



Residential Rehabilitation Loan Program Guidelines

City of Middletown

Department of Planning,
Conservation and Development

Community Development Division

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Purpose

To encourage the rehabilitation of residential property in the City of Middletown through the provision of and the coordination of low-interest loans and deferred payments.

General Description

The Residential Rehabilitation Loan Program is funded through Community Development Block Grant (CDBG) funds provided by the Housing and Community Development Act of 1974, as amended, and will be administered by the Name of Consultant Business (Agency). This program will make available loans as described below. These loan plans are designed to provide an appropriate incentive and satisfy a wide range of incomes and conditions.

Eligibility Requirements

1. Residential property must be qualified year-round housing located within the City of Middletown - Census Tract Map attached.
2. An applicant for a rehabilitation loan for residential property must be the owner of the property, or must be the purchaser-occupant of the property under a land sales contract (or similar) contractual arrangement for purchases of real property.
3. Single-family and multi-family structures must be determined eligible based on tenant (owner or renter) income. Tenant income verifications will be requested to determine eligibility of multi-family structures. Social Security income verifications or IRS 1040 forms (if necessary), employee verifications, self-verifications, etc. will be requested to determine eligibility of owner - occupied structures.
4. Single-family households must be income qualified by having an income level at or below the Department of Housing & Urban Development eighty percent (80%) of median income guidelines. Multi-family units must also be qualified, whether owner-occupied or not. At least fifty percent (50%) of the households in a multi-unit structure must be income eligible to qualify for a loan.

5. Investor owned property shall qualify for Plan I loans only.
6. Loans are for rehabilitation-related expenses only and may not be used to purchase property.
7. The amount of any loan cannot exceed the total amount of specified rehabilitation plus any other approved related costs.
8. All applications are subject to final approval of the City of Middletown's Applications Review Committee (ARC) and the Agency.
9. The ARC reserves the right to make exceptions to these guidelines after finding such action is necessary to implementing the Middletown Community Development Block Grant Program. Any exception to these guidelines, however, shall not exceed Federal and/or State requirements.

Eligible Work

All work necessary to bring a property into conformance with the State of Connecticut Building and Housing Codes as they may be amended and all applicable State and/or Town codes to correct incipient violations will be considered eligible work.

Terms and Conditions Under Which Rehabilitation Loans Are Made

The following are requirements with respect to terms and conditions to which an applicant must agree in order to obtain a rehabilitation loan:

1. All loans will be secured by a mortgage to the City of Middletown.
2. Principal and interest of the loans, with the exception of indefinite deferred loans, will be repaid in equal monthly installments.
3. Applicable costs, i.e., appraisal, flood insurance, title examination, credit report, architectural and engineering fees, closing costs, etc. shall be paid by the borrower.
4. Civil-Rights - Comply with all requirements with respect to Title VI of the Civil Rights Act of 1964, as amended, to not discriminate upon the

basis of race, color, religion, sex, age, handicap, or natural origin in sale, lease, rental, use or occupancy of the subject property.

5. **Use of Proceeds** - Use the loan proceeds only to pay for costs of service and materials necessary to carry out the rehabilitation work for which the loan was approved.
6. **Completion of Work** - Assure that the rehabilitation work shall be carried out promptly and efficiently through contract with the prior concurrence of the Agency.
7. **Ineligible Contractors** - Not award any contract for rehabilitation work to be paid for in whole or in part with the proceeds of the loan to any contractor, who, at the time, is ineligible under the provisions of any applicable regulations issued by the Secretary of Labor of the State of Connecticut, U.S. Department of Housing and Urban Development, U.S. Department of Labor, City of Middletown or other City-related agencies to receive an award of such contract, or to any contractor who is not licensed by the State of Connecticut.
8. **Permit Requirement** - All necessary permits must be secured before the project begins.
9. **Inspection** - Permit inspection by the Agency and the City Inspector of the property, the rehabilitation work and all contracts, materials, equipment and conditions of employment pertaining to the work.
10. **Records** - Keep such records as may be required by the City of Middletown and the Agency with respect to the rehabilitation work.
11. **Interest of Certain Officials** - Not permit any member of or Delegate to the Congress of the United States nor any Federal Government employee or member of his/her immediate family directly involved in the administration of this program to share in any proceeds of the loan or to any benefit arising from the same, unless an exemption waiver is granted by the appropriate Federal/State housing agency.
12. **Bonus, Commission or Fee** - Not pay any bonus, commission or fee for the purpose of obtaining the approval of the loan application or any other approval or concurrence required to complete the rehabilitation work financed in whole or in part with the rehabilitation loan.
13. **Conflict of Interest** - Allow no member of the Agency who exercises any functions or responsibilities in connection with the administration of the Community Development Act and no elected official, commissioner, officer or employee of the City of Middletown who exercises such functions or responsibilities to have any interest,

direct or indirect, in the proceeds of the loan or in any contract entered into by the applicant for the performance of work financed, in whole or in part, with the proceeds of the rehabilitation loan, unless an exemption waiver is granted by the appropriate Federal/State housing agency.

14. **Bids for Construction Work** - The Agency will assist the borrower in obtaining competitive bids for all rehabilitation work financed in whole or in part with the rehabilitation loan.

In order to eliminate collusion or favoritism, provide a list that would be open to all qualified contractors. Additionally, this list should be updated annually.

15. **Preservation of the Security** - Maintain the property in a decent, safe, and sanitary manner during the term of the loan.

16. **Hazard Insurance** - Maintain adequate hazard insurance and general liability insurance on the property and on the policy name and the City of Middletown as a mortgagee.

17. **Transfer of the Property** - Not sell or transfer the property without repaying the entire loan, unless written consent of the City of Middletown is sought and received.

18. **Final Approval of Loan:** Final approval is subject to an examination of the title wherein no liens of any kind are found against the property and, subject to all real estate, water, sewer and sanitation charges being current.

19. **Mortgage Documents:** At the issuance of the loan, the mortgage and promissory note will be recorded on the City of Middletown's Land Records by the City Attorney's Office.

Loan Plans Available

The amount of a loan can be no less than \$5,000 and no more than \$50,000 for the following plans.

- A. **Plan I: Investor Owned Residential Property**

Investor owners are eligible for only Plan I.

TERMS: for eligible applicants: Up to fifty percent (50%) of the rehabilitation cost will be available from CDBG funds and will be

repaid in equal monthly installments at an interest rate set by the ARC. The balance of fifty (50%) percent will be obtained by the applicant from a bank or other private source and repaid at market interest rates. The applicant will make arrangements with the bank or other source. Applications will be reviewed by the Middletown ARC and the Agency. Final approval by the participating bank will be required in order to close on an approved City loan.

B. Plan II: Direct Sliding Scale Interest Loan - Owner-Occupied

Eligibility for this loan will be determined by the following factors: income, expenses, family-size, and the seriousness of safety, health and building code violations. The applicant's disposable income will be determined by the Agency from information received from the applicant. Disposable income is the cash available after all living expenses, as well as short and long-term obligations, are deducted from gross income. This figure represents the maximum amount the applicant can theoretically pay monthly towards the rehabilitation loan. Loan payments may be deferred, based on current debt information, to a point in time adequate debt relief can be anticipated. The deferred time cannot exceed five (5) years.

The maximum loan term is ten (10) years and maximum interest rate will be adