

HAMMERS FOR HOPE

CALHOME OWNER-OCCUPIED HOUSING
REHABILITATION ASSISTANCE PROGRAM

Agreement #16-CALHOME-11253

2017 – 2020

PROGRAM GUIDELINES





TABLE OF CONTENTS

SECTION 1. OVERVIEW AND PURPOSE	3
SECTION 2. APPLICATION PROCESS	3
2-A. PRELIMINARY APPLICATION PROCESS.....	3
2-B. FULL APPLICATION PROCESS.....	4
SECTION 3. CONTRACTING PROCESS AND MONITORING	6
3-A. BID SOLICITATION PROCESS	6
3-B. PRE-CONSTRUCTION CONFERENCE	6
3-C. CONSTRUCTION MONITORING	6
3-D. CONFLICTS OF INTEREST.....	7
SECTION 4. DETERMINATION OF APPLICANT ELIGIBILITY	8
4-A. PROCESS FOR DETERMINING INCOME ELIGIBILITY	8
4-B. PROCESS FOR DETERMINING OWNER-OCCUPANCY STATUS	9
4-C. PROCESS FOR DETERMINING NUMBER OF ELIGIBLE PERSONS IN HOUSEHOLD	10
SECTION 5. DETERMINATION OF PROPERTY ELIGIBILITY	10
SECTION 6. THE PROGRAM LOAN.....	12
6-A. MAXIMUM ASSISTANCE.....	12
6-B. TERM AND INTEREST.....	12
6-C. LOAN CONDITIONS.....	12
6-D. LOAN SECURITY	13
SECTION 7. LOAN SERVICING	13
7-A. LOAN PAYMENTS.....	13
7-B. REUSE ACCOUNT PLAN.....	14
7-C. LOAN MONITORING PROCEDURES.....	14
7-D. DEFAULT AND FORECLOSURE	14
7-E. SUBORDINATIONS.....	14
SECTION 8. CONSTRUCTION.....	15
8-A. STANDARDS.....	15
8-B. ELIGIBLE REHABILITATION AND RECONSTRUCTION COSTS.....	16
SECTION 9. EXCEPTIONS AND SPECIAL CIRCUMSTANCES	18
SECTION 10. DISPUTE RESOLUTION AND APPEALS PROCEDURES	18
ATTACHMENT A. GROSS INCOME INCLUSIONS.....	19
ATTACHMENT B. GROSS INCOME EXCLUSIONS	21
ATTACHMENT C. STANDARDS FOR BED AND BATHROOM ADDITIONS.....	22
ATTACHMENT D. ACTIVITY DELIVERY FEE SCHEDULE	Error! Bookmark not defined.

SECTION 1. OVERVIEW AND PURPOSE

In 2017, Hammers for Hope, a nonprofit organization (the Recipient), entered into a contractual relationship with the California Department of Housing and Community Development (HCD) to administer a CalHome Owner-Occupied Rehabilitation (OOR) Program (the Program). The Program will be operated by North Coast Opportunities (NCO), hereinafter referred to as the Program Operator. These Hammers for Hope OOR Program Guidelines simply set forth the Program policies and procedures, which are subject to change without notice.

The Program provides assistance in the form of deferred-payment loans used to finance the cost of reconstructing homes that were destroyed by Lake County's 2015-2016 Valley wildfire or any subsequent wildfires. Use of loan funds is limited to correction of health and safety items, as well as code violations, providing the homeowner with a healthy, safe, sanitary, and code-compliant home. The number of units on the lot may not increase and the total square footage of the original, principal residence structure to be reconstructed may not be substantially exceeded; however, the number of rooms in a unit may be increased or decreased to comply with health and safety codes. The entire loan amount will be due and payable upon a variety of conditions or circumstances, the most common being the sale or transfer of the home. The principal amount will never be forgiven and must be repaid upon non-owner occupancy of the program-assisted property.

SECTION 2. APPLICATION PROCESS

2-A. PRELIMINARY APPLICATION PROCESS

Homeowners will be offered the opportunity to qualify for assistance on a first-come, first served basis, and will be placed on a wait list if staff cannot process their application immediately. The Program Operator will ensure that all persons, including qualified individuals with disabilities, have 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 or sexual orientation, be excluded, denied benefits, or subjected to discrimination under the Program.

The Preliminary Application will collect the following information to enable the Program Operator to make a preliminary assessment of Applicant eligibility:

- Applicant Name and Contact Information
- Marital Status
- Employer
- Anticipated Annual Income (amount and source) for all household members
- Household Assets, with value and annual income amount
- Debts, with monthly payment amounts
- Property address

OOB PROGRAM GUIDELINES



- Number of persons occupying property
- Date of purchase
- Date of construction
- Number of units
- Number of bedrooms and bathrooms
- Amount owed on loan(s), and interest rates (for all loans)
- Demographic information

If an initial review of the Preliminary Application indicates likely eligibility based on income and property value, the Program Operator will schedule an interview with the Applicant to explain the Program in detail, including the full application process. At this interview, the Program Operator will:

- Fully explain the Program.
- Introduce Universal Residential Loan Application; the Program Operator will assist Applicants with completing the form as needed.
- Provide applicant with a list of required documents, to include as appropriate: driver license and social security card; wage statements or pay stubs (2 months), with W2 and 1099 forms; bank statements (2 months); investment statements (2 months); mortgage loan statements (2 months); tax returns (1 year); home owner insurance declaration.
- Have Applicant sign Authorization to contact employer, request credit report, and collect any other needed information.
- Complete a TLC Case Management Intake Form (if desired by Applicant and if not already completed) to assess needs for additional social services and/or emotional support and provide assistance and/or make referrals as appropriate.

