



## FINANCE COMMITTEE AGENDA

### Meeting of September 27, 2011 – 8:00 a.m. to 10:00 a.m.

A Committee of the Chico City Council:  
Councilmembers Sorenson, Flynn and Chair Gruendl  
Council Chamber Building, 421 Main Street, Conference Room No. 1

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#### REGULAR AGENDA

**A. Consideration of a Request from the Chico Art Center to Continue its Occupancy and Use of a Portion of Chico Depot for Use as an Art Center**

By letter dated April 20, 2011, Jackie McClain, President, Chico Art Center Board of Directors, submitted a request for an additional 10-year extension to the Restated Lease Agreement for Occupancy and Use of a Portion of the Chico Depot for Use as an Art Center. However, the lease allowed only one 10-year extension which was granted for the period of May 14, 2002 through May 14, 2012. Upon expiration of the extended term, a new lease must be executed. Because the terms of Minute Order 04-01, adopted March 20, 2001 will also expire, a new lease agreement will require City Council approval. **(Report – Dave Burkland, City Manager)**

**Recommendation** - *The City Manager requests that the Finance Committee recommend authorization by the City Council for the City Manager to execute a new lease agreement with Chico Art Center for Occupancy and Use of a Portion of the Chico Depot for Use as an Art Center, with a initial term of ten years and the option for one additional ten-year extended term.*

**B. Report on Mortgage Subsidy Program Loan Foreclosures**

At the Finance Committee meeting of 7/26/11, staff was requested to provide information regarding foreclosure activity during the past three years for the MSP Program. **(Report - Sherry Morgado, Housing and Neighborhood Services Director)**

**C. Revisions to AP&P 27-10 Regarding Requests from Mortgage Subsidy Program (MSP) Recipients to Rent Their Property as well as Revisions to Allowable/Required Reserves and Nomenclature Corrections**

The City continues to receive requests from MSP loan recipients to allow rental of their property because they no longer live in the home due to job loss or change in employment and cannot sell the home or refinance their existing primary mortgage to pay off all liens on the home due to the declining real estate market. City staff believes it is appropriate to modify the standardized policy and procedure to authorize the City Manager/Executive Director to approve such requests, which protects the City's investment and supports the program's goal of serving low-moderate income households. Additional revisions pertain to MSP guidelines on home purchase price limit, borrower assets at time of loan closing, retention of a cash reserve, clarification of City Manager/Executive Director authority regarding loans in default and revisions to City department titles throughout the document. **(Report - Sherry Morgado, Housing and Neighborhood Services Director)**

**Recommendation** - *The Housing and Neighborhood Services Director recommends that Administrative Procedure and Policy Number 27-10 be amended to: 1) authorize the City Manager/Executive Director to approve rental requests from MSP recipients who no longer occupy the property as their principal place of residence, 2) amend allowable/required borrower asset reserves at loan close, 3) amend language in determining maximum home sales price, and 4) clearly specify City Manager/Agency Executive's authority to initiate foreclosure proceedings and, 5) correct nomenclature throughout the document.*

**D. Revisions to AP & P 27-5 Procedures for Rehabilitation Loan Program Owner Occupied Properties**

The City recently entered into a Programmatic Agreement with the California State Historic Preservation Officer as a means to comply with Federal and State regulations regarding procedures to address the review of potentially historic and cultural resources. Revisions will reflect this new procedure and update procedures regarding compliance with environmental regulations. Additional revisions are proposed to bring the Policy in line with funding and loan document provisions regarding rental of property and to make nomenclature and other minor revisions throughout the document. **(Report - Sherry Morgado, Housing and Neighborhood Services Director)**

**Recommendation** - *The Housing and Neighborhood Services Director recommends that Administrative Procedure and Policy Number 27-5 be amended to: 1) update the historic review and environmental compliance process, 2) to align the procedure for handling renting of property with funding and loan document provisions and, 3) to revise nomenclature of City departments and make other clean up revisions to text*

**E. Reports and Communication** - The following report and communication items are provided for the Committee's information. No action can be taken on these items unless the Committee agrees to include them on a subsequent posted agenda.

1) Monthly report on Q&A from citizens regarding City finances – None to report

**F. Business from the Floor** - Members of the public may address the Committee at this time on any matter not already listed on the agenda, with comments being limited to three minutes. The Committee cannot take any action at this meeting on requests made under this section of the agenda.

**G. Adjournment and Next Meeting** - The meeting will adjourn no later than 10:00 a.m. The next regular Finance Committee meeting is scheduled for Tuesday, October 25, 2011, at 8:00 a.m. in Conference Rm. No. 1.

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**Distribution available in the office of the City Clerk**

*Prepared: 9/21/11*

*Posted: 9/21/11*

*Prior to: 5:00 pm*

*Chico City Clerk's Office  
411 Main Street, Chico, CA 95928*

*(530)896-7250*

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## Finance Committee Agenda Report

Meeting Date: September 27, 2011

TO: Finance Committee  
FROM: City Manager David Burkland (896-7201)  
RE: Lease Agreement for Occupancy and Use of a Portion of the Chico Depot for Use as an Art Center

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### REPORT IN BRIEF:

By letter dated April 20, 2011, Jackie McClain, President, Chico Art Center (CAC) Board of Directors, submitted a request for an additional 10-year extension to the Restated Lease Agreement for Occupancy and Use of a Portion of the Chico Depot for Use as an Art Center (Attachment A). However, the restated lease agreement allows only one 10-year extension which was granted for the period of May 14, 2002 through May 14, 2012. Upon expiration of the extended term, a new lease agreement must be executed. Because the terms of Minute Order 04-01, adopted March 20, 2001 will also expire, a new lease agreement will require City Council approval.

#### Recommendation:

The City Manager requests that the Finance Committee recommend authorization by the City Council for the City Manager to execute a new lease agreement with CAC for Occupancy and Use of a Portion of the Chico Depot for Use as an Art Center, with an initial term of ten years and the option for one additional ten-year extended term.

### FISCAL IMPACT:

CAC does not pay the City to lease the Chico Depot property. In the current lease, CAC is responsible for maintaining the leased premises in a state of good repair and in a safe condition at its own cost and expense to the satisfaction of the City. CAC also pays the cost of all utilities and solid waste collection services for the leased premises. The City maintains the exterior of the Chico Depot building and the Chico Depot property including all parking and landscaped areas.

### BACKGROUND:

The City Council authorized a Restated Lease Agreement with CAC in 2001, for the use of the portion of the City-owned Chico Depot located at 450 Orange Street. This Restated Lease Agreement was approved following completion of CAC's remodel of the warehouse area to make it suitable for an art center to be open to the public for a minimum of 30 hours per week. The initial term of the Restated Lease Agreement expired in May, 2002. Per Section 2 of the Agreement, the term was extended an additional ten years and is scheduled to expire in May, 2012.

Subsequent amendments to the restated lease agreement allowed temporary use of the area identified as "fire museum" for temporary storage during construction of interior improvements to the warehouse area. Once the interior improvements were completed, the City Council approved CAC's request to use the future fire museum area as a controlled access photographic and video studio until such time as the City provided notice that the City had a need for that space.

Additionally, in adopting the FY 2000-01 Annual Budget, the City Council allocated \$32,000 to CAC through community organization funding to purchase, transport, and install a railcar at the Chico Depot for use as a center for gifts, museum exhibits, and refreshments. A suitable railcar was identified and installed in 2001. The installation was completed in accordance with the purpose of appropriate on-site improvements as set forth in the Depot Master Plan which was adopted by the City Council on November 6, 1990. The purchase and installation of the railcar required an amendment to the agreement adding CAC's use of the existing abandoned rail spur area. This rail spur area then became subject to all the current requirements of the agreement such as fire and liability insurance requirements, delineation of maintenance and utility payment responsibilities, indemnification provisions, etc. The amended agreement also provided that all permanent improvements would become the property of the City at termination of the agreement, and this provision will also be applied to the railcar and any related permanent improvements made in connection with its installation.

In 2007 an amendment to the restated lease agreement allowed a sublease of the refurbished railcar and rail spur area to a third party to be chosen to operate a coffee shop. The restated lease agreement had prohibited subleasing. As the operation of a coffee shop and refreshment center was part of the original vision presented to Council when funding for the purchase of the railcar was approved, the amendment to the restated lease agreement allowed sublet of the railcar and railcar spur area, subject to certain conditions.

**DISCUSSION:**

Key terms of the new lease agreement will include:

- An initial term of ten years beginning May 15, 2012 and ending on May 15, 2022, with the option for one ten-year extended term.
- CAC will maintain the interior of the leased premises and pay the cost of all utilities, water and solid waste collection services for the leased premises. City will maintain the exterior, including parking and landscaped areas.
- The Warehouse area of the leased premises will continue to be used for an art center, art gallery, art classes, meetings, workshops, receptions, a gift shop and other CAC sponsored events. CAC will be continue to be open to the public a minimum of 30 hours per week. The Warehouse area of the premises may be used by other organizations for the same uses as CAC. Other uses will require pre-approval by the City. CAC may continue to use the Fire Museum for operation of a controlled-access photographic or video studio. The Railroad Spur / Railcar may be used as a center for museum exhibits, gifts, and refreshments, or may be subleased as a coffee shop.

**PUBLIC CONTACT:**

None

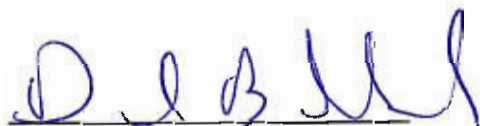
**DISTRIBUTION:**

City Clerk (18)  
Chico Art Center

**ATTACHMENT:**

Attachment A - Letter dated April 20, 2011 from Jackie McClain, President, Chico Art Center Board of Directors.

**FILE:** G-CP-4-66



David Burkland, City Manager

CHICO



CENTER

A GATHERING PLACE FOR ARTIST AND IDEA

April 20, 2011

RECEIVED  
APR 22 2011  
CITY MANAGER  
CITY OF CHICO  
CA

Cris Carroll, Management Analyst  
Office of the City Manager  
P.O. Box 3420  
Chico CA 95927

RE: EXTENSION OF LEASE AGREEMENT

Dear Cris:

The Chico Art Center requests an extension of its lease agreement with the City of Chico on the depot building at 450 Orange Street, Suite 6, based upon the terms in the restated lease allowed under section 2 of that agreement.

Sincerely,

Jackie McClain  
President, BOD

Attachment A



## Finance Committee Agenda Report

Meeting Date: 09/27/11

TO: Finance Committee  
FROM: Housing and Neighborhood Services Director, Sherry Morgado, 879-6301  
RE: REPORT MORTGAGE SUBSIDY LOAN PORTFOLIO–FORECLOSURES

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### REPORT IN BRIEF:

At its meeting on 7/26/11, the Finance Committee directed staff to prepare a report on the status of the current Mortgage Subsidy Program (MSP) loan portfolio, and in particular, foreclosure data during the past three years. Overall, the foreclosure rate for City/Agency loans has been quite low.

### FISCAL IMPACT:

Over the past three years, there have been three foreclosures with a loss of \$130,000 and three short sales representing a loss of \$46,375 to the City/Agency. Total lost due to foreclosure or short sale during this time period is \$176,375.

### BACKGROUND:

The Mortgage Subsidy Program has been in existence since 1990, utilizing State and Federal HOME funds, as well as Redevelopment Agency funds to originate 723 loans. During the past three years, 93 loans were originated with a principal value of \$4,441,050.

Number of loans, average loan size and average home sales prices are as follows for the past three fiscal years:

FY 2008/2009–36 loans originated; average MSP loan \$54,436; average home sales price \$233,231  
FY 2009/2010–40 loans originated; average MSP loan \$44,269; average home sales price \$199,657  
FY 2010/2011–17 loans originated, average MSP loan \$41,799; average home sales price \$207,629

### DISCUSSION:

Of the three foreclosures in the past three years, one loan originated in FY 08/09 and the other two originated in 2006 and 2007. The short sales were of loans originating in 2004, 2005 and 2007. These six transactions represent 2.19% of the current loan portfolio of 274 loans and were the result of job loss or reduction in hours, creating a financial hardship for the borrowers. The homes were purchased at a time of high cost and due to the current reduction in value, they were not able to be refinanced. By comparison, the Mortgage Bankers Association reports in a press release dated 8/22/11 that in the second quarter of this year, loans in the foreclosure process represented 4.43% of outstanding loans on one-to-four-unit residential properties and 7.85% of loans were seriously delinquent (90 days or more past due).

The City has received notice of two additional loans in default, one of which may be rescinded, as the borrower is in the loan modification process; the status of the second is currently unknown. The City has initiated foreclosure on one property with expectations that there will be minimal loss of outstanding principal once the resale is completed. The borrower willingly left the home to move out of the area.

There have been at least three refinances of primary mortgages in the past year, resulting in borrowers receiving lower interest rates and therefore lower monthly payments to improve their housing stability. Staff is aware of

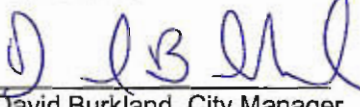
RE: MSP Loan Foreclosures  
Meeting Date: 9/27/11  
Page 2

three additional borrowers who are renting out their homes due to changes in employment and other extenuating circumstances.

Prepared by:

  
\_\_\_\_\_  
Sherry Morgado  
Housing & Neighborhood Services Director

Approved by:

  
\_\_\_\_\_  
David Burkland, City Manager

**DISTRIBUTION:**

City Clerk (17)  
Housing & Neighborhood Services (3)

**FILE:**

Reports on MSP Loans



## Finance Committee Agenda Report

Meeting Date: September 27, 2011

TO: Finance Committee  
FROM: Housing and Neighborhood Services Director, Sherry Morgado (879-6301)  
RE: Recommended Revisions to AP&P 27-10 (Mortgage Subsidy Program)

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### REPORT IN BRIEF:

The City continues to receive requests from Mortgage Subsidy Program (MSP) loan recipients to allow rental of their property because they no longer live in the home due to various reasons such as: loss of job, need to relocate for work or other extenuating circumstances, and they cannot sell the home or refinance their existing primary mortgage to pay off all liens on the home due to the declining real estate market. City staff believes it is appropriate to modify the standardized policy and procedure to authorize the City Manager/Executive Director to approve such requests, which protects the City's investment and supports the program's goal of serving low-moderate income households. Additional revisions pertain to MSP guidelines on home purchase price limit, borrower assets at time of loan closing, retention of a cash reserve, clarification of City Manager/Executive Director authority regarding loans in default and revisions to various nomenclature throughout the document.

#### Recommendation:

The Housing and Neighborhood Services Director recommends that Administrative Procedure and Policy Number 27-10 be amended to: 1) authorize the City Manager/Executive Director to approve rental requests from MSP recipients who no longer occupy the property as their principal place of residence, under certain conditions, 2) amend allowable/required borrower asset reserves at loan close, 3) amend language in determining maximum home sales price, and 4) clearly specify City Manager/Agency Executive's authority to initiate foreclosure proceedings, and 5) revise names of City departments, titles and outside agencies to reflect current nomenclature.

### FISCAL IMPACT:

No fiscal impact.

### BACKGROUND:

1) A condition of Mortgage Subsidy Program loans is that the borrower/homeowner maintain the home as their primary residence. Per AP&P 27-10, requests from borrowers to rent their homes, while keeping their MSP loan intact, are to be addressed to the Finance Committee. At its meeting of 3/24/09, the Finance Committee approved requests from four MSP recipients to rent their properties for up to one year subject to the conditions of amended AP&P 27-10 regarding rental of property. At that time, the Committee requested that staff provide a bi-annual report of the approved MSP rental requests. At the 3/24/10 Finance Committee meeting, an update as to the status of the approved rentals was provided, with additional information provided at the 4/27/10 meeting. As housing market conditions were not improving, the Finance Committee approved an 18 month waiver of certain provisions of AP&P 27-10 pertaining to rental of homes as long as the borrower was in good standing with the first mortgage holder and charging fair market rent at its 1/4/11 meeting.

2) AP&P 27-10 sets forth allowable assets retained by a borrower post escrow closing, not to exceed \$10,000, not including qualified retirement funds, but does not address a minimum amount of reserves.

3) Language regarding maximum sales price of a home to be assisted with MSP funds is included in the AP&P to conform with State and Federal guidelines and a slight modification is recommended.

4) Loan documents for MSP loans include language stating that the City/Agency has the option to foreclose upon a borrower in default of loan provisions, though the AP & P does not clearly state that City Manager/Executive Director may do so.

5) Titles and names of City departments have changed over time and this request is to make changes to reflect current nomenclature.

#### **DISCUSSION:**

##### 1) Requests from Borrower to Cease Use of Their Property as a Principal Place of Residence (AP &P III.F.1-2)

As previously predicted and reported, housing prices continue to decline and employment trends continue to remain unstable. This housing market decline is deeper and longer-lasting than any we have experienced before and it may be 2013 before there is any noticeable rebound. With this in mind, it is expected that borrowers who were previously granted permission to rent their homes, will request to continue renting until there is improvement in the market. Staff has become aware of three additional families who are renting their homes due to various hardships. In order to handle the ongoing requests in the most prudent and expeditious manner, Staff proposes the following revision to AP & P 27-10 Section III. F.1-2:

In the event Borrower moves from their home and contacts the City/Agency with a request to rent the property, City/Agency staff will proceed as follows:

1. If the following conditions apply, the City Manager/Executive Director may approve rental of the property for a one year period with one year extensions, for a maximum of three extensions:
  - a. The request is made due to a hardship such as a major life change event and/or loss of employment and inability to obtain sufficient employment within a reasonable traveling distance to the property; and
  - b. It is infeasible to refinance the primary mortgage in an amount sufficient to repay the City/Agency; and
  - c. Proceeds from the sale of the property will be insufficient to cover all principal balances of mortgage liens on the property; and
  - d. The maximum rent charged by the Borrower is restricted by the Federal and/or State regulations governing use of the MSP funding source; and
  - e. Rental of the property is not precluded by the MSP funding source.
2. If the request is not consistent with Section F.1 a through e above, refer the request to the Finance Committee for its recommendation to either deny such request, or to direct staff to proceed as follows:
  - a. Refer the Borrower to the President of the Chico Association of Realtors in order to market the home for sale to an MSP-eligible buyer.
  - b. Require that the Borrower provide documentation that he/she has attempted to refinance the primary mortgage in an amount sufficient to repay the City/Agency.
  - c. Allow the home to be rented for a one-year period. During this period, the Borrower shall

continue to work with a realtor to sell the property at a price sufficient to satisfy all liens against the property and commissions/fees relating to the sale, without profit to the Borrower. The maximum rent charged by the Borrower will be restricted by the Federal and/or State regulations governing use of the MSP funding source. The Finance Committee will review and make a determination on any extensions to rent the home beyond the one-year period.

- d. Notwithstanding implementation of the options above, if at any point in time during the loan term, the borrower ceases to occupy their property as a principal place of residence, as required by Section II.A.2.e., the recipient is in default of their loan and the City Manager/Executive Director may choose to foreclose on the home.

Under the prescribed conditions, the City/Agency interest is preserved and there is greater chance that the City will recoup its investment in the future. If rent charged is within the acceptable guidelines, the intent to assist low to moderate income households is maintained. In most instances, if the home is in an "upside-down" position, it is of no benefit to the City/Agency to foreclose on the property. If revisions to the AP & P are approved, bi-annual reports will be made to the Finance Committee to report on the status of any borrowers who have been approved to rent their homes.

#### 2) Applicant Characteristics (Ap & P, Sec. II.A. 3.c and d)

The value of an applicant's assets is evaluated in part to determine the level of investment income to determine "gross annual income". Funds held in pension and other qualified retirement plans as defined by the Internal Revenue Service, are not included as assets for this purpose. Currently, an applicant may maintain up to \$10,000 in non-retirement accounts after the close of escrow. Staff believes the allowable amount of savings should be increased to \$20,000, 1) due to higher costs of living, 2) in recognition that some applicants may be keeping reserves in savings and money-market accounts as well as Certificates of Deposit for a "rainy day", and 3) to encourage the maintenance of emergency reserve funds. By this same token, staff feels an applicant should maintain a minimum cash reserve at the close of escrow of at least one month's housing expense.

#### 3) Sales Price Limit (AP&P 27-10, Sec II.A.2)

The sales price limit calculation in the AP & P was previously modified to conform with State and Federal requirements and is currently worded as follows: "The sales price limit of the home shall equal 110 percent of the previous year's median sales price, as determined by the Chico Association of Realtors." Due to the nature of the currently declining real estate market, staff recommends that the words "shall equal" be replaced with "may be up to". This language will continue to meet State and Federal guidelines.

#### 4) Addition to AP & P Regarding Borrower in Default (AP&P 27-10, Sec III.G)

Staff recommends an additional sub-section to AP&P 27-10, Section III., to clearly state City Manager/Executive Director's authority to initiate foreclosure proceedings and associated expenses when a borrower is deemed to be in default of loan provisions. The proposed addition is as follows:

##### G. Borrower in Default of Mortgage Subsidy Loan Provisions

In the event that a borrower is in default of City/Agency loan provisions, the City Manager/Executive Director may approve the initiation of foreclosure proceedings and associated expenses on behalf of the City/Agency when it is determined that in doing so, will preserve the interest of the City/Agency.

- 5) There are various references to Housing, Housing Officer, Finance Office and Chico Board of Realtors which

are now referred to as Housing and Neighborhood Services Department, Housing Manager, Finance Department and the Chico Association of Realtors, respectively. This requested change is to correct the nomenclature to reflect that which is currently in use.


**PUBLIC CONTACT:**

If the proposed AP&P 27-10 changes are approved, Staff will update the Housing & Neighborhood Services website with information about the MSP program. A handout summarizing the MSP program and procedures will be provided to lenders prior to any announcement that funds are available for new MSP loans.

