

CALHOMESF HOUSING TRUST SINGLE-FAMILY TENANT-OCCUPIED LOAN PROGRAM

PROGRAM OVERVIEW

The Purpose of the Single-Family Tenant-Occupied Loan Program is to provide affordable financing to rehabilitate 1 to 4 unit properties occupied by low- and moderate-income tenant households.

The Mayor's Office of Housing and Community Development (MOHCD) administers the owner-occupied CalHome program which helps property owners rehabilitate their homes. The CALHOMESF loan can be combined with the CalHome loan to address needed repairs where there is a combination of tenant and owner occupied units exist. For example, in a 4 unit building where the property owner resides in 1 of the units, but the rest are tenant-occupied; the CalHome loan will be able to address the repairs in the owner-occupied unit and the CALHOMESF loan will be able to address the tenant-occupied units. If the property is all tenant-occupied, the CALHOMESF loan will address the needed repairs on the property.

INCOME ELIGIBILITY

The property owner must be the legal owner of the property to be rehabilitated and must have the right to encumber the property. Each person named on title must sign all loan documents. For purposes of determining the borrower and tenant household income, the gross annual income of all persons 18 years and older who will reside in the property will be considered as part of the total income used to determine eligibility.

Gross annual income shall include all sources of income from wages, salaries; any additional income from overtime, part-time employment, bonuses, commissions, tips, dividends, interest or dividends earned on assets, royalties, annuities, insurance policies, retirement funds, pensions, disability or death benefits, Veteran's Administration (VA) compensation, net rental income or other income (such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments).

Gross income shall mean the anticipated income of the household for the twelve-month period following the date of determination of income. "Income" shall consist of all payments from all sources received by the family head (even if temporarily absent) and each additional member of the family household who is not a minor shall be included in the annual income of a family.

Income shall include, but not be limited to:

- 1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses;
- 2) The net income from operation of a business or profession or from rental or real or personal property (for this purpose, expenditures for business expansion or amortization of capital indebtedness shall not be deducted to determine the net income from a business);
- 3) Interest and dividends;

- 4) The full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts;
- 5) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay (but see subdivision (b)(3)).
- 6) Periodic and determinable allowances such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling;
- 7) All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family or spouse.
- 7) Borrower or Co-Borrower not employed or not receiving any income must provide an Unemployment Affidavit that is signed and notarized. The Unemployment Affidavit (Appendix 3) must be used in the event that the applicant is not able to provide the Mayor's Office of Housing with paystubs or other documentation of regular income.

Each household member's income is derived by multiplying the current gross paystub amount (for cases where the pay stub gross amount differs from one pay stub to the next, the gross amount will be averaged before multiplying by the number of pay periods) by the number of pay periods for any given year.

Example:

For example, if a head of household is currently working for \$7.00 per hour, 40 hours per week, MOH should assume that this person would continue to do so for the next year. Thus, estimated earnings for this person would be \$7.00 per hour multiplied by 2,080 hours, or \$14,560 per year.

$\$7.00 \text{ per hour} \times 40 \text{ hours per week} = \280 per week

$\$280 \times 52 \text{ weeks} = \$14,560$

A self-employed applicant can also be considered to have income, which varies from month to month. The borrower's gross annual income calculations will be based on the income before taxes from the applicant's signed, quarterly Profit and Loss Statement. This amount will be divided by the appropriate number of months covered by the Profit and Loss Statement to derive a monthly income amount. The monthly income amount will be multiplied by 12 to derive the annual income. To calculate this type of income an applicant must provide:

- Self-employed Affidavit.
- A Profit and Loss statement for the most recent quarter, or
- The 1040 tax return for the most recent year, including all schedules.

In tenant-occupied properties, 50% of the units must income qualify in order to perform rehabilitate in all units in the property. To income qualify, households must not exceed the 120% of area median income adjusted for household size.

Regardless of residency, the property owner's household must not exceed 120% of area median income adjusted for household size. In addition, an asset test will apply to the property owner's household to determine the need of affordable financing offered by MOHCD.

BORROWER ASSETTEST

Available Assets do not include funds held in pension accounts, retirement funds, 401(k) plans, trust funds, or similar assets, which are not available for liquidation without substantial financial penalty to the Borrower. Personal property such as household furnishings, tools of trade or employment, or automobiles are NOT considered available assets.