2-B. FULL APPLICATION PROCESS

The homeowner will have 30 days to complete and submit the Universal Residential Loan Application with all supporting documentation. After the Applicant has submitted the complete set of required forms and documentation, the Program Operator will:

- Contact employer(s) to verify employment.
- Order and review credit report(s).
- Conduct initial inspection of property.
- Verify deed.
- Calculate property value through Estimates of Value method.
- Confirm income and property eligibility.
- Schedule follow-up interview with Applicant

If the Program Operator encounters material discrepancies and/or misrepresentations, and/or there are income, asset, household composition, or other important questions that can't be resolved, the Program Operator reserves the right to deny assistance to the

OOB PROGRAM GUIDELINES



household. In this case, the Applicant may re-apply after three months have elapsed from the time of written assistance denial.

Property Inspection and Estimate Process

Upon completion of the loan paperwork, the Program Operator will conduct an inspection of the property to confirm eligibility and acceptability of the property for participation in the Program. The inspection will be documented on an Inspection Form, including measurements and relevant observations and special conditions with potential cost consequences.

For Applicants that choose to contract with an approved volunteer-based nonprofit Contractor (Hope City, a program of Hope Crisis Response Network or Mennonite Disaster Services) and whose application is approved by them, the property inspection and estimate process will be streamlined because these organizations have already developed floor plans, work write-ups, and detailed cost estimates for the homes that they build.

For Borrowers planning to work with private Contractors, the Program Operator will complete the inspection and then proceed with the following steps for the estimate process:

- Create a floor plan for the home and site plan for the property as needed.
- Complete a Work Write-Up and a Cost Estimate.
- Review the Work Write-Up and Cost Estimate with the Applicant.

The Program Operator will comply with County permitting processes as required. The Program Operator does not warrant any construction work, or provide insurance coverage.

Loan Review Process

The Hammers for Hope Loan Review Committee will review and approve or deny all loans. The Program Operator will prepare a loan request on behalf of the Applicant. The loan request will include: the cost of construction, a contingency fund, and other project costs (listed in Section 9). The Loan Review Committee will review the loan request and approve or deny the loan. The Loan Review Committee may approve assistance with financing exceeding 100% of after-rehabilitation value as needed in cases where no other financial resources are available to cover the cost of the improvements and where clear and convincing documentation exists, justifying why the exception is needed. However, the total financing cannot be more than 105% of the after-rehabilitation value.

Homeowners will be provided written notification of approval or denial. Any reason for denial will be provided to the Applicant in writing. Once approved, loan documents will be executed and the loan will be funded.

If the loan is approved, the Program Operator will proceed to work with the title company to record the Deed of Trust and Promissory Note.

SECTION 3. CONTRACTING PROCESS AND MONITORING

3-A. BID SOLICITATION PROCESS

The Applicant may choose to solicit his/her own bids or request that the Program Operator solicit bids on his/her behalf. The Borrower will contract directly with the Contractor, whether a Volunteer Organization or a private entity.

Volunteer Organization Contractor. Volunteer organizations (Hope City, a program of Hope Crisis Response Network, and Mennonite Disaster Services) are available to act as Contractors. Working with a Volunteer Organization Contractor will obviate the need for a bidding process.

Private Contractor. For Borrowers working with Private Contractors, the Program Operator will schedule a bid walk-through and mail invitations to eligible Contractors on file in an attempt to obtain reasonable bids. Cost reasonableness will be determined by comparing the bids received with the cost estimate prepared by the Program Operator. Bids should be within 10% of the Program Operator's cost estimate; an explanation must be provided to the file for any bid selected exceeding 10% of the estimate. The homeowner will be encouraged to accept the lowest reasonable bid.

Contractors must be licensed and bonded by the State of California Contractors Licensing Board and agree to comply with all federal and state regulations regarding all labor and material warranties. Contractors must also provide Program Operator with evidence of Worker Compensation Insurance and Comprehensive General Liability and Property Damage Insurance. The Program Operator determines Contractor eligibility by contacting the State Contractors License Board. The Contractor is required to provide a self-certification stating that he/she is not on the Federal debarred list. Once determined eligible, the Contractor is then notified of provisional award of bid, pending loan approval. Notices of non-award are mailed to participating Contractors.

3-B. PRE-CONSTRUCTION CONFERENCE

A pre-construction conference will be scheduled with Homeowner, Contractor, and Program Operator. The Program Operator will review the Owner-Contractor Construction Contract, including the Work Write-Up, start date, pay schedule, and projected date of completion, with the Homeowner and Contractor. The construction contract and Notice to Proceed will be executed at that time.