Reviewed by:

  
Sherry Morgado  
Housing and Neighborhood Services Director

Approved by:

  
David Burkland  
City Manager

**DISTRIBUTION:**

City Clerk (17)  
Housing Office (3)

**ATTACHMENTS:**

Attachment 1- AP&P 27-10 (redline version)  
Attachment 2 - AP&P 27-10 (clean version)

**FILE:** PS-70-3-1

**CITY OF CHICO**  
**Administrative Procedure and Policy Manual**

Subject: MORTGAGE SUBSIDY PROGRAM	Number: 27-10
	Effective Date: <del>February 2, 2010</del>
Department(s) Affected: City Manager, Finance, Housing & <u>Neighborhood Services Department</u>	Supersedes: 27-10 dated <del>06/02/09</del> <u>02/02/10</u>
Authority: Council Motions 09/18/90; 07/23/91; 02/18/92; 04/07/92; 08/03/93; 10/04/94; 05/02/95; 02/20/96; 11/25/96; 05/20/97; 05/19/98; 09/21/99; 02/06/01; 07/17/01; 04/16/02; 06/17/03; 04/06/04; 03/15/05; 09/18/07; 04/07/09; 05/20/09; 6/02/09; <u>02/02/10</u>	File Reference: PS-70-3-1
	Approved:

**I. PURPOSE**

The Mortgage Subsidy Program (MSP) is designed to meet the needs of low and moderate income families who are purchasing their first home. The mortgage subsidy is provided in the form of down payment assistance that enables the family to achieve home ownership and directly assists in reducing monthly payments.

**II. POLICY**

**A. Eligibility**

**1. Location**

Loans will be made only for property located in residentially zoned areas within the City limits of the City of Chico or within the Greater Chico Urban Area Redevelopment Project Area.

**2. Types of Housing**

- a. New and existing single family.
- b. New and existing multi-family units which provide individual ownership of the unit, (i.e., condominiums or townhouses).
- c. Mobile homes on permanent foundations and located on individual parcels of real property.
- d. House must meet "Housing Code" requirements or be rehabilitated to meet code.
- e. Must be used as principal residence of the applicant.
- f. The sale price limit of the home ~~shall equal~~ may be up to 110 percent of the previous year's median sale price, as determined by the Chico Association of Realtors. The median will be updated annually on March 1 based on the previous calendar year sales data. For loans made from a funding source that restricts sale price to a lower limit, the most restrictive sale price shall apply.
- g. Houses built under contract for the applicant are eligible for MSP assistance subject to the provisions of Section III.C.

**3. Applicant Characteristics**

- a. Applicants must be "first time" home buyers, which is defined as not having owned or had an interest in a house within the last three years.
- b. The applicant's gross annual income shall be between 50 percent and 120 percent of the Chico Metropolitan Statistical Area Median Household Income (by household size) as established by the State of California, Department of Housing and Community Development on an annual basis.

- c. The Applicant's assets will be evaluated by determining the current value of the assets and applying a reasonable rate of return to establish a level of investment income. The investment income will be added to the other sources of income to determine "gross annual income."

In the event the value of the assets retained by the applicant after the close of escrow is projected to exceed ~~\$10~~\$120,000, the application will be reviewed by the Finance Committee prior to further processing of the loan request.

Pension Funds, which are defined as qualified plans by the Internal Revenue Service, are subject to early withdrawal penalties and cannot be borrowed against; therefore, they shall not be included in the determination of assets. However, such funds may be considered if deposited in a lump sum within one year prior to application.

- d. Applicant must provide a minimum of \$5,000 as a down payment and must retain a liquid savings reserve of at least one month's housing expense.
- e. Definition of Dependent for Household Size Determination:
  - 1) A dependent shall be a member of the household who is 18 years of age or less and is related to the family pursuant to the IRS rules, adopted, or under a legal guardianship established for custody.
  - 2) An individual between 19 and 23 years of age shall be considered a dependent when he/she is a student enrolled in the equivalent of nine semester hours or more. Any income earned by the dependent shall be included in the household's gross income.
  - 3) A household member who is handicapped and is related, or adopted, or under legal guardianship shall be considered a dependent regardless of his/her age if claimed as a dependent on the head of household's federal tax return. The income of a handicapped dependent shall be included in the household's gross income.
  - 4) A parent of the head of household shall be considered a member of the household if he/she resides in the home full time. The income of the individual shall be included in the household's gross income.
  - 5) A household member not meeting the above definition shall not be considered a dependent and shall not be included in the household size for eligibility determination. The income of a non-dependent shall not be included in the household's gross income.

**B. Maximum Mortgage Subsidy Loan Amount**

The maximum Mortgage Subsidy loan amounts shall be based on household income levels in accordance with the following schedule:

<u>INCOME LEVEL OF APPLICANT</u>	<u>MAXIMUM LOAN AMOUNT</u>
Lower - 80 percent of Median or less	30% of sales price
Median - 81 percent to 100 percent of Median	20% of sales price
Moderate - 101 percent to 120 percent of Median	10% of sales price

**C. Housing Expense Ratios**

The housing expense ratio is the sum of monthly principal and interest payments on the first deed of trust, mortgage insurance premiums, property taxes, hazard insurance, and where applicable, homeowner's association dues, as a percent of the household's monthly gross income. The loan term shall not exceed thirty years. The housing expense ratio shall be limited as follows:

**1. Maximum Housing Expense Ratio**

**a. Adjustable Rate Loans**

The maximum housing expense ratio on adjustable rate loans shall be 33 percent. Loans with interest rates that adjust more than three percent during the loan term are not eligible.

b. Fixed Rate Loan

The maximum housing expense ratio on fixed rate loans shall be 35 percent. In the event the City Manager/Executive Director determines that relevant compensating factors exist, the maximum ratio may be higher but may not exceed 38 percent.

2. Minimum Housing Expense Ratio

The minimum housing expense ratio shall be 28 percent of the household gross monthly income.

D. Impound Accounts

All MSP borrowers shall agree to establish an Impound Account with their institutional lender for the purpose of ensuring payment of property taxes and hazard insurance.

E. Terms of Mortgage Subsidy Assistance

1. Loan Term

The term of the mortgage assistance loan is until sale, transfer, or rental of the property.

2. Interest Rate

The interest rate is based on the income level of the borrower as follows:

- a. The interest rate for Lower income borrowers (below 80 percent of the median income) is 4 percent below the applicable FHA loan rate but not less than 2 percent or more than 4 percent.
- b. The interest rate for median income borrowers (between 81 percent and 100 percent of the median income) is 2 percent below the applicable FHA loan rate but not less than 3 percent or more than 6 percent.
- c. The interest rate for moderate income borrowers (between 101 percent and 120 percent of the median income) is set at the applicable FHA rate but not less than 4 percent or more than 7.5 percent.

The applicable FHA loan rate will be determined in January and July of each year based on the FHA loan rate for 30 year fixed rate loans issued under the Section 203 program at that time. After the tenth year of the MSP loan the rate is converted to zero percent (0 percent).

3. Security

The City's/Agency's loan is secured by a deed of trust and shall be subordinate only to a first deed of trust to the principal lender, with exception of a City-approved federal or state second loan, without which the home purchase would be infeasible.

4. Payments

- a. Payments of principal and interest are deferred until the sale or transfer of the property or when the homeowner ceases to occupy the property as their principal residence.
- b. There is no prepayment penalty.
- c. In the event the borrower makes payments while in full compliance of the terms and conditions of the Loan Agreement, Loan Repayment Agreement, and Deed of Trust, the funds will be credited towards the principal balance of the loan.

5. Forgiveness Provision

Twenty percent of the accrued interest is forgiven for each year the loan is outstanding and the property serves as the principal residence between year 11 and the end of year 15.

F. Subordination Agreement Requests

1. In the event a loan recipient subsequently requests the City/Agency to subordinate its loan to a new deed of trust, the Housing ~~Officer~~Officer/Manager will prepare a report for the City Manager/Executive Director which contains the following information:
  - a. The amount of the new loan to which the City/Agency is being requested to subordinate compared to the amount of the original loan to which the City/Agency has subordinated.
  - b. The household's current income and size in comparison to its income and size at the time the City's/Agency's loan was made.
  - c. The current appraised value of the property and the appraised value at the time the City's/Agency's loan was made.
  - d. The household's proposed monthly housing expense in comparison to the housing expense at the time of the City's/Agency's loan, including an analysis of whether the household could afford to increase the proposed loan to pay off a portion or all of the City's/Agency's loan.
  - e. Documentation that the owner is not receiving cash or paying off other debts from the funds received through the refinancing of the loan.
  - f. If the borrower requests subordination in order to access equity to make home repairs and/or improvements, the City Manager/Executive Director may consider such request, subject to the following:
    - 1) The MSP principal loan balance must be repaid in full;
    - 2) The proposed repairs and/or improvements must be consistent with the City's Rehabilitation Loan Program guidelines;
    - 3) The combined proposed debt on the property shall not exceed 90 percent of the home's value before the improvements are completed;
    - 4) The new loan funds shall be deposited in an escrow account, with disbursements to the contractor approved by the City/Agency.
2. The City Manager/Executive Director will evaluate the report and determine the effect of the request on the City's/Agency's original loan security and the appropriateness of the proposed level of affordability.
  - a. If the City's position is enhanced or not reduced, the City Manager/Executive Director may approve the subordination agreement.
  - b. If the City's/Agency's position is reduced or if the City Manager/Executive Director does not recommend approval, the City Manager/Executive Director shall forward the request to the Finance Committee.
  - c. In the event the Borrower's proposed Housing Expense Ratio is below the affordability standard set forth in the Community Redevelopment Law, the City Manager/Executive Director may approve the subordination if one of the following revisions to the borrower's request occurs:
    - 1) The borrower increases the new loan to an amount which raises the housing expense ratio to at least 28 percent. The additional loan funds are paid to the City to reduce the principal balance of the MSP loan accordingly. In the event the borrower repays the principal balance of the MSP loan in full, the City Manager/Executive Director is authorized to approve a Subordination Agreement for the interest balance which remains secured by the MSP Deed of Trust subject to the terms of the Loan Agreement and Loan Repayment Agreement.
    - 2) The borrower executes an amendment to the Loan Repayment Agreement to provide a monthly payment to the City/Agency in an amount which shall increase the total housing expense ratio to at least 28 percent. All payments shall be applied to the principal balance of the loan, and the interest forgiveness provision will remain in effect. The principal balance will continue to accrue interest at the rate established at the time of the original MSP loan.

3. The Finance Committee may approve or deny a request for subordination or may recommend consideration by the City Council.

G. Foreclosure By Superior Lien Holder

In the event the superior lien holder declares its deed of trust in default and initiates foreclosure proceedings, the City Manager/Executive Director will take the appropriate actions to protect the City's/Agency's MSP. loan security to the extent feasible. Specific procedures to accomplish this policy are detailed in section III.D. below.

H. Requests To Reduce Loan Payoff Amount

Staff will process reduced loan payoff requests as set forth in Section III.E.

- I. Staff shall provide semi-annual reports to the City Council on program performance.

J. Requests to Cease Use of Property as a Principal Place of Residence

The Finance Committee will consider and respond to requests from Borrowers to cease occupying their property as a principal place of residence, following the procedure outlined in Section III.F.

III. PROCEDURES

A. Program Marketing

1. The initial marketing activity will be directed towards the following organizations:
  - a. Chico ~~Board~~Board Association of Realtors.
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- b. City determines eligibility of applicant based on income.
- c. City provides applicant with eligibility determination, valid for six months.
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2. Loan Approval

- a. Loans in conformance with the policies set forth herein may be approved by the City Manager/Executive Director.
- b. Loan requests requiring exceptions to these policies shall be considered by the Finance Committee. The Committee may approve a loan application or may recommend City Council consideration.

