the City Manager for NSP funds and Executive Director of the Redevelopment Agency Board for the use of RDA funds to authorize the purchase of any property, signing the Residential Purchase Agreement or other applicable purchase agreement required by California law, including any counter offer, if applicable. The request memo is attached as Appendix “A-2”, which must be completed and submitted to the City Manager for the authorization to move forward and acquire the property.
- Request the appraisal as soon as an offer is accepted. Attached as Appendix “C-1a and C-1b”, is the appraisal request form to be utilized. Contact the appraiser by phone and by email (can also fax the request) (on contract: Market Valuation Service- Richard Therrien) upon being notified that we have an accepted offer, not before.
- If the property is pre 1978, a lead paint inspection (certified inspector) must complete the analysis. Attached as Appendix “C-3” a request for the lead inspections. Contact the inspector by phone and by email requesting the inspection within a few days of the accepted offer.
- Request a pest control inspection within a few days of the accepted offer. Contact the pest control company by phone, email or fax. Attached as Appendix “C-4” is the request for the inspection.
- Obtain an estimated cost of rehabilitation from the Building Inspector or designated staff. Upon identifying the scope, if the scope includes tasks that can potentially affect the need for an asbestos inspection, contact 3 contractors to identify the lowest cost of inspection. The list that identifies such type of work triggering asbestos is: Here is a link to the EPA Website that talks about asbestos. <http://www.epa.gov/asbestos/pubs/ashome.html#3> See Appendix “B-1” as a reference to identifying asbestos
- The Seller will provide the City with any documentation in relation to the property, such as a Real Estate Disclosure Statement, or other required document which identifies any conditions which the property may have.
- Offers must be in writing, signed and dated by all buyers, and include the offer price, expiration date, closing date, deposit and any contingencies.

4. Accepted Offer

The Seller has the options to accept the offer as proposed or reject the offer. If the seller rejects the offer, they may modify terms and submit a counter offer, however, they are not obligated to counter. Once all terms are agreed upon by both seller and buyer (parties) the purchase contract is executed and commences the closing steps, which includes opening escrow.

A request for a 30 to 60 day escrow shall be made with offer, in addition to any other applicable conditions. Conditions will be noted on offer and any counteroffer made during negotiations. Upon an accepted offer a memo must be submitted to the City Manager which identifies the following:

- Asking Price
- Offer
- Appraisal
- Estimated rehab costs (based on scope of work); attach copy of the scope
- Estimated closing costs
- HOA monthly fee (if property is part of an Homeowners Association)
- Estimated resell cost as it relates to the real estate agent fees (between 3% to 6% of the total cost put into the property)

5. Escrow Period

The City will seek to negotiate between 30 to 60 days for escrow. The seller will typically issue a recent termite report which is not more than ninety days old. If necessary, the City will pay for a termite report prior to closing on any purchase. The Building Inspector will review the termite report and advise the Community Development Director or Designated Staff Member or Designated Staff Member as to whether there are any issues of concern exists with the report.

Escrow will be opened with City contracted title company (currently Chicago Title Company) or if REO property owner/bank has established a title company relationship, the City may utilize it, if required. Many steps are taken during the escrow period. The good faith estimate funds will be placed into escrow, a title report will be requested, and a termite inspection will be conducted, if not completed by the Realtor representing seller. And, additional inspections may be required.

City Staff will work closely with the Escrow Title Officer and Real Estate Agent to complete all documents necessary to complete the transaction. City Staff will complete any covenants to be recorded on the property at the time of resell.

a. Environmental Process

During escrow, the City must perform an environmental review, based upon the funding source used to acquire, rehab and resale the property.

CEQA is not required when utilizing Redevelopment Funds. However, when HUD NSP funding is utilized to acquire property, rehab and resale, NEPA is required. NEPA must be conducted prior to acquiring the property (prior to any disbursement of funding).

A complete and clear project description is the first step in the environmental review process (Appendix "D", Environmental Review, parts one, two and three). The project description should provide location specific information and geographic boundaries, as well as a delineation of all activities included in the overall scope of the project.

Confirmation of National Environmental Protection Act (NEPA) requirements must be conducted, however, acquisition or disposition of an existing structure is also categorically excluded from NEPA, but subject to review under the federal environmental laws and authorities at §58.5 provided that the structure will be retained

for the same use. (See 24 CFR 58.35(a)(5)). In accordance with 24 CFR 58.35(a)(6), combinations of categorical exclusions listed in §58.35(a) may be combined, allowing for the acquisition, rehabilitation and disposition of an existing single family house to be categorically excluded from NEPA.

A period of approximately 15 days may be taken to evaluate and process environmental requirements and up to 45 days depending upon the environmental review results. In some cases, such as historical evaluation requirements, when rehabilitation is involved, additional time may be required.

b. Uniform Relocation Act requirements for NSP acquisitions

The City/Agency will not acquire any properties through the use of eminent domain in accordance with both NSP and Redevelopment law.

When acquiring foreclosed property with NSP funding, the City is required under the voluntary acquisition provisions of the Uniform Act (URA) to provide written notice to the owner (bank, mortgagee, etc.) that it will not acquire the property if negotiations fail to result in agreement and inform the owner in writing of what it believes to be the fair market value of the property.

An Email, confirming URA as it relates to the City's acquisitions of REO Bank owned properties, indicates that the URA is not triggered. We should utilize letter (Appendix "C-5-a"-reference to Exhibit A) and send with our offer, however, we are to obtain through email, memo or letter from the lender/bank that the property is vacant. Jay Smith wrote on 6-30-09:

"The question the City has to ask when considering the acquisition of a property with NSP funds are who currently owns the property and is it occupied? In the scenario you explained to me yesterday on the phone, the bank owns the property and it has been vacant for several months. The latter is not as important. If the bank has foreclosed on the property, then the tenants/owners were displaced by the foreclosure action and not as the result of federal funds. In that case, the URA is not triggered."

The URA acquisition requirements apply to the use of NSP funds. To meet the requirements at 49 CFR 24.101(b)(1)-(5) (commonly known as the URA voluntary acquisition requirements), the owner of record must be notified in writing that Federal financial assistance will be used in the transaction and that if agreement cannot be reached through negotiation, that the acquisition will not take place. Further, under the NSP, an appraisal of foreclosed property must be made to determine the current fair market value 60 days prior to making the final offer and the owner must be advised that, under NSP, the acquisition price must be at a discount from the fair market value (the offer price should reflect the discount proposed by the buyer). There are specific URA voluntary acquisition requirements that must be met depending on whether or not the buyer has the power of eminent domain and will not use it (see 49 CFR 24.101(b)(1)(i)-(iv)) or if the buyer does not have the power of eminent domain (see 49 CFR 24.101(b)(2)). Any acquisition under possible threat of eminent domain, cannot be considered a "voluntary acquisition" (even if the seller is willing to negotiate). HUD has developed a number of sample guide forms to assist NSP grantees in meeting these requirements. The guide forms and other information and resources are available on the NSP Acquisition & Relocation Resources page at:

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<http://www.hud.gov/offices/cpd/library/relocation/nsp/index.cfm>. (See attached document (Appendix "C-5-a", - NSP Voluntary Acquisition of Foreclosed Property))

Additionally, Appendix C-5-b must be submitted to the Seller to confirm that there has not been a violation of tenant rights.

a. Title Report review

The City/Agency must review the title report, as soon as possible, to determine whether or not a lien exists or other recording issue. The title report shall be reviewed by the City Engineer. The legal description is reviewed in addition to any title issues. The City Engineering Department will advise the Housing Staff of any issues and provide an authorization (email, confirmation) to move forward, based upon title. This also allows the Certificate of Acceptance document to be completed.

6. Closing Transaction

City Staff will maintain a spreadsheet of detailed data pertaining to the sales price, appraisal, offer, including other related costs pertaining to each property. The City may fund costs, such as closing costs, related to NSP-assisted housing, rehabilitation, or construction activities.

City Staff will obtain authorization from the City Manager/Executive Director of the Redevelopment Agency or other Designated Staff member for all documents required in relation to purchasing the property. City Staff will work closely with its Finance Department to complete the transaction, by way of a check or a wire transfer of funds to fulfill the closing costs.

Insurance issuance on foreclosed homes while they are in the city's possession will be held by the City. (agreed by CD and EF 4-15-09, that we will be self-insuring this program and acquired properties). Of course, we will not have this ability with the properties requiring flood insurance and you will need to secure that insurance when necessary

A "Certificate of Acceptance" must be completed at the time or prior to the closing of escrow. Attached as Appendix "E-1" is the form that must identify the property address, legal description, date and be signed AND certified by the City's City Clerk.

After acquisition, staff must notify the following departments: Finance, Redevelopment, and Engineering. Attached as Appendix "E-2" is the form that must identify the property address and other information. This must be submitted within a week of closing.

Additionally, A letter must be submitted to the County Tax Collector so that the City is exempt from taxes during its ownership period. Completed attached "Appendix "E-3". Include a copy of the grant deed ,and plot map. This must be obtained from the escrow company at time of closing. Request a copy from the escrow officer. Or, if not provided, we must pull a copy from Real Quest so that the recorded grant deed, legal description document may be attached to the form to the County Tax Collector. City Staff will obtain authorization from the City Manager/Executive Director of the Redevelopment Agency for all documents required in relation to purchasing the property. City Staff will work closely with its Finance Department to complete the transaction, by way of a check or a wire transfer of funds to fulfill the closing costs.