3-C. CONSTRUCTION MONITORING

Start-Up/Field Inspections

The Program Operator will visit the job site regularly to perform field inspections to check the scope of work and progress, inspect materials, and confirm the job is on schedule and within budget. The Program Operator will work with the County of Lake Building Inspector to ensure that work is in compliance with building codes. The Program Operator will refer

back to original plans and specifications to verify that work is completed as contracted. Homeowner's "sweat equity" commitment will also be checked, if any. The Program Operator will review the work status with the Homeowner and with the Contractor in order to remedy any developing problems quickly and to ensure that both are satisfied with the construction process. The Program Operator will ensure that signage is placed at the construction site that lists HCD as providing financing for the project.

Change Orders

Written change orders will be required when the Homeowner requests any changes to the Work Write-Up, such as eliminating an item completely, eliminating one item and substituting another, or adding items. The change order will describe the change and state the dollar value of the change. The change order will be signed by both the Contractor and the Homeowner, and submitted to the Program Operator for approval. If the change order exceeds approved financing, the Homeowner will be asked to provide additional funds. Request for additional funds must be presented to the Loan Review Committee for approval prior to Program Operator signing-off on the change order.

Progress and Final Payments

Ninety percent (90%) of the contract amount will be distributed to the Contractor in the form of three equal periodic payments during construction. The Contractor will request a progress payment from the Homeowner and notify the Program Operator that he/she has done so. Upon favorable inspection by the Homeowner, Program Operator, and County of Lake Building Inspector, the payment authorization will be signed by the Homeowner and submitted for payment.

The final 10% of the contract amount will be held as a retention payment. When construction is completed, the Program Operator will inspect the work item by item with the Homeowner and the Contractor. The County of Lake Building Inspector will perform a final inspection. Any corrections or deficiencies will be noted and corrected by the Contractor. Upon favorable final inspection, a Notice of Completion will be prepared, signed by the Homeowner, and then recorded. The final 10% retention payment will be released within 35 days of the recording of the Notice of Completion.

3-D. CONFLICTS OF INTEREST

No member of the Hammers for Hope Board of Directors or any other official, employee, or agent of Hammers for Hope who exercises any policy decision-making functions or responsibilities in connection with the planning and implementation of the Loan Program shall directly or indirectly be eligible for a Rehabilitation Loan. A Contractor with a vested interest in the property cannot bid on a rehabilitation job. Such a Contractor may act as owner/builder, subject to standard construction procedures. Owner/builders are reimbursed for materials purchased which are verified by invoice/receipt and used on the



job. Reimbursement occurs after the installation is verified by the Program Operator to be part of the scope of work. Owner/builders are not reimbursed for labor.

SECTION 4. DETERMINATION OF APPLICANT ELIGIBILITY

4-A. PROCESS FOR DETERMINING INCOME ELIGIBILITY

Income and Credit Worthiness Qualification Criteria

The purpose of the income qualification process is to assure that the Borrower is eligible for CalHome funds. All occupants must certify that they meet the CalHome household income eligibility requirements and document their household income. Household income is the annual gross income (before any deductions) of all household members age 18 and older that is anticipated during the coming 12-month period. When calculating income, the household’s projected ability to earn must be used, rather than past earnings. **See Attachment A and B** for detailed guidance. Two types of income that are not considered are income of minors and of live-in aides. Certain other household members living apart from the household also require special consideration.

All households must have incomes at or below 80% of the County of Lake area median income (AMI), adjusted for household size, as updated and published by HCD each year. Income limits in place at the time of the loan approval will apply when determining Applicant income eligibility. (See www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits.shtml).

Income eligibility criteria, based on 80% of Lake County median income (June 15, 2017)

Household Size:	1	2	3	4	5	6	7	8
Annual Income:	\$33,550	\$38,350	\$43,150	\$47,900	\$51,750	\$55,600	\$59,400	\$63,250

Required Documentation

There is no presumption of income eligibility. Verification from all income sources, for every household member who is 18 and over, must be obtained. Homeowners will be required to verify their income by providing the following documentation, as appropriate, dated within six months prior to loan closing:

- Wage statements or pay stubs (two months)
- Bank statements for all accounts (two months)
- Investment statements (two months)
- Mortgage loan statements (two months)
- Tax returns, with supporting W2s and 1099s (one year)

An asset is cash or non-cash item that can be converted to cash. Cash assets may include payments received for fire insurance claims or financial assistance from the Federal Emergency Management Agency (FEMA). While there is no asset limitation for participation in the Program, income from assets is considered when calculating annual income if the

Applicant has household assets in excess of \$5,000. It is the income earned on assets, not the asset value, which is counted in annual income. Household assets include checking, savings, and money market accounts, payments received from insurance claims and FEMA, and stocks, bonds and other forms of capital investments. Retirement accounts are not counted as assets for CalHome Income verification, if they are not accessible to the Applicant without retiring or terminating employment. The value of equity in real property, value of gems, art collections, etc. is not to be considered in the asset base because the value fluctuates until sold. However, income from the property must be considered. The value of necessary items such as furniture and automobiles is excluded.

