

## **RENTAL LOAN INFORMATION**

### **BRIEF OBJECTIVE**

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The Rental Loan Program objective is not to revitalize neighborhoods, but to assure an adequate supply of standard housing and affordable rents to low income families. A key component in the program is the Split Subsidy approach to Public-Private Partnerships where the owner can add their own funds (up to 50%) to the rehabilitation loan funds.

(1) The supply of private market rent housing available to low-income tenants is increased by providing government funds to rehabilitate existing units and,

(2) Affordable Housing to lower income persons residing in these units through the City's loan underwriting based on the needs of individual projects.

### **PROGRAM CHARACTERISTICS**

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#### **Eligible Type of Repairs**

Correction of substandard conditions and repair of major systems in danger of failure to meet Housing Quality Standards. This includes structural and mechanical work, including foundations, exterior siding, roofs, plumbing, electrical, furnaces, windows, insulation and weatherization, termite repairs and painting.

#### **Guarantee of Affordable Rents**

There are no rent restrictions; however, projects will be selected based on their affordability to families whose income is 80% and below median income for this area. No project selected for rehabilitation will have rents which exceed the Fair Market Rent after rehabilitation. Refer to Project Selection for more information. Preferred projects are those whose rents are increased over the life of the loan according to Federal Fair Market Rent (FMR) schedule established by HUD's Section 8 program. This schedule assures continued affordable rents and minimizes gentrification.

#### **Owner Investment**

Owner may invest 50% of rehabilitation costs from his own private funds. City may provide 50% from CDBG funds and gap financing to assure no negative cash flow. City may also make arrangements for owner from other conventional financing.

#### **Program Objective**

Increase supply of affordable housing to low income renters.

## USE OF RENTAL LOANS FOR HOUSING FOR FAMILIES

A primary objective of the Rental Loan Program is to assist large families with children. Priority will be given to investor owners whose units are two or more bedrooms and whose rents are at or less than the Federal Fair Market Rent Schedule established by HUD.

Fifty-one percent (51%) of the rental units in any potential project selected for rehabilitation must initially be occupied by low income tenants. After rehabilitation, the owner must notify the City of any vacancies and agree to maintain 51% occupancy of the rental units by low income tenants.

### **INCOME QUALIFICATIONS\* LOW INCOME HOUSEHOLDS Updated 2/03**

1 person	2 persons	3 persons	4 persons	5 persons	6 persons	7 persons	8 persons
\$63,350	\$72,400	\$81,450	\$90,500	\$97,700	\$104,950	\$112,200	\$119,450

\*This income schedule is revised by the U. S. Department of Housing and Urban Development on an annual basis.

## SELECTION OF PROJECTS

There are four key elements for project selection:

1. Tenant occupancy: 51% of units are occupied by low income tenants at the time of application. When there is a mixture of 1, 2 and 3 bedrooms, the larger units will always count toward the 51%.
2. Financial feasibility: Loan to Value ratio, 80:20, Rents at or below FMR, and property income sufficient enough to support the additional encumbrance.
3. Degree of Rehabilitation: Will project cost exceed \$20,000/unit?
4. **Relocation: rehabilitation must not displace low and very low income tenants. The City may reject an application solely on the basis of the costs of relocating families. If relocation costs can be estimated at a minimal cost, the city may approve the application with the condition that relocation funds be provided as part of the owner's rehabilitation loan.**

## **FINANCIAL FEASIBILITY**

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Feasibility criteria relate to the economics of the property and to the loan underwriting concerns of private lenders. Economically, a project is feasible if it generates sufficient income, (a) to pay all operating expenses; and (b) to return an "acceptable" profit to the owner. From an underwriting standpoint, a project is feasible if the principal amount of all loans after rehabilitation does not exceed a fixed percentage of the property's value (80:20).

## **NEIGHBORHOOD PRESERVATION**

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The objective of the Rental Loan Program is to preserve neighborhoods and not revitalize them; the impact of rehabilitation under a program tied to housing subsidies should assure that low income tenants can remain in units rehabilitated through this program. We do not anticipate preservation triggering a gentrification effect since the program design will screen out those properties which are not economically feasible to rehabilitate through the Rental Loan Program. The ultimate benefit to the owner is that an improvement in the neighborhood will increase the value of owner's investment, and reduce the overall operation expense by installing certain energy related improvements.

## **RENTAL LOAN PROGRAM POLICY**

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The purpose of the loan is to finance the rehabilitation of eligible properties under CDBG funds.

### **Maximum Loan**

No more than \$20,000 per 2 bedroom unit.

### **Interest Rate**

Interest on rental loan funds will generally be 3%.

### **Term of Loan**

The term for rental rehabilitation funds will range between 10-15 years.

### **Loan to Value Ratio**

On deals which consider the income of the owner rather than the property income, the loan to value ratio will be 80% of the after-rehabilitation value (i.e., the "as-is" appraisal plus the cost of rehabilitation).

## **Refinancing**

This is permitted if required to make the project feasible for the rental rehabilitation program, and when funds are available, not to exceed 75% of the total rehab costs.

## **Eligible Work**

All code violations, all work cited in the Termite Report, and minimum code violations cited by the Housing or Building Division or the Housing Authority Office.

## **General Property Improvement**

Not permissible with rental rehabilitation program funds. (Appliances and draperies required to meet Housing Quality Standards may be eligible from matching funds if units are to be rented under Section 8 Lease.)

## **Loan Processing, Packaging and Settlement**

Loans will be made in combination with resources from regular CDBG funds, and possibly a private lender selected by individual owners.

## **Other**

In projects where an owner has an existing balloon mortgage, staff should underwrite the rehabilitation loan to set a maturity date 30 - 60 days prior to the maturity of the balloon mortgage for further protection of the City's interest.

## **CONSTRUCTION PHASE**

The standards for rehabilitation will be clearly articulated by the program staff to establish realistic rehabilitation goals and provide the basis for defining the minimum code required work in each structure. In order to accomplish this goal, the program staff, and a City Building Inspector will conduct a thorough inspection of the building. The owner will then be provided with a deficiency list identifying all required work items. It will be the responsibility of the owner to secure competitive bids that describe in detail the scope of work to be done under this loan. At least three bids are encouraged.

Bids are generally due at the time an application is submitted to the loan committee to determine the loan amount. In order for a bid to be considered, the interested contractor must prepare his estimate using the City's Home Improvement Loan Program Bid Package and Rehabilitation Construction Performance Standards.

Although the selection of a contractor is the homeowner's responsibility, the Home Improvement Loan Program will provide the framework for structuring contractor involvement to foster the professionalism of the program, and attract quality contractors. In cases where the rehabilitation project is ten units or more, the contractor will be required to comply with all the provisions set forth by the Davis-Bacon and related Acts. The Acts provide for the payment of minimum wages, including fringe benefits, to laborers and mechanics engaged in construction activity under contract financed by Federal funds. Projects subject to Davis-Bacon will be formally advertised for sealed bids. The advertising will be done at the expense of the program, one time only in the local paper selected by the program.

### **Construction Payments by Electronic Cash Management System**

The Rental Loan Program operates on a reimbursement basis; in other words, a check for a full amount of the loan will not be presented to you. It will be placed in an escrow account to be disbursed according to the progress of the work. Proper documentation is required when requesting payment or reimbursement for construction expenditures. Payments will only be made upon receipt of invoices approved by the owner and verification of work performed by the contractor. Housing staff and Building inspector will visit the site at intervals appropriate to the stage of construction or as otherwise agreed by the City Housing staff. Payments are usually available within 5 days after approval of progress payment request. Owner has 30 days from the date of loan approval to begin construction. All construction work must be completed and all funds expended within 60-90 days depending on the scope of work and project size. At the end of the job, the City will hold back 10% of the contract amount until a Notice of Completion has been recorded and 35 days has lapsed from that time.

### **Requirements for Contractor Selection**

All contractors participating in the rehabilitation of projects funded by the Rental Loan Program must be qualified, licensed contractors who produce quality work within the designated time frames and who are sensitive to the needs of the owner as well as the program. Contractors must provide certification of insurance that shows they have Comprehensive Public Liability Insurance (Minimum \$500,000) coverage protecting the property owner in the event of bodily injury or property damage, evidence of Workman's Compensation Insurance which is current and in the correct amount. (Minimum \$300,000). Owner Builder projects will be discouraged, unless the property owner is also owner or partner of a licensed construction firm or can verify that he has extensive knowledge of construction methods. Where an owner completes work, which does not require a building permit, reimbursement can be made from the loan fund for materials only. The federal government prohibits owners from receiving pay for their own labor under this program. Owner builder projects which are approved, must be completed between 8 A.M. and 5 P.M. Monday through Friday. In other words, an owner cannot be approved for a loan for work which would be completed in the evenings and on weekends. If an owner builder project is approved owner builder must be able to provide Workman's Compensation insurance for the duration of the job with minimum coverage of \$300,000. Payroll records will also be required. For projects funded in excess of \$100,000, Performance and Payment Bonds will be required.