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Staff must place a “Notice” onto the Permits System indicating that the property has been acquired by the Community Development Dept under the NSP Program. This assists in alerting staff to the ownership and if other Code violations occur. Code Staff can then bring this to the attention of the Community Development Director or Designated Staff Member. Additional notification should be sent to the police department to also watch the property for any vandalism.

Phase II- Rehabilitation

1. Rehabilitation of Purchased Properties

The City’s Building Inspector will provide the Community Development Director and/or designated Staff member with a list of General Contractors and sub contractors which have been compiled which meet the State of California Licensing, bonding, insurance and City’s requirements.

Any rehabilitation of a foreclosed home or residential property shall to the extent necessary to comply with applicable laws, codes and other requirements relating to housing safety, quality, and habitability, in order to resale to eligible homebuyers. Additionally, the estimated rehabilitation costs cannot exceed seventy-five percent (75%) of the total estimated cost of replacement after rehabilitation.. (This is a rule as part of the environmental review process under 24 CFR 58.35 (a)) Review additional requirements under NEPA.

In the City’s NSP Substantial Action Plan Amendment, HUD required the City to define its housing rehabilitation standards that will apply to NSP assisted activities. The “City Assisted Standard Work Specifications for Housing Rehabilitation Projects” was updated January 13, 2012, in addition to maintaining compliance with up to date Building Code regulations. Staff also occasionally reviews the Standards for updates.

HUD has encouraged grantees to strategically incorporate modern green building and energy efficiency improvements (sources(s)) to provide for long-term affordability and increased sustainability and attractiveness of housing and neighborhoods. The City will consider these improvements, keeping cost to an affordable minimum. The costs are carried over to the homeowner.

2. Davis Bacon

Davis Bacon does not apply to individual acquisition and rehabilitation. As Noted on the NSP1 site under Q & A is the following: *Posted 11/20/08*

Does NSP trigger Davis Bacon requirements when the funds are used solely for down payment assistance or closing costs?

No. Davis Bacon applies only when rehabilitating or constructing 8 or more units.

3. Maintenance of property, while rehabilitating

There will be a period of time between acquisition, rehabilitation, and resale where the City will need to maintain the property (e.g. grass cutting, debris removal, insurance, etc.). The City can recover these costs from NSP funds as a delivery cost related to the activity. NSP Eligible uses correlates with CDBG Eligible Activities on page 58338 of the NSP Notice. The CDBG regulations specifically permit temporary property

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maintenance as part of disposition. The only constraint for NSP is that the City cannot add these costs to the eventual purchase price.

4. Inspections pertaining to rehabilitation

City Staff will coordinate a chimney inspection with a local subcontractor. (See Appendix “N-1” This inspection is conducted to ensure the chimney is in working condition. The report will be provided to the new homebuyer.

An A/C service will also be conducted. City staff will always obtain 3 bids for each property. If, after initial service, it is determined that a new A/C be installed, a request for a quote will be requested, with a minimum of 3 quotes/bids to determine the lowest cost.

If a roof is not replaced City staff will have the roof inspected. The roofing contractor then provides the City with a roof certification. The City will provide the roof certificate to the new homebuyer.

5. Mold & Asbestos

If Mold, Asbestos and Lead is apparent, the property is inspected and remediated by a professional who is certified in these services. The initial inspection indicates if there remediation is required. If remediation is conducted, the scope of work will be prepared thereafter.

6. Initial Inspection/Work Write-Up/Estimate

Single family dwellings purchased by the City of Visalia are inspected at acquisition phase (Phase I).

The City’s Neighborhood Preservation/Building Inspector Officer and City staff measure and make observations about the property, including special conditions with potential cost consequences (dilapidated outbuildings, absence of curb and gutter when required by code, etc.).

City Staff will prepare the work order. Estimated costs are then determined and utilized as a guide in reviewing contractor quotes and verifying cost with materials suppliers. The Community Development Director or designated City staff reviews the completed work write-up and cost estimate, and the approved write-up is incorporated into quote documents. The process from work order write up, quote solicitation, to quote award may take less than two (2) weeks. A sample of the Quote Summary and Work Write-up is attached as (Appendix “F”).

7. Quote Solicitation

A quote walk-through date and time are scheduled (See Appendix “G”, Quote Solicitation). Invitations to quote are mailed or faxed to all eligible contractors on file in effort to obtain three reasonable quotes. Interested contractors will sign in for the quote tour. (See Appendix “H”, Contractor Tour Sign-Up Sheet) A “Notice to Contractor” is also provided to the contractor for review of the standards (See Appendix “I”, Notice to Contractor)

Cost reasonableness is determined by comparing the quotes received with the cost estimate prepared by the City staff. Quotes should be within 10% of the City staff's cost estimate, otherwise an explanation must be provided to the file for any quote selected exceeding 10% of the estimate. The Community Development Director or Designated Staff Member will accept the lowest reasonable quote based on budget and other applicable requirements. Included is the "Interest In Quote Response" to be completed to by the Contractor (See Appendix "J")

The contractor will be given no more than one (1) week to respond to quote requests. The contractor is notified of provisional award of quote. Confirmation of contractor status will be conducted. The "Notice of Award" form (Appendix "K-1") and a W-9 form (Appendix "K-2") must be completed and submitted to the Contractor along with Insurance requirements (Appendix "O"). A construction agreement shall be prepared, (See Appendix "L-1", Construction Contract) construction timelines established, a "Notice to Proceed", Appendix "P" will be completed and submitted to the contractor along with the agreement, and work shall commence. Notices of non-award are mailed to participating contractors. (See Appendix "M", Letter of Non-Award)

If a quote exceeds \$25,000, a memo is submitted to City Manager for authorization of the contract (see Appendix "L-2") for a sample. Additional information related to contractor eligibility, selection, and the quote process can be found in Section "Phase II" of this document. In some occasions, the initial memo references rehabilitation costs that exceed this amount, in those cases, a copy is submitted with the rehabilitation contract to purchasing.

8. Construction and Standards

Repair work must meet all current code revisions and applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of completion except for, certain components of the house that are sound and were built to code prescribed at the time, when no repair or alteration will be made to that component. All structural code violations are eligible; however, priority will be placed on those code items that are health and safety in nature. The City's Neighborhood Preservation Division will require elimination of code deficiencies that are non-structural in nature. Non-structural code deficiencies identified must be corrected prior to disposition of City owned property.

a. Lead Based Paint Requirements

As part of the NSP requirements, NSP grantees are required to certify and ensure that their activities comply with the same lead regulatory requirements that apply to Community Block Grant Development programs. These requirements are in the Lead Disclosure Rule (24 CFR part 35, subpart A), and the Lead Safe Housing Rule's provisions for rehabilitation (subpart J), and for acquisition, leasing, support services, or operation (subpart K), and the accompanying procedural requirements in subparts B and R. For more information regarding compliance with the Lead rules, visit the OHHLHC's web site at: www.hud.gov/offices/lead/enforcement/regulations.cfm. <http://edocket.access.gpo.gov/cfr/2007/aprqr/24cfr570.608.htm>

If the home is a pre-1978 unit prior to initial inspection, paint testing will be completed by a certified Lead-Based Paint (LBP) inspector/assessor and a termite inspection will be completed. Code deficiencies will be corrected and if presumption is used or lead hazards are found they will be properly treated according to HUD regulations (Section 6.1.E & F) and cleared by a certified LBP inspector/assessor. Note: HOME & CDBG funds must comply with the regulation implementation Title X of the 1992 Housing and Community Development Act (24 CFR Part 35). The lead-based paint regulation consolidates all lead-based paint requirements for federal assisted housing. The purpose of the regulation is to identify and address lead based paint hazards before children are exposed to lead. The regulation is divided into subparts. Subparts that apply to the HOME program include: Subparts A, B, J, K, M, and R. For recordkeeping requirements related to Lead-Based Paint refer to 24 CFR 35.175.

Federal HOME guidelines, “Building Home” and CDBG Chapter 17 provides information for the four approaches to addressing lead-based paint in federal funded programs as listed below as Table I:

TABLE I

Chapter 17: Lead-Based Paint		
Four Approaches to Implementing Lead Hazard Evaluation and Reduction		
APPROACH 1. DO NO HARM		
Lead Hazard Evaluation Paint testing performed on surfaces to be disturbed.	Lead Hazard Reduction Repair surfaces disturbed during work. Safe work practices used when working on areas identified as lead-based paint. Clearance performed.	Options Presume lead-based paint is present and use safe work practices on all surfaces being disturbed.
APPROACH 2. IDENTIFY AND STABILIZE DETERIORATED PAINT		
Lead Hazard Evaluation Visual assessment performed to identify deteriorated paint.	Lead Hazard Reduction Paint stabilization of identified deteriorated paint. Safe work practices used. Clearance performed.	Options Perform paint testing on deteriorated paint. Safe work practice requirements only apply to lead-based paint.
APPROACH 3. IDENTIFY AND CONTROL LEAD HAZARDS		
Lead Hazard Evaluation Paint testing performed on surfaces to be disturbed. Risk assessment performed on entire dwelling.	Lead Hazard Reduction Interim controls performed on identified hazards. Safe work practices used. Clearance performed.	Options Presume lead based paint and/or lead based paint hazards are present and perform standard treatments.
APPROACH 4. IDENTIFY AND ABATE LEAD HAZARDS		
Lead Hazard Evaluation Paint testing performed on surfaces to be disturbed. Risk assessment performed on entire dwelling.	Lead Hazard Reduction Abatement performed on identified hazards. Interim controls performed on identified hazards on the exterior that are not disturbed by rehabilitation. Safe work practices used. Clearance performed.	Options Presume lead-based paint and/or lead-based paint hazards are present and perform abatement on all applicable surfaces – deteriorated, impact, friction, chewable surfaces, and surfaces to be disturbed.

Basically CDBG (November 2007)
HUD, Office of Block Grant Assistance

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Also provided, as Table II, is a summary of required activities to address lead-based paint, which is dependent on the determined level of evaluation.

TABLE II

Summary of Required Activities to Address Lead-Based Paint	
Category	Required Activities
Notification	All of the following notices must be provided as appropriate: Pamphlet; Disclosure; Notice of Lead Hazard Evaluation or Presumption; and Notice of Lead Hazard Reduction Activity.
Lead Hazard Evaluation	One or more of the following may apply: Visual Assessment; Paint Testing; and Risk Assessment (or Lead Hazard Screen).
Lead Hazard Reduction	One or more of the following may apply: Paint Stabilization; Interim Controls (or Standard Treatments); and Abatement. The following always apply: Safe Work Practices; and Clearance.
Ongoing Maintenance	This requirement may apply. Inspect and maintain lead hazard reduction work.

Basically CDBG (November 2007)
HUD, Office of Block Grant Assistance

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“Units constructed prior to 1978 will be inspected according to the following HUD regulations (24 CFR 35).

(a). If the total amount of Federal assistance or the total amount of rehabilitation hard cost is up to and including \$5,000, the following is required:

- (i) Paint testing or presume LBP;
- (ii) Clearance of disturbed work areas; and
- (iii) Notifications listed in Section 3.3.A.

(b) If the amount of Federal assistance or the total amount of rehabilitation hard cost is more than \$5,000 up to and including \$25,000, the following is required:

- (i) Paint testing or presume LBP;
- (ii) Risk assessment; and
- (iii) Clearance of unit.

If LBP hazards are identified, interim controls will be implemented. This level will also require a notice of “Abatement of Lead Hazards Notification” at least five days prior to starting work.

(c) If the amount of Federal assistance or the total amount of rehabilitation hard cost is more than \$25,000, the following is required:

- (i) Items (a), (b), and (c) of 2. above;
- (ii) Abatement of all LBP hazards identified or produced;

- (iii) Use of interim controls on exterior surfaces not disrupted by rehab; and all notices listed above in Sections 3.3.A. and 6.1.F.2.”

All paint tests that result in a negative finding of lead-based paint are exempt from any and all additional requirements. If defective paint surfaces are found, they will be properly treated or abated. A State-certified Inspector/Assessor will perform all paint testing, risk assessments, and clearances. A trained supervisor may oversee interim controls; however, a certified supervisor and workers will perform all abatement. (See Appendix “N”, Lead-Based Paint Visual Assessment, Notice of Presumption, and Hazard Reduction Form)

When the property is sold, the City (seller) and buyer(s) must acknowledge and certify information regarding the property as it relates to lead based paint hazards. Examples of the documents are included with Appendix “N”, as Sellers Lead-Based Paint Disclosure.

b. Historic Preservation Requirements

All properties will be evaluated as to whether or not the property is on the Local, State Historic Places Register and/or the National Register of Historic Places. If so, any rehabilitation must be done in accordance with the standards set by the State of California or U. S. Secretary of the Interior, as applicable and be presented to the local Historic Preservation Committee held with the Neighborhood Preservation Division. City staff will initiate clearance through the State Historic Preservation Office (SHPO) for structures older than 50 years old. The City has a programmatic agreement with the State Historic Preservation Office which identifies exempt properties. Additional information related to these requirements can be found at Title 42, Chapter 69, Section 5320.

c. Eligible Rehabilitation costs

Eligible costs include, but are not limited to, work required to rehabilitate and modernize a home, general property improvements, and bring it into compliance with current building codes and regulations.

Allowable rehabilitation activity delivery costs include, cost of building permits, and other related government fees, cost of architectural, engineering, and other consultant services which are directly related to the rehabilitation of the property (if required), actual costs of services rendered that are incidentally but directly related to the rehabilitation work (e.g. planning, engineering, construction management, including inspections and work write-ups).

For NSP funded projects, the City may fund costs, such as sales costs, closing costs, and reasonable developer’s fees, related to NSP-assisted housing, rehabilitation, or construction activities.

Eligible rehabilitation and preservation activities for NSP residential properties are found at 24 CFR 570.202. . http://edocket.access.gpo.gov/cfr_2007/aprqtr/24cfr570.202.htm

Note that rehabilitation may include counseling for those seeking to take part in the activity

9. Contractor Selection, Standards and Requirements

a. Contractor Selection Process

The City staff publicly solicits for contractors as needed. During that period a newspaper advertisement is ran and known local sources will be contacted for names of area contractors. Another method used is to collect a list of interested contractors are contractors requesting to be placed on the list, who are eligible, and utilize an existing list of contractors which have participated in the City's rehabilitation program construction and quote process. All contractors who respond to these public solicitations will be asked to complete a contractor application form which provides background information on work history, insurance, bonding and other information. The City staff will verify the information provided by the contractors and make a list of all of those who meet the minimum standards (a satisfactory record, business tax license, insurance and bonding, and a minimum of two (2) years experience in rehabilitation construction or new home construction with a minimum of two (2) years satisfactory references). Contractors may be removed from the list if performance standards are not met.

b. Minority and Women Owned Businesses

The City will take all necessary affirmative steps to assure that small minority firms, women owned business enterprises', and labor surplus area firms are used when possible. (24 CFR 570.506, 470.607; 24 CFR Part 5.105) and Part 85- the Common Rule;

Affirmative steps will include:

- Placing qualified small and minority businesses and women's business enterprises on solicitation lists;
- Assuring that small and minority businesses, and women's business enterprises are solicited whenever they are potential sources;
- Requiring the prime contractor, if subcontractors are to be let, to take the affirmative steps listed in paragraphs (e) (2) (l) through (v) of 24 CFR 85.36of the Code of Federal Regulations.

c. Contractor List

The Community Development Department (CDD) will maintain a list of licensed contractors. The list of licensed contractors will receive a notice inviting quotes for each project.

The CDD will also maintain a list of licensed contractors to whom a notice inviting quotes will be sent within each property file. All contractors must be licensed by the State of California for the type of work being performed, and must have a current business tax license through the City of Visalia.

Contractors must be licensed and bonded by the State of California Contractors Licensing Board. Contractors must also provide City staff with evidence of Workers' Compensation Insurance and Comprehensive General Liability and Property Damage, Automobile and other applicable Insurance with Combined Single Limits of at least \$1,000,000 as stated within the City of Visalia Insurance Requirements Indemnification and Insurance . (see Appendix "O" -Indemnification & Insurance) Workers Compensation is required of any company that has employees, either full-time or hourly. The following are exemptions: 1) Any direct relatives- Father, Mother, Brother, Sister. 2) Any partner of the company. 3) Any outsourced employee; example would be a temporary employee that is through a Temp Agency. In this case the contractor is to provide the insurance certificate from the Temp Agency and a letter stating that the contractor is exempt from worker's compensation each time they enter into a new contract with the City. (See Appendix "O" – emails referencing workers comp)

The contractor is also required to provide a self-certification stating that he/she is not on the Federal debarred list. City staff must get conformation that the selected contractor has an active license. This information can be obtained on the Contractors State License Board website: <http://www.cslb.ca.gov/>

No contractors will be used that are on HUD's disbarred or suspended contractors list and/or that do not meet the Standards of Performance.

*City Staff will frequently check on the Contractors State License Board website (www.cslb.ca.gov) to check the status of the contractor's license. If for some reason the license becomes expired during the time the contractor is doing work for the city, City Staff must send out a letter to the contractor, which gives the contractor 5 days to show the license has been renewed. (See Appendix "O-2")

d. Labor Standards

To comply with HUD's commitment to ensuring that federal statutory labor standards applicable to HUD and Redevelopment programs are consistently enforced and that the rights of workers are protected, the City, Subcontractors, and other participants must comply with regulations issued under these acts and with other Federal laws and regulations pertaining to labor standards and the HUD Handbook 1344.1 (Federal Labor Standards Compliance in Housing and Community Development Programs), as applicable. The City must require certification as to compliance with the provisions of this section before making any payment under such contract as per 24 CFR Part 24 and 24 CFR 570.603.

e. Approved Contractors

Contractors are required to be licensed and bonded with the State of California, and be active and in good standing with the Contractors' License Board. Contractors will be checked against HUD's federally debarred list of contractors. No award will be granted to a contractor on this list. Contractors must have public liability and property damage insurance, and worker's compensation, unemployment and disability insurance, to the extent required by State law. Contractor must agree to comply with all federal and state regulations.

f. Standards of Performance

The contractor may be subject to corrective action up to and including removal from the Contractor List and prohibition from participation in programs for any one or a combination of the following:

- Failure to attend meetings or training required by the City if applicable;
- Failure to follow General and Supplemental Specifications;
- Failure to follow generally acceptable construction work site safety practices;
- Poor workmanship on any single project, as determined by the Building Inspector/Division and/or Housing and Economic Development Division;
- Failure to respond to an invitation to quote on at least one owner/occupied project within a one-year period;
- Documented poor working relationship with the City staff, any one of the Building Inspectors as determined by the City Building Official and/or the Housing and Economic Development Division;
- Using material or construction techniques that do not meet the minimum specifications or failure to adhere to the verbal or written instructions of the Inspector concerning material or construction techniques;
- Failure to pay application or renewal fees which may be required by the City;
- Lapse of insurance and/or contractor's license;
- Failure to meet any warranty obligations on a previously completed job;
- Physical or verbal threats made to clients or staff; and
- Failure to make timely payments to sub-contractors and/or material suppliers, resulting in liens against an Owner's property.