Borrower's assets shall only be considered for the determination of income eligibility. Borrowers will not be required to liquidate their assets to qualify for a CalHome Program loan. However, it is expected that the Borrower invest their funds first and only rely on the CalHome loan as gap financing.

Using the information and documentation provided by the Applicant, the Program Operator will complete the Gross Income Worksheet (Form WS-1) for all household members. CalHome requires this form to be completed for all Applicants.

The Program Operator will send an employment verification form to the employer named by the Applicant, to verify employment. The Program Operator will also obtain a credit report on each Applicant. Credit scores are not used to determine eligibility. Rather, credit reports are reviewed to determine if there are any active default, foreclosure or bankruptcy proceedings, judgments, collection, or tax liens against the Applicant that would be cause for denial of the application. If the Applicant has a mortgage, the Program Operator will verify that payments are current and that the Applicant is not at imminent risk of defaulting. Applicants who have filed for bankruptcy or gone into foreclosure within the last three years are not eligible to participate in the Program.

4-B. PROCESS FOR DETERMINING OWNER-OCCUPANCY STATUS

Only properties owned by persons who are currently living elsewhere because their homes were destroyed by the fires, and properties that are being purchased by renters whose rental residence was destroyed by the fires are eligible to participate in the Program. The previous or future owner-occupied unit must be the owner's principal place of residence. A photocopy of a recent utility bill will verify proof of occupancy during the loan application phase, if utilities are currently being paid for the property site.

In the event that a homeowner sells, transfers title, or discontinues residence in the rehabilitated property for any reason, the loan becomes due and payable, unless the homeowner who received the loan dies and the heir to the property meets income requirements and intends to occupy the home as his/her principal residence. Upon approval of the Program Operator, the heir may be permitted to assume the loan at the rate and terms the heir qualifies for under current participation Guidelines. If the heir does not meet applicable eligibility requirements, the loan is due and payable.

If a homeowner converts the property to a rental unit, or any commercial or nonresidential use, the loan is due and payable.

If the loan is funded with a CalHome Loan it is not assumable or transferable except under the following limited circumstances:

- The transfer of the Property to the surviving joint tenant by devise, descent, or operation of the law, on the death of a joint tenant;
- A transfer of the Property where the spouse becomes an owner of and occupies the property;
- A transfer of the Property resulting from a decree of dissolution of marriage, legal separation, or from an incidental property settlement agreement by which an income-eligible spouse becomes an owner of and occupies the Property; or
- A transfer to an inter vivos trust in which the Borrower is and remains the beneficiary and occupant of the property.

Occupancy will be monitored through the Borrower's submission of the following documentation annually:

- Current utility bill
- Statement affirming unit's continued use as primary residence of the Borrower.

4-C. PROCESS FOR DETERMINING NUMBER OF ELIGIBLE PERSONS IN HOUSEHOLD

US Department of Housing and Urban Development guidelines provide occupancy policies that allow for two persons per bedroom as reasonable. **See Attachment C** for details and exceptions. Determination of income eligibility requires a clear understanding of the number of eligible persons in the household. Documentation of the number of eligible persons in the household will be verified through the Borrower's submission of IRS 1040 Tax Return for the previous year and Certification of Occupancy Form.

SECTION 5. DETERMINATION OF PROPERTY ELIGIBILITY

Site and Development Restrictions

Housing that is reconstructed with CalHome funds must meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion. California Building Code (with wildfire provisions) must be used as required.

All reconstruction will meet near and long-term resiliency standards in rebuilding homes damaged or destroyed by the wildfires. Resiliency is generally defined as the ability to resist and recover from future disasters. Projects must demonstrate commitment to immediate and long-term resiliency through completed, pending, or planned actions. The Recipient is required to comply with all applicable laws, including those that are designed to enhance resiliency (including without limitation those set forth below) and that they will, as a condition to CalHome providing funding, include in each Borrower's loan documents

provisions that the Borrower will comply with all applicable State, federal, and local laws, including those that are designed to enhance resiliency and including those (as they may apply) set forth below:

- Building Standards: Consistency with Chapter 7(a) of the California Building Code or Other Pertinent Hazard Mitigation Building Codes.
- Zoning and Site Planning: Consistency with Government Code Section 66474.02 and applicable regulations adopted by the State Board of Forestry and Fire Protection pursuant to Sections 4290 and 4291 of the Public Resources Code.
- Certified Local Ordinances: Local ordinances certified as meeting or exceeding Title 14 SRA Fire Safe Regulations, pursuant to 14 CCR 1270.01 and 1270.03.

Process for Determining Property Eligibility

To be eligible for participation in the Program, properties must meet the following criteria:

- Property must be a single-family residence or manufactured home.
- Property is or will be owned by a Borrower whose home was destroyed or damaged by the Valley wildfire or subsequent wildfire areas in Lake County. An eligible Borrower would be a Homeowner whose home was destroyed or a Renter whose home was destroyed and who now owns or is purchasing eligible property for construction of a new home.
- Property must contain (or have contained, prior to the fire) a legal residential structure intended for continued residential occupancy.
- Post-rehabilitation value cannot exceed 100% of the current median sales price of a single-family home in Lake County, which is \$248,470 as of April 2017 (www.car.org/marketdata/data/countysalesactivity) The median sales price will be updated regularly.
- Total loan-to-value ratio for all loans on the property, including the CalHome loan, may not exceed 105% of the after-rehabilitation value.