MOHCD will apply an asset test to the borrower's application. Assets include all savings, checking accounts, gifts and other sources of money (cash) other than retirement accounts. To apply the asset test, 2.5% of the assets' cash value over \$5,000 or the actual income from the assets, whichever is higher, will be added to the total borrower's income. Retirement savings will be excluded from the asset test, but all retirement statements should be included in the application package.

For example:

Household of 3 earns \$50,000 a year

Total household assets = \$10,000

2.5% of \$10,000 is added to income: $\$10,000 \times 2.5\% = \250

New total household income: $\$50,000 + \$250 = \$50,250$

PROPERTY ELIGIBILITY

In order to be eligible for a CALHOMESF loan, properties must be permanent structures within the City and County of San Francisco, one (1) to four (4) attached dwelling units, and the property must be free of all liens not approved by MOHCD. These are often negative liens such as for delinquent taxes, judgments, mechanics liens or any other liens that could jeopardize the City's loan security. All liens owed to the City for delinquent payments must either be satisfied prior to accessing a loan or a payment plan must be arranged and approved by the appropriate City entity.

ELIGIBLE IMPROVEMENTS

CALHOMESF funds must be used to make improvements according to the standards and priorities listed below. Improvements are subject to MOHCD's approval of a scope of work and the availability of funds to complete the work.

- Health and safety hazards and the correction of housing and building code deficiencies,
- Make Americans with Disabilities Act accessibility modifications,
- Address the removal lead-based paint hazards, asbestos and other environmental hazards from the property,
- The correction of housing and building code deficiencies, and
- Minimal green building retrofits,

All work completed with CALHOMESF loan funds must be in compliance with all applicable building codes and standards. CALHOMESF loans may be used to make necessary repairs to bring permitted units into code compliance, if there are sufficient funds to do so.

CONSTRUCTION/CONTRACTOR REQUIREMENTS

MOHCD must perform a building inspection to determine needed repairs in the form of a deficiency list. The deficiency list shall be used to develop the scope of work. All project scopes of work shall be bid out via the City's Office of Contract Administration's bid and opportunities database for a period of 10 working days to ensure transparency and competitive pricing. All project scopes of work with more than one trade shall employ a General Contractor and in no case will the property owner be allowed to act as his or her own General Contractor. In addition, contractors must have the required licenses and certifications to perform the scope of work, must carry the proper insurance to perform the scope of work, and must provide an endorsement naming the City and the property owner as an additional payee. All contractors participating in MOHCD's rehabilitation programs must be City vendors possessing a City vendor number and must be able to accept payments electronically via ACH.

ELIGIBLE LOAN COSTS

The CALHOMESF loan shall permit the use of funds for the cost of building permits and other related government fees, architectural, engineering, and other consultant services which are directly related to the rehabilitation of the property, non-recurring closing costs such as title fees, credit report fees, appraisal fees, title report/insurance etc., necessary reports used in the development of the scope of work for the rehabilitation of the property, approved scope of work items, a mandatory 10% contingency, and tenant relocation costs should the budget permit.

PREDEVELOPMENT LOAN

In order to obtain the services of an architect and/or a structural engineer, produce architectural plans and drawings and engineering reports, other needed construction and financial reports, MOHCD will establish a predevelopment loan. To secure a predevelopment loan, the borrower must provide a full application to MOHCD. MOHCD will determine eligibility and will require execution of a Promissory Note and Deed of Trust in the amount of the predevelopment loan amount. The amount of the loan will be determined by the number of units on the property; \$2,000 per unit. Any funds spent during the predevelopment phase will be assumed in the total CALHOMESF loan amount. Should the property owner cancel the loan or if the project becomes ineligible, the property owner will be fully responsible for the funds spent during the predevelopment phase. The borrower may repay MOHCD the amount spent, however, if the borrower is unable to pay this amount, the predevelopment Deed of Trust will be recorded against the property.

RELOCATION

CALHOMESF funds may be used to fund tenant relocation expenses when MOHCD has determined that relocation is needed and when sufficient loan funds are available. However, relocation expenses are ultimately the responsibility of the property owner.