* City staff will document in writing if any of these issues occur. A letter must be sent to the contractor by mail.

g. Debarred Contractors

Debarment by HUD or the State of California is an exclusion from participation in all Federal programs for a reasonable, specified period of time commensurate with the seriousness of a violation of or failure to perform on other contracts. Such action is taken pending the elimination of the circumstances for which debarment was imposed. Debarment may be imposed for violation of contract clauses, including equal employment opportunity provisions, acceptance of contingent fees, or other serious contract violations. The Secretary of Labor may, independently of HUD, debar a contractor based on violations of the labor standards.

The City staff shall not make award to any contractor, sub-recipient or individual who has been suspended or debarred and whose name appears on the GSA List. The City staff should maintain a subscription to this listing, which is available by writing to the U.S. General Services Administration, Office of Acquisition Policy, 18th and F Streets, N.W., Washington, DC 20405. If the City staff does not have the current list, the HUD

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Field Office should be contacted to obtain the most current information. Each procurement file should indicate that the List was checked and its date. 24 CFR 570.609.

You can access the GSA Excluded Parties (aka Debarred) List electronically 7 days a week, 24 hours a day through the following website: <http://www.epls.gov/>

h. Suspension of Contractors

Suspension means a disqualification from all HUD-related programs for a temporary period of time because of adequate evidence that the contractor engaged in criminal, fraudulent, or seriously improper conduct. A contractor is suspended pending investigation and appropriate action by HUD. All suspensions are for a temporary period pending the completion of an investigation and such legal proceedings as may ensue.

A user's manual is available from GSA at the above address if further information is needed. Only HUD or other Federal agencies (such as the Department of Labor, for violations of Secretary of Labor regulations) may take action to suspend or debar a contractor. Additional information about this process is found in HUD regulations at 24 CFR Part 24.1.

i. Corrective Action Process

As the City staff becomes aware of projects or circumstances with a homeowner (that purchases the properties from the City), contractor and/or the work itself, which fit the criteria for corrective action, they will document the file and alert the contractor both verbally and in writing of the specific nature of the issue. The contractor shall be given the opportunity to correct the issue without prejudice. If the issue is not appropriately resolved within the time frame established by the City staff, a recommendation for formal corrective action shall be proposed.

The Building Official will meet with the contractor and the City staff to review the issue(s) and the proposed course of action. The contractor will be notified in writing of the decision and of the appeal process. Possible corrective action may include, but is not limited to: probationary status; limited participation in the program; suspension for a limited period of time; and, removal from the Contractor List and participation in the program for one year. All corrective action is intended to provide the contractor with the opportunity to correct deficiencies and re-establish good standing with the program.

Written appeals must be forwarded to the City Manager or his designee within fifteen (15) days of receipt of notice of decision. The City Manager or his designee shall investigate the appeal and render a decision in writing within thirty (30) days from receipt. The decision of the City Manager or his designee shall be final.

A contractor barred from participating in the program may reapply to the program after a one-year period from the date of final decision. Reinstatement is not automatic. If reinstatement is not approved by the Housing and Economic Development Division the contractor has the right to appeal the action. Any appeal must be forwarded to the City Manager, or his designee within fifteen (15) days receipt of the action. The City Manager or his designee shall investigate the appeal and render a decision in writing

within thirty (30) days from receipt. The decision of the City Manager or his designee will be final.

10. Pre-Construction Conference

A pre-construction conference is scheduled between Sub contractor, and City staff. The City staff reviews the Contractor Construction Contract, including the work write-up, start date, pay schedule, Section 3 documents, and date of completion with the Contractor. The construction contract and Notice to Proceed are executed.

11. Turning on the lights, gas & water!

Upon contracting with the General Contractor (or prior to starting construction/rehabilitation) the electricity and water needs to be “turned on” in the City’s name so that the contractor can complete his/their scope of work.

- a. **CalWater, Edison and Gas Company (see utilities binder for details)**

12. Inspections

The City staff monitors date of start-up and performs field inspections on a regular basis. The City staff will visit the job site regularly in order to check the scope of work, inspect materials, and to confirm the job is on schedule and within budget. The City staff works with the City Building Inspector to ensure the work meets program funding standards and building codes, while not exceeding funding limits. (See Appendix “P”, Notice to Proceed)

The City staff and/or Building Inspector shall review the work status and with the contractor in order to remedy any developing problems quickly and to ensure that both are satisfied with the construction process. The Building Inspector will inspect all items listed in the scope of work and sign/approve the building inspection card that will be filed upon completion. At the completion of each phase, the City staff and/or City Building Inspector shall inspect the work and authorizes contractor payments.

13. Change Orders

Written change orders are required when any changes in the write-up, such as eliminating an item completely, eliminating one item and substituting another or adding items occur. The change order (document) will state the change and dollar value for the change. Contractor must submit the description of the item along with a dollar amount. City staff will then place the description onto a change order document. The change order must be signed by the contractor and submitted to the City Community Development Director or Designated Staff Member or designee. Change order must be submitted to the change order committee or change order Sub Committee for approval. Once it has been approved and signed off by the Committee, Staff shall send the contractor a copy of the approved or denied change order. City staff must send the original approved change order to Purchasing so the new dollar value for the change order can be incorporated into the initial contract amount. An updated PO will be sent to City staff and Contractor. (See Appendix “Q-1”, Change Order Form) Additionally see Appendix “Q-2”, for change order submittal process.

14. Repair Callbacks

Contractors will comply with State law regarding all labor and material warranties. All labor and material shall meet FHA minimum specifications. All work must be warranted and/or guaranteed by the Contractor, for a minimum of one-year (1) from the date of completion (final inspection and acceptance by owner) of the entire job under contract. Once property is sold to a homeowner, they should contact the contractor directly in the event problems arise from the work performed. The Contractor will correct any defects that occur during that period at no additional cost to the homeowner or the City of Visalia. A start date and estimated job completion date will be required as part of all returned quotes.

15. Guarantees and Material Warranties

As stated in the Construction Contract Agreement, under Item 17, "Guarantees and Material Warranties", the contractor agrees to the following:

"All labor, materials and installation shall be guaranteed for a period of one year from the date of final acceptance by Owner, when subjected to normal use and care, and provided Owner has complied, in full, with the terms and payments and other conditions of this Contract. Upon written notice from Owner, Contractor shall repair or remedy any defect in materials and workmanship within the one-year period specified. Contractor shall furnish Owner with and assign to Owner all manufacturers' and suppliers' written guarantees and warranties covering materials and equipment furnished under this Contract."

16. Progress Payments/Final Inspections/Notice of Completion

Costs are based on charges currently incurred for products and/or services. All fees are subject to change and are driven by the market.

Ninety-Five percent (95%) of the contract amount is distributed to the contractor in the form of progress payments during construction. The contractor requests progress payments. Prior to authorization of payment, the Contractor shall provide lien releases for claims by subcontractors, laborers, and material suppliers involved in the work and/or represented by Contractor's invoices. Upon favorable inspection by the City staff, and/or Building Inspector, the payment authorization is initialed by City Staff and submitted for payment. City has 30 days to pay contractors. At the 95% pay release the project is completed, the City staff inspects the work item by item with the contractor. The Building Inspector performs a final inspection. Any corrections or deficiencies are noted and corrected by the contractor. At the time of Completion City must order a pest control clearance so it can be provided to the buyer.

Upon favorable final inspections, and prior to final payment release, confirmation of mechanic liens will be verified. A Notice of Completion will then be prepared, signed by the City and recorded. The final five-percent (5%) retention payment is released after the recording of the Notice of Completion and completion of all "punch-list" items. (See Appendix "R-1", Notice of Completion) After the Notice of Completion is recorded City Staff can determine the sales price and place the property on the market.

Authorization to reduce the retention period was completed. See Appendix “R-2” for review of the memo.

Note: Confirmation of Section 3 documentation must be received prior to release of the 5% retention.

Phase III- Resell of Properties

1. Resell of property to homebuyer

Acquired residential properties, will have completed, any rehabilitation to bring the home into compliance with state and local laws (building code, housing quality standards). NSP, Section 2301(d)(2) directs that the sale of such property shall be in an amount equal to or less than the cost to acquire and redevelop or rehabilitate such home or property up to a decent, safe, and habitable condition. The maximum sales price for a property is determined by aggregating all costs of acquisition, rehabilitation, and redevelopment (including related activity delivery costs, which generally include, among other things, costs related to the sale of property). In determining the sales price, HUD will NOT consider the costs of boarding up, lawn mowing, maintaining the property in a static condition, or, in the absence of NSP-assisted rehabilitation or redevelopment, the costs of completing a sales transaction or other disposition to be redevelopment or rehabilitation costs. If the property does not sell within 30-60 days City staff will consider reducing the price. Listing realtor/broker will provide a market analysis to determine a new listing price.

The foreclosed home or residential property is to be sold to an individual as a primary residence and no profit may be earned on such sale. The property for sale will be represented by the Realtor/Broker who completed the initial City purchase of the property. Realtor/Broker is given 60 days to market the property, if after 60 days the property does not sell; the Community Development Director or Designated Staff Member or Designated Staff Member will ask the listing agent for a marketing plan. After reviewing the marketing plan it will be decided if an additional 30 days will be granted. If there are no big Efforts City will assign another realtor/broker to represent the City on the sale of the home.

The home will be listed on the City’s website in addition to the listing agent and Multiple Listing Services (MLS).

The home must be sold within six months as per HUD’s new rules. If the property does not have an accepted offer, it must be changed to a rental property and follow HUD’s most recent rules on renting.

See Appendix “AA” for process of selecting homebuyers for NSP homes.

2. Outreach and Marketing

All outreach efforts will be done in accordance with state and federal fair lending regulations to assure nondiscriminatory treatment, outreach and access to the Program. No person shall, on the grounds of age, ancestry, color, creed, physical or mental disability or handicap, marital or familial status, medical condition, national origin, race, religion, gender, sexual orientation, or other arbitrary cause be excluded, denied

benefits or subjected to discrimination under the Program. The City will ensure that all persons, including those qualified individuals with handicaps have access to the Program.

The city owned properties will be listed on the city's website. Additionally, the selling agent/realtor may also list the property on their agency and MLS sites. The selling agent is also educated on the buyer eligibility requirements to assist with promoting the sale of the property.

Presentations will be made to share the highlights of the program with Tulare County Board of Realtors and those (businesses, borrowers) interested.

3. Requirements to purchase City owned properties

The borrower/purchaser of a City owned property must work with a lender to determine their purchasing ability. The City requires that the first mortgage be a fixed rate term thirty (30) year mortgage. Dependent upon their purchasing ability and sale price of City owned properties, a second mortgage or City assistance may be considered.

Homebuyers acquiring City owned property, must qualify for the purchase price and must complete eight (8) hours of homebuyer counseling from a HUD approved housing counseling agency, such as Self Help Enterprises (SHE) before obtaining a mortgage loan.

The City must also ensure that the homebuyers obtain a mortgage loan from a lender who agrees to comply with the bank regulator's guidance for non-traditional mortgages (fixed mortgages required).

The City will also place an affordability covenant (Resale Restriction Agreement) on the property in order to maintain "affordability" to a very-low income up to a middle-income qualifying family and shall bind Owner and all of Owner's successors. A fifteen (15) year resale restriction or affordability covenant will be placed on all NSP funded properties to maintain affordability and other resale restrictions. (See Appendix "Y")

Approximately \$600,000, initially, of NSP funds must be used to assist families at income levels below 50% of the area median income, and the remainder to families between 50% to 120% of area median income.

a. Confirming Income of Household to HUD & HCD Income regulations @ 120% and 50% AMI

To qualify to purchase City owned properties, the family gross income shall not exceed one-hundred twenty percent 120% of the Area Median Income (AMI) for the Visalia-Porterville Area. Identified as "Middle Income". The income is adjusted by family size. (See Appendix "S" for 120% Area Median Income)

The City must also utilize 25% of the NSP funds (\$600,000) plus 25% of any program income received, to acquire, rehabilitate and resale properties to families that meet the 50% AMI, identified as "Very-Low".

Families at the 50% AMI, (income is adjusted by family size) may need additional assistance with the purchase of a property. Once the homebuyer obtains a first mortgage pre-approval, identifying their purchasing ability, the buyer may work with the City in pursuing a second mortgage. (See Appendix “S” 50% Area Median Income)

Preliminary review of an application for gap financing will be completed by the City and its underwriter, AmeriNational Community Services, Inc,. The City’s underwriter shall review the primary lenders’ underwriting/ first mortgage documentation to verify that the homebuyer meets the City’s gap financing and program requirements. (See Appendix “X”)

*City’s Administrator will insert the limits for Visalia- Porterville Area in which the NSP Program is located, and will update the income limits annually at HUD <http://www.huduser.org/publications/commdevl/nsp.html>.

For Redevelopment, go to: <http://www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html>

The applicant will be required to provide all documentation and information to the City to confirm income eligibility (Appendix “T” worksheets, 1, 2, 3, 4, & 5; and Appendix “U”) and the City’s loan underwriter (if obtaining gap financing). Documentation will be kept in the property file and held in strict confidence.

i. Primary lender (1st mortgage)

It is the intent of the program to recycle the dollars invested into the acquired, rehabbed properties, increasing homeownership and addressing the foreclosure crisis.

A potential homebuyer must provide evidence of financing for the maximum amount the Primary (1st Mortgage) Lender is willing to loan. The Primary Lender will use the front-end ratio of housing expenses to income to determine the amount of the loan. The First mortgage must be a fixed rate loan and at least a thirty year term. The first mortgage (principal, interest, insurance, and taxes) guideline is 30% to 35% of gross family income.

The primary lender will analyze a homebuyer’s finances to determine how much the homebuyer could afford to borrow from the lender towards a home purchase. The homebuyer will have a price range to work within to begin touring properties. The City will have its properties listed on the website, in addition to the selling agent listing the property on the Multiple Listing Services (MLS) system, if applicable.

The pre-approval process will be completed by the homebuyers, prior to making an offer to purchase an eligible city owned housing unit

If the City property costs fall within the homebuyers purchasing ability, the City will work with the Realtor and lender to complete the transaction (sale of the property).

The lender will also assist the participant in completing the income eligibility forms (See Appendix “T”, “U”, Income Worksheets and Appendix “V”, Income inclusion & exclusion definition).

Buyers will be required to have sufficient liquid assets to be able to provide a minimum down payment of three-and-a-half percent (3 1/2%) of the purchase price for most first mortgage underwriters.

Buyers have approximately thirty (60) days to complete escrow. If the transaction nears the completion time period, and requires a time extension, a letter of explanation or real estate documentation is required and a time frame established to finalize.

ii. Secondary Financing

If the borrower (Family up to 50% AMI) is approved through conventional loan financing, the City may consider second mortgage assistance. The borrower may participate in the Neighborhood Stabilization Program (NSP) Loan (2nd mortgage) Program (for families above 50% or below 120% AMI) if the negotiations include a request and the City accepts that negotiation as well as they must meet the programs' policy and eligibility requirements. The amount of the loan (second mortgage) may not exceed thirty-thousand dollars (\$30,000). the minimum amount necessary to enable the Buyer to purchase the home AFTER the Buyer secures the maximum loan (first mortgage) amount for which the Buyer qualifies from the primary lender.

The loan shall be in the form of a second trust deed secured by a Note and Deed of Trust, subordinate to the primary loan (first mortgage). Once City Staff and AmeriNational have determined the amount of the subsidy, the City will review the file, documentation and make the final approval or denial of the subsidy.

Non-recurring cost such as credit report, escrow, closing and recording fees, and title report and title insurance, and/or related costs may be included in the City's loan.

If questions arise during the review process, AmeriNational will contact City Staff. AmeriNational has ten (10) days to process and complete the recommendation. The clock will be stopped if questions arise and need verification, answers or documentation. AmeriNational complete a "Final Loan Recommendation" and submits this to City Staff for final approval or denial.

If AmeriNational makes note of any special circumstances, noteworthy concerns or recommendations, the loan analysis, file and Final Loan Recommendation (FLR) will be reviewed by the City's Housing Loan Review Committee. Once City Staff and AmeriNational have determined the amount of the subsidy, the City will review the file, documentation and make the final approval or denial of the second mortgage.

b. City serving as Lender to families at or below 50 % AMI

As of January 2011, the City is not carrying first mortgages. ~~The City may act as first mortgage lender, if a conventional loan is not approved. The borrower will be required to meet the City's underwriting criteria, which includes debt-to-income ratios, down payment requirements, credit requirements and other underwriting criteria listed below. The borrower must first show evidence of an underwriter (first mortgage lender) denial. The City will evaluate the mortgage denial and review City underwriting guidelines to determine whether the borrower is eligible. The City's Loan Review~~

Committee will be provided with AmeriNationals underwriting recommendations before a final recommendation is made.

The applicant must provide signed documentation and an application (Appendix “W”) to City Staff, and to the City’s underwriter, AmeriNational Community Services, of all required disclosures, acknowledgements and any other pertinent forms required for the use of the Federal and/or State funds. ~~If the City acts as the first mortgage underwriter, the down payment requirement is reduced to two percent (2%).~~

i. Rate of Interest and term

If the City accepts an offer or counter offer and agrees to carry a mortgage, the interest will accrue at the established interest rate. The rate will be negotiated between zero to three percent (3%), simple interest for the life of the loan. The loan term is dependent upon the funding source or the borrower’s ability to pay in relation to debt ratios. (Up to Thirty (30) years for NSP funding; (i.e 5 year deferral with 25 year repayment period) Forty-five (45) years for Redevelopment funding). A payment schedule will be established for first mortgage underwriting. The interest accumulated is also considered program income for NSP funded properties.

ii. Qualifying Ratios

The First Mortgage Underwriter (FHA, CaLHFA or Conventional Lender) will establish creditworthiness, first mortgage repayment ability, and dependability of income. However, the City’s Underwriter, through the application and documentation provided, will determine the applicant’s eligibility for any City assistance.

The front-end ratio shall be no less than 30% and is the percentage of a borrower’s gross monthly income (before deductions) that would cover the cost of PITI (loan principal and interest payment + property taxes + property insurance). Worksheet 5, (Appendix “T”) is helpful in identifying housing expense and debt ratios.

The FHA approved debt ratios are utilized as a guideline with the City’s program. The back end ratio shall be between 30% and 45% which is the percentage of the borrower’s gross monthly income that would cover the cost of PITI plus any other monthly debt payments like car or personal loans and credit card debt.

1. Qualifying Credit review

The City utilizes a guideline of no more than three (3) derogatory accounts in the past three (3) years, no bankruptcies within the past two (2) years and no established credit is acceptable if the borrower has proof of timely payments of utilities, rents or other fixed monthly obligations. With derogatory accounts, the date working from is the “open” date. In some cases, the underwriter will work with the first mortgage underwriter’s criteria as it pertains to derogatory accounts. Any negative credit items must be explained and justified and placed on file. Derogatory accounts are acceptable only upon the approval of the first mortgage underwriting criteria, and if more than three derogatory accounts in the past three years are identified, then an explanation should be noted on file.

The borrower(s) credit score provides a summary of credit which is one factor considered. The underwriter will review credit information such as: credit reputation, credit score, capacity to pay monthly payments, history, debt and cash reserves.

The following table III, is a score range guideline. The City will require appropriate authorization to obtain information.

TABLE III Score Range guidelines	
Above 719	Excellent credit
680 - 719	Good credit
620 - 679	Lender will take a closer look at your file
585 - 619	Higher risk
Below 585	Credit products may not be available. Underwriter will need to consider other information in your application.

4. Deed and other Property documents

The City will provide written notification to Applicant of approval or denial with reason. The City's underwriting criteria is identified within the attached "Underwriting Criteria for Foreclosure Acquisition Program loans" as Appendix "X".

At the time of escrow closing, the City shall be named as an additional loss payee on fire, flood, if required, and extended coverage insurance for the length of the loan and in an amount sufficient to cover all encumbrances.

The City' or AmeriNational Community Services, Inc. prepares the loan documents and submits them to the Title Company. Loan documents will consist of a Deed of Trust, Note, Truth In Lending Disclosure (if applicable) and Affordability Covenant (Resale Restriction Agreement), and any other applicable loan documents required by law. Samples of loan documents are attached as Appendix "Y", for NSP funded loans and Appendix "Z", for Redevelopment funded loans.

a. Resale Restrictions

Any "transfer" of the Property is subject to the terms and conditions of an Agreement. For purposes of the Agreement, "transfer" means any sale, assignment or other transfer, whether voluntary or involuntary, of any interest in the Property, including, without limitation, a fee simple interest, a joint tenancy interest, a life estate, a leasehold interest or an interest evidenced by a land contract by which possession of the Property is transferred and Owner retains title. Any transfer that does not satisfy, or otherwise violates, the terms and conditions of the loan agreement is prohibited. The loan would be required to be paid in full. Transfers by gift, devise or inheritance to an existing spouse, domestic partner, surviving joint tenant, children, or a spouse as part of a dissolution proceeding or in connection with marriage shall not be considered a "transfer" for the purposes of the loan agreement. Additional requirements are found within the agreements.

The purpose of the Resale Restriction Agreement is to establish resale controls on the Property for a period of fifteen (15) years for NSP funding from the date of the

Agreement. This is a condition of funding for the continued affordability of the Property to low-income persons and families. This also allows the City the option to purchase the Property under certain circumstances. The Agreement shall run with the land and shall bind Owner and all of Owner's successors in interest as owners of the Property.

a. Recapture Provisions: Assumption of Recapture Obligations by Subsequent Homebuyer

The NSP Covenant requirements are based upon HUD's HOME regulations. Under HUD's New 2013 HOME Rule, specifically, 24 CFR §92.254(a)(5)(ii), it was revised to permit a subsequent low-income purchaser of an NSP assisted homeownership unit to assume the existing NSP loan and recapture obligation entered into by the original buyer when no additional NSP assistance is provided to the subsequent homebuyer.

In cases in which the subsequent homebuyer needs assistance in excess of the balance of the original loan, the City's subsidy (if any) to the original homebuyer must be recaptured. A separate subsidy may be provided to the new homebuyer, if funding is available, and the new borrower meets the program guidelines (requirements of participating in the NSP program), and a new affordability period must be established based on that assistance to the buyer. However, the amount of subsidy is based upon availability of the funds and this program maximum.

b. Assumption Agreement

If an NSP property is resold during the affordability period, the new owner must meet the income requirements, complete an application, and submit income documentation to the City to confirm income eligibility. A letter is sent to the seller, once notified of the listing of the property. If the new owner meets the income requirements, an assumption agreement is prepared along with the escrow instructions and submitted to the seller, realtor, lender and escrow company.

b. Recapture Requirements

If the City provides a second mortgage, the City will place recapture provisions within the legal documents. Regulations pertaining to recapture are found in the 24 CFR 92.254 and may be used for CDBG NSP funded properties. The "Full Recapture" provision ensures the City recoups all of the investment or subsidy assistance, if the housing does not continue to be the principal residence of the family or is sold during the duration of the period of affordability.

c. Loan Review Committee

The City has internal staff from five departments. The departments represented are Engineering, Building, Planning, Finance, and Administration. In the case when the City underwrites a loan through the NSP or Redevelopment funded program, the members of the committee may review the applicant's loan underwriting recommendation to make the final loan recommendation. If the loan is underwritten by AmeriNational, staff and the Community Development Director will review their recommendation of a "Final Loan

Recommendation”, and approve or deny the loan. The members may refer appeals to the City Attorney.

d. Housing Counseling requirement

The City must contract with a HUD-approved housing counseling agency. The homebuyer counseling requirement can be fulfilled using a classroom style, individual (one on one) or a combination of both formats. A certificate from the HUD Certified Counseling Agency must be provided to the City confirming that the borrower has attended the 8 hour course. Housing counseling is required by HUD for the use of the NSP funds. The City will also require counseling for borrowers that acquire homes purchased with Redevelopment funds. HUD approved housing counseling agency, such as Community Services Employment Training (CSET) or Self Help Enterprises (SHE) can be contacted to attend the 8 hour course, before obtaining a mortgage loan.

e. Flood Insurance Requirements

If the property is located within the 100-year floodplain designated by the currently published Federal Emergency Management Agency flood plain maps, flood insurance must be maintained for the term of the loan. If the City provides funding, a copy of the flood insurance policy must be provided to the City for compliance. Additionally, a copy must be submitted to the financial lending company. (24CFR 55) The City will not close escrow until verification and documentation is received. Flood Insurance shall be included in the impound account.

f. Impound Account

The City requires that the participant establish an impound account for the payment of taxes and insurance(s) to ensure they remain current. This must be a requirement of the first mortgage loan.

Phase IV- Sell to Non-Profit option

The City’s first option is to sell to an income qualifying family. The second option is to sell to a non-profit agency that may assist low income families and rent. When selling to a Non- Profit Agency, a purchase and sell agreement is created (See Appendix “AB” for an example), identifying the property. Additionally, a covenant shall be placed upon the property for a term of 20 years to monitor rents. Within the covenant references to rental requirements and monitoring shall be made. See Appendix “AC” for an example.

Additionally, the City works with its non-profit agencies in addressing the needs of lower to very low income households, therefore, the City has taken to City Council an authorization to enter into an agreement with Habitat for Humanity of Tulare County. This was completed on December 19, 2011. Habitat’s Agreement begins with an initial \$480,000 set aside of the 25% set aside funding for families at or below 50% of the AMI. A Developer fee shall be paid to Habitat in increments as outlined in the Agreement. A copy of the agreement and requirements thereof shall be incorporated into the NSP policy manual and updated as needed.

Phase V- Rental of NSP Properties

1. Renting

The third option is to retain ownership in order to recoup a portion of the investment. However, it is not the City's intention to make a profit as regulated by HUD.

An additional option under the City maintaining ownership, for a period of time, is to hire a property management firm to maintain and monitor the rents and properties. Maintenance may include landscaping, clearing debris, security and any other maintenance required. Details regarding this option are further described under Phase VI, Property Management.

a. Evaluating investment

It is important to consider the investment in the property. NSP requires that no profit shall be made. The market value of homes in Visalia have been on a declining scale since the inception of the program, this caused the City to consider other options, such as renting, then reselling at a time when the market conditions appear to be positive. The losses associated with the sale of a property may be substantial and to alleviate or reduce the losses, a Minor Action Plan (NSP) Amendment was completed in March 2011, and authorized by City Council and HUD. Included in the amendment was the additional option to rent as referenced. It is important to look at the current value, based upon an appraisal, follow HUD's guidelines and the City's Action Plan pertaining to the use of NSP funding, to determine rents, income and monitoring.

Upon market conditions reflecting a positive change toward homeownership, the City will evaluate costs associated with the initial purchase, rehabilitation and rents received (program income), when placing property on the market for resell. All funds would be recycled to acquire additional properties.

b. Determining rents:

The City will follow the requirements of the program funding and ensure compliance with the Fair Market Rents as indicated in the NSP Action Plan.

Additionally, if an application is received by a tenant currently receiving rental assistance, fair market rents would apply so that there is no duplicating of rental benefits or services.

If an application is received by a tenant not currently receiving rental assistance, the HOME Program Rent Limits may be considered for households/families at 65% AMI and below.

Table IV below provides an example of rent limit consideration (area median income), and the basis for affordable rental amounts with or without other rental assistance.