3. Loan Closing

- a. Applicant deposits a minimum of \$5,000 down payment in escrow.
- b. City deposits mortgage subsidy funds with loan documents approved as Standard Form Documents with the City Attorney's Office, and appropriate instructions in escrow. The City Manager/Executive Director is authorized to execute loan agreements on behalf of the City for loans approved as set forth in Section III.2. above.
- c. Loan documents are signed by the applicant and recorded concurrently with loan documents for primary lender.

4. Loan Servicing

- a. Loan repayments will be processed by the Finance ~~Office~~Office Department.
- b. Annual monitoring to confirm program compliance will be performed by the Housing ~~Officer~~Officer & Neighborhood Services Department.
- c. All recaptured funds shall be deposited in the Mortgage Subsidy Program revolving loan account within the fund the loan originated from.

C. Preapproval Procedures For Applicants Contracting For the Construction of a House.

1. All requests for MSP assistance for financing of a house to be constructed for the applicant, under contract with the applicant, and financed with a short term loan must be pre-approved by the City's Finance Committee.
2. The Finance Committee requires the following information be included with any such request:
  - a. Readable floor plans describing the layout of the proposed house.
  - b. A preliminary title report for the subject property.
  - c. Evidence of the estimated value of the house after completion.
  - d. Copy of the approved (or pending) construction loan documents.
  - e. Letter evidencing permanent financing availability from a permanent mortgage lender stating any conditions on the loan.
3. Any loan pre-approved by the Finance Committee must meet all other requirements of the MSP unless specifically waived or amended by the Finance Committee.

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1. Housing ~~Officer~~Officer Manager will prepare a memo to the City Manager/Executive Director which contains the following information:
  - a. Results of staff's efforts to contact the borrower and determine their plan to cure the default.
  - b. Total balance due on MSP loan, including accrued interest.
  - c. Amount of outstanding balance on the lender's loan.
  - d. Estimates of property's value and anticipated proceeds from sale of property under normal market sale conditions.

- e. Cost to cure the default separated into loan delinquency balance and foreclosure fees.
  - f. Timetable for foreclosure process.
  - g. Any extenuating circumstances of borrower and/or property.
2. Based on the circumstances, the City Manager/Executive Director may decide to:
- a. Instruct staff to attend the foreclosure sale and bid an amount sufficient to protect the City's/Agency's security. In the event the City is the highest bidder, the property will be sold to recapture the bid amount; or,
  - b. Take no action and allow the City's/Agency's loan to be canceled by the foreclosure sale. This action shall be taken when the anticipated proceeds from a market sale would be insufficient to justify further expenditure by the City; or,
  - c. Refer the issue to the Finance Committee for its review and decision.

E. Requests From Borrower for City/Agency to Accept a Reduced Loan Payoff Amount

In the event the borrower makes a request for the City/Agency to reconvey the MSP Deed of Trust upon payment of an amount less than the current outstanding loan balance, staff will proceed as follows:

1. If the borrower will repay the outstanding principal balance in full, the City Manager/Executive Director may approve a payment schedule for the interest balance as follows:
- a. For loans made prior to January 1, 1997, the interest rate applied to the loan shall be adjusted to the current interest rate being charged to new borrowers in the income category that borrower was in when he/she received the loan, and the accrued interest balance will be determined using the adjusted interest rate.
  - b. The accrued interest balance owing may be repaid by the borrower over a period of time not to exceed five years, as determined by the City Manager/Executive Director.
  - c. The accrued interest balance will be amortized at the applicable interest rate for the period of time set by the City Manager/Executive Director.
  - d. The interest balance will be paid in accordance with an unsecured Financing Agreement that contains the terms and conditions established by the City Manager/Executive Director.
2. For the purposes of this section, a "short sale" is a transaction approved by a superior lien holder which allows the borrower to sell their property for an amount less than the combined principal balance of all lien holders' loans in order to avoid foreclosure by lien holders. The Finance Committee will consider short sale requests. However, if the Finance Committee is unable to meet in a timely manner to accommodate the superior lien holder's closing deadline, the City Manager/Executive Director may approve such short sale if it meets the following conditions:
- a. The borrower will not receive any profit from the sale; and
  - b. No lien holder will receive repayment from the sale that exceeds the principal balance due of their loan;
  - c. The City/Agency will receive at least 10% of the principal balance due on the MSP loan from the sale, or \$3,000, whichever is less; and
  - d. City Staff will prepare a report to the Finance Committee on the short sale at their next meeting.
3. If the borrower's request is not consistent with the conditions of Section E.1 or E.2 above, the request shall be referred to the Finance Committee for its consideration.

F. Requests from Borrower to Cease Use of Their Property as a Principal Place of Residence

In the event Borrower moves from their home and contacts the City/Agency with a request to rent the property,

City/Agency staff ~~shall~~will proceed as follows:

1. If the following conditions apply, the City Manager/Executive Director may approve rental of the property for a one year period with one year extensions, for a maximum of three extensions:

- a. The request is made due to a hardship such as a major life change event and/or loss of employment and inability to obtain sufficient employment within a reasonable traveling distance to the property; and
- b. It is infeasible to refinance the primary mortgage in an amount sufficient to repay the City/Agency; and
- c. Proceeds from the sale of the property will be insufficient to cover all principal balances of mortgage liens on the property; and
- d. The maximum rent charged by the Borrower is restricted by the Federal and/or State regulations governing use of the MSP funding source; and
- e. Rental of the property is not precluded by the MSP funding source.

2. If the request is not consistent with Section F.1 a through e above, refer the request to the Finance Committee for its recommendation to either deny such request, or to direct staff to proceed as follows:

- 4 a. Refer the Borrower to the President of the Chico Association of Realtors in order to market the home for sale to an MSP-eligible buyer.
- 2 b. Require that the Borrower provide documentation that he/she has attempted to refinance the primary mortgage in an amount sufficient to repay the City/Agency.
- 3 c. Allow the home to be rented for a one-year period. During this period, the Borrower shall continue to work with a realtor to sell the property at a price sufficient to satisfy all liens against the property and commissions/fees relating to the sale, without profit to the Borrower. The maximum rent charged by the Borrower will be restricted by the Federal and/or State regulations governing use of the MSP funding source. The Finance Committee will review and make a determination on any extensions to rent the home beyond the one-year period.
- 4 d. Notwithstanding implementation of the options above, if at any point in time during the loan term, the borrower ceases to occupy their property as a principal place of residence, as required by Section II.A.2.e., the recipient is in default of their loan and the City Manager/Executive Director may choose to foreclose on the home.

G. Borrower in Default of Mortgage Subsidy Loan Provisions

In the event that a borrower is in default of City/Agency loan provisions, the City Manager/Executive Director may approve the initiation of foreclosure proceedings and associated expenses on behalf of the City/Agency when it is determined that in doing so, will preserve the interest of the City/Agency.

**CITY OF CHICO**  
**Administrative Procedure and Policy Manual**

Subject: MORTGAGE SUBSIDY PROGRAM	Number: 27-10 Effective Date:
Department(s) Affected: City Manager, Finance, Housing & Neighborhood Services Department	Supersedes: 27-10 dated 02/02/10
Authority: Council Motions 09/18/90; 07/23/91; 02/18/92; 04/07/92; 08/03/93; 10/04/94; 05/02/95; 02/20/96; 11/25/96; 05/20/97; 05/19/98; 09/21/99; 02/06/01; 07/17/01; 04/16/02; 06/17/03; 04/06/04; 03/15/05; 09/18/07; 04/07/09; 05/20/09; 6/02/09; 02/02/10	File Reference: PS-70-3-1 Approved:

**I. PURPOSE**

The Mortgage Subsidy Program (MSP) is designed to meet the needs of low and moderate income families who are purchasing their first home. The mortgage subsidy is provided in the form of down payment assistance that enables the family to achieve home ownership and directly assists in reducing monthly payments.

**II. POLICY**

**A. Eligibility**

**1. Location**

Loans will be made only for property located in residentially zoned areas within the City limits of the City of Chico or within the Greater Chico Urban Area Redevelopment Project Area.

**2. Types of Housing**

- a. New and existing single family.
- b. New and existing multi-family units which provide individual ownership of the unit, (i.e., condominiums or townhouses).
- c. Mobile homes on permanent foundations and located on individual parcels of real property.
- d. House must meet "Housing Code" requirements or be rehabilitated to meet code.
- e. Must be used as principal residence of the applicant.
- f. The sale price limit of the home may be up to 110 percent of the previous year's median sale price, as determined by the Chico Association of Realtors. The median will be updated annually on March 1 based on the previous calendar year sales data. For loans made from a funding source that restricts sale price to a lower limit, the most restrictive sale price shall apply.
- g. Houses built under contract for the applicant are eligible for MSP assistance subject to the provisions of Section III.C.

**3. Applicant Characteristics**

- a. Applicants must be "first time" home buyers, which is defined as not having owned or had an interest in a house within the last three years.
- b. The applicant's gross annual income shall be between 50 percent and 120 percent of the Chico Metropolitan Statistical Area Median Household Income (by household size) as established by the State of California, Department of Housing and Community Development on an annual basis.

- c. The Applicant's assets will be evaluated by determining the current value of the assets and applying a reasonable rate of return to establish a level of investment income. The investment income will be added to the other sources of income to determine "gross annual income."

In the event the value of the assets retained by the applicant after the close of escrow is projected to exceed \$20,000, the application will be reviewed by the Finance Committee prior to further processing of the loan request.

Pension Funds, which are defined as qualified plans by the Internal Revenue Service, are subject to early withdrawal penalties and cannot be borrowed against; therefore, they shall not be included in the determination of assets. However, such funds may be considered if deposited in a lump sum within one year prior to application.

- d. Applicant must provide a minimum of \$5,000 as a down payment and must retain a liquid savings reserve of at least one month's housing expense..
- e. Definition of Dependent for Household Size Determination:
  - 1) A dependent shall be a member of the household who is 18 years of age or less and is related to the family pursuant to the IRS rules, adopted, or under a legal guardianship established for custody.
  - 2) An individual between 19 and 23 years of age shall be considered a dependent when he/she is a student enrolled in the equivalent of nine semester hours or more. Any income earned by the dependent shall be included in the household's gross income.
  - 3) A household member who is handicapped and is related, or adopted, or under legal guardianship shall be considered a dependent regardless of his/her age if claimed as a dependent on the head of household's federal tax return. The income of a handicapped dependent shall be included in the household's gross income.
  - 4) A parent of the head of household shall be considered a member of the household if he/she resides in the home full time. The income of the individual shall be included in the household's gross income.
  - 5) A household member not meeting the above definition shall not be considered a dependent and shall not be included in the household size for eligibility determination. The income of a non-dependent shall not be included in the household's gross income.