LOAN TERMS

Maximum Loan Amount: The maximum loan amount is \$25,000 per unit or \$50,000 for a 1 unit tenant-occupied single family home.

Interest: The CALHOMESF rehab loan shall carry a three (3) percent simple interest rate.

Loan Stipulations: The CalHomeSF loan will carry loan stipulations to protect the current tenants that helped the project qualify for the loan. After the initial income qualification, tenant-occupied household income will not need to be recertified. In addition, the property owner shall extend a 2 year lease to each qualified tenant-occupied household with no increase in rent.

Loan-To-Value: The sum of all existing real estate loans and the CALHOMESF loan when compared to the appraised value of the property cannot exceed a ratio of 105% of the post work appraisal. (Loan-to-Value or LTV = Loan Amount/Appraised Property Value.) A full appraisal from an outside vendor shall be performed on each project. The appraisal shall inspect both the exterior and interior of the property.

Repayment: The CALHOMESF loan payments are deferred and due and payable upon sale or transfer of the property, or due in ten (10) years, whichever comes first. CALHOMESF loans may not be amortized. CalHomeSF loans are assumable to qualifying heirs of the property.

Prepayment Penalty: There is no prepayment penalty associated with payment of these loans prior to the due date.

Documentation and Security: A loan agreement, recorded Deed of Trust and a Promissory Note shall be executed by the Borrower to secure the loan. No financing, junior or senior to the CALHOMESF loan may have a balloon payment due before the maturity date of the CALHOMESF loan. And the CALHOMESF loan shall require title insurance in the amount of the loan at the loan closing.

Hazard and Flood Insurance: All property must carry hazard and flood, where applicable, insurance and the City and County of San Francisco must, at the time of the loan, be listed as additional loss payee. Borrowers must maintain fire and flood (where applicable) insurance on the property in the amount at least equal to the replacement value of the improvements.

Subordination/Refinance: The CALHOMESF loan is subject to MOHCD subordination guidelines and fees, and can only be subordinated with MOHCD approval.

Credit Report: MOHCD will obtain and review the borrower's credit report in order to verify information provided on the Application. During review of the credit report, MOHCD will verify:

- The borrower's current address is the same as that listed on the application.
- The borrower's Social Security number is the same as that provided on the application.
- The borrower's outstanding debt and total amount of monthly debt service payment.
- The number of real estate loans and amount of each. Compare these with the loan information provided on the Application.
- The borrower's employment information.

LOANDOCUMENTS

Upon approval of a CALHOMESF, the borrower will be sent a commitment letter detailing the date and time of the closing. MOHCD shall conduct the in-house closing for each CALHOMESF loan during which time, the borrower must execute the following documents:

- Loan Agreement
- Promissory Note secured by a Deed of Trust
- Deed of Trust
- Request for Notice of Default
- Truth in Lending Statement
- Additional Loss Payee Request
- Notice of Right to Cancel

APPLICATION PROCESS

Preliminary Eligibility Screen: The preliminary screening is usually conducted with a telephone interview. During the eligibility screening a Rehab Inspection Referral Form is filled out and provided to construction staff. The form will provide necessary information in order to set up and conduct a property inspection.

Property Inspection: The property inspection will determine the property and rehabilitation eligibility. Additionally, construction staff will draft a deficiency list and will estimate the cost of rehabilitation. This Deficiency List is not a detailed Scope of Work, but is a preliminary assessment of whether the repairs needed and the work desired can be addressed through a CALHOMESF loan.

During this visit, the construction staff will assess whether:

- The property meets the basic property eligibility guidelines;
- The requested repairs are eligible;
- Code deficiencies and/or health and safety situations exist. These are priority items that must be addressed in the scope of work and must be brought to the attention of the borrower.
- The scope of work items can be addressed by the available loan amount.

Application: Once program staff has a deficiency list and an estimated cost of rehabilitation, program staff will contact the borrower to discuss the deficiency list and if the client is still interested. If so, program staff will send the borrower a loan application and will work with the property owner to send out information and an application to the tenant-occupied units.

Application Review: After receiving the complete applications from the borrower and the tenants, MOHCD will review the information for completeness and make a determination of the borrower's and tenant income eligibility. To determine eligibility, MOHCD will determine whether:

- The Application Package is complete;
- The borrower and tenant incomes is within income limits,

- The property owner is named on the title as the owner;
- The property taxes have been paid; and
- The property insurance is satisfactory and current.
- The property is eligible.

Borrower applications can be determined ineligible for the following:

- The application is late or incomplete;
- The borrower and/or tenant incomes are over the income limit;
- The borrower is not the legal owner of the property; or
- The property taxes have not been paid, or proof is insufficient;
- The property is not insured or insurance is not current;
- The property is not eligible;
- The borrower fails to comply with any CALHOMESF eligibility criteria or fails to cooperate with the loan process.

As additional verification of the above information, MOHCD will order and review the borrower's credit report. If the credit report contradicts information provided by the borrower, additional information must be provided before making a determination about eligibility.

Predevelopment Account Set Up: Qualified borrowers will be offered a predevelopment loan to absorb costs incurred in the early stages of the property rehabilitation project. To establish a predevelopment account, the property must have been inspected and determined eligible and the borrower must have submitted the following documentation:

1. A complete and signed program application.
2. A notarized Deed of Trust in the amount of the predevelopment account executed by the borrower.
3. A Promissory Note in the same amount executed by the borrower.
4. An executed Disclosure of Services & Owner Responsibility Agreement
5. Two years of Tax forms (most recent).
6. Two months Pay stubs (most recent) or a benefits letter
7. Two months of Bank Statement (most recent)
8. Insurance Declaration
9. Most recent Mortgage Statement
10. Authority to Verify Credit Information
11. Notice of Funds Availability
12. Lead Notification
13. Fair Lending Notice

Technical Services: Technical services, such as engineering and architectural, may be required for the rehabilitation of the property. MOHCD will work with the borrower to secure services and will work with the engineer and/or architect to coordinate necessary services.

Scope of Work: The project MUST be bid out within 6 months of the Promissory Note and Deed of Trust execution date. MOHCD will use the Deficiency List, other pertinent reports (including engineering and/or architectural if needed), and his/her own inspection notes to prepare the Scope of Work. MOHCD will work with the borrower to draft a scope of work. Scopes of work will be drafted to facilitate the inclusion or exclusion of certain scope items so that if the scope of work exceeds the loan limit, MOHCD can work with the borrower to prioritize the scope of work to meet the program priorities. Once the scope of work has been finalized by the MOHCD and the owner, it will be put out to bid via the City's Office of Contract Administration bid opportunity database.

Contractor Bidding: MOHCD will prepare a bid package which will include the scope of work, general conditions and architectural/engineering plans if applicable. The bid package will be bid out to Contractors using the City's Bids and Opportunities database administered by the Office of Contract Administration for a minimum of 10 working days. The MOHCD construction manager will utilize the P-325 Bid Posting Request Form to publish the bid opportunity. Contractors wishing to bid must attend the scheduled bid walk. The Contractor must return the bid proposal to MOHCD by the due date specified in the bid package. If the contractor does not meet the deadline, the contractor's bid will not be considered. A bid proposal shall include:

1. An MOHCD company profile form
2. Bid Sheet. Do not enclose Scope of Work
3. Any addenda that have been issued
4. Copy of California Contractor's License
5. Copy of RRP certifications (employee and company)
6. Copies of other applicable certifications
7. List of subcontractors if applicable
8. Evidence of Insurance

Contractor bid proposals found to be incomplete the first time under these guidelines will be allowed to participate in the bid and will be permitted to submit missing information by the close of business the day after they are notified in writing of the missing information. Contractor bid proposals after the initial courtesy warning will be automatically disqualified.

Contractor Selection: The borrower and MOHCD will jointly review and compare the bids and contractor qualifications, however the borrower must select the contractor. While MOHCD may provide some guidance in selecting Contractors, it is the borrower's responsibility to select a contractor. If the borrower finds that none of the contractor bids are satisfactory, MOHCD will re-bid the project. The selected contractor must meet all program requirements and must be able to begin construction within ten (10) days of issuance of the Notice to Proceed by MOHCD.