Required Documentation

The after-rehabilitation value is determined using the Estimates of Value method. The Program Operator will develop an estimate of value based on the sale prices of up to three comparable properties, sold within the last 12 months. The Borrower file will include the estimate of value and document the basis for the value estimate.

The purpose of the Estimates of Value Method is to determine that the after-rehabilitation value of the housing unit will not exceed the permitted amount and that total loans against the Property will not exceed the maximum combined loan-to-value limit of 105% of the after-rehabilitation value.

SECTION 6. THE PROGRAM LOAN

6-A. MAXIMUM ASSISTANCE

An eligible homeowner may qualify for the full cost of reconstruction work needed to comply with State and local codes and ordinances. The maximum loan amount ranges from \$60,000 to \$80,000, with two-thirds of the loans at \$60,000 or less and one-third of the loans at \$80,000 or less. The Program will make an estimated 62 loans, averaging approximately \$66,774 (42 loans at \$60,000 and 20 loans at \$80,000). Pursuant to the instructions provided on page 6 of the CalHome Notice of Funding Availability, Activity Delivery Fees of 10% are not included in the maximum loan amounts and will be reimbursed by CalHome in addition to the maximum CalHome loan per unit. **(See Attachment D.)**

Costs may be supplemented with personal financing and/or credit for volunteer labor (“sweat equity”) valued at \$20 per hour, or with other loan or grant programs, which are sources of leverage for the Program Operator.

6-B. TERM AND INTEREST

Program loans are deferred-payment, 30-year, zero (0%) interest loans. If it is determined that repayment of a CalHome loan at the maturity date causes a hardship to the homeowner, the Program Operator may opt to:

- Amend the Note and Deed of Trust to defer repayment of the amount due at maturity for up to 30 additional years (at 0% additional interest). This may be offered one time.
- Convert the debt at loan maturity to an amortized loan, repayable in 15 years at 0% additional interest.

Borrowers must maintain the property in post-rehabilitation condition for the term of the loan. Should the property not be maintained in accordance with the Agreement, the loan shall be considered in default and will become due and payable. If necessary, foreclosure proceedings will be initiated.

6-C. LOAN CONDITIONS

Title Insurance

Once the loan application has been approved by the Hammers For Hope Board of Directors, the Program Operator will open escrow on the loan. At that point, the escrow officer will perform a preliminary title search to determine their ability to offer title insurance.

Fire Insurance

The homeowner shall maintain fire insurance on the property for the duration of the loan. This insurance must be an amount adequate to cover all encumbrances on the property. The insurer must identify the Recipient as Loss Payee for the amount of the loan. A binder shall be provided to the Recipient and maintained in the Borrower’s file.

Flood Insurance

For any Property that is in a 100-year flood zone, the Borrower is required to maintain flood insurance in an amount adequate to secure the loan and all other encumbrances. This policy must designate the Recipient as Loss Payee and a binder shall be provided to the Recipient and maintained in the Borrower's file.

Note that CalHome funds cannot be used to pay insurance at any time.

6-D. LOAN SECURITY

Loan security for all owner-occupied rehabilitation stick-built homes will be secured by the real property and improvements, and will also include a Deed of Trust and Promissory Note in favor of the Recipient.

A manufactured home in a mobile home park or on leased land will be secured by an HCD 480.7 or an HCD 484 Statement of Lien, and will also include a Promissory Note.

Entering a subordinate lien is acceptable. However, the Recipient will not subordinate a first lien position once established. Note that CalHome only allows subordinate financing that is recorded concurrently if: 1) the fees and/or charges of the subordinate financing are reasonable and consistent with industry standards for first mortgage financing; 2) there is no balloon payment due before the CalHome loan maturity date; and 3) the subordinate financing defers all principal and interest payments for a term equal to the CalHome loan.

SECTION 7. LOAN SERVICING

7-A. LOAN PAYMENTS

The Program Operator will accept loan payments from Borrowers prepaying deferred loans, and Borrowers making payments in full upon sale or transfer of the property. Payments will be made to Hammers for Hope at the address below:

North Coast Opportunities
413 North State Street
Ukiah CA, 95482

The Program Operator will be the receiver of loan payments and will maintain a financial record-keeping system to record payments and file statements on payment status. The Recipient may at a later time enter into an agreement with a third party to collect and distribute payments and/or complete all loan servicing aspects of the Program. Payments will be deposited and accounted for in the Program Reuse Account.

While the attached procedures outline a system that can accommodate a crisis that restricts Borrower repayment ability, it should in no way be misunderstood: all loans must be repaid. All legal means to ensure the repayment of a delinquent loan as outlined in Loan Servicing Procedures will be pursued. **See Loan Servicing Procedures.**

7-B. REUSE ACCOUNT PLAN

See Reuse Account Plan document.