**B. Maximum Mortgage Subsidy Loan Amount**

The maximum Mortgage Subsidy loan amounts shall be based on household income levels in accordance with the following schedule:

<u>INCOME LEVEL OF APPLICANT</u>	<u>MAXIMUM LOAN AMOUNT</u>
Lower - 80 percent of Median or less	30% of sales price
Median - 81 percent to 100 percent of Median	20% of sales price
Moderate - 101 percent to 120 percent of Median	10% of sales price

**C. Housing Expense Ratios**

The housing expense ratio is the sum of monthly principal and interest payments on the first deed of trust, mortgage insurance premiums, property taxes, hazard insurance, and where applicable, homeowner's association dues, as a percent of the household's monthly gross income. The loan term shall not exceed thirty years. The housing expense ratio shall be limited as follows:

**1. Maximum Housing Expense Ratio**

**a. Adjustable Rate Loans**

The maximum housing expense ratio on adjustable rate loans shall be 33 percent. Loans with interest rates that adjust more than three percent during the loan term are not eligible.

b. Fixed Rate Loan

The maximum housing expense ratio on fixed rate loans shall be 35 percent. In the event the City Manager/Executive Director determines that relevant compensating factors exist, the maximum ratio may be higher but may not exceed 38 percent.

2. Minimum Housing Expense Ratio

The minimum housing expense ratio shall be 28 percent of the household gross monthly income.

D. Impound Accounts

All MSP borrowers shall agree to establish an Impound Account with their institutional lender for the purpose of ensuring payment of property taxes and hazard insurance.

E. Terms of Mortgage Subsidy Assistance

1. Loan Term

The term of the mortgage assistance loan is until sale, transfer, or rental of the property.

2. Interest Rate

The interest rate is based on the income level of the borrower as follows:

- a. The interest rate for Lower income borrowers (below 80 percent of the median income) is 4 percent below the applicable FHA loan rate but not less than 2 percent or more than 4 percent.
- b. The interest rate for median income borrowers (between 81 percent and 100 percent of the median income) is 2 percent below the applicable FHA loan rate but not less than 3 percent or more than 6 percent.
- c. The interest rate for moderate income borrowers (between 101 percent and 120 percent of the median income) is set at the applicable FHA rate but not less than 4 percent or more than 7.5 percent.

The applicable FHA loan rate will be determined in January and July of each year based on the FHA loan rate for 30 year fixed rate loans issued under the Section 203 program at that time. After the tenth year of the MSP loan the rate is converted to zero percent (0 percent).

3. Security

The City's/Agency's loan is secured by a deed of trust and shall be subordinate only to a first deed of trust to the principal lender, with exception of a City-approved federal or state second loan, without which the home purchase would be infeasible.

4. Payments

- a. Payments of principal and interest are deferred until the sale or transfer of the property or when the homeowner ceases to occupy the property as their principal residence.
- b. There is no prepayment penalty.
- c. In the event the borrower makes payments while in full compliance of the terms and conditions of the Loan Agreement, Loan Repayment Agreement, and Deed of Trust, the funds will be credited towards the principal balance of the loan.

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Twenty percent of the accrued interest is forgiven for each year the loan is outstanding and the property serves as the principal residence between year 11 and the end of year 15.

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  - a. The amount of the new loan to which the City/Agency is being requested to subordinate compared to the amount of the original loan to which the City/Agency has subordinated.
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  - e. Documentation that the owner is not receiving cash or paying off other debts from the funds received through the refinancing of the loan.
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    - 1) The MSP principal loan balance must be repaid in full;
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  - f. Timetable for foreclosure process.
  - g. Any extenuating circumstances of borrower and/or property.

2. Based on the circumstances, the City Manager/Executive Director may decide to:
  - a. Instruct staff to attend the foreclosure sale and bid an amount sufficient to protect the City's/Agency's security. In the event the City is the highest bidder, the property will be sold to recapture the bid amount; or,
  - b. Take no action and allow the City's/Agency's loan to be canceled by the foreclosure sale. This action shall be taken when the anticipated proceeds from a market sale would be insufficient to justify further expenditure by the City; or,
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1. If the borrower will repay the outstanding principal balance in full, the City Manager/Executive Director may approve a payment schedule for the interest balance as follows:
  - a. For loans made prior to January 1, 1997, the interest rate applied to the loan shall be adjusted to the current interest rate being charged to new borrowers in the income category that borrower was in when he/she received the loan, and the accrued interest balance will be determined using the adjusted interest rate.
  - b. The accrued interest balance owing may be repaid by the borrower over a period of time not to exceed five years, as determined by the City Manager/Executive Director.
  - c. The accrued interest balance will be amortized at the applicable interest rate for the period of time set by the City Manager/Executive Director.
  - d. The interest balance will be paid in accordance with an unsecured Financing Agreement that contains the terms and conditions established by the City Manager/Executive Director.
2. For the purposes of this section, a "short sale" is a transaction approved by a superior lien holder which allows the borrower to sell their property for an amount less than the combined principal balance of all lien holders' loans in order to avoid foreclosure by lien holders. The Finance Committee will consider short sale requests. However, if the Finance Committee is unable to meet in a timely manner to accommodate the superior lien holder's closing deadline, the City Manager/Executive Director may approve such short sale if it meets the following conditions:
  - a. The borrower will not receive any profit from the sale; and
  - b. No lien holder will receive repayment from the sale that exceeds the principal balance due of their loan;
  - c. The City/Agency will receive at least 10% of the principal balance due on the MSP loan from the sale, or \$3,000, whichever is less; and
  - d. City Staff will prepare a report to the Finance Committee on the short sale at their next meeting.
3. If the borrower's request is not consistent with the conditions of Section E.1 or E.2 above, the request shall be referred to the Finance Committee for its consideration.

F. Requests from Borrower to Cease Use of Their Property as a Principal Place of Residence

In the event Borrower moves from their home and contacts the City/Agency with a request to rent the property, City/Agency staff will proceed as follows:

1. If the following conditions apply, the City Manager/Executive Director may approve rental of the property for a one year period with one year extensions, for a maximum of three extensions:
  - a. The request is made due to a hardship such as a major life change event and/or loss of employment

- and inability to obtain sufficient employment within a reasonable traveling distance to the property; and
- b. It is infeasible to refinance the primary mortgage in an amount sufficient to repay the City/Agency; and
  - c. Proceeds from the sale of the property will be insufficient to cover all principal balances of mortgage liens on the property; and
  - d. The maximum rent charged by the Borrower is restricted by the Federal and/or State regulations governing use of the MSP funding source; and
  - e. Rental of the property is not precluded by the MSP funding source.
2. If the request is not consistent with Section F.1 a through e above, refer the request to the Finance Committee for its recommendation to either deny such request, or to direct staff to proceed as follows:
- a. Refer the Borrower to the President of the Chico Association of Realtors in order to market the home for sale to an MSP-eligible buyer.
  - b. Require that the Borrower provide documentation that he/she has attempted to refinance the primary mortgage in an amount sufficient to repay the City/Agency.
  - c. Allow the home to be rented for a one-year period. During this period, the Borrower shall continue to work with a realtor to sell the property at a price sufficient to satisfy all liens against the property and commissions/fees relating to the sale, without profit to the Borrower. The maximum rent charged by the Borrower will be restricted by the Federal and/or State regulations governing use of the MSP funding source. The Finance Committee will review and make a determination on any extensions to rent the home beyond the one-year period.
  - d. Notwithstanding implementation of the options above, if at any point in time during the loan term, the borrower ceases to occupy their property as a principal place of residence, as required by Section II.A.2.e., the recipient is in default of their loan and the City Manager/Executive Director may choose to foreclose on the home.

G. Borrower in Default of Mortgage Subsidy Loan Provisions

In the event that a borrower is in default of City/Agency loan provisions, the City Manager/Executive Director may approve the initiation of foreclosure proceedings and associated expenses on behalf of the City/Agency when it is determined that in doing so, will preserve the interest of the City/Agency.



## Finance Committee Agenda Report

Meeting Date: September 27, 2011

TO: Finance Committee  
FROM: Sherry Morgado, Housing & Neighborhood Services Director (879-6301)  
RE: Recommended Changes to AP&P 27-5 (Housing Rehabilitation Program)

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### REPORT IN BRIEF:

The City uses federal HOME and CDBG funds to operate its Housing Rehabilitation Program (HRP). The U.S. Department of Housing and Urban Development (HUD) administers these funds and enforces federal regulations to which they pertain.

The City recently entered into a Programmatic Agreement with the California State Historic Preservation Officer as a means to comply with Federal and State regulations regarding procedures to address the review of potentially historic and cultural resources. Revisions will reflect this new procedure and update procedures regarding compliance with current environmental regulations, as well. Additional revisions are proposed to bring the policy guidelines in line with funding and loan document provisions regarding rental of property and to make nomenclature and other minor revisions throughout the document.

#### Recommendation:

The Housing and Neighborhood Services Director recommends that Administrative Policy and Procedure Number 27-5 be amended to: 1) Update the historic review and environmental compliance process, 2) align the procedure for handling renting of property with funding and loan document provisions and, 3) to revise nomenclature of City departments and make other clean up revisions to text.

### FISCAL IMPACT:

No fiscal impact.

### BACKGROUND:

Utilization of Federal HOME and CDBG funds requires compliance with environmental regulations as well as regulations pertaining to protection of historic properties. During the past year, Staff received clarification and direction regarding levels of environmental review necessary for various Housing activities along with updated forms for conducting such reviews. A component of the environmental review includes discussion of potentially historic properties and previously, if a home was 50 years or older, the Planning Department was requested to send a letter to the State Historic Preservation Officer (SHPO) to determine whether or not the home was of historic significance. SHPO had 30 days in which to respond to the request and commitment of funds to a potential rehabilitation project was delayed until such response was received. In recognition that most of the projects undertaken in a HRP are of a similar and repetitive scope of work, there is an allowance in the Federal regulations for entities to enter into Programmatic Agreements (PA) with the State Historic Preservation Officer. Utilization of a PA creates a more streamlined and efficient process for both the City and SHPO. The City entered into a PA for the HRP in June 2011.

The HRP program has historically had more leeway than the Mortgage Subsidy Program, with regard to borrowers who rent their home, and the Standard Form Loan Repayment Agreement reflects options the City may pursue other than declaring the loan to be in default. The AP & P had been amended to follow the MSP procedures for dealing with an owner who wishes to rent their home. Further review and clarification of the HOME Regulations

allows for the amendments as recommended in the discussion below.

## **DISCUSSION:**

### Environmental and Historic Review Process

The recommended amendments to AP&P 27-5 at Section II.B.5 will reflect the current process necessary to comply with Federal environmental review requirements and the utilization of the Programmatic Agreement with the California State Historic Preservation Officer. Proposed language for this amendment is:

5. Housing and Neighborhood Services Staff will determine whether the property conforms to the criteria set forth in the Programmatic Agreement between the City of Chico and The California State Historic Preservation Officer and proceed accordingly. Staff will also complete necessary worksheets for compliance with environmental regulations per 24 CFR 58 (Statutory Worksheet, Exhibit 5).

### Rental of Property

HOME regulations require that the recipient of funds for housing rehabilitation activities be the qualified owner occupant of the property at the time funds are committed to the project. The regulations do not mandate long term occupancy requirements, but give the City authority to make decisions in this regard. The City has maintained the following policy which is stipulated in its Standard Form Loan Repayment Agreement:

"If prior to the repayment of all sums due under this Agreement Owner rents the Property or any portion thereof, City may, at its option, take one of the following actions:

- a. City may declare all sums to be paid under this Agreement immediately due and payable; or
- b. City may require payment of all sums due under Section 1 of this Agreement to be paid to City with interest in equal monthly installments.