MOHCD will notify the contractor of the owner's selection. MOHCD will also inform the contractor that, following final loan approval, the borrower and contractor will hold a pre-

construction meeting at the property to finalize construction details. To secure the final loan approval, the construction manager will fill out the Rehab Project Summary form, attach the contractor forms, and forward to the underwriter. This form will initiate the final loan approval process.

Loan Application and Processing: MOHCD will review the final the application, Scope of Work, cost estimate, and selected contractor information in order to underwrite the loan request. If the loan request is approved, MOHCD will send a commitment letter to the borrower requesting a date and time for the closing of the loan. Upon closing the loan and securing all necessary approvals, MOHCD will record the Deed of Trust and issue the Notice to Proceed. Prior to the commencement of the work by the contractor, MOHCD will schedule the pre-construction conference with the borrower and Contractor.

Pre-Construction Conference: MOHCD will schedule the pre-construction meeting with the Contractor and the borrower. At this meeting, MOHCD, the contractor and the borrower will agree on the start date, construction schedule, draw schedule, review the construction budget, discuss work site rules, and come to final agreement on work items completion date.

The contractor must bring to the conference:

- Name of the Contractor's contact for the borrower and MOH;
- The names and contact information for all Sub-Contractors;
- Manpower list;
- The name and contact information for the job foreman; and
- A proposed construction schedule.

At the conference, participants shall accomplish the following:

- Finalize the construction schedule, including start and finish dates.
- Determine notification schedule for tenant-occupied units.
- Review and understand compliance with Section 1012-1013, Lead-Based Paint Hazard requirements.
- Review and understand payment request, inspection, payment (draw), and retention payment procedures.
- Review and understand Change Order procedures.
- Review and understand Punch List procedures.
- Review and understand Contractor, borrower and MOHCD roles and responsibilities.
- Review rules about smoking, telephones, restrooms, parking, security, etc...
- Review and understand program grievance resolution procedures.
- Review and sign the construction contract (the contract does not take effect until a Notice to Proceed has been issued by MOHCD).

Draw Inspections and Payment: On the basis of the construction schedule, the contractor must notify the borrower that he/she requests a draw inspection. MOHCD will inspect the work to determine that a draw is appropriate. MOHCD shall inspect the completed work with the contractor and borrower present. If the borrower and MOH are satisfied with the completed work, the borrower must sign the payment authorization. The contractor should receive payment within ten (10) working days of MOHCD receiving complete and accurate draw request and payment authorization paperwork.

Other Inspections: MOHCD will monitor the project to ensure that work is proceeding according to the Scope of Work, schedule of performance, program requirements and the construction contract properly by conducting scheduled and random inspections of the site. In addition to MOH; HRC, DPH, DBI Inspectors, OSHA, and the Fire Marshall may conduct random inspections of the site.

Final Inspections: When the contractor has completed work, he/she must notify the borrower. The borrower and MOHCD will inspect the work to determine whether work has been completed in accordance to the Scope of Work and all City and County of San Francisco codes. If the work is complete and the borrower and MOHCD are satisfied, the borrower must sign the Notice of Completion form and submit it to MOHCD. MOH will record the form within ten (10) days of the contractor completion of the work. In addition to completion of the work, MOHCD will order a lead-based paint clearance test. This test must be cleared of lead hazards prior to issuing final payment.

Prior to releasing retention, MOH will obtain from the contractor all warranties related to workmanship, materials and appliances for distributing to the borrower, and must verify that the contractor has released all liens against the property and receive copies of all lien releases. Only after all liens have been released, can the borrower sign the Retention Payment Authorization form to release the retention.

Change Orders: To initiate a Change Order, the Contractor must prepare a detailed description of the work item that requires changing and its cost, and/or impact on the schedule. The contractor must then contact the borrower and request that he/she submit a Change Order form, completed by the contractor, to MOHCD. If the borrower and MOHCD agree to the Change Order, MOHCD will schedule an inspection visit. MOHCD and borrower will inspect the construction site in order to make an approval or rejection determination. MOHCD shall approve or reject the request and notify the borrower and contractor. If approved, the borrower and contractor must sign the Change Order and submit it to MOHCD before work begins.

Close Out: After the project is complete, MOHCD will send the borrower an accounting of the loan funds.