7-C. LOAN MONITORING PROCEDURES

Homeowners will be required to submit each of the following to the Program Operator between January 1 and 15 of each year for the term of the loan:

- Proof of occupancy in the form of a copy of a current utility bill;
- Statement of unit's continued use as a residence;
- Declaration that other title holders do not reside on the premises;
- Verification that property taxes are current;
- Verification of current required insurance policies; and
- Verification that property is maintained in post-rehab condition.

7-D. DEFAULT AND FORECLOSURE

If an owner defaults on a loan and foreclosure procedures are instituted, they shall be carried out according to the Program Foreclosure Policy adopted by the Program Operator and included in the Loan Servicing Procedures document.

7-E. SUBORDINATIONS

The Program Operator may approve a request to subordinate a loan, in order for the owner to refinance the property, under the following conditions:

- The lien position of the Program Operator loan will remain the same or be advanced.
- The new primary loan is no greater than the balance of the loan being refinanced, although the costs of refinancing the loan may be added to the principal balance.
- The purpose of the new primary loan is to reduce the interest rate being paid and/or reduce the owner's payment.
- The refinanced loan must have an impound account for taxes and insurances.
- The refinancing terms must be acceptable to the Recipient.

CalHome allows subordinate financing that is recorded concurrently only if:

- Fees and/or charges of the subordinate financing are reasonable and consistent with industry standards for first mortgage financing;
- There is no balloon payment due before the CalHome loan maturity date; and
- The subordinate financing defers all principal and interest payments for a term equal to the CalHome loan.

CalHome will only subordinate if:

- The Borrower obtains a maximum first mortgage loan with a term and interest rate that is consistent with affordable housing costs as defined in the program Guidelines; and

- The mortgage loan does not include provisions for negative amortization, principal increase, balloon payments, or deferred interest.

SECTION 8. CONSTRUCTION

8-A. STANDARDS

Approved Use of Loan Funds

Use of loan funds is limited to correction of health and safety items, as well as code violations and compliance with local ordinances. Replacement materials will be of a similar grade and quality compared to the original construction. Substantial upgrades such as premium carpet, travertine tile, marble tile, granite or marble countertops, are normally not permitted to be paid with CalHome funds.

Like-for-like requires that the structure being constructed must be replacing a like structure (replace manufactured housing with manufactured housing, for example). However, additions may be approved when required by codes or ordinances or to alleviate overcrowding. **See Attachment C.**

The property must meet all applicable current codes, rehabilitation standards, ordinances, and zoning ordinances at the time of completion.

Sweat Equity Labor

Borrowers may agree to participate in the rehabilitation of their Property by providing sweat equity labor as all or part of the project. The Program Operator reserves the right to determine whether the project is appropriate for sweat equity labor, or if the owner is capable of such labor. In cases where the homeowner agrees to do parts of the job, an agreement will be signed by the homeowner, specifying tasks and completion times. If the work is not completed in a timely manner, the Contractor working on the job may be asked to complete the work.

The Participant Labor Agreement Form will indicate the tasks the Borrower will complete. The loan amount will include all items in the accepted bid, including sweat equity, so that should the homeowner be unable to complete their portion of the job, labor funds will be available to complete the job. Upon completion of the total job, the labor saved through sweat equity will be a credit against the agreed upon Project cost, which included labor prior to the commitment of sweat equity, thereby providing a credit to the original job cost estimate such that the loan balance will equal the actual net project cost for outside labor and materials.

The value or leverage generated from sweat equity will be determined on the basis of twenty dollars (\$20) per hour. The cost difference or savings generated will be documented in the construction portion of the file.

CalHome requires that a homeowner have a valid Contractor's license to perform the rehabilitation work themselves.

8-B. ELIGIBLE REHABILITATION AND RECONSTRUCTION COSTS

As defined in the CalHome Handbook, rehabilitation includes reconstruction, demolition, and construction of a structure. The Program is focused on the reconstruction of homes that were destroyed by the Lake County fires. Rehabilitation also includes room additions to alleviate overcrowding, and improvements where necessary to meet any locally-adopted standards used in local rehabilitation programs. Rehabilitation does not include replacement of personal property. Rehabilitation will address the issues described below in the order listed. Eligible costs are included for each item.

Health and Safety Issues

Eligible costs to address health and safety issues include, but are not limited to:

- Complete reconstruction of houses destroyed by fires
- Replacement of major housing systems
- Energy-related improvements, if required for health and safety or code compliance
- Improvements for handicapped accessibility
- Driveway, if it is determined to be a health and safety issue

Code and Regulatory Compliance

Eligible costs include, but are not limited to, additional work required to rehabilitate and modernize a home and bring it into compliance with current building codes and regulations. Painting and weatherization are included.

