

# **Hartford Community Development Authority**

## **City of Hartford**

### **Community Development Block Grant Program**

#### **Procedure Manual**

HCDA Board approved October 14, 2019

#### **I. INTRODUCTION**

The City of Hartford has applied for and received a Community Development Block Grant (CDBG) from the Wisconsin Department of Commerce, Division of Housing and Community Development (DHCD), under Title I of

the Housing and Community Development Act of 1974, as amended.

Grant funds will be used to establish a Housing Loan Program to rehabilitate residential property occupied by low- and moderate-income (LMI) residents of the City of Hartford. Funds will also be used to provide down payment and closing costs to assist LMI households in the purchase of a house within the City of Hartford.

Funds provided by the Program will be administered by the Hartford Community Development Authority (HCDA). The HCDA Board members will serve as the CDBG Housing Committee.

The HCDA Board is composed of seven members appointed by the Mayor and confirmed by the Common Council. The Board's role in the program is to establish loan program policies and procedures and to review applicant/recipient appeals and resolve complaints and disputes within the program.

Loan applications meeting the requirements of the policies set forth herein may be approved by designated HCDA staff under the supervision of the HCDA Director. The Community Development Operations Coordinator will be the CDBG Program Administrator and Inspector.

## **II. PROGRAM ADMINISTRATION**

### **A. PROGRAM OBJECTIVES**

1. The primary objectives of this program are:

- Expansion of affordable housing stock for low- and moderate-income (LMI) persons.
- Elimination of neighborhood blight and structural deterioration.
- Elimination of housing conditions that are detrimental to public health, safety and welfare.
- Conservation of the existing housing stock.
- Provision of an opportunity for LMI renters to become homeowners.
- Elimination of unnecessary energy waste through modern rehabilitation energy saving improvements.

2. To achieve the cited objectives, this program may:

- Provide no-interest, deferred payment home repair loans for LMI owner occupants.
- Provide 0% interest installment loans for repairing units rented to LMI tenants.
- Provide 0% interest installment loans for creating new LMI rental units by: converting vacant properties into rental units, and/or converting large single-family homes into duplexes.
- Provide 0% interest deferred payment home repair loans to LMI persons upon purchase of a home in need of repair.
- Provide 0% interest loans for down payment and closing costs to eligible LMI households.

### **B. MEETINGS**

The HCDA Board will hold meetings in the City Hall Council Chambers, 109 North Main Street, Hartford, WI 53027 or other sites as designated in the meeting's agenda. All public meetings will be held at a handicapped accessible location. Time and location of public meetings are posted in City Hall and provided to the local media at least 24 hours before the meeting. If necessary, a translator may be provided.

### **C. RECORDS**

The HCDA office shall maintain written records of CDBG activities including minutes of CDBG meetings, loan applications and related documents, and all other CDBG business matters. All individual project files will be maintained as confidential records. All CDBG program records shall be maintained for at least three (3) years after the date of the loan.

### **D. OUTREACH**

The HCDA will develop informational materials that describe the available programs as well as eligibility criteria. Outreach information will include application deadlines, examples of eligible activities, income limits, program descriptions, and grantee contact information. Materials will be made available throughout the community. The program area is the corporate limits of the City of Hartford. Applicants from outside the city limits may be considered if annexation is in process or annexation covenant in place or will be entered into as a condition of receiving the funds. The HCDA staff will monitor the need for advertising and place ads in various local and Milwaukee-Waukesha metropolitan statistical area media as deemed necessary to ensure continued utilization of the program by eligible applicants.

### **E. FEES**

Examples of fees that will be charged to the client and added to their rehab loan are all title letter report fees, water testing, inspections (initial, periodic and final), labor costs for preparing detailed work specs and assisting owners in obtaining three work bids, mortgage filing, all fees to install any type of septic system, soil testing, and any/all fees not listed here that are or would be needed to evaluate a rehab project or complete a rehab project, home purchase or any project being worked on with any said client. Should an eligible client withdraw from the program at any time after fees, normally added to the clients loan, have been incurred on behalf of that client, the client will be responsible for reimbursing the amount of those fees to the program.

### **F. ENVIRONMENTAL STANDARDS**

**Historic Significance:** If, in conjunction with the DHCD Environmental Desk, it is determined that a housing unit has historical significance, the HCDA will give due consideration to Section 10(b) of the National Historic Preservation Act of 1966, and Executive Order 11593, regarding the preservation of the historic nature of the building. The owner of a housing unit that is determined to be of existing or potential historical significance will be advised of this fact as early as possible, but, in all cases, before rehabilitation work begins. The owner will also be advised that the historical significance of the housing unit may affect the ability of the CDBG program to conduct certain rehabilitation activities.

**Floodplain:** Loan applications received for housing units located within the boundaries of a designated floodplain, as shown on Federal Emergency Management Agency (FEMA) floodplain maps, shall be reviewed and approved or denied on a case-by-case basis by the HCDA Board. The HCDA must notify the property owner and occupants (for rentals) that the unit is located in the floodplain, and flood insurance must be obtained for at least one year from the date of assistance in at least the amount needed to cover the CDBG loan. If the property owner cannot afford to purchase flood insurance, the cost of one year of flood insurance may be added to the CDBG loan. The City of Hartford must be a participant in the National Flood Insurance Program before homes in the floodplain may receive CDBG rehab assistance. In no case will the City of Hartford assist in the purchase of a home located in the floodplain. Housing rehabilitation activities for properties located within a designated floodplain may include "structural repairs" and "ordinary maintenance repairs" that are necessary to ensure the health and safety of the occupants. Structural repairs are defined as alterations, modifications, rebuilding, or replacements that affect the structural integrity of the building. Ordinary maintenance repairs are non-structural in nature and include, but are

not limited to, activities such as interior and exterior painting; residing; reroofing; repairs to heating, plumbing, and electrical systems; installing or replacing insulation; the replacement of doors, windows, and other nonstructural components; and the maintenance, repair or replacement of existing private sewage systems, water supply systems, or connections to public utilities. In all cases, the amount of the assistance may not exceed either:

- 50% of the before-rehab value of the property, or
- 50% of the value before flood damage occurred,

without initiating the 8-step decision-making process found in 24 CFR Part 55, Subpart C. The 8-step process is required for all projects classified as substantial rehab (those exceeding the 50% threshold).

If a property is located in a floodplain, it is recommended that all structural repairs or modifications of structures be flood proofed. Flood proofing of structures should extend to a point at least two (2) feet above the elevation of the regional flood. Flood proofing should be completed prior to, or as a part of, the housing rehabilitation activities. Property owners are permitted to include the cost of flood proofing and other costs associated with securing the proper permits in the rehabilitation loan.

The HCDA will maintain a permanent record of the work done on the property. CDBG funds cannot be used to make the same repairs in the future.

If the cost of the rehab exceeds half of the pre-rehab market value, additional environmental requirements must be met. The Program Administrator will contact the DHCD Environmental Review desk prior to beginning the rehab. See Chapter VI for a detailed description of the HCDA's environmental responsibilities.

### **III. TYPES OF PROGRAMS AVAILABLE**

#### **A. OWNER-OCCUPANT REHABILITATION LOANS**

1. The basis for determining the priority of loan applications is included in paragraph V-B of this chapter.
2. The HCDA will consider the appropriateness of the improvements in relation to making the housing unit decent, safe, and sanitary. In an effort to maximize the available CDBG funds, the HCDA will utilize other funding sources (e.g., CAP agency) for part of the rehab work wherever practical.
3. A mortgage and note will be issued in the name of the City of Hartford and a lien against the borrower's property recorded in the amount of the loan to ensure repayment of the loan.
4. All homeowner loans will be 0% loans. Loan repayment will be deferred at no interest until the housing unit ceases to be the borrower's principal place of residence. At that time, repayment will become due in full. Repaid funds will be used to finance other housing rehabilitation projects consistent with the most recent Housing Procedures Manual. One spousal transfer will be allowed at continued terms. Homeowners are allowed the option of converting their deferred payment loan to a 0% payback loan provided they agree to rent to LMI persons and to keep the rent within affordable rent limits. The loan repayment term shall be negotiable up to a maximum of 15 years, with longer terms of repayment given to projects renting to the lowest income household at the lowest rent levels.
5. Prior to beginning rehabilitation work, each building rehabilitated with loan proceeds shall be insured against loss by fire and other perils, in accordance with lending institution standards. The City of Hartford will be added to the policy as a mortgage holder. Properties in the floodplain will be required to purchase flood insurance for at least one year in at least the amount of the CDBG loan. If the owner cannot afford to purchase flood insurance, the cost of one year of flood insurance may be added to the CDBG loan.
6. In the event "emergency" money is requested by an owner occupant to correct housing conditions which

represent an imminent threat to health and safety, a deferred payment, no interest loan may be approved by the CDBG Program Administrator. Such loans shall not be subject to the program's priority ranking system. The borrower must meet program income eligibility requirements. A mortgage and promissory note shall be used to secure the loan. The maximum limit of the "emergency" loan shall be \$15,000 per property. The homeowner must also agree in writing to participate in the housing rehabilitation program, and correct all existing hazards that represent a threat to health and safety, as determined by the CDBG inspector.

7. The dwelling unit must be in need of rehabilitation work as determined by the CDBG Program Administrator in compliance with the procedures set forth in this manual. All work must be deemed financially feasible, as determined by the property's fair market value (FMV), upon completion of the rehab work. Except for subordination requests, the value of all liens on the rehabbed property may not exceed 120% of the estimated FMV after rehab.

8. The property cannot be scheduled for sale, acquisition, or demolition.

9. CDBG funds may be issued as a grant only under the following conditions:

The funds are used for the rehabilitation of an LMI owner-occupied property AND no more than \$1,000 will be awarded to that property owner during a 12-month period. If additional funds are requested and approved within 12-months of grant approval, the entire amount will become a deferred payment, no interest loan.

10. CDBG funds may be awarded to a public or a non-profit agency acting as a project developer and the agency will pass along property ownership to LMI occupants. The CDBG funds will then be secured as a 0% deferred payment loan.

11. All lead-based paint rehabilitation repairs must be provided as grants to program recipients. A lead risk assessment must be conducted to identify the lead-based paint hazards, assumption of lead will not be allowed. A lead clearance test will be required. The lead costs grants will be included on the Truth in Lending statement, along with the total contractor work amounts and fees.

If the presence of an asbestos hazard is documented, the HCDA may provide a grant for the cost of removal under the same conditions as lead.

The cost of CDBG-financed site acquisition (land only) and site improvements must be passed along to the project developer at terms consistent with Eligibility Requirements described in this chapter. The cost of any structures on the site, and their demolition, may be passed along to the project developer or absorbed by the City, at the City's option.

## **B. RENTAL UNIT REHABILITATION LOANS**

1. The HCDA will establish a fixed monthly rent for units rehabbed under the CDBG program. The limits will be established by unit size (number of bedrooms), with or without paid utilities, and will reflect the rental market rates in the community. (See appendix A)

2. Low-interest loans for the rehabilitation of rental units and/or the conversion of space to rental units will be available from this Program. The interest rate will be 0%. The loan repayment term shall be negotiable up to a maximum of 15 years, with longer terms of repayment given to projects renting to the lowest income household at the lowest rent levels.

Monthly payments shall be made payable to the City of Hartford and deposited into the housing revolving loan fund. Repaid funds will be used to finance other housing rehabilitation projects consistent with the most recent Housing Procedure Manual.

3. The dwelling unit must be in need of rehabilitation work as determined by the CDBG Program Administrator in

compliance with the procedures set forth in this manual. All work must be deemed financially feasible, as determined by the property's fair market value (FMV), upon completion of the rehab work. Except for subordination requests, the value of all liens on the rehabbed property may generally not exceed 120% of the estimated FMV after rehab (see Section XI. Loan Underwriting Guidelines for specific requirements).

4. At least 75% of the units in a structure being rehabilitated with CDBG funds must be occupied by LMI families. For example, a six-unit structure being rehabilitated with CDBG funds must have at least five units occupied by LMI families ( $6 \times 75\% = 4.5$ ). If the 75% occupancy guideline is met, the grantee may fund the rehabilitation of all common areas of the structure (e.g., roof, siding, plumbing, hallway). The HCDA may not rehabilitate non-LMI units. Exception: if the loan is for the rehab of a duplex, at least one of the units must be LMI in order to make repairs to the common areas. If one unit of a duplex is vacant, the other one must be occupied by an LMI tenant.

5. The basis for determining the priority of loan applications is included in paragraph V-B of this chapter.

6. The HCDA Board will consider the appropriateness of the improvements in relation to making the unit decent, safe, and sanitary as well as the owner's ability to provide financing for improvements greater than the average amount. In an effort to maximize the available CDBG funds, the HCDA will utilize other funding sources (e.g., CAP agency) for part of the rehab work wherever practicable.

7. A mortgage and note will be issued in the name of the City of Hartford and a lien against the borrower's property recorded in the amount of the loan to ensure repayment of the loan.

8. Prior to beginning rehabilitation work, each building to be rehabilitated with CDBG funds shall be insured against loss by fire and other perils, in accordance with lending institution standards. The City of Hartford will be added to the policy as a mortgage holder. Properties in the floodplain will be required to purchase flood insurance for at least one year, in at least the amount to secure the CDBG loan.

9. Prior to the initiation of a rental rehabilitation project (including vacant rehab and conversion projects), the property owner must agree, in writing, to:

a. Limit rents as adopted by the HCDA (see Appendix B). The CDBG Program Administrator will review these levels annually and recommend Board approval of amendments to them as appropriate.

b. Rent to low- or moderate-income families for five years or the term of the loan, whichever is less.

All tenants in rehabbed units must be documented as LMI. The HCDA will conduct annual verification of LMI occupancy. The annual verification will document that:

a. The rents being charged comply with the terms of the loan; AND

b. The original tenant continues to reside in the unit; or

c. The tenant who is different since the last verification, met LMI income levels at the time of occupancy.

It is the property owner's responsibility to verify the income of any new tenants that come in during the term of the rehab agreements. However, it is the HCDA's responsibility to keep this evidence on file.

If the conditions of a rehabilitation loan to owners of rental property are violated, the loan will be immediately due and payable, at conventional interest rates. Because a tenant's income increases and exceeds the current LMI income limits is NOT a reason for eviction.

10. The property cannot be scheduled for sale, acquisition, or demolition.

11. Notices: No tenants will be permanently displaced as a result of rehab to a renter occupied property. As soon as a landlord applies for assistance, all tenants of the property to be rehabilitated in whole or part with CDBG funds will receive written notice that the rehabilitation work is going to take place. All tenants will receive both an initial "General Information Notice" at the time of the property owner's loan application, and a "Notice of Nondisplacement" letter upon loan approval.

The notice will inform them that they are not being displaced by the rehabilitation activity, and that any tenant who moves as a result of the rehabilitation will NOT be eligible for relocation payments. Evidence of the delivery of those notices will be included in each project file.

12. All tenant households residing in a unit built prior to 1978 MUST receive a copy of the lead-based paint hazard brochure. Evidence of the delivery of that form will be included in each project file. Repayment of installment rehab loans will begin within 60 days of the initiation of the rehab. Loans to landlords and/or developers must be repaid in monthly installments.

### **C. ACQUISITION/RELOCATION**

Under unusual circumstances, the HCDA may choose to acquire dilapidated dwellings using CDBG funds. CDBG funds may be used to pay all displacement and relocation costs due the occupants, and to demolish the structures.

Properties will be acquired in accordance with all state and federal requirements: namely, 24 CFR 42, and related portions of Wisconsin Statutes Chapter 32. Copies (or summaries in simplified formats) of these regulations must be available for public review. Appropriate forms and brochures must be made available, as required, and explained to interested persons by the Program Administrator.

If, in conjunction with the DHCD Environmental Desk, it is determined that a site or the structure on it has potential historical significance, that site and/or structure will be dealt with in a manner acceptable to the goals of this Program and with due consideration to Section 10b of the National Historical Preservation Act of 1966, and Executive Order 11593. Units will not be moved or demolished without prior notification and approval of the Historical Society.

As a general rule, dwellings will not be rehabilitated if they are structurally unsound or if the combined total of the present value of the structure and the cost of rehabilitating the structure exceed the after-rehabilitation fair market value of the property. Dependent on available funding, such structures may be demolished and the sites prepared for alternative use with as little disturbance to the site as practical.

Funds from sale of the acquired property will be deposited into the revolving loan fund and may be used to finance other acquisition/demolition projects consistent with the most current Housing Procedure Manual.

### **D. HOMEBUYER PROGRAM**

1. CDBG funds may be used to pay reasonable closing costs and to provide up to 50% of the required down payment costs, not to exceed 10% of the purchase price of the home. All down payment loans must be matched dollar for dollar. The matching down payment may be from other grant funds or the homebuyer's contribution.

2. Eligible closing costs include:

- Loan origination fees

- Loan discount points

- Appraisal costs

- Credit report

- Title search and preparation charges

- Title insurance

- Transfer fees

- Recording costs

- Surveyor charges

Up to a maximum of 10% of the purchase price of the home.

3. Every homebuyer applicant must contribute at least \$1,000 of their own funds towards the purchase of the property.
4. Every homebuyer applicant must receive pre-purchase education in the following areas:
  - Homebuyer Education
  - Basics of the Home Purchase Process
  - Post-purchase Expectations
5. Typically, CDBG funds should NOT be used for down payment and closing costs when the interest rate on the home purchase loan is 2% above the average local lending rate for similar type loans.  
Loans should be structured to be affordable for low income households. All homebuyer program project files must contain a signed and completed "Homebuyer Loan Calculation" form.
6. Homebuyer loans (rehab and/or down payment and closing costs) are intended to be awarded only to low income tenants. Homebuyer loans may be awarded to LMI households currently owning a house only under exceptional situations. The CDBG Program Administrator must receive written authorization from DHCD before awarding homebuyer funds to a current LMI owner-occupant.
7. If a tenant is displaced as a result of a homebuyer loan, the tenant must receive applicable relocation payments.
8. All homes purchased under the Homebuyer Program must meet Section 8 Housing Quality Standards at the time of purchase or receive a rehab loan that will bring it up to HQS within six months of purchase. The program will not help purchase houses in need of major/substantial rehab work, defined as work whose estimated cost equals or exceeds 50% of the home's FMV prior to rehab.
9. The property to be purchased and/or repaired must be either owner-occupied, occupied by the purchasing tenant, or vacant at the time of purchase. The property to be purchased may not be in a floodplain.

#### **E. HOMELESS ASSISTANCE**

The HCDA may provide rehabilitation funds to organizations supplying emergency and/or transitional shelter for homeless persons (including victims of domestic abuse). The funds will be provided as a 0% deferred payment loan to non-profit or government agencies, or as a 0% installment loan to private owners. Deferred payment loans will be repaid when the building ceases to be used as a shelter for homeless persons or when the agency no longer owns the building, whichever comes first. Zero percent loans will be repaid on a monthly basis over a time period, which is agreeable to both the HCDA Board and the owner. Loan funds may be used for basic rehabilitation. With prior state approval, loan funds may also be used for additions to the structure to alleviate documented overcrowding.

#### **F. HANDICAPPED ACCESSIBILITY**

The HCDA may provide rehabilitation funds for handicapped accessibility improvements.

Funds will be provided with terms identical to the owner-occupied loans.

Improvements are generally limited to those necessary to permit all household members reasonable access to the entire area of the dwelling unit.

The homeowner must present sufficient documentation of physical impairment.

Handicapped accessibility improvements may be made ONLY if the occupant's household income meets the Section 8 guidelines.

### **IV. ELIGIBILITY REQUIREMENTS**



All occupants directly benefiting from a CDBG housing rehabilitation program must be at or below the appropriate Section 8 income limit for Hartford, Wisconsin. (See Appendix A)

Section 8 income levels, as established by the Department of Housing and Urban Development, defined as Low (at or below 50% of the CMI) and Moderate (at or below 80% of the CMI) incomes (referred to herein as LMI) and will be used for this program.

Occupants of a dwelling unit who will be displaced as a result of a CDBG-funded project need not meet Section 8 income guidelines to receive acquisition or relocation payments.

## **A. INCOME VERIFICATION**

For the purpose of calculating income, the following definition of income will be used:

Total household income shall include all income sources from all members of the household who are at least 18 years of age. Annual household income includes, but is not limited to:

- a. The gross amount, before ANY payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, and bonuses;
- b. The net income from the operation of a business or profession, or from rental of real or personal property (depreciation on buildings and/or equipment must be added back into the income amount);
- c. Interest and dividends;
- d. The full amount of periodic payments received (including for minor children) from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts;
- e. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay;
- f. Public assistance. If the public assistance payment includes an amount specifically designated for shelter and utilities, which is subject to adjustment by the public assistance agency, in accordance with the actual cost of shelter and utilities, the amount to be included as income shall consist of:
  1. The amount of the allowance or grant exclusive of the amount specifically designated for shelter and utilities, plus
  2. The maximum amount, which the public assistance agency could in fact, allow the household for shelter and utilities;
- g. Periodic and determinable allowances, such as alimony and child support income, and regular contributions or gifts received from persons not sharing the household;
- h. All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the household) who is the head of the household or that person's spouse.

## **B. DEDUCTIONS**

The following will be excluded in determining the annual family income:

- a. The earned income of any household member (other than the household head or spouse) who is under 18 years of age, or is a full-time student (under 22 years of age);
- b. any nonrecurring temporary income such as inheritances, insurance payments (including payments under health and accident insurance, and worker's compensation), capital gains, one-time tribal profits, and settlement for personal property losses;

- c. income received for the care of foster children or foster adults;
- d. income of live-in aides;
- d. income from HUD training programs;
- f. income from educational scholarships paid directly to the student or educational institution;
- g. income from the government to a veteran for the use in meeting the costs of tuition, fees, books, equipment, materials, supplies, transportation, and miscellaneous personal expenses of the student;
- h. special pay to a household member serving in the armed forces who is exposed to hostile fire;
- i. amounts specifically excluded by any other federal statute from consideration as income;
- j. amounts received by a participant in other publicly assisted programs, which are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program;
- k. amounts received by a disabled person that are disregarded for a limited time for the purposes of SSI eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS);
- l. for families where the head, spouse or co-head is at least 62 years old or is a person with disabilities, regularly recurring medical expenses for all family members, for a chronic medical condition which is not covered by insurance, and which may reasonably be expected to continue; the medical expense deduction is that portion of total medical expenses that exceeds 3% of annual income;
- m. annual rent credits or rebates paid to senior citizens by government agencies;
- n. relocation payments under Title II of the Uniform Act;
- o. face value of food stamps;
- p. payments received from VISTA, Retired Senior Volunteer Program, Foster Grandparents Program, youthful offender incarceration alternatives, or senior companions;
- q. payments received under the Job Training Partnership Act;
- r. earned income tax credit refunds;
- s. reimbursements for the costs of medical expenses;
- t. assets;
- u. adoption assistance payments;
- v. amounts paid by a state agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep this developmentally disabled family member at home.

Income will be calculated by projecting an applicants' income for the next 12 months using "third-party" verification based on their average income for the most recent 3 months.

Whenever possible, the occupants' most recent tax return must be used to verify that all sources of income have been considered in the income calculation. Current documentation, such as pay stubs, must be on file to document the actual amounts of all identified sources of income.

Household size includes all full-time household members, and other minor children who reside in the household for at least 50% of the year.

Use the following formula to calculate business profit/loss for applicants who are self employed:

Gross regularly recurring income - (minus) total expenses + (plus) depreciation = (equals) business profit

**INCOME MUST BE VERIFIED WITHIN TWELVE MONTHS OF LOAN CLOSING.**

### **C. LMI OWNER-OCCUPIED HOUSING**

1. To be eligible for a rehabilitation loan, an applicant must be an owner-occupant or land contract buyer.
2. The applicant's income shall not exceed the Moderate-income levels set forth in Appendix A. This income level represents 80% of the county's median income.

### **D. LMI RENTER-OCCUPIED HOUSING**

Vacant rental units or those occupied by households who meet the low- to moderate-income criteria set forth in Appendix A may be rehabilitated under the following conditions:

1. The owner agrees to rent only to households who meet the low- to moderate-income criteria as set forth in Appendix A.
2. The owner agrees to maintain the rents at or below the limits established in Appendix A for five years or the term of the loan, whichever is less.
3. If the unit is occupied, the tenant must also agree to income verification.

### **E. ADDITIONAL ELIGIBILITY REQUIREMENTS**

1. Land Contracts. For the purpose of the Program, the term "land sales contract" refers to any transaction, regardless of the nomenclature by which it is known, in which the purchaser obtains fee simple title to the property only by completing a series of installment payments over a period of years. In order for a purchaser under a land sales contract to be eligible for a housing rehabilitation loan, the following requirements must be met:

- a. The contract must be a written, legally binding, properly recorded instrument relating to the property to be rehabilitated.
- b. The seller of the property must hold fee simple title to the property and, while the contract is in good standing, must be unable to use the property for collateral or to convey the property to any other party unless such use for collateral or conveyance of fee simple title is subject to the contract.
- c. Under the contract, the seller and any subsequent holder of the fee simple title to the property must be obligated, without qualification, to deliver to the purchaser fee simple title and a deed to the property upon full payment of the contract price, or some lesser amount.
- d. Under the terms of the contract, the purchaser must have full use, possession and quiet enjoyment of the property; equitable title to the property; and full rights of redemption for a period of not less than 60 days.
- e. The purchaser must be legally able to mortgage, pledge or assign equitable title to the property to the City of Hartford, as required by the loan security provisions as set forth in this handbook. If, under the terms of the contract, the purchaser may only make such mortgage, pledge or assignment with the seller's consent, the purchaser must obtain such consent from the seller in a written and recordable form.

2. Life Estate Persons occupying a dwelling unit under a life estate agreement are eligible for a CDBG rehab loan under the following conditions:

- a. The person(s) occupying the dwelling to receive CDBG rehab must be LMI.
- b. The life estate agreement terms must be written, signed and recorded.
- c. The owners of the dwelling must agree, in writing, prior to the initiation of the rehabilitation, to repay the loan when the dwelling ceases to be the principal place of occupancy of the current occupant.
- d. ALL parties of the life estate (occupants AND owners) must sign the mortgage and the note.
- e. The CDBG loan is treated as an owner-occupied loan.

3. **Property Taxes and Insurance.** Property taxes must be paid up to date before any rehabilitation work can begin. The unit owner must have adequate insurance coverage to cover the property improvements after rehabilitation.
4. **Title and Mortgage Verification.** A letter report shall be obtained to provide evidence to the Program Administrator of title and the amounts of mortgages or liens on the property. The Program Administrator shall review the evidence of title and the mortgage and lien amounts to determine if the title is proper and that there is sufficient mortgage-free investment by the owner to insure payment of the loan. The cost of this report shall be added to the loan amount.
5. **Work Completed Prior to Application Approval.** No work undertaken, whether completed or incomplete, no materials ordered, and no contracts entered into prior to the approval of the loan application by the HCDA, will be eligible for payment with CDBG funds.

## **F. CONFLICT OF INTEREST**

Elected/appointed officials, municipal employees or consultants involved in the decision-making processes of the program are not eligible to receive housing rehabilitation assistance through the program either for themselves, or for those with whom they have family or business ties, during their tenure or for one year after.

a. For purposes of the CDBG housing program "family" means:

Spouse

Fiancee/Fiance

Children and Children-in-Law

Brothers and Brothers-in-Law

Sisters and Sisters-in-Law

Parents and Parents-in-Law

Anyone who receives more than 50% of their support from the person (e.g., adopted child, foster child)

b. 24 CFR Part 570.489 (h) specifies the requirements for CDBG grantees with respect to Conflict of Interest. Also, read ss. 946.13, Wis. Stats and ss. 19.59. Wis. Stats. Loans or grants made without the appropriate conflict of interest clearance may be required to be repaid to the program by the City of Hartford. In no case may the City of Hartford's Chief Elected Official receive a CDBG loan.

c. An exception to the requirement (Waiver of Potential Conflict of Interest) may be requested from the Division of Housing and Community Development. Prior to submitting the request, public disclosure of the conflict must be made. An opinion must be obtained from the Municipal Attorney stating that the interest for which the exemption is sought would not violate state or local law.

d. Use the following steps to determine a potential conflict of interest:

- i. Identify "covered persons" for your CDBG program.
- ii. Add conflict of interest question to your CDBG application. All conflict of interest questions must be answered.
- iii. Inform applicants with potential conflict of interest that their name will be disclosed at the loan approval committee meeting.
- iv. Add "disclosure of potential conflicts of interest" as a standing item on your loan approval committee agenda. This item should be added to follow loan approval.
- v. Approve all loans by number and contingent on waiver of any potential conflict of interest. The covered person should not attend this meeting.

- vi. After loans have been approved, disclose the names and the nature of the conflicts of interest (type of family or business tie) for applicable approved loans. DO NOT disclose loan number or proposed work.
- vii. Ask all in attendance at the loan approval meeting if there are any objections to awarding the loans in question.
- viii. The HCDA's attorney must certify that the identified potential conflict would not violate state or local law (see Chapter XIII, page 107), Request for Exception to Conflict of Interest Provision, specifies the format for that certification.
- ix. Submit "Request for exception to conflict of interest provision" on municipal letterhead, signed by your attorney, and the agenda and minutes of the meeting to Division of Housing and Community Development.
- x. DO NOT sign any loan closing documents until you have received approval from DHCD.

e. Conflict of Interest Application Information

The following question must be made a part of the initial loan application form:

Do you have family or business ties to any of the following people?

Yes No

If yes, disclose the nature of the relationship.

(Complete chart identifying the covered people by name. \*)

Names of covered persons	Relationship
--------------------------	--------------

\* Covered persons include any person who is an employee, agent, consultant, officer, or elected or appointed official, of the grantee who exercises, or have exercised, any functions or responsibilities with respect to the CDBG housing activities, or who are in a position to participate in a decision-making process or gain inside information with regard to housing activities, either for themselves or those with whom they have family or business ties, during their tenure in the position or for one year thereafter.

**G. ELIGIBLE PROPERTIES**

1. To be eligible for a rehabilitation loan, a property must be located within the City of Hartford's municipal limits. A property with delinquent taxes, or significant liens or judgments encumbering it, is not eligible for the program. The property must be a permitted and/or conforming use in accordance with the municipal zoning ordinance.
2. Financial assistance generally should not be approved if the total of the existing indebtedness in the property plus the total value of the financial assistance to be provided would exceed 120% of the property's fair market value, after rehabilitation.
3. CDBG funds may be used to rehabilitate mobile homes ONLY if the mobile home will be taxed as real property following the completion of the rehabilitation. The mobile home must be:
  - a. Owned by the same person who owns the property on which it is located
  - b. On a permanent foundation
  - c. Hooked up to public or private utilities

Mobile homes shall be defined as any unit exempted from property taxes as exempted in 70.112(7) of the Wisconsin Statutes and further defined in 66.058(e) of the Statutes. That definition is as follows:

A mobile home is that which is or was originally constructed or designed to be transported by another

motor vehicle upon a public highway and equipped and used for sleeping, eating and living quarters, or is intended to be so used; and includes any additions, attachments, annexes, foundations and appurtenances, except that a house trailer is not deemed a mobile home if the assessable value of such additions, attachments and annexes, foundations and appurtenances equals or exceeds 50% of the assessable value of the house trailer and shall be occupied on a year round basis.

## **H. ELIGIBLE WORK**

All rehab programs should bring participating units up to Section 8 Housing Quality Standards whenever possible. The HQS Inspection form must be used on all initial inspections. CDBG projects will not be required to bring the unit to HQS but use of the form should facilitate the prioritization of the work needed. The HCDA must prioritize the rehab work to be done so that the most severe health and safety problems are corrected first.

1. In general, eligible rehab activities include only work necessary to put the property into a decent, safe, and sanitary condition
2. Hazard mitigation activities such as the construction of "safe rooms" and the securing of fuel tanks to reduce damage and fire risk from floods are eligible CDBG rehab activities.
3. All activities must take place within the grantee's jurisdictional boundaries.
4. At least 51 % of the units in a structure being rehabilitated with CDBG funds must be occupied by LMI families. For example, a six-unit structure being rehabilitated with CDBG funds must have at least five units occupied by LMI families ( $6 \times 75\% = 4.5$ ). If the 75% occupancy guideline is met, the grantee may fund the rehabilitation of all common areas of the structure (e.g., roof, siding). The grantee may not rehabilitate non-LMI units. Exception: The HCDA may fund rehab of all common areas of a duplex if at least one of the units is LMI occupied. If one unit is vacant, the other one must be rented to an LMI tenant.
5. CDBG funds may be used to demolish an outbuilding(s) if it is in such poor condition to be considered a health and/or safety hazard.
6. Generally speaking, repairs to outbuildings are ineligible housing rehab activities. However, CDBG funds may be used to rehab the roof or any painted/stained/varnished component on such a building(s), e.g., a garage, if all of the following apply:

- \* There is deteriorated paint on the outbuilding and testing confirms the presence of lead-based paint
- \* The structure is in danger of collapse.

The purpose of rehab of an outbuilding is to eliminate lead based paint hazards. As such, window units that need to be replaced, shall be replaced with a single pane window unit with no screen or storm. The exterior of outbuildings shall be scraped and painted. New siding may be installed only if the dwelling unit needs new siding. The \$30,000 maximum also applies to a project that includes the rehab of outbuildings.