## **NONDISCRIMINATION AND EQUAL OPPORTUNITY**

Loan amounts will be made available in conformity with the non discrimination and Equal Opportunity requirements of the Federal Fair Housing Law, 42 U.S.C. 3601-19, with Executive Order 11063, and with the title VI of the Civil Rights Act of 1964, 42 U.S.C. 6101-07.

- (ii) Prohibitions against discrimination on the basis of age under the Age Discrimination act of 1975, 42 U.S.C. 6101-07, and the prohibitions against discrimination against handicapped individuals under section 504 of the Rehabilitation Act of 1973, 29 U.S.C. 794;
- (iii) The requirements of Executive Order 11246 and regulations issued under the Order at 41 CFR Chapter 60;
- (iv) The requirements of Executive Order numbers 116625, 12432 and 12138. The City of Redwood City will make efforts to encourage the use of minority and women's business enterprises in connection with activities funded under this part. The City will keep records regarding the number and dollar amounts of participation by minority and owner-owned businesses.

Such efforts shall include the following elements appropriate to the rehabilitation activities funded:

- (A) Establishing local dollar targets based on factors the City regards as appropriate and related to the purpose of the Rental Loan Program (i.e., Grant amounts will not exceed 50% of cost of rehabilitation).
- (B) Including qualified minority and women's businesses on bid solicitation lists, and assuring that minority and women's businesses are solicited whenever they are potential sources of materials or services.
- (C) When economically feasible, dividing total contract requirements into small tasks or quantities, or extending delivery schedules, so as to permit maximum minority and women's business participation;
- (D) Using the service and assistance of Golden State Business League, Directory of Minority Construction Contractors and Sub Contractors; Minority Business Development Agency of the Department of Commerce; the Inter-Agency Committee on Women's Business Enterprise and United Minority Business Entrepreneurs as needed.
- (E) If sub-contracts are let, the prime contractor will be required to take affirmative steps such as those described above.
- (F) When owners request modifications for disabled access, all accessibility improvements shall comply with the requirements of the Uniform Federal Accessibility Standards (UFAS).

# THE LOAN PROCESS

## ***Application Process***

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Application is submitted and staff evaluates  
(verification of tenant profile forms and supporting documents)  
Staff orders preliminary title report and credit report.  
Applicant is pre-screened for eligibility.  
Staff and building official make inspections.  
Staff prepares and finalizes deficiency list with owner's approval.

## ***Pre-Construction Phase***

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Owner/ Staff announces invitation to bid.  
Open House is held by Staff and owner.  
Bid Opening is set for 7-10 days after invitation to bid.  
Owner reviews bids and pre-approves contractor.

## ***Loan Approval***

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Application is submitted to the Home Improvement Loan Committee.  
Staff sends letter approving or denying the loan.

## ***Loan Funding***

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Staff holds Pre-construction conference.  
Owner signs loan documents and construction contract.  
Deed of Trust is recorded. (72 business hours or after rescission period)  
Funds are transferred to construction escrow account.

## ***Construction Phase***

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Owner issues Notice to Proceed and permit is issued.  
Contractor begins construction.  
Staff conducts inspections according to progress payments.

## ***Project Completion***

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Final completion inspection.  
Owner, contractor and staff have final walk-through and punch list is generated.  
Punch list is corrected as applicable.  
Notice of Completion is filed.  
Remaining funds are disbursed.  
Homeowner is mailed evaluation of program.  
Owner completes evaluation and reviews construction accounting.

**CITY OF REDWOOD CITY HOME IMPROVEMENT LOAN PROGRAM  
INSTRUCTIONS FOR COMPLETING LOAN APPLICATION**

**APPLICATION FORMS AND ADDITIONAL INFORMATION  
REQUIREMENTS**

To enable us to process your loan application request as quickly as possible, it is important that the forms in this application package be filled out completely and accurately. The Home Improvement Loan Committee meets on the second Wednesday of each month. Completed applications must be received by the Housing Office 7-10 days before the Loan Committee meeting.

**NOTE: Please type or print all entries on your application.**

Co-borrowers can fill out one application (and any other supporting financial schedules) if their assets and liabilities are sufficiently joined so that the application is meaningful on a combined basis. Otherwise, separate applications and schedules are required.