Other Eligible Costs

Allowable costs include:

- **Demolition and clean up:** tear down and disposal of dilapidated structures and clearance of weeds, junk, debris, stagnant water, and garbage which directly affect the residence structure and constitute a health and safety hazard. If a garage or carport is detached, it may not be rehabilitated but may be demolished, if it is determined to be a health and safety issue.
- **Upgrades and additions:** construction of additional bedrooms and bathrooms is an eligible cost if needed to alleviate overcrowding. **See Attachment C.**
- **General property improvements:** permitted if they relate to health, safety, code or ordinance compliance. All improvements must be physically attached to the property and permanent in nature. They must remain with the home if the home is sold. A driveway, landscaping or fencing may be considered part of rehabilitation if it is determined to be a health and safety issue. Luxury items are not permitted to be paid with CalHome funds. Non-code property improvements (fencing, landscaping, driveway, etc.) will be limited to 15% of the rehabilitation loan amount. Any cash

- contribution by the property owner will be considered a general property improvement and be included in this percentage.
- **Appliances:** built in appliances such as garbage disposals, dishwashers, stoves, and ovens may be installed.
 - **Temporary relocation and storage:** relocation costs during the project if required for health and safety, and if made part of the loan.
 - **Rehabilitation or replacement of a manufactured home not on a permanent foundation:** may include the replacement of the unit with a new or used manufactured home and the cost to repair it, as long as the unit has been occupied and not used as a demonstration model. The footprint of the new structure may be larger if the cost of the new manufactured home does not exceed 110% of the cost that would have been incurred to replace the previous manufactured home. This is usually feasible when a “gently-used” coach is purchased. All costs associated with purchase and transportation can be added to the loan.

In addition to the costs listed above, eligible costs include non-recurring closing costs paid to third party providers for such items as title searches, credit reports, notary fees, recording fees, or escrow fees. Other eligible costs include haul away, disposal bins, architect fees, permit fees, and temporary relocation. Note that CalHome does not allow loan funds to be used for recurring closing costs such as fire and flood insurance.

The homeowner does not pay any costs for the CalHome loan such as loan processing or document fees. These costs are incurred by the Program Operator and reimbursed by CalHome as Activity Delivery Fees. Costs are based on charges incurred by the Program Operator for these products and/or services. Any cost increases charged to the Program Operator for these products and/or services will be passed on to the homeowner and may or may not be included in the loan. All fees are subject to change and are driven by the market. **(See Activity Delivery Fee Schedule in Attachment D.)**

Ineligible Costs

- The program will not fund additions for a den, home office, or family room.
- No detached additions or buildings are permitted unless required by a local ordinance (such as covered parking).
- Property improvements not related to health and safety, correction of code violations, or compliance with local ordinances are not permitted. A partial list of ineligible upgrades includes: bar-b-ques, outdoor kitchens, patios, decks, patio covers, swimming pools, hot tubs, animal shelters, sports courts, storage sheds, workshops, fountains, security systems, TV antennas, plantation shutters, wall paper, tankless water heaters, upgraded carpet, built in entertainment centers, granite counter tops, travertine or marble tile, and garage floor coatings.
- Removal of debris and weeds is generally considered normal maintenance and is an ineligible use of CalHome funds, unless for health and safety considerations.

SECTION 9. EXCEPTIONS AND SPECIAL CIRCUMSTANCES

Amendments

The Recipient and/or Program Operator may make amendments to these Guidelines. Any changes made shall be in accordance with federal and state regulations, shall be approved by the Recipient Loan Review Committee, and shall be submitted to HCD for approval, except for administrative changes, including annual updates to income, price, and subsidy limits.

Exceptions

Any case to which a standard policy or procedure, as stated in the Guidelines, does not apply or a case in which an Applicant is treated differently from others of the same class would be an exception. The Program Operator may initiate consideration of an exception and prepare a report. This report shall contain a narrative, including the Program Operator's recommended course of action and any written or verbal information supplied by the Applicant. The Recipient Loan Review Committee shall make a determination of the exception based on the recommendation of the Program Operator.

SECTION 10. DISPUTE RESOLUTION AND APPEALS PROCEDURES

Complaint and Appeal Procedure

Complaints concerning the Program should first be made to the Program Operator. If unresolved at this level, the complaint or appeal shall be made in writing and filed with the Recipient. The Recipient will then schedule a meeting with the Recipient Loan Review Committee. Their written response will be made within 30 working days. If the Applicant is not satisfied with the committee's decision, a request for an appeal may be filed with the Hammers for Hope Board of Directors. Final appeal may be filed in writing with HCD within one year after denial or the filing of the Project Notice of Completion.

Grievances between Participants and Construction Contractors

Contracts signed by the Contractor and the Borrower shall include the following clause, which provides a procedure for resolution of grievances:

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

ATTACHMENT A. GROSS INCOME INCLUSIONS

From Title 25 Section 6914: “Gross income” shall mean the anticipated income of a person or family for the twelve-month period following the date of determination of income. “Income” shall consist of the following:

- (a) Except as provided in subdivision (b), “Exclusions”, 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;
 - (6) Public Assistance. If the public assistance payment includes any amount specifically designated for shelter and utilities which is subject to adjustment by the public assistance agency in accordance with the actual cost of shelter and utilities, the amount of public assistance income to be included as income shall consist of:
 - (A) The amount of the allowance or grant exclusive of the amount specifically designated for shelter and utilities, plus
 - (B) The maximum amount which the public assistance agency could in fact allow for the family for shelter and utilities.
 - (7) Periodic and determinable allowances such as alimony and child support payments, and regular contributions or gifts from persons not residing in the dwelling;
 - (8) 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;
 - (9) Where a family has net family assets in excess of \$5,000, income shall include the actual amount of income, if any, derived from all of the net family assets or 2.5% of the value of all such assets, whichever is greater. For purposes of this section, net family assets means value of equity in real property other than the household’s full time residence, savings, stocks, bonds, and other forms of capital investment. The value of necessary items such as furniture and automobiles shall be excluded.