In the event Owner rents the Property or any portion thereof and as a result thereof City elects to exercise its option to waive immediate payment, then Owner agrees not to charge the tenant renting the Property or any portion thereof rent in an amount which exceeds the fair market rent for the Chico Urban Area, as established by City, unless the City consents to rent charges in excess of such amount. In such event, Owner shall also post in a conspicuous place on the Property a statement of the rent increase limitation set forth herein."

In order to be consistent with the above language, Staff recommends the following procedure be added, as written in the proposed AP&P 27-5 redline revision, Section II.K.3:

3. In the event Owner moves from their home and contact the City with a request to rent the property, City Manager is authorized to direct staff to proceed as follows:
  - a. Declare all sums due and payable under the terms of the loan documents, or
  - b. Allow the homeowner to rent the property for an amount not to exceed fair market rent as determined by the City and require the homeowner to make monthly installment payments to pay off the loan.
  - c. Notwithstanding City approval to rent the property, City shall also have the right, at its option, to declare all outstanding loan funds immediately due and payable if owner is in breach of any covenant, warranty, promise or representation.

RE: Recommended Changes to AP&P 27-4 and 27-5 (Housing Rehabilitation Program)

Meeting Date: September 27, 2011

Page 3

If the HRP loan is HOME-funded, as is currently the case for all HRP loans, the City will be required to enforce the HOME maximum rents as published by HUD. Currently the HOME maximum rent for a three-bedroom home is \$1,232 per month.

Minor Revisions and Clarifications

Previously, City Departments were referred to as "Office". Changes proposed are to update the nomenclature References regarding lead based paint at Section II.A.2 and Section II.C.5 will be clarified.

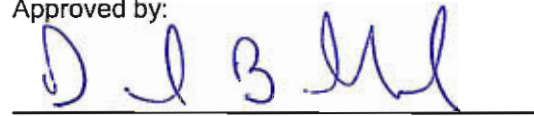
**PUBLIC CONTACT:**

None.

Reviewed by:

  
Sherry Morgado  
Housing and Neighborhood Services Director

Approved by:

  
David Burkland  
City Manager

**DISTRIBUTION:**

City Clerk (17)

HNS (3)

**ATTACHMENTS:**

Attachment 1 - AP&P 27-5 (redline version)

Attachment 2 - AP&P 27-5 (clean version)

Attachment 3 - Statutory Worksheet "Exhibit 5"

**CITY OF CHICO**  
**Administrative Procedure and Policy Manual**

Subject: PROCEDURES FOR REHABILITATION LOAN PROGRAM OWNER OCCUPIED PROPERTIES	Number: 27-5 <hr/> Effective Date:
Department(s) Affected: City Manager, Finance, Housing & Neighborhood Services Department	Supersedes: 27-5 dated <del>11/27/07</del> <u>4/07/09</u>
Authority: Sec. 2.12.010 CMC; City Council Motion 05/20/97; 9/18/01; 11/27/07; 4/7/09	File Reference: <hr/> Approved:

**I. PURPOSE:**

To establish the procedures for administration of the Housing Rehabilitation Program for Owner Occupied Properties in accordance with the policies outlined in Administrative Procedures and Policy (APP) 27-4.

**II. PROCEDURES:**

**A. APPLICATION**

1. Initial program applicants are provided basic eligibility information regarding income levels and advised that the property must be in the City limits and must be owner occupied.
2. Applicants who appear eligible shall be provided a program application to complete. The HUD "Lead-Based Paint" pamphlet shall accompany the application for single-family stick built residences. ~~Mobile homes are not considered a potentially hazardous structure~~ built prior to 1978.
3. Upon receipt of the application, a program file is established and the project checklist is initiated and placed in the file.

**B. VERIFICATION**

1. Verifications for benefits, deposits, and employment are processed as applicable (Exhibits "1" to "3"). In addition, assets are evaluated, on a case by case basis, to determine investment income.
2. A credit report and preliminary title report or title search are ordered.
3. All mortgages indicated by the title report or title search are verified (Exhibit "4").
4. The Housing and Neighborhood Services Department is requested (when necessary) to verify if the property is on sewer.
5. ~~If the property is over fifty years old, an Environmental Review of Potential Housing Rehab Site (Exhibit "5") shall be forwarded to the Planning Division for completion and return to the Housing Office. The completed Review is transmitted to the~~ Housing and Neighborhood Services Staff will determine whether the property conforms to the criteria set forth in the Programmatic Agreement between the City of Chico and The California State Historic Preservation Office for determination as to whether the project is eligible for listing in the National Register ~~Officer~~ and whether the rehabilitation will have an adverse effect upon an historic structure proceed accordingly. Staff will also complete necessary worksheets for compliance with environmental regulations per 24 CFR 58 (Statutory Worksheet, Exhibit 5).
6. The Housing and Neighborhood Services Department shall evaluate the title report, verifications, application, ~~Planning Office information~~ and existing Building Division records to determine a checklist of items that must be addressed during the further processing of the application.
7. A meeting is held with the applicant to discuss the checklist of items that must be addressed.

### C. PRECONSTRUCTION

1. A preliminary inspection is made to determine the scope of work and cost estimate.
2. When the preliminary cost estimate combined with the existing debt appear to exceed the value of the property (after the work is completed), or if the value of the property (after the work is completed) appears to exceed 95% of the median purchase price for the area, which is the higher of that published in the Single Family Mortgage Limits under Section 203(b) of the National Housing Act or that reported by the Chico Association of Realtors using the Multiple Listing Service for the most recent month, an appraisal is ordered.
3. If the appraisal demonstrates that the ratio of the existing debt plus the proposed loan amount to the value after rehabilitation exceeds the ratio authorized by the City Council as set forth in APP 27-4, the scope of the project must be reduced or approval to continue processing must be requested from the Finance Committee.
4. If the appraisal demonstrates that the value after rehabilitation exceeds 95% of the median purchase price for the area, which is the higher of that published in the Single Family Mortgage Limits under Section 203(b) of the National Housing Act or that reported by the Chico Association of Realtors using the Multiple Listing Service for the most recent month, the scope of the project must be reduced or approval to continue processing must be requested from the Finance Committee.
5. In order to comply with the federally-mandated lead based paint requirements for single-family homes, a lead hazard inspection report shall be ordered from a State-certified inspector, as applicable. All costs reflecting increases associated with lead hazard reduction repairs and the implementation of lead-safe practices, which are included in the work write-up and are in addition to base construction costs, shall be summed separately and disbursed according to APP 27-4.

If applicable, a lead hazard clearance shall be received prior to recordation of the Notice of Completion as outlined in Paragraph G.1.

A copy of the inspection report and clearance shall be provided to the property owner.

6. ~~Rehab.~~Rehabilitation Program Staff will inspect the property and prepare a memo - review of plans/cost estimate.
7. A pre-bid conference is scheduled with a 7-day notice period. The applicant selects the contractors, from the current list of eligible and approved contractors, plus other eligible contractors the applicant request, who are to be sent a bid notice (Invitation to Bid, Exhibit "6").
8. The pre-bid conference is held at the applicant's home with a representative of the Housing and Neighborhood Services Department present to serve as a resource person
9. Contractors attending the pre-bid conference are given 14 days to submit their bids to the City.
10. The homeowner selects the contractor without a restriction to select the lowest bid .
11. If the homeowner rejects all bids, the project is rebid with or without work plan redesign.
12. The contractor is notified of its selection and the other bidders are sent a letter thanking them for their participation. Information on the bids is released to the contractors upon request.

### D. LOAN APPROVAL

1. The selected bid amount plus the staff-recommended contingency establishes the loan amount. The Housing and Neighborhood Services Department staff meets with the applicant to review the applicant's household budget in relation to the program's affordability policy. Based upon the staff's evaluation, a recommendation for the terms and conditions of the loan package are established.

2. A loan approval package is prepared for the Finance Committee or City Manager as appropriate pursuant to APP 27-4 (Exhibits "7" and "8").

#### E. LOAN CLOSING

1. A loan closing is scheduled at which time the homeowner signs the appropriate loan repayment agreement, which varies depending on the loan terms approved, the Owner/Contractor Loan Agreement (which also requires signature by the contractor), the disclosure statement, and the Deed of Trust. These documents are "Approved Standard Forms" by the City Attorney's Office. An additional document, the "Owner/Contractor Agreement" is prepared by the City and executed by the owner and the contractor; the City is not a party to this agreement. At this time the work plan and City procedures are reviewed and any questions are answered. For repairs that qualify under the terms for a Grant, only a Grant Agreement and Owner/Contractor Agreement shall be executed.

In addition, the Owner shall complete the Affirmative Action Information (Exhibit "9") and Fair Lending Notice (Exhibit "10").

2. Escrow Instructions are prepared for submission of the Deed of Trust to the City's Trustee for recordation.
3. Upon receipt of the required insurance and bonding, a "Notice to Proceed" is issued to the Contractor (Exhibit "11").
4. A memo is prepared directing the Finance Office Department to establish the appropriate account transfers. A copy of the Loan Repayment Agreement is included with the memo.
5. A purchase order is prepared consistent with the payment schedule in the owner/contractor agreement.

#### F. CONSTRUCTION

1. As construction is performed, progress payment requests are made on the Request for Payment (Exhibit "12").
2. Change Orders during the construction process can be requested by the contractor, applicant or City. The contractor is responsible to determine the cost or savings of the change and submit the Change Order Form (Exhibit "13"). The applicant and the City must approve all change orders.

Approved change orders are applied to the progress payment for the period when the work is completed. Change orders which increase the project cost are paid from the contingency.

#### G. COMPLETION OF IMPROVEMENTS

1. Notice of completion:
  - a. Upon City approval of the 100% progress payment request, a Notice of Completion is filed. The City shall act as agent for property owner as outlined in Housing Rehabilitation Loan Agreement-Owner/Contractor, or the Grant Agreement.
  - b. The City shall record a notice of completion within ten days of actual completion of improvements.
2. Final Payment:
  - a. The Housing and Neighborhood Services Department shall check with County Recorder 30 days after recording the Notice of Completion to determine if liens have been filed against the property.
  - b. If no liens have been filed, the final payment may be made on the 31st day following recordation of notice of completion.

- c. If no notice of completion has been recorded or is defective in some way, the final payment shall not be paid until the 91st day following completion of work on the project.
- d. If liens have been filed, the matter will be reviewed with the City Attorney prior to processing the final payment.

#### H. CLOSEOUT PROCEDURES

1. A memorandum shall be forwarded to the Finance Office Department to balance the account with actual contingency used (Exhibit "14").
2. A letter shall be sent to the homeowner advising them of the final loan amount .

#### I. LOAN SERVICING BY CITY FINANCE OFFICE DEPARTMENT

##### 1. Payments:

- a. Loan payments shall be made to the City either in person or by mail. Payments shall be due on the first day of each month or other such day as provided in the loan repayment agreement and shall be in installment amounts and in accordance with the terms of the Loan Repayment Agreement ).
- b. The Finance Office Department shall establish and maintain a receivable account for each loan being serviced. The account shall reflect credit on payments to principal and interest. If payments are made in cash, a copy of the Official Receipt shall be given to the payor. A statement of present balance due shall be provided to the property owner(s) upon request. The Housing and Neighborhood Services Department shall advise the Finance Officer Department of the terms of agreement, if any, relating to forgiveness of principal and interest, and request that such terms be applied on an annual basis as appropriate. Forgiveness, if any, shall be based upon the original loan amount, less any un-disbursed loan proceeds.