7. Central air conditioning may be installed upon presentation of a doctor's statement of need.

Existing central air may be repaired or replaced as part of a rehabilitation activity.

8. All housing units, which are rehabilitated in whole or part using CDBG funds, must have an adequate number of functioning, properly placed smoke detectors. The purchase and installation of smoke detectors is an eligible CDBG expense.

Smoke detectors must be placed:

- a. In the basement
- b. At the head of every open stairway
- c. At the door on each floor leading to every enclosed stairway; and

- d. Either in each sleeping area of each living unit or elsewhere in the unit within 6 feet from the doorway of each sleeping area and not within kitchen
  - e. For all tenant occupied units of more than two units all smoke detectors in stairways, corridors and other public places in the building shall be directly and permanently wired to a proper unswitched circuit
9. CDBG funds may be used to purchase one year of property insurance. The cost of the insurance will become part of the property owner's loan and is for one-time only and not on-going.

## **I. INELIGIBLE WORK**

CDBG funds may not be used to pay for the same rehab work twice. Ineligible rehab activities include work, which is not necessary to put the unit into decent, safe, and sanitary condition. Financial assistance under this Program shall be not available for:

1. New construction, expansion of the size of the structure, the rehabilitation of uninhabited space, or the finishing of unfinished spaces, except as required to eliminate overcrowding of bedrooms (per Housing Code), to flood proof the home, or for handicap accessibility.
2. Cosmetic only landscaping, furnishings, appliances, and repairs to accessory buildings, freestanding garages or sheds are typically considered to be ineligible housing rehab activities.
3. Typically, CDBG funds should not be used on a structure that has been determined to be "unsuitable for rehabilitation." A unit is unsuitable for rehabilitation if it would cost more than 50% of the after-rehab value of the property to carry out all needed rehab activities. In any case prior consultation and written approval from Commerce is necessary.
4. CDBG funds may NOT be used to reimburse property owners for work, which has been contracted for or completed prior to the property owner signing agreements with the grantee.
5. CDBG funds may not be used for the labor costs:
  - a. of any household member,
  - b. of any non-insured person/contractor,
  - c. of any non-licensed person/contractor, or
  - d. of any person/contractor that does not submit a bid.
6. Rehabilitation work that was completed and not submitted for environmental review, but would otherwise have required additional ERR compliance, will be identified as "ineligible" and the funds will be reimbursed to the program by the Grantee.
7. Materials, fixtures, equipment or landscaping of a type or quality, which exceeds that customarily, used in properties of the same general type as the property to be rehabilitated.
8. Appliances, except as required for handicapped accessibility.
9. Purchase, installation or repair of furnishings.
10. Automatic garage door opener unless required for handicapped accessibility.
11. Payment for previous repairs (except emergencies)
12. Accessory buildings, garages or sheds unless prior approval from DHCD is received.
13. CDBG funds may not be used for rehab work on properties in a floodplain unless the municipality participates in the National Flood Insurance Program. A permanent record of the work done on the property must be maintained by the grantee. CDBG funds may not be used to make the same flood-related repairs in the future.

## **V. APPLICATION PROCEDURES**

## A. HOUSING APPLICATION FORMAT

The HCDA will maintain a record of all applicants and beneficiaries of CDBG funds.

All applications for assistance with CDBG funds must include at a minimum:

1. applicant's name and address
2. occupant's name and address
3. rehab address
4. requested rehab
5. age of property
6. number of children in the household and their ages
7. marital property statement
8. racial, ethnic, and gender characteristics of the head of household - or option not to answer
9. conflict of interest question
10. qualified alien question

## B. LOAN PRIORITY

1. The CDBG Program Administrator will review and evaluate loan applications for eligibility.
2. Generally, loan applications will be processed on a first come first served basis. The order in which applications are sent to the Housing Committee is dependent upon the nature of the proposed and the response from contractors.
3. Applications for emergency work take priority over all other applications. For the purpose of prioritizing applications, emergency work means work that is necessary to correct an immediate threat to health or safety. While addressing lead-based paint is NOT an emergency by itself, addressing lead-based paint in a home with a lead poisoned child is an emergency.

I. The HCDA may, at their discretion, adopt additional criteria for prioritizing rehab loans. If the grantee chooses to add additional prioritizing criteria, the Department of Commerce must be notified. The HCDA Board may NOT use age of the applicant to prioritize an application.

### II. PRIORITY SYSTEM

Loan applications will be evaluated within 90 days. It is our general practice to serve clients on a first come, first served basis. When the Revolving Loan Fund balance is less than \$30,000, a priority system will be used as outlined in paragraph II of this section.

b. Each application will be evaluated according to the following table. The final score will be based on total accumulated points.

SCOPE OF WORK EVALUATION TABLE

	Repair	Replace	Other
Correction of electrical code violations	2	3	-
Correction of structural violations	2	3	-
Correction of plumbing code violations	2	3	-
Correction of heating violations	2	3	-
Weatherization and energy conservation imprv.	-	-	2
Correction of overcrowding	-	-	1



### **C. LOAN APPLICATION PROCESS**

1. Property owners interested in obtaining a CDBG loan to rehabilitate their property may obtain an application form and information concerning the program from the CDBG Program Administrator.
2. Each prospective applicant who expresses an interest in participating in the Program will make an appointment for an interview with the CDBG Program Administrator. During the initial interview, the prospective applicant will be informed of financial, insurance, and other information needed. The Program will be explained in detail and the prospective applicant will be furnished written information concerning the requirements for a housing rehabilitation loan.
3. The CDBG Program Administrator will assist property owners, as necessary, in completing applications.
4. The property owners shall submit the application and supporting information to the Program Administrator. All personal financial information shall be kept confidential.
5. The prospective applicant will authorize requests for eligibility verification.
6. No loans will be made which are in conflict with ss. 946.12, Wis. Stats (Private interest in public contract prohibited).

### **D. VERIFICATION OF INFORMATION**

After the initial interview has been held, the Program Administrator will verify the information provided regarding the applicant's income, and nature and extent of ownership interest in the property for which the loan is being sought.

### **E. PROPERTY INSPECTIONS**

1. All property must be inspected by a trained building inspector. The CDBG Program Administrator will arrange with the applicant for an inspection to be made of the property for which the loan is being sought.
2. It is expected that all inspection reports shall address ALL deficiencies in the dwelling unit, and should use, at a minimum, the Housing Quality Standards (HQS) form.
3. A list of detailed work specifications must be developed based on the initial housing inspection.
4. A written detailed report of the findings of all inspections must be included in each project file, and given to the applicant.
5. A cost estimate of the work required or proposed to be done will be prepared. The cost estimate will serve as a basis for determining the approximate amount of the loan and then as the basis for determining if the bid or bids for the rehab work are reasonable.
6. If the total estimated cost of the work exceeds the amount of the loan for which the applicant qualifies, funds available, or the applicant's financial ability to do all the work, the CDBG staff and the applicant will modify or eliminate items of work to reduce the estimated cost. However, items necessary to bring the unit up to a decent, safe and sanitary condition will not be eliminated in favor of unessential rehab items. After a satisfactory bid has been obtained, an agreement will be reached between the staff and the applicant regarding the extent of the rehabilitation work required and/or proposed to be performed.
7. For purposes of environmental review, if the age of the structure is not known, it must be assumed to be over 50 years old.
8. Per state guidelines all homes will have any area where work is going to be done tested for asbestos if the

product may contain asbestos.

9. The cost for testing asbestos will be granted to the client. However if found the cost for removal will be at the clients expense but will be an eligible loan expense.

10. The cost for the first lead clearance testing will be granted to the client. If the clearance test fails because of poor cleanup, the contractor will need to pay the cost of new testing until the test passes.

11. Homes built before 1978 will be presumed to have lead on friction and impart surfaces and a Lead Safe Renovator contractor will be required to perform rehab work. Due to assuming lead, the cost of rehab will be at the client's expense but will be an eligible loan expense.

12. The initial and final inspection reports must include a line specifically noting the condition of the paint on all impact, friction and accessible surfaces, as well as the presence of smoke detectors.

13. A thorough inspection of the work must be completed prior to authorizing the payment of funds for the rehabilitation.

14. All projects files must contain a final inspection checklist.

15. An inspection fee of \$350.00 will be charged to each client needing rehab work done to their single family home. This fee is an eligible loan expense. A flat inspection fee of \$350 for multi-family dwellings will be charged plus \$50.00 per each unit inspected will be added into the loan.

16. An initial inspection fee of \$150.00 will be charged to each homebuyer client. There will be a \$100 fee charged for each additional inspection required to ensure the dwelling meets HUD minimum HQS prior to release of funds. These fees are an eligible loan expense.