**LOAN APPLICATION (Owner of Subject Property)**

1. Please give accurate name and address of employment.
2. If applying for Rental Loan, please fill in appropriate information concerning the rental property, total rental income and expenses, mortgage payments, lender's name, address, insurance and taxes.
3. List all income in the Household.
4. Credit information; list all outstanding loans and lender's name.
5. All applicants must sign and date the form.
6. On rental properties owner must fill financial income and expense statement.
7. Together with the application, we will need the following documents:

**SELF EMPLOYED OR SALARIED--**

Signed copies of your federal income tax returns for the last two years. (W-2 included) copy of most recent pay stub.

**EXAMPLES OF OTHER SOURCE OF INCOME--**

Copy of Social Security award letter or copies of your Social Security income check. Retirement award letter. AFDC or public assistance letter

**INSURANCE AND TAX VERIFICATION--**

Copy of your Homeowner's and Fire Insurance Policy. Copy of the latest tax statement.

**ELIGIBLE REPAIRS--**

Copy of Termite report, if applicable. Contractor's cost estimate, if available.

**Redwood City Tenant Profile Form (for rental property owners)**

For each and every tenant residing in the project to be rehabilitated a tenant profile must be submitted, with proof of income. If you have questions, be sure to get clarification from the Home Improvement Loan Program Staff. This information is needed to determine eligibility.

**HOME IMPROVEMENT LOAN PROGRAM  
RENTAL LOAN APPLICATION**

The information collected below will be used to determine whether you qualify as a borrower under the City of Redwood City Home Improvement Loan Program - Rental Loan. It will not be disclosed outside the City of Redwood City without your consent except to financial institutions for verification of information and as required and permitted by law. You do not have to provide the information, but if you do not, your application for a loan may be delayed or rejected.

**Address of Property to be Improved** \_\_\_\_\_

\_\_\_\_\_  
**Applicant Name:**

\_\_\_\_\_  
**Address:** **How long?** [    ]

\_\_\_\_\_  
**Telephone Number (Home)** **(Work)**

\_\_\_\_\_  
**Date of Birth:** **Social Security #:**

\_\_\_\_\_  
**Marital Status:**     [   ] Married     [   ] Separated  
                                 [   ] Single (Includes Divorced or Widowed)

\_\_\_\_\_  
**No. of Dependents:** [   ] **Please list ages and sex of each dependent.**

\_\_\_\_\_  
**Previous Address:** **How long?** [    ]

\_\_\_\_\_  
**Name of nearest relative not living with you. (Relationship and Phone Number)**

\_\_\_\_\_  
**Employer Name and Address:**

\_\_\_\_\_  
**TYPE OF WORK – POSITION:** **NO. OF YEARS** [    ]

\_\_\_\_\_  
**Bank Accounts (Give bank name and account numbers. List type of account, i.e., checking, CD's, savings). Provide copy of last statement.**

**HOME IMPROVEMENT LOAN PROGRAM  
RENTAL LOAN APPLICATION**

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**Co-Applicant Name:**

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**Address:**

**How long?** [    ]

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**Telephone Number (Home)**

**(Work)**

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**Date of Birth:**

**Social Security #:**

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**Marital Status:**

[    ] **Married**      [    ] **Separated**  
[    ] **Single (Includes Divorced or Widowed)**

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**No. of Dependents:** [    ] **Please list ages and sex of each dependent.**

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**Previous Address:**

**How long?** [    ]

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**Name of nearest relative not living with you. (Relationship and Phone Number)**

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**Employer Name and Address:**

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**TYPE OF WORK – POSITION:**

**NO. OF YEARS** [    ]

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**Bank Accounts (Give bank name and account numbers. List type of account, i.e., checking, CD's, savings). Provide copy of last statement.**

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**PROJECT CASH FLOWS**

<u><b>TOTAL</b></u>	<u><b>Monthly</b></u>	<u><b>Yearly</b></u>
<b>Gross Income</b>	\$ _____	\$ _____
Less Vacancies (at _____%)	\$ _____	\$ _____
\$ _____	\$ _____	\$ _____

**Operating Costs and Expenses**

Taxes	\$ _____	\$ _____
Fire Insurance	\$ _____	\$ _____
Utilities	\$ _____	\$ _____
Management	\$ _____	\$ _____
Other	\$ _____	\$ _____
Subtotal	\$ _____	\$ _____
Less Operating Costs and Expenses		
At _____%	\$ _____	\$ _____
\$ _____		