##### 2. Payments Past Due:

The Finance Director shall notify the Housing and Neighborhood Services Director when a loan is over thirty (30) days past due. The Finance Officer Department shall follow APP 15-14 and inform the Housing and Neighborhood Services Department of progress. Further steps shall be taken as necessary and specified in the Rehabilitation Loan Agreements and/or Deed of Trust.

##### 3. Full Repayment:

The Finance Director Department shall notify the Housing and Neighborhood Services Department when a loan has been fully repaid. The City Manager is authorized to release the lien on any property for which any loan has been fully repaid by the property owner. Said release shall be in the form of a "Substitution of Trustee and Full Reconveyance," prepared and recorded by the Housing and Neighborhood Services Department (Exhibit "15").

##### 4. Annual Audit:

The City's annual audit of accounts will include Rehabilitation Loans.

##### 5. Loan Agreements and Deed:

Copies of loan repayment agreement shall be retained in Finance Office Department files until loans have been fully repaid. Grant Agreements shall be retained by the Housing and Neighborhood Services Department.

#### J. LOAN MONITORING

1. The Housing and Neighborhood Services Department shall mail an annual Property Status

Certification of Occupancy to the owner each year until the loan is repaid. Annual certification is not required for grants.

2. If the property is rented, the tenants shall be requested to complete certification of rental charges.

#### K. AMENDMENTS OF LOAN TERMS AND CONDITIONS

1. Pursuant to Section II. I.1 of AP&P 27-4, the City Manager is authorized to amend the Housing Rehabilitation Loan Repayment Agreement for certain conditions. The steps to process such amendments shall be as follows:
  - a. The Housing and Neighborhood Services Director shall prepare a Memo to the City Manager explaining the purpose and justification for the Amendment.
  - b. Upon City Manager approval, the Housing and Neighborhood Services Department shall prepare the appropriate Amendment documents and forwards to the City Attorney for approval as to form.
  - c. After execution by the owner and the City Manager, the Housing and Neighborhood Services Department shall forward a copy of the executed agreement to the Finance ~~Office~~Department with a cover memo describing the specifics of the amendment.
2. Pursuant to Section II. I.3 of AP&P 27-4, amendments to the Repayment Agreement shall be considered by the Finance Committee in the event the City Manager is not authorized to approve such amendments or if the City Manager requests review from the Committee. The steps to process Finance Committee consideration of amendments shall be as follows:
  - a. The Housing and Neighborhood Services Department shall prepare a memo to Finance Committee ~~through the Assistant City Manager~~ explaining the purpose and justification of the amendment.
  - b. Upon Finance Committee approval, the Housing and Neighborhood Services Department shall prepare the appropriate amendment documents and forwards to the City Attorney for approval as to form.
  - c. After execution by the owner and the City Manager, the Housing and Neighborhood Services Department shall forward a copy of the executed agreement to the Finance ~~Office~~Department with a cover memo describing the specifics of the amendment.
3. In the event Owner moves from their home and contacts the City with a request to rent the property, City ~~Manager is authorized to direct~~ staff may to proceed as follows:
  - a. ~~Refer the Owner to the President of the Chico Association of Realtors in order to market the home for sale to an MSP-eligible buyer.~~
  - ~~b. Require that the Owner provide documentation that he/she has attempted to refinance the primary mortgage in an amount sufficient to repay the City.~~
  - ~~c. Declare all sums due and payable under the terms of the loan documents. or~~
  - ~~b. Allow the home to be rented for a one-year period. During this period, the Owner shall continue to work with a realtor to sell the property at a price sufficient to satisfy all liens against the property and commissions/fees relating to the sale, without profit to the Owner. The maximum rent charged by the Owner will be restricted by federal and/or state regulations governing use of the funding source. The Finance Committee will review and make a determination on any extensions to rent the home beyond the one-year period.~~
  - ~~d. Notwithstanding implementation of the options described above, if at any point in time during the loan term, the Owner ceases to occupy their property as a principal place of residence, as required by Section II.A.2.e., the Owner is in default of their loan and the City Manager may~~

choose to foreclose on the home; homeowner to rent the property for an amount not to exceed fair market rent as determined by the City and require the homeowner to make monthly installment payments to pay off the loan.

- c. Notwithstanding City approval to rent the property, City shall also have the right, at its option, to declare all outstanding Loan funds immediately due and payable if owner is in breach of any covenant, warranty, promise or representation.

#### L. FORECLOSURE BY SUPERIOR LIEN HOLDER

In the event a superior lien holder declares its deed of trust in default and initiates foreclosure proceedings, staff will perform the following actions:

1. Housing and Neighborhood Services Department shall prepare a memo to the City Manager which contains the following information:
  - a. Results of staff's efforts to contact the borrower and determine their plan to cure the default.
  - b. Total balance due on Housing Rehabilitation Loan, including accrued interest.
  - c. Amount of outstanding balance on the lender's loan.
  - d. Estimates of property's value and anticipated proceeds from sale of property under normal market sale conditions.
  - e. Cost to cure the default separated into loan delinquency balance and foreclosure fees.
  - f. Timetable for foreclosure process.
  - g. Any extenuating circumstances of borrower and/or property.
2. Based on the circumstances, the City Manager may decide to:
  - a. Instruct staff to attend the foreclosure sale and bid an amount sufficient to protect the City's security. In the event the City is the highest bidder, the property will be sold to recapture the bid amount; or,
  - b. Take no action and allow the City's loan to be canceled by the foreclosure sale. This action shall be taken when the anticipated proceeds from a market sale would be insufficient to justify further expenditure by the City; or,
  - c. Refer the issue to the Finance Committee for its review and decision.

**CITY OF CHICO**  
**Administrative Procedure and Policy Manual**

Subject: PROCEDURES FOR REHABILITATION LOAN PROGRAM OWNER OCCUPIED PROPERTIES	Number: 27-5 <hr/> Effective Date:
Department(s) Affected: City Manager, Finance, Housing & Neighborhood Services Department	Supersedes: 27-5 dated 4/07/09
Authority: Sec. 2.12.010 CMC; City Council Motion 05/20/97; 9/18/01; 11/27/07; 4/7/09	File Reference: <hr/> Approved:

I. PURPOSE:

To establish the procedures for administration of the Housing Rehabilitation Program for Owner Occupied Properties in accordance with the policies outlined in Administrative Procedures and Policy (APP) 27-4.

II. PROCEDURES:

A. APPLICATION

1. Initial program applicants are provided basic eligibility information regarding income levels and advised that the property must be in the City limits and must be owner occupied.
2. Applicants who appear eligible shall be provided a program application to complete. The HUD "Lead-Based Paint" pamphlet shall accompany the application for single-family stick built residences built prior to 1978.
3. Upon receipt of the application, a program file is established and the project checklist is initiated and placed in the file.

B. VERIFICATION

1. Verifications for benefits, deposits, and employment are processed as applicable (Exhibits "1" to "3"). In addition, assets are evaluated, on a case by case basis, to determine investment income.
2. A credit report and preliminary title report or title search are ordered.
3. All mortgages indicated by the title report or title search are verified (Exhibit "4").
4. The Housing and Neighborhood Services Department is requested (when necessary) to verify if the property is on sewer.
5. Housing and Neighborhood Services Staff will determine whether the property conforms to the criteria set forth in the Programmatic Agreement between the City of Chico and The California State Historic Preservation Officer and proceed accordingly. Staff will also complete necessary worksheets for compliance with environmental regulations per 24 CFR 58 (Statutory Worksheet, Exhibit 5).
6. The Housing and Neighborhood Services Department shall evaluate the title report, verifications, application and existing Building Division records to determine a checklist of items that must be addressed during the further processing of the application.
7. A meeting is held with the applicant to discuss the checklist of items that must be addressed.

### C. PRECONSTRUCTION

1. A preliminary inspection is made to determine the scope of work and cost estimate.
2. When the preliminary cost estimate combined with the existing debt appear to exceed the value of the property (after the work is completed), or if the value of the property (after the work is completed) appears to exceed 95% of the median purchase price for the area, which is the higher of that published in the Single Family Mortgage Limits under Section 203(b) of the National Housing Act or that reported by the Chico Association of Realtors using the Multiple Listing Service for the most recent month, an appraisal is ordered.
3. If the appraisal demonstrates that the ratio of the existing debt plus the proposed loan amount to the value after rehabilitation exceeds the ratio authorized by the City Council as set forth in APP 27-4, the scope of the project must be reduced or approval to continue processing must be requested from the Finance Committee.
4. If the appraisal demonstrates that the value after rehabilitation exceeds 95% of the median purchase price for the area, which is the higher of that published in the Single Family Mortgage Limits under Section 203(b) of the National Housing Act or that reported by the Chico Association of Realtors using the Multiple Listing Service for the most recent month, the scope of the project must be reduced or approval to continue processing must be requested from the Finance Committee.
5. In order to comply with the federally-mandated lead based paint requirements for single-family homes, a lead hazard inspection report shall be ordered from a State-certified inspector, as applicable. All costs reflecting increases associated with lead hazard reduction repairs and the implementation of lead-safe practices, which are included in the work write-up and are in addition to base construction costs, shall be summed separately and disbursed according to APP 27-4.

If applicable, a lead hazard clearance shall be received prior to recordation of the Notice of Completion as outlined in Paragraph G.1.

A copy of the inspection report and clearance shall be provided to the property owner.

6. Rehabilitation Program Staff will inspect the property and prepare a memo - review of plans/cost estimate.
7. A pre-bid conference is scheduled with a 7-day notice period. The applicant selects the contractors, from the current list of eligible and approved contractors, plus other eligible contractors the applicant request, who are to be sent a bid notice (Invitation to Bid, Exhibit "6").
8. The pre-bid conference is held at the applicant's home with a representative of the Housing and Neighborhood Services Department present to serve as a resource person
9. Contractors attending the pre-bid conference are given 14 days to submit their bids to the City.
10. The homeowner selects the contractor without a restriction to select the lowest bid .
11. If the homeowner rejects all bids, the project is rebid with or without work plan redesign.
12. The contractor is notified of its selection and the other bidders are sent a letter thanking them for their participation. Information on the bids is released to the contractors upon request.

### D. LOAN APPROVAL

1. The selected bid amount plus the staff-recommended contingency establishes the loan amount. The Housing and Neighborhood Services Department staff meets with the applicant to review the applicant's household budget in relation to the program's affordability policy. Based upon the staff's evaluation, a recommendation for the terms and conditions of the loan package are established.

2. A loan approval package is prepared for the Finance Committee or City Manager as appropriate pursuant to APP 27-4 (Exhibits "7" and "8").