17. If a client is a home buyer and rehab loan client they will be charged the \$350.00 for inspection fees. This is an eligible loan expense.

## **F. NOTICE OF ELIGIBILITY/INELIGIBILITY**

When the application information is reviewed and verified by the Program Administrator, a Notice of Eligibility will be sent to the applicant, who must then contact the community development office by the date specified. If the application is rejected by the Program Administrator, a Notice of Ineligibility will be sent to the applicant to explain the determination.

THE CDBG HOUSING COMMITTEE MAY ESTABLISH A LOAN MAXIMUM AMOUNT FOR REGULAR REHAB ACTIVITIES. NO MAXIMUM MAY BE IMPOSED ON LEAD BASED PAINT RELATED WORK.

## **G. COMPLAINT PROCEDURE**

An applicant may appeal the decision of the Program Administrator by submitting, in writing, a request for reconsideration and the reason for the request. If the committee again determines the applicant to be ineligible, the municipal board will hear the appeal and make the final decision. All applicants must receive written information about the complaint procedure. The project file must contain documentation of receipt of the complaint process information.

# **VI. BIDDING AND CONTRACTING**

## **A. BIDDING**

The HCDA will prepare a cost estimate to accompany the work specifications. This cost estimate will be used to evaluate the appropriateness of the bids submitted for the project.

Each project file must contain authorization by the homeowner of the selected bid(s). CDBG does not consider the

signature of the homeowner on the rehabilitation contract to be approval of the selected bid(s).

1. Based on the work write-up, bids will be obtained from at least three qualified contractors, whenever possible.
2. Bids must be submitted directly to the CDBG Program Administrator by the contractor.
3. The HCDA shall provide the homeowner with copies of all bids received by the specified bid submission date and time.
4. Bids must be requested in the form of "labor and materials". "Time and materials" bids are permitted only with prior written permission from the Department of Commerce.
5. The property owner may select a bid that is within 10% of the lowest responsible bid. The property owner may choose a contractor who submits a higher bid only if the property owner agrees to pay the difference between the lowest responsible bid and the chosen bid.

## **B. CONTRACTS**

The CDBG Program Administrator may assist the property owner in obtaining bids and may make recommendations concerning the award of contracts. The contract shall go to the lowest and most responsible bidder. If the property owner selects a contractor, and if the contract price is higher than the bid price of the lowest responsible bid, the board may require the property owner to pay the additional contract amount. The rehabilitation contract shall be between the property owner and the contractor.

## **C. CHANGE ORDERS**

In the event the contract needs to be adjusted from the amount originally approved, the CDBG Program Administrator will complete a change order approval form. The CDBG Program Administrator, the homeowner and the Contractor must all sign the change order. No additional work will be paid for with CDBG funds without a fully executed change order.

## **D. WORK BY APPLICANT**

### **1. Homes built before 1978:**

The Wisconsin Department of Commerce does not recommend that CDBG pay for materials for a homeowner to do his/her work on any home, but especially on homes built before 1978. If extenuating circumstances make this a preferred option, the following must be observed if any work will break a painted surface on a house built before 1978:

- a. All workers on the site must have completed at least the lead-safe worker-training course.
- b. The homeowner must pay for the course himself/herself. CDBG Housing funds may not be used.

2. If the applicant elects to act as his or her own contractor, the applicant must demonstrate to the satisfaction of the CDBG Housing Committee that he or she is capable of performing the work and will complete the work in a timely fashion. If accepted, the applicant will sign the Borrower Labor Agreement. The agreement must contain a bid for each subcontracted item. The homeowner will not be reimbursed for his/her labor.

### **3. The Borrower-Labor Agreement must include:**

- a. An itemized list of the necessary materials for the repair. The list must include product name(s), store of purchase, and cost of each item necessary for the repair. Payments to the homeowner will be made after the work is completed and inspected.
- b. An identification of all paint hazards.

c. A clear statement that no untrained persons can be within 10 feet of the work site until it has passed clearance for lead-based paint.

d. A Breach of Condition clause that instantly terminates the Borrower-Labor Agreement if:

- Any untrained persons are within 10 feet of the work site;
- Any applicable permits or lead-safe work practices are violated;
- A statement that if the Borrower-Labor Agreement is terminated:
  - ~ All work must cease immediately upon notification.
  - ~ The Grantee will hire a trained contractor to complete the work and add that amount to the homeowner's mortgage.

e. The CDBG Program Administrator must document daily, unannounced site visits to verify compliance with lead-safe work practices and the Borrower-Labor Agreement. It is recommended that the original mortgage include enough funds to hire a contractor to finish the project if it becomes necessary. If the homeowner completes the work satisfactorily, the mortgage can be adjusted to reflect the lesser amount.

## **E. WORK PERFORMANCE**

All work will be performed in accordance with "Working Guide to Lead-Based Paint Regulations in Wisconsin." All work will be performed in accordance with local municipal housing codes and other standards of acceptable performance. In all pre-1978 units where the rehabilitation activities will disturb painted surfaces, the contractor must be certified by the Wisconsin Department of Health and Family Services and must be performed by certified workers. The rehab must be designed to prevent lead dust from being disbursed to other areas of the unit. When lead hazard reduction is part of the rehab project, the area is to be thoroughly cleaned with a HEPA vacuum and high phosphate detergent after the rehab is complete to avoid lead poisoning as a result of the lead dust. In any unit where rehabilitation activities will remove a product suspected to contain asbestos, the work must comply with state and federal asbestos removal requirements. Only contractors certified by the Wisconsin Department of Health Services may remove asbestos-containing products. The rehab will be designed to limit release of asbestos fibers and ensure disposal in an approved landfill. Performance specifications will be provided by the community development office for the rehabilitation work.

## **F. CONTRACTOR INSURANCE**

The Contractor shall submit to the CDBG Program Administrator proof of insurance prior to starting any work. The policy must have comprehensive liability; a minimum of \$300,000 bodily injury and \$100,000 property damage coverage.

# **VII. DISTRIBUTION OF FUNDS**

## **A. LOAN CLOSING PROCEDURES**

On the loan closing date the CDBG Program Administrator will meet with the applicant to:

1. Review all documents involved in the loan and secure the applicant's signature on:
  - a. the Rehabilitation Contract and the contractor's Notice to Proceed,
  - b. the Mortgage and Note,
  - c. the Truth-in-Lending Disclosure Statement,

- d. the Notice of Right of Rescission and provide the applicant with two copies,
- e. the Authorization to Terms and Conditions of Loan,
- f. if a rental, Commitment of Landlords to Rent to LMI families.

2. Receive the applicant's proof of insurance for the file.

3. Provide applicant and tenants, if a rental, of any property built before 1978 with a copy of "Protect Your Family From Lead In Your Home."

4. Landlords with Rentals: Explain the repayment of the loan and, if applicable, establish the address to which installment payments are to be sent.

## **B. PAYMENTS**

1. Upon receipt of a completed Contractor's Payment Request, the CDBG Program Administrator shall approve and make payment to the contractor in an amount not to exceed 80% of the amount due the contractor for work satisfactorily completed. The remainder due the contractor shall be withheld pending satisfactory completion of the rehabilitation project.

2. Payment may be made to a contractor **ONLY** after a Contractor's Payment Request has been completed and signed by all parties.

3. Payment may be made for work done or materials purchased and on site only, no advances.

4. Each request for progress payment shall contain:

- a. The contractor's certification that the work for which the progress payment has been requested has been performed in accordance with the terms of the contract.

- b. Certification by the CDBG inspector that necessary inspections have been made and the work has been satisfactorily performed in accordance with the contract.

- c. The signature of the CDBG applicant denoting approval of the work for which payment is requested.

- d. Lien waivers for all work and materials.

5. For contracts of less than \$2,000, a single payment shall be made to the contractor upon satisfactory completion of the work. For contracts greater than \$2,000, partial payments may be made to the contractor. The committee may require the contractor to post Performance and/or Payment Bonds if deemed necessary.

6. According to the State, payment to contractors must be in the form of a two-party check made out to the contractor and the property owner, however the City of Hartford has revised the Payment request form and inspection forms so when the client signs these documents the signature of the client signifies approval of payment to the contractor, meaning no longer having to have a two party check.

7. In the event a dispute arises between the applicant and the contractor, the CDBG Program Administrator, with approval of the HCDA Board, may make payments directly to the contractor, provided the work has been satisfactorily completed, the work is inspected and approved by the CDBG inspector, and the applicant signed "CDBG Loan Terms and Conditions" at the loan closing.

The Wisconsin "Right to Cure Law" must be followed in the resolution of disputes. The brochure may be accessed online under this link <https://dsps.wi.gov/Documents/Programs/UDC/RightToCureLaw.pdf> V4. PDF

8. When a contractor fails to begin all or a portion of a rehab project, the HCDA must notify the contractor, in writing, that if the project is not begun, or adequate progress made, by a specified date, the contract will be cancelled. When no, or minimal, work has been done on a project, the entire project may be re-bid or awarded to the next highest bidder, and the mortgage securing the loan adjusted accordingly. It is recommended that language reflecting this requirement be included in the rehab contract.

9. CDBG Program Administrator shall advise the applicant of any noncompliance in the rehabilitation work or of any incorrect invoice submitted by the contractor if the work completed is not in accordance with the requirements of the Rehabilitation Contract. The applicant, with the assistance of the CDBG Program Administrator, shall be requested to obtain appropriate corrective action from the contractor. No payment shall be made on the rehabilitation contract until the contractor has satisfactorily completed the necessary action.

10. The contractor must be given the opportunity to correct his or her work. If a contractor has demonstrated that he or she is not available to, or capable of, making the appropriate repairs in an adequate or a timely manner, another contractor may be brought in to make the required repairs. When a second contractor is brought in to repair work done by another contractor, the additional cost of the repairs, if any, must be added to borrower's loan. Where agreement can't be reached at the local level, the Department of Commerce reserves the right to make the final decision.

11. Upon completion of all work, a request for final payment shall be made on the same form as required for progress payments and shall contain the same certification and signatures required for such payments. The contractor's final Request for Payment must include a lien waiver from the contractor, subcontractor and suppliers, and a copy of each warranty due the owner for the work. Prior to final payment, the Final Inspection Checklist must be completed and signed by the inspector.

12. Where work is done that triggers compliance with lead-based paint regulations, no payment may be made until the work passes clearance.

13. When the property owner is financing part of the rehabilitation work, the property owner shall provide evidence satisfactory to the Program Administrator of his/her financial capability to do so. If the property owner is financing part of the rehabilitation work, payments to the contractor shall utilize the property owner's money first, and then CDBG funds.

14. If CDBG funds were paid out for work that was not properly done, or for work which had not been adequately inspected and approved, the City of Hartford must return the improperly issued amount to the CDBG program from the City of Hartford's general fund. CDBG funds (including CDBG-RLF) may not be used to repay the CDBG program.

15. The HCDA is responsible for paying to correct the work improperly done including additional cost resulting from work improperly done. All corrective efforts will be coordinated through the Department of Commerce. No payment may be made where the work to be paid for has not been completed properly.

### **C. TERMINATION OF REHABILITATION CONTRACT**

A rehabilitation contract may be terminated under the following conditions:

1. Poor work performance by the contractor and the demonstrated inability to rectify the poor workmanship.

The cost of repairing poor workmanship and the higher costs of awarding the bid to the next lowest bidder shall be deducted from any amount owed to the initial contractor for work completed. In all cases the contractor shall be given the opportunity to rectify the problem before contract termination procedures are begun. The following procedures shall be used when negotiating a workmanship problem:

a. A meeting shall be held at the job site with the contractors, homeowner, CDBG Program Administrator, and CDBG program inspector to attempt to come to a consensus regarding correction of problems.

b. On the second request for correction, the CDBG Program Administrator shall contact the contractor by certified mail notifying the contractor that the workmanship is still poor and specifying the areas that need to be addressed to satisfy the contract. The contractor shall be given a specific time limit by which to make the required repairs.

2. Causing undue damages to a homeowner/landlord's property and the inability or unwillingness to correct the damages. The cost of repairing damages will be deducted from any money owed the contractor for work already completed. If the amount owed is insufficient to cover the costs of the damages, the CDBG Program Administrator will assist the property owner in filing a claim against the contractor's insurance.
3. The inability of the contractor to perform the work within the allotted time.
4. Irreconcilable differences between the contractor and the property owner.
5. The contractor requests to be removed from the contract. There will be no penalty associated with this request as long as the request is made within 30 days of receiving the Notice to Proceed.
6. The contractor has been debarred, suspended, or is otherwise ineligible to work on federal contracts.

#### **D. CLOSEOUT PROCEDURES**

1. After all funds have been disbursed for the loan, the CDBG Program Administrator will prepare a closing statement, which shall account for disposition of the CDBG loan. The original signed closing statement shall be retained by the HCDA and a signed copy shall be mailed to the applicant.
2. The CDBG Program Administrator shall review each project file following close out to determine if all documents have been properly executed and are contained in the file.
3. The HCDA will retain a permanent record of the work done on any unit located in the floodplain. CDBG funds may not be used to make the same repairs in the future.

### **VIII. MORTGAGES**

#### **A. LOAN SECURITY**

It is the HCDA's responsibility to ensure that CDBG housing loans are as secure as reasonably possible. To do this the HCDA will:

1. Document ownership of the property through, at a minimum, a letter report from an accredited title company.
2. Review outstanding mortgages to ensure that there is adequate equity in the property to cover the CDBG loan.
3. Verify that taxes and utility bills are paid.
4. Require the borrower to sign a mortgage and note for the amount of the loan.
5. Record the mortgage immediately after the mortgage and contract documents have been signed and the three-day rescission waiting period has expired.
6. Contact the borrower's insurance company to verify adequate insurance and to be listed as a mortgage holder of the property (obtain Certificate of Insurance to document this).

#### **B. SUBORDINATION**

1. Homeowners who anticipate refinancing an existing loan and request that the City of Hartford subordinate its mortgage position, must submit in writing the following information:
  - a. The reason for the subordination request.
  - b. The name, address, and contact person(s) at the cooperating financial institution.
  - c. The new mortgage amount that would take precedence over the City's mortgage.
  - d. Copies of estimates for any rehab/construction work being completed
2. The CDBG Program Administrator will, on a case-by-case basis, consider subordination requests for

homeowners wishing to:

- a. Refinance an existing mortgage to obtain a reduced interest rate.
- b. Refinance an existing mortgage to obtain a comparable interest rate and extended payment terms.
- c. Obtain a home equity loan for the sole purpose of rehabilitating their primary residence.
- d. Refinance an existing mortgage as necessary to halt foreclosure proceedings by a bank or to halt tax deed proceedings by the county.

3. Typically, the HCDA Board or CDBG Program Administrator will NOT consider requests for subordinations if any of the following apply:

- a. For consolidation of consumer debt, such as credit cards, automobiles or other "cash to homeowner" transactions, or for any home equity loans other than for the sole purpose of rehabilitating one's primary residence.
- b. For any subordination that will put the City of Hartford's security interest in jeopardy, as determined by standard underwriting practice, unless required to halt foreclosure or tax deed proceedings.
- c. For any subordination where the interest rate on the new loan is 2% above the average local lending rate for similar type loans.

4. CDBG Administrator may approve written requests for subordination requests that meet the criteria contained in section VIII.B. of the manual where the new first mortgage loan amount does not exceed the original amount the city's loan was subordinate to. As well the combined loan to value ratio cannot exceed 100% of the fair market value. The subordination agreement must be drafted and recorded at the homeowner's expense by the Client's financial institution or their legal counsel.

## **IX. REUSE OF FUNDS**

The procedure for use of the repaid CDBG funds differs depending on whether or not the City of Hartford has an ongoing Community Development Block Grant Program. No more than 15% of repaid funds can be used for administrative expenses.

### **A. ACTIVE CDBG GRANT**

The funds shall be deposited into the Revolving Loan Fund account and will be used for housing rehabilitation in a manner consistent with the current Implementation Handbook and active CDBG contract. Repaid money shall be used prior to drawing down from the current contract budget. The Revolving Loan Fund Account shall be audited in the same manner and at the same time as regular CDBG funds.

### **B. INACTIVE CDBG GRANT**

The HCDA shall maintain the rehab account records, including:

1. The Revolving Loan Fund Accounting Journal.

- a. All repaid funds shall be deposited into the working account and recorded in the Program Beneficiaries Data sheet and the rehabilitation obligation-tracking journal.
- b. Fifteen percent (15%) of repaid funds may be used for administration.
- c. Interest earned on repaid funds shall be recorded in the Working Account.
- d. Program earnings from non-rehabilitation activities (e.g., acquisition, resale) may be used for any contracted housing activity.
- e. Non-rehabilitation funds and administration funds shall be tracked separately.

2. The Working Account Journal.



The Working Account Journal will show payments as they are made for all rehabilitation activities. An annual report of all rehab account expenditures (the Housing Revolving Loan Fund Activity Report) shall be submitted to the Division of Housing and Community Development.

### **C. DISCONTINUED HOUSING REHABILITATION PROGRAM**

If the housing rehabilitation program is discontinued, the funds shall be temporarily deposited in the City of Hartford's general account and repaid to the State of Wisconsin, Department of Commerce, Division of Housing and Community Development, as provided in the CDBG contract.

## **X. LOAN DECISIONS AND ADMINISTRATION**

A. The CDBG Program Administrator is authorized to approve new loan and subordination requests under the following circumstances:

- a. Applicant is within the maximum income guidelines in effect at the time of request to qualify for a CDBG loan. Applicant to provide verification of income/assets satisfactory to the CDBG Program Administrator.
- b. The mortgaged property value is sufficient to protect the interest of the City.
- c. Loans and requests meet the requirements of this manual.

Change orders equal to or less than \$1,000 may be approved by the CDBG Program Administrator. All other requests must be considered by the Board.

The CDBG Program Administrator is authorized to approve no more than one new loan per household in a twelve-month period. All other requests must be considered by the Board.

### **B. NOTICE OF APPROVAL OR REJECTION**

If the loan is approved, the applicant is notified in writing. If an application is rejected, a written notice will be sent to the applicant to explain reasons for the determination and the appeal process.

All loans given within the guidelines of this manual will be reported to the Board monthly.

### **C. APPEALS PROCEDURE**

An applicant may appeal the decision of the CDBG Program Administrator to the HCDA Board by submitting within 10 days of receipt of the denial notice, a written request for reconsideration and the reason for the request. If the HCDA Board denies the applicant's request, the applicant must appeal in writing as previously mentioned and the Common Council will hear the appeal and make the final decision.

## **XI. LOAN UNDERWRITING GUIDELINES**

On each loan, we need to establish that:

- a. The borrower has the ability and is willing to repay the debt.
  - b. The property is sufficient security for the loan as determined by the property's estimated Fair Market Value upon completion.
1. It is the Grantee's responsibility to ensure that CDBG housing loans are as secure as reasonably possible. At a minimum, this includes the following:
  2. Document ownership of the property through, at a minimum, a letter report from an accredited title company.

3. Rehabilitation loans may not exceed 120% of after-rehabilitation equity in the property. All mortgages, liens or any other encumbrance of the property must be reviewed and considered to ensure that there is adequate equity in the property to cover the CDBG loan. A property may not be considered for rehabilitation if the mortgage(s), judgments, and liens, in addition to the rehabilitation cost exceed the property's equity (based on the 120% rule). If a homeowner feels the value of their property is understated, he or she may provide an appraisal or a market analysis of the property to be rehabbed, provided it is within six-months of the date of application.\*\*
  4. Require the borrower to sign a mortgage and note for the amount of the loan. All loan documents must be signed and properly recorded prior to any construction work beginning on the property.
  5. Record the mortgage immediately after the mortgage and contract documents have been signed and the three-day rescission waiting period has expired.
  6. Any project amount that exceeds \$50,000 requires written approval from DEHCR Program Manager, prior to commencing the project. A detailed description of the project must be submitted to the Program Manager for consideration, including a description of the financial considerations (equity calculation), bid, photos, tests performed, HQS and work specifications necessary in order for DEHCR review to take place.
  7. Property taxes must be paid up to date before any rehabilitation work can begin.
8. *\*\*Note: An appraisal (except for a Homebuyer Loan) is not an eligible expense and cannot be made part of a loan, but must be paid out of pocket. DOA recommends getting a CMA (Comparative Market Analysis by a local licensed real estate agent). Per Tamra Fabian (10/9/19)*

#### **A. LOAN TO VALUE RATIOS**

	LTV	CLTV
Home Purchases	100%	100%
“Cash-out” Transactions	n/a	n/a
Rehabilitation Loans	120%	120%
Subordination requests	100%	100%

CLTV defined = Combined Loan to Value (Combined value of all mortgages divided by the Fair Market Value (FMV) of property).

#### **A. LIEN REQUIREMENTS**

First Lien Mortgage or Second Lien Mortgage

#### **B. LOAN AMORTIZATION**

First Mortgages	20 years (maximum)
Second Mortgages	15 years (maximum)

#### **C. REQUIREMENTS FOR ESCROW DEPOSITS**

Normally, escrow deposits are not required but if Loan to Value ratio is less than 90%, the HCDA reserves the right to require escrow deposits for taxes and insurance. The property owner is required to send us an annual insurance binder. The property owner is required to send us a copy of the paid real estate tax bill upon request.

#### **D. GENERAL CREDIT DOCUMENTATION STANDARDS**

Each application should have the following supporting documentation. No required documentation

should be older than 120 days.

1. A completed signed application
2. A credit report
3. Verification of deposits
4. Verification of employment and other sources of income
  - a. for self-employed borrowers:
    - 1) Two previous years individual Federal Income Tax return
    - 2) A year-to-date profit and loss statement
    - 3) Two previous years Balance Sheet

## **E. APPRAISAL REQUIREMENTS**

Applicants who disagree with the administrator's calculations for determining equity may appeal the decision by providing a market analysis by a licensed Real Estate Agent or an appraisal by a licensed Appraiser. These documents must be no more than six months old and should take into consideration the repairs being considered.

## **XII. DENIAL OF SERVICE POLICY**

The policy of the City of Hartford is to provide rehab loan services when those services may be delivered effectively and safely, without undue hazards to our staff, independent contractors, or clients. Circumstances that may lead to the denial of a loan to a specific unit are as follows:

**HEALTH AND SAFETY:** HCDA staff and independent contractors must be able to perform rehab measures on a home without undue threats to their health or safety. Conditions, which may constitute undue threats to a worker or clients' health or safety, may include, but are not limited to, the following:

- Structurally unsound dwellings that are, or should be condemned for human habitation;
- Evidence of substantial, persistent infestations of rodents, insects, or other vermin;
- Electrical or plumbing hazards that cannot be resolved prior to or as a part of the rehab work;
- The presence of sewage in any part of the dwelling unit;
- Environmental hazards such as serious moisture problems, carbon monoxide, gas leaks, friable asbestos, or other hazardous materials, which cannot be resolved prior to or as a part of the rehab work;
- The presence of animal feces in any area of the dwelling unit where program staff must perform rehab services;
- Excessive garbage build up in and around the dwelling unit which limits the program staff's access to the dwelling and encourages rodent infestations;
- Maintenance and housekeeping practices that are negligent to the point of limiting the access of program staff to the dwelling or create an unwholesome working environment;
- An overt threat of violence to any program staff member or any household member during the rehab process;
- The presence and/or use of any illegal controlled substance in the dwelling unit during the rehab process.

**COST EFFECTIVENESS:** Rehab work should be cost effective. Situations or conditions, which may limit the cost effectiveness of any rehab work, may include, but are not limited to the following:

- Structurally unsound dwelling or a dwelling which the cost of repairs substantially exceed the cost of the rehab measures;
- Major remodeling is in process, which limits the proper completion of major rehab measures;
- Substantial amounts of standing water in the crawl space or basement;
- Dwelling needs no major rehab measures and the cost of installing the remaining measures exceeds payback projections;
- Uncooperative client: client refuses major rehab measures or refuses to make modifications necessary to permit major measures to be completed.

**NOTIFICATION AND APPEAL:** Households will be informed in writing when services are denied or withdrawn based on health and safety or cost effectiveness guidelines. The denial notice will include instructions for appeal of the denial or the steps the household must take to allow the agency to proceed with the rehab services.

Appendix A

**INCOME ELIGIBILITY LIMITS**

To be eligible for a Community Development Block Grant Housing rehabilitation loan, the total household income of the owners of an owner-occupied or the tenants of a renter-occupied unit must not exceed the following County Median income (CMI) limits:

Family Size*	<b>80% CMI MODERATE INCOME</b>	<b>50% CMI LOW INCOME</b>
1	\$46100	\$28850
2	52700	32950
3	59300	37050
4	65850	41150
5	71150	44450
6	76400	47750
7	81700	51050
8	86950	54350

(effective 4/2019)

\*\*\*\*\*

Appendix B

SECTION 8 GROSS RENT (RENT PLUS UTILITIES) LIMITS

Effective April, 2019

	Efficiency	1 Bedroom	2 Bedroom	3 Bedroom	4 Bedroom
With Utilities	\$621	\$753	\$918	\$1167	\$1302