TABLE IV				
AMIs Used as Basis for Affordable Rental Amounts				
Household Incomes Eligible for this Tier Rent Limit consideration	Rent Limit	Basis for Affordable	Basis for Rental	Rent Limit Basis used for Affordable Rental Amounts – Tenant Not Currently receiving rental assistance
	Amounts	– Tenant	receiving	
	Currently			

	rental assistance	
0%-50% AMI	FMR	50% Rent Limits or Low Rents
51%-60% AMI	FMR	65% Rent Limits or Low Rents
61%-80% AMI	FMR	65% Rent Limits or High Rents
81%-120% AMI	FMR	Fair Market Rents

c. Rents for 120% Ami to 61% AMI -NSP single family dwelling units

Maximum rental amount: The rental amount for an NSP-assisted home may not exceed an amount affordable to a household at 120% of area median income (AMI).

For example, if the interested tenant has income between 120% AMI and 61%AMI, rents would be at Fair Market Rents (FMR).

To determine the rental amount, Staff will utilize Fair Market Rents based on the number of bedrooms in the home as follows:

- Studio, one person
- 1-bedroom, one person
- 2-bedroom, two persons
- 3-bedroom, three persons
- 4-bedroom, four persons

d. Rents for 60% AMI and below – NSP single family dwelling units

The HOME Program Rent Limits were referenced in the City’s Action Plan Amendment with the use of NSP-CDBG funding. If a potential tenant’s income is below 60% of the AMI, affordable rents shall be considered. These requirements were established at the inception of the program and required by HUD to obtain the 2008 HERA Act funding.

It is important to make note; if the tenant is already a recipient of rental assistance, then Fair Market Rents would apply as referenced in Table V. Note that these calculations are different than those reflected in Table VI.

Table V Final FY 2011 FMRs By Unit Bedrooms					
	Efficiency	One-Bedroom	Two-Bedroom	Three-Bedroom	Four-Bedroom
Final FY 2011 FMR	\$541	\$605	\$703	\$1,005	\$1,033

http://www.huduser.org/portal/datasets/fmr/fmrs/FY2011_code/2011summary.odn?inputname=METRO47300M47300*Visalia-Porterville%2C+CA+MSA&data=2011&fmrtype=Final&incpath=C%3A%5CHUDUser%5CwwwMain%5Cdatasets%5Cfmr%5Cfmrs%5CFY2011_code&path=C%3A%5Chuduser%5Cwwwdata%5Cdatabase

HUD publishes the HOME High and Low HOME rents and the FMRs for each area annually. The City would refer to the numbers provided as a guideline, to calculate project or property rents as shown in Table VI below and also provided for reference in Appendix “S”.

TABLE VI						
Calculating High and Low HOME Rents Visalia MSA Example: 2011 (6-20-11)	Eff.	1 BR	2 BR	3 BR	4 BR	5 BR
Fair Market Rent (FMR)	\$503	\$562	\$654	\$935	\$961	\$1,105
For Reference Only						
LOW HOME Rent Limits	\$501	\$536	\$643	\$743	\$830	\$916
HIGH HOME Rent Limits	\$518	\$580	\$674	\$934	\$990	\$1,105
For Reference Only						
50% Rent Limit	\$501	\$562	\$654	\$935	\$961	\$1,105
65% Rent Limit	\$631	\$678	\$816	\$934	\$1,023	\$1,196

Housing is considered to be affordable if gross housing costs (gross = rent + utility) are 30% or less of a person's income. Rents are set to be affordable to households at specific levels (Very Low Income, Low Income, etc.). Rents are adjusted higher for larger units and lower for smaller units according to formulas set by the Federal government. Rent limits for assisted housing are for gross rents. The actual rents charged to tenants are calculated by subtracting utility allowances from the gross rents.

To determine the affordable rental amount, Staff will follow these procedures for tenants who are not currently recipients of rental assistance:

1. For each home, a household size will be assumed based on the numbers of bedrooms in the home, as follows:
 - Studio, one person
 - 1-bedroom, one person
 - 2-bedroom, two persons
 - 3-bedroom, three persons
 - 4-bedroom, four persons
2. Staff will identify the income limit for the appropriate household size and maximum allowed percentage of area median income from the HUD income limits.
3. The resulting income amount will be multiplied by 30% to represent an affordable housing payment.
4. Using a schedule of utility allowances from the HUD Utility Model or equivalent document, the estimated amounts of the tenant-paid utilities will be deducted from the affordable housing payment amount. The result will be the maximum allowed cash rent.

i. Calculating HIGH HOME Rents for households at 60% AMI to 51% AMI (if no other rental assistance is provided)

1. On the rent chart provided by HUD (see example Table VI above), find the row labeled “Fair Market Rent” or “FMR” and follow this row over to the column that indicates the number of bedrooms in the unit.

Example: The FMR for a three-bedroom unit, using the sample rent chart above (Table VI), is \$935.

2. On the rent chart, find the row labeled “65% Rent Limit” and follow it over to the column that indicates the number of bedrooms in the unit.

Example: The 65% rent limit for a two-bedroom unit is \$934.

3. Determine which of the two rents (the FMR or the 65% Rent Limit) is lower. This is the High HOME Rent.

Example: For a three-bedroom unit, the FMR is \$935 while the 65% Rent Limit is \$934. The 65% Rent Limit of \$934 is the lower of the two figures, and is the High HOME Rent.

4. Subtract any tenant-paid utilities from the High HOME rent established in Step 3. This is the maximum actual rent that can be charged to the tenant.

Example: A Unit includes water in the rent, but does not include heat and electricity. The utility allowance would be established by the City. For example, however, the City may establish utility allowance of \$120 per month (heating natural gas, cooking natural gas, other electric, air conditioning, natural gas water heater, water, sewer & trash). The actual maximum rent that can be charged to the tenant for this unit is \$814 (\$934 less \$120). The City would be paying the water bill.

ii. Calculating LOW HOME Rents for households at 50% AMI and below (if no other rental assistance is provided):

1. Follow the same steps as outlined above EXCEPT that the 50% Rent Limit figures must be used instead of the 65% Rent Limit figures.

Example: The 50% Rent Limit for a three-bedroom unit is \$935, while the FMR is also \$935. The Low HOME Rent Limits reference \$743 which would be the 50% Rent Limit Cap. However, for example, the tenant pays for heat and electricity, for which the City has established a \$120 utility allowance heating natural gas, cooking natural gas, other electric, air conditioning, natural gas water heater, water, sewer & trash). The actual maximum rent for this unit would be \$623 (\$743 less \$120).

If a project receives federal or state project-based subsidies and the tenant pays no more than 30 percent of his/her adjusted income for rent, the maximum rent may be the rent allowable under the project-based subsidy program.

3. If the Low HOME Rent as calculated above, as shown in Table where higher than the High HOME Rent, then the High HOME Rent must be used. This can occur when the High HOME Rent is equal to the FMR, and the FMR is lower than the Low HOME Rent.

e. Implementing new HOME rents:

New rents are effective upon receipt of the new HUD-published numbers- Annual rents. However, tenants' rents should not be adjusted until their leases are renewed. The City will adjust the maximum rental amount within 30 days of publication of new income limits and apply the maximum amount to all new home leases executed after that time.

The utility allowances prepared, utilizing HUD's Model Utilities, shall be used when adjusting rents for families that are not currently receiving rental assistance and are under 65%AMI. The form used (HUD Model Utility) shall be used to establish utility allowances is provided in Appendix "AD", HUD Model Utility Form. Properties meeting Title 24 Energy Efficiency may also be referenced at <http://www.huduser.org/portal/resources/utallowance.html>

2. Application for an NSP Rental Unit

Each prospective renter must complete the Tenant Application Form attached as Appendix "AE" See the NSP Single-Family Rental toolkit for examples, at www.hud.gov/nspta] The information obtained in the application will be used--along with verifications--to determine a household's eligibility to lease an NSP-assisted home. While online and paper forms may be filled out in advance by Applicants, the application will be completed in a face-to-face meeting with a qualified representative of Developer.

a. Tenant Eligibility

Homes will only be offered to a client only if the rental rate is affordable to the client as defined by the City and funding source requirements, Agreement and this program manual.

The City at its discretion may determine that the rent for an NSP Rental Unit is not affordable to an Applicant even if that applicant qualifies solely on the basis of having an eligible household income. For example, an Applicant with an income at 30% of AMI might qualify on the basis of income eligibility but may not be able to afford a with a maximum rental amount calculated at 50% of AMI. Developers will use affordability calculations similar.

b. Evidence of Employment, Residence, Income and Assets

The City will require Applicants to bring this evidence to the intake and application interview in order to make an initial determination of eligibility.

Tenant income must be verified. A sample income certification is included as Appendix "AE-1" and Appendix's "T" and "U".

c. Check current rental history, including a home visit.

i. Credit Report

During the intake interview, City or Property Manager will obtain, with the Applicant's written permission, a credit report that will be used as a basis for determining the Applicant's ability to make rent payments in a timely manner. [Note: This procedure reflects standard industry practices and is not an NSP requirement.]

ii. Certifying the Incomes Eligibility of Prospective Renters

The City will use the methods described in Appendix "AE-1", "T" and "U" to verify and certify the income-eligibility of Applicants. Required documentation (copies of driver's licenses, paystubs, etc.) will be kept in the files of the City or City's property management agent and copies sent to City.