OOR PROGRAM GUIDELINES



ATTACHMENT B. GROSS INCOME EXCLUSIONS

From Title 25 Section 6914: The following items shall not be considered as income:

- (1) Casual, sporadic or irregular gift items;
- (2) Amounts which are specifically for or in reimbursement of the cost of medical expenses;
- (3) Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses;
- (4) Amounts of educational scholarships paid directly to the student or to the educational institution, and amounts paid by the government to a veteran for use in meeting the costs of tuition, fees, books and equipment. Any amounts of such scholarships, or payments to veterans not used for the above purposes of which are available for subsistence are to be included in income;
- (5) The special pay to a serviceman head of a family away from home and exposed to hostile fire;
- (6) Relocation payments made pursuant to federal, state, or local relocation law;
- (7) Foster child care payments;
- (8) The value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1964 which is an excess of the amount actually charged the eligible household;
- (9) Payments received pursuant to participation of the following volunteer programs under the ACTION Agency:
 - (A) National Volunteer Antipoverty Programs which include VISTA, Service Learning Programs and Special Volunteer Programs.
 - (B) National Older American Volunteer Program for persons aged 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, older American Community Services Program, and National Volunteer Program to Assist Small Business Experience, Service Corps of Retired Executive (SCORE) and Active Corps of Executives (ACE).

ATTACHMENT C. STANDARDS FOR BED AND BATHROOM ADDITIONS

US Department of Housing and Urban Development guidelines provide occupancy policies that allow for two persons per bedroom as reasonable. Exceptions to this standard are based on the following factors:

1. No more than two persons are required to occupy a bedroom.
2. Persons of different generations (i.e. grandparents, parents, children), persons of the opposite sex (other than spouses/couples), and unrelated adults are not required to share a bedroom. (An adult is a person 18 years old or older.)
3. Couples living as spouses (whether or not legally married) must share the same bedroom for issuance size purposes.
4. A live-in aide who is not a member of the family is not required to share a bedroom with another member of the household. Note: The need for a full time live-in aide must be documented. A waiver may be approved Program Operator.
5. Individual medical problems (e.g. chronic illness) sometimes require separate bedrooms for household members who would otherwise be required to share a bedroom. Documentation supporting the larger-sized unit and related subsidy must be provided and verified as valid. A waiver may be approved by the Program Operator.
6. In most instances, a bedroom is not provided for a family member who will be absent most of the time, such as a member who is away in the military. If individual circumstances warrant special consideration, a waiver may be approved by the Program Operator.
7. When determining family issuance size, include all children expected to reside in the unit in the next year as members of the household. Examples include, but are not limited to, the following:
 - Adoption. Children who are in the process of being adopted are included as members of the household.
 - Pregnant women. Children expected to be born to pregnant women are included as members of the household.
 - Foster Children. Foster children residing in the unit along with families who are certified for foster care and are awaiting placement of children are included as members of the household.
 - Joint and Shared Custody Arrangements. In most instances children in joint/shared custody arrangements should occupy the unit at least 50% of the time. However, if individual circumstances merit special consideration, a waiver may be approved by the Program Operator. The custody arrangement may be verified by the divorce decree, legal documents, or self-certification.
 - Custody of Children in Process. Children whose custody is in the process of being obtained by an adult household member may be included as members of the

OOR PROGRAM GUIDELINES



household. Evidence that there is a reasonable likelihood that the child will be awarded to the adult (i.e. within three months) must be provided in order for such child to be included.

- Children Temporarily Absent from Household. Children temporarily absent from the home due to placement in foster care may be included as members of the household. Evidence that there is a reasonable likelihood that the child will return to the household (i.e. within three months) must be provided in order for such child to be included. Children who are away at school, but live with the family during school recesses are included as members of the household.

Program Operator Standards for Bedroom and Bathroom Additions to Alleviate Overcrowding

Maximum No. of Persons in 1 Household	Number of Bedrooms	Number of Bathrooms
	SRO	1
1	0-BR	1
2	1-BR	1
4	2-BR	2
6	3-BR	2
8	4-BR	3
10	5-BR	3
12	6-BR	4

NOTES:

- Opposite sex children under 6 years of age may share a bedroom, up to 2 children per bedroom.
- Opposite sex children 6 years of age and older may have their own bedroom.
- Children shall be permitted a separate bedroom from their parents.
- Same sex children of any age may share a bedroom, up to 2 children per bedroom.
- Adults not in a partner relationship may have their own bedroom.
- **4** or more people – a second bathroom may be added.
- **8** or more people – a third bathroom may be added.
- Same rules apply to mobile home units.