<b>Net Operating Income</b>	\$ _____	\$ _____
Less Existing Debt Service		
1 <sup>st</sup> Mortgage Payment \$ _____ (Balance \$ _____)		\$ _____
2 <sup>nd</sup> Mortgage Payment \$ _____ (Balance \$ _____)		\$ _____
Total Net Income (After Expenses)		\$ _____
Equity to Support New Mortgage Property Value		\$ _____
Less Current Indebtedness		\$ _____
Equity		\$ _____
Maximum Supportable Mortgage		\$ _____
Rehabilitation		\$ _____

**INCOME**

<b>Annual Income for 20_____</b>	<b>Applicant</b>	<b>Co-Applicant</b>	<b>Total</b>
Employment Income			
Overtime			
Bonuses/Commissions			
Dividends/Interest			
Rental Income			
<b>Total Income</b>			

**EXPENSES**

**Annual Expenses for 20\_\_\_\_\_**

Property Tax and Assessments	
Real Estate Loan Payments	
Payment on Contracts or Notes	
Property Insurance	
Other	
<b>Total Expenses</b>	

**LIST OF REAL ESTATE**

<b>Property Address and Lender</b>	<b>Year Purchased/ Purchase Price</b>	<b>Market Value</b>	<b>Gross Rental Income</b>	<b>Mortgage Payment</b>	<b>Expenses, Taxes, Ins., Maint. &amp; Misc.</b>

**PROPERTY TO BE IMPROVED**

**Address of Property:** \_\_\_\_\_

**Owner's Estimated Value \$** \_\_\_\_\_

<b>No. of Units:</b>	<b>Census Tract:</b>	<b>Purchase Date:</b>
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**1<sup>st</sup> Mortgage Lender:**

<b>Balance:</b>	<b>Monthly Payment:</b>	<b>Loan Maturity Date:</b>
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**2<sup>nd</sup> Mortgage Lender:**

<b>Balance:</b>	<b>Monthly Payments:</b>	<b>Loan Maturity Date:</b>
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**Describe Improvements:**

**Estimated Cost of Improvements: \$** \_\_\_\_\_

<b>Requested Loan Amount: \$</b>	<b>Terms : _____ Years at _____ %</b>
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**Fire/Homeowners Insurance:**

**Policy #**

**Agents Name and Address:**

**Phone:**

**Manager's Name:**

**Phone:**

**Instructions for Inspection:**



**RENTS**

<b>NOW</b>			<b>AFTER REHAB/NEW CONSTRUCTION</b>		
<b>Type</b>	<b># Units</b>	<b>Rent (or Vacant)</b>	<b># Units</b>	<b>Rent Amount</b>	<b>FMR's (Office Use)</b>
<b>Studio</b>					
<b>1 Bedroom</b>					
<b>2 Bedroom</b>					
<b>3-Bedroom</b>					
<b>Total</b>					

## AGREEMENT

The undersigned applies for the loan indicated in this application to be secured by a deed of trust on the described herein, and represents that the property will not be used for any illegal or restricted purpose, and certifies that he/she the owner of record, and as such, gives City of Redwood City permission to inspect property. Verification or reverification of any information contained in the application may be made at any time by the Lender, its agents, successors and assigns, either directly or through a credit reporting agency, from any source named in this application, and the original copy of this application will be retained by the Lender, even if the loan is not approved.

The undersigned certifies that all statements made in this application are true and were made for the purpose of obtaining the loan and fully understands that it is a federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements concerning any of the above facts.

Applicant \_\_\_\_\_ Date: \_\_\_\_\_

Co-Applicant \_\_\_\_\_ Date: \_\_\_\_\_

## VOLUNTARY INFORMATION

The following information is requested by the federal government in order to monitor the City's compliance with equal opportunity and fair housing laws. If you do not wish to furnish this information, please initial below.

RACE CATEGORIES		APPLICANT		CO-APPLICANT	
		Check Only One Race Category	ETHNI-CITY Check if also Hispanic	Check Only One Race Category	ETHNI-CITY Check if also Hispanic
	Race				
1	American Indian or Alaska Native				
2	Asian				
3	Black or African American				
4	Native Hawaiian or Other Pacific Islander				
5	White				
6	American Indian or Alaska Native <i>and</i> White				
7	Asian <i>and</i> White				
8	Black or African American <i>and</i> White				
9	American Indian or Alaska Native <i>and</i> Black or African American				
10	Balance/Other				

For Office Use Only  
 Income \$ \_\_\_\_\_ Expenses \$ \_\_\_\_\_ Equity \$ \_\_\_\_\_

How did you hear of our program? \_\_\_\_\_