The income certification may be no more than six months old at the time that the renter and City enter into a lease. If older, the Applicant must be recertified. An Applicant whose application fails to meet the NSP eligibility requirements will be given a written notice of denial as described below.

iii. Notification of Approval or Denial

Upon completion of the tasks described above, City will inform Applicants in writing of their eligibility or ineligibility to rent an NSP-assisted home. See Appendix for the forms for Application Approval and Application Denial.

iv. Confidentiality of Client Data

City will observe all Privacy Act requirements and keep client data in confidential.

Based on changes in area income levels or market conditions, HOME rents, as calculated by HUD annually, may increase or decrease. Tenants must be given at least 30 days written notice before increases are implemented. Any increases are also subject to other provisions of the lease agreements. For example, rents may not increase until the tenant's lease expires.

3. Lease Agreement

A lease agreement is required

4. Waiting List

City will not be maintaining a list at this time. Preference is to sell the homes for homeownership. Rental of the property is for a short period of time only and the tenants shall be advised prior to renting, of the terms and conditions,

5. Ineligible for relocation benefits:

As referenced by HUD's Regional Relocation Specialist, for cases when the acq/rehab/homebuyer activity does not unfold as planned and the homebuyer unit is

leased rather than sold. For example, at the end of the rental lease, a jurisdiction may decide to revert to the originally intended use of the unit (homebuyer activity) therefore there will need to be disclosure language/ HUD Form to notify the renter in advance that the future use of the unit may not remain a rental unit and that the decision to do so will not trigger relocation benefits. See attached example letter, Appendix "AF".

Phase VI- Property Management

a. Allowed Property Management Fee and Marketing Costs

Grantee (City) may pay no more than eight percent (8%) of the gross rents as a property management fee, either to be drawn by the property management firm directly, **or paid to a third-party manager.** Additionally, during the rent-up and operations phases, the property manager amounts for out-of-pocket marketing costs such as advertisements and flyers shall be part of the set management fee.

Phase VII- Other provisions

1. Default/Foreclosure

The loan will be in default if the borrower fails to maintain required fire or flood insurance, or fails to pay loan payments and property taxes. If the first mortgage is being considered for refinance only, the City may consider subordination. The lender, upon written request by the owner, may contact the City to obtain the Subordination requirements. The loan is not assumable. Rental of the property and/or contracts of sale are prohibited.

The guidelines related to a default, in relation to a first mortgage lien holder are located with the AmeriNational Community Services, Inc. contract and consists of policies and procedures in determining the steps to be taken, based upon the level of delinquency, in addition to short sale, subordination requirements, tax and insurance and loan monitoring.

If an owner defaults on a loan, and foreclosure procedures are initiated, they will be carried out according to the Foreclosure Policy adopted by the City of Visalia.

2. Fair Housing and Lending Laws

Fair Housing Act, Title VIII of the Civil Rights Act of 1968 (Fair Housing Act), as amended, prohibits discrimination in the sale, rental, and financing of dwellings, and in other housing-related transactions, based on race, color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women, and people securing custody of children under the age of 18), and handicap (disability). See State of California Fair Lending Notice attached with the application, under Appendix "W".

Title VI of the Civil Rights Act of 1964, Title VI prohibits discrimination on the basis of race, color, or national origin in programs and activities receiving federal financial assistance.

Section 504 of the Rehabilitation Act of 1973, Section 504 prohibits discrimination based on disability in any program or activity receiving federal financial assistance.

Section 109 of Title I of the Housing and Community Development Act of 1974, Section 109 prohibits discrimination on the basis of race, color, national origin, sex or religion in programs and activities receiving financial assistance from HUD's Community Development and Block Grant Program.

Title II of the Americans with Disabilities Act of 1990, Title II prohibits discrimination based on disability in programs, services, and activities provided or made available by public entities. HUD enforces Title II when it relates to state and local public housing, housing assistance and housing referrals

The Office of Fair Housing and Equal Opportunity (FHEO) administers and enforces federal laws and establishes policies that make sure all Americans have equal access to the housing of their choice. Learn more about FHEO.

Discrimination in mortgage lending is prohibited by the federal Fair Housing Act and HUD's Office of Fair Housing and Equal Opportunity actively enforces those provisions of the law. The Fair Housing Act makes it unlawful to engage in the following practices based on race, color, national origin, religion, sex, familial status or handicap (disability):

3. Relocation

The Uniform Relocation Act (URA) requirements apply. To ensure compliance with URA, the City will issue a move-in notice before the tenant signs the lease as specified under Handbook 1378 at Appendix 29, provided as "Appendix AF" for reference, and continue to issue move-in notices to any tenant-occupant as long as there is an NSP affordability designation on the property. See Appendix "AG" for an example of the letter provided to the tenant, signed and returned for future reference.

4. Monitoring rental property

With the use of federal funding, properties maintained under the ownership of the City, and rented for a period of time require management, monitoring and compliance with the federal funding.

5. Conflict of Interest Requirements

Contractor needs to be aware of the following provisions regarding current or former state employees. If City has any questions on the status of any person rendering services or involved with the Agreement, the City must be contacted immediately for clarification. 24 CFR 570.611 be referred to in relation to CDBG/NSP conflict of interest.

Community Redevelopment Law shall also apply.

6. Dispute Resolution/Appeals Procedures

Any person/family applying for the Program has the right to appeal if their application is denied.

Written appeals must be made in writing to the City Manager or his designee within fifteen (15) days of receipt of notice of decision. The City Manager or his designee shall

investigate the appeal and render a decision in writing within thirty (30) days from receipt. The decision of the City Manager or his designee shall be final.

7. Loan Servicing Policies and Procedures

The City of Visalia contracts its loan servicing, with Amerinational Community Services, Inc.

8. Loan Monitoring

The City is contracted with AmeriNational Community Services to conduct loan monitoring services. Monitoring is required to ensure that the borrower and their home ad here's to the City Program requirements. The services include owner-occupancy, condition of the property as it pertains to the Affordability Covenants, Resale Restrictions, tax and insurance payments and any other required monitoring.

9. Program Income (NSP)

Program income from NSP-funded activities is subjected to limitations and requirements based on the NSP activity that generated the program income and on the date the income is received. Program income received before July 30, 2013, may be retained by the City if it is used for eligible NSP activities (acquisitions, rehabilitation then resale). Program income received on or after July 30, 2013, must be remitted to HUD for deposit in the Treasury unless HUD approves a request to use the funds for other NSP purposes. The Neighborhood Stabilization Program Guidance on Program Income and Revenue Requirements are attached as Appendix "AF".

Redevelopment funds will also be recycled to acquire, rehabilitate and resale single family dwellings to eligible homebuyers.

10. Administrative Costs

An amount of up to 10% of an NSP grant provided to a jurisdiction (City) and up to 10% of program income earned may be used for general administration and planning activities as defined at 24 CFR 570.205 and 206.

Administrative costs are defined as costs for general management, oversight, coordination, evaluation, and reporting on eligible activities. Administrative costs are not directly related to a specific activity. Costs include reasonable costs of program management, coordination, monitoring and evaluation; providing information to citizens and local officials, preparing budgets, preparing reports. Such costs do not include costs directly related to carrying out eligible activities, since those costs are eligible as part of the activity delivery costs of such activities. Administrative costs consist of the salary and wages paid to City staff, including fringe benefit costs that have carried out these activities. Regulations are found in 24 CFR 570.206 plus expenditures for planning in 24 CFR 570.205. See attached table for tasks. <http://edocket.access.gpo.gov/cfr/2007/apr/qtr/24cfr570.206.htm>

Additional examples of Administrative costs are:

- Preparation of budget and schedules
- Developing systems to assure compliance with program regulations

- Preparing reports and other documents related to the program to submit to authorities
- Reasonable costs related to the development of applications for mortgage commitments
- Environmental reviews
- counseling
- construction oversight
- appraisals
- designing and setting up program
- Indirect costs. Indirect costs may be charged to the CDBG (NSP) program under a cost allocation plan prepared in accordance with OMB Circular A-21, A-87, or A-122 as applicable.

11. Activity Delivery Costs

Activity Delivery is all (reasonable) costs other than administration, incurred by the City (Grantee). NSP indicated that, activity delivery costs, as defined in 24 CFR 570.206, may be charged to the particular activity and will not count as general administration and planning costs. The definition of program administrative costs at 24 CFR 570.206 specifically excludes activity delivery costs, i.e., “staff and overhead costs directly related to carrying out activities under 570.201 through 570.204, since these costs are eligible as part of such activities” as stated in the 24 CFR.

Examples of such costs may include:

- Marketing
- Staff cost performing work write-ups, inspecting completed construction work
- Financial services and Transfer taxes and other costs involved in the transfer of ownership of property, such as
 - Recordation
 - Title evidence services.
 - Surveys and appraisals
- Application processing fees
- Loan origination fees, credit reports

Allowable rehabilitation activity delivery costs include, cost of building permits, and other related government fees, cost of architectural, engineering, and other consultant services which are directly related to the rehabilitation of the property (if required), actual costs of services rendered that are incidentally but directly related to the rehabilitation work (e.g. planning, engineering, construction management, including inspections and work write-ups).

Pre-award Costs: A grantee may incur pre-award costs necessary to develop the NSP Application and undertake other administrative and planning actions necessary to receive the NSP grant, in compliance with 24 CFR 570.200(h). States may allow subrecipients to incur pre-award costs pursuant to 24 CFR 570.489(h).

2011 City of Visalia NSP Targeted Areas