#### E. LOAN CLOSING

1. A loan closing is scheduled at which time the homeowner signs the appropriate loan repayment agreement, which varies depending on the loan terms approved, the Owner/Contractor Loan Agreement (which also requires signature by the contractor), the disclosure statement, and the Deed of Trust. These documents are "Approved Standard Forms" by the City Attorney's Office. An additional document, the "Owner/Contractor Agreement" is prepared by the City and executed by the owner and the contractor; the City is not a party to this agreement. At this time the work plan and City procedures are reviewed and any questions are answered. For repairs that qualify under the terms for a Grant, only a Grant Agreement and Owner/Contractor Agreement shall be executed.

In addition, the Owner shall complete the Affirmative Action Information (Exhibit "9") and Fair Lending Notice (Exhibit "10").

2. Escrow Instructions are prepared for submission of the Deed of Trust to the City's Trustee for recordation.
3. Upon receipt of the required insurance and bonding, a "Notice to Proceed" is issued to the Contractor (Exhibit "11").
4. A memo is prepared directing the Finance Department to establish the appropriate account transfers. A copy of the Loan Repayment Agreement is included with the memo.
5. A purchase order is prepared consistent with the payment schedule in the owner/contractor agreement.

#### F. CONSTRUCTION

1. As construction is performed, progress payment requests are made on the Request for Payment (Exhibit "12").
2. Change Orders during the construction process can be requested by the contractor, applicant or City. The contractor is responsible to determine the cost or savings of the change and submit the Change Order Form (Exhibit "13"). The applicant and the City must approve all change orders.

Approved change orders are applied to the progress payment for the period when the work is completed. Change orders which increase the project cost are paid from the contingency.

#### G. COMPLETION OF IMPROVEMENTS

1. Notice of completion:
  - a. Upon City approval of the 100% progress payment request, a Notice of Completion is filed . The City shall act as agent for property owner as outlined in Housing Rehabilitation Loan Agreement-Owner/Contractor, or the Grant Agreement.
  - b. The City shall record a notice of completion within ten days of actual completion of improvements.
2. Final Payment:
  - a. The Housing and Neighborhood Services Department shall check with County Recorder 30 days after recording the Notice of Completion to determine if liens have been filed against the property.
  - b. If no liens have been filed, the final payment may be made on the 31st day following recordation of notice of completion.

- c. If no notice of completion has been recorded or is defective in some way, the final payment shall not be paid until the 91st day following completion of work on the project.
- d. If liens have been filed, the matter will be reviewed with the City Attorney prior to processing the final payment.

#### H. CLOSEOUT PROCEDURES

1. A memorandum shall be forwarded to the Finance Department to balance the account with actual contingency used (Exhibit "14").
2. A letter shall be sent to the homeowner advising them of the final loan amount .

#### I. LOAN SERVICING BY CITY FINANCE DEPARTMENT

##### 1. Payments:

- a. Loan payments shall be made to the City either in person or by mail. Payments shall be due on the first day of each month or other such day as provided in the loan repayment agreement and shall be in installment amounts and in accordance with the terms of the Loan Repayment Agreement ).
- b. The Finance Department shall establish and maintain a receivable account for each loan being serviced. The account shall reflect credit on payments to principal and interest. If payments are made in cash, a copy of the Official Receipt shall be given to the payor. A statement of present balance due shall be provided to the property owner(s) upon request. The Housing and Neighborhood Services Department shall advise the Finance Department of the terms of agreement, if any, relating to forgiveness of principal and interest, and request that such terms be applied on an annual basis as appropriate. Forgiveness, if any, shall be based upon the original loan amount, less any un-disbursed loan proceeds.

##### 2. Payments Past Due:

The Finance Director shall notify the Housing and Neighborhood Services Director when a loan is over thirty (30) days past due. The Finance Department shall follow APP 15-14 and inform the Housing and Neighborhood Services Department of progress. Further steps shall be taken as necessary and specified in the Rehabilitation Loan Agreements and/or Deed of Trust.

##### 3. Full Repayment:

The Finance Department shall notify the Housing and Neighborhood Services Department when a loan has been fully repaid. The City Manager is authorized to release the lien on any property for which any loan has been fully repaid by the property owner. Said release shall be in the form of a "Substitution of Trustee and Full Reconveyance," prepared and recorded by the Housing and Neighborhood Services Department (Exhibit "15").

##### 4. Annual Audit:

The City's annual audit of accounts will include Rehabilitation Loans.

##### 5. Loan Agreements and Deed:

Copies of loan repayment agreement shall be retained in Finance Department files until loans have been fully repaid. Grant Agreements shall be retained by the Housing and Neighborhood Services Department.

#### J. LOAN MONITORING

1. The Housing and Neighborhood Services Department shall mail an annual Property Status Certification of Occupancy to the owner each year until the loan is repaid. Annual certification is not

required for grants.

2. If the property is rented, the tenants shall be requested to complete certification of rental charges.

#### K. AMENDMENTS OF LOAN TERMS AND CONDITIONS

1. Pursuant to Section II. I.1 of AP&P 27-4, the City Manager is authorized to amend the Housing Rehabilitation Loan Repayment Agreement for certain conditions. The steps to process such amendments shall be as follows:
  - a. The Housing and Neighborhood Services Director shall prepare a Memo to the City Manager explaining the purpose and justification for the Amendment.
  - b. Upon City Manager approval, the Housing and Neighborhood Services Department shall prepare the appropriate Amendment documents and forwards to the City Attorney for approval as to form.
  - c. After execution by the owner and the City Manager, the Housing and Neighborhood Services Department shall forward a copy of the executed agreement to the Finance Department with a cover memo describing the specifics of the amendment.
2. Pursuant to Section II. I.3 of AP&P 27-4, amendments to the Repayment Agreement shall be considered by the Finance Committee in the event the City Manager is not authorized to approve such amendments or if the City Manager requests review from the Committee. The steps to process Finance Committee consideration of amendments shall be as follows:
  - a. The Housing and Neighborhood Services Department shall prepare a memo to Finance Committee explaining the purpose and justification of the amendment.
  - b. Upon Finance Committee approval, the Housing and Neighborhood Services Department shall prepare the appropriate amendment documents and forward to the City Attorney for approval as to form.
  - c. After execution by the owner and the City Manager, the Housing and Neighborhood Services Department shall forward a copy of the executed agreement to the Finance Department with a cover memo describing the specifics of the amendment.
3. In the event Owner moves from their home and contacts the City with a request to rent the property, City Manager is authorized to direct staff to proceed as follows:
  - a. Declare all sums due and payable under the terms of the loan documents, or
  - b. Allow the homeowner to rent the property for an amount not to exceed fair market rent as determined by the City and require the homeowner to make monthly installment payments to pay off the loan.
  - c. Notwithstanding City approval to rent the property, City shall also have the right, at its option, to declare all outstanding Loan funds immediately due and payable if owner is in breach of any covenant, warranty, promise or representation.

#### L. FORECLOSURE BY SUPERIOR LIEN HOLDER

In the event a superior lien holder declares its deed of trust in default and initiates foreclosure proceedings, staff will perform the following actions:

1. Housing and Neighborhood Services Department shall prepare a memo to the City Manager which contains the following information:
  - a. Results of staff's efforts to contact the borrower and determine their plan to cure the default.

- b. Total balance due on Housing Rehabilitation Loan, including accrued interest.
  - c. Amount of outstanding balance on the lender's loan.
  - d. Estimates of property's value and anticipated proceeds from sale of property under normal market sale conditions.
  - e. Cost to cure the default separated into loan delinquency balance and foreclosure fees.
  - f. Timetable for foreclosure process.
  - g. Any extenuating circumstances of borrower and/or property.
2. Based on the circumstances, the City Manager may decide to:
- a. Instruct staff to attend the foreclosure sale and bid an amount sufficient to protect the City's security. In the event the City is the highest bidder, the property will be sold to recapture the bid amount; or,
  - b. Take no action and allow the City's loan to be canceled by the foreclosure sale. This action shall be taken when the anticipated proceeds from a market sale would be insufficient to justify further expenditure by the City; or,
  - c. Refer the issue to the Finance Committee for its review and decision.

EXHIBIT 5

# STATUTORY WORKSHEET

[HUD Region IX Recommended Format -Revised 2011– previous versions are obsolete]

Use this worksheet only for projects that are Categorically Excluded per 24 CFR Section 58.35(a).

(Note: Compliance with the laws and statutes listed at 24 CFR §58.6 must also be documented).

## **24 CFR §58.5 STATUTES, EXECUTIVE ORDERS & REGULATIONS**

**PROJECT NAME and DESCRIPTION** - Include all contemplated actions that logically are either geographically or functionally part of the project:

This proposal is determined to be categorically excluded according to: [Cite section(s)] \_\_\_\_\_

**DIRECTIONS** - Write "A" in the Status Column when the proposal, by its scope and nature, requires no mitigation or formal consultation in order to be in compliance with the related laws and regulations; OR write "B" if the project triggers formal compliance consultation procedures with the oversight agency, or requires mitigation. Regardless of whether "A" or "B" is noted, the compliance determination must be recorded and credible, traceable and supportive source documentation must be supplied. (Refer to the "Statutory Worksheet Instructions".)

**Compliance Factors:**

Statutes, Executive Orders, and Regulations listed at 24 CFR §58.5

Status  
A / B

Compliance Determination & Documentation

Historic Preservation [36 CFR Part 800]		
Floodplain Management [24 CFR 55, Executive Order 11988]		
Wetland Protection [Executive Order 11990]		
Coastal Zone Management Act [Sections 307(c), (d)]		
Sole Source Aquifers [40 CFR 149]		
Endangered Species Act [50 CFR 402]		
Wild and Scenic Rivers Act [Sections 7(b), and (c)]		
Clean Air Act - [Sections 176(c), (d), and 40 CFR 6, 51, 93]		

EXHIBIT 5

Farmland Protection Policy Act [7 CFR 658]		
Environmental Justice [Executive Order 12898]		
<b>HUD ENVIRONMENTAL STANDARDS</b> Noise Abatement and Control [24 CFR 51B]		
Explosive and Flammable Operations [24 CFR 51C]		
Hazardous, Toxic or Radioactive Materials & Substances [24 CFR 58.5(i)(2)]		
Airport Clear Zones and Accident Potential Zones [24 CFR 51D]		

**DETERMINATION:**

- ( ) This project converts to EXEMPT, per Section 58.34(a)(12), because it does not require any mitigation for compliance with any listed statutes or authorities, nor requires any formal permit or license (Status "A" has been determined in the status column for all authorities); **Funds may be committed and drawn down** for this (now) EXEMPT project; OR
- ( ) This project cannot convert to Exempt status because one or more statutes or authorities require formal consultation or mitigation. Complete consultation/mitigation protocol requirements, **publish NOI/RROF and obtain Authority to Use Grant Funds** (HUD 7015.16) per Section 58.70 and 58.71 before committing or drawing down funds; OR
- ( ) The unusual circumstances of this project may result in a significant environmental impact. This project requires preparation of an Environmental Assessment (EA). Prepare the EA according to 24 CFR Part 58 Subpart E.

PREPARER SIGNATURE: \_\_\_\_\_ DATE: \_\_\_\_\_

PREPARER NAME, COMPANY: \_\_\_\_\_

RESPONSIBLE ENTITY AGENCY OFFICIAL / SIGNATURE: \_\_\_\_\_

NAME, TITLE: \_\_\_\_\_ DATE: \_\_\_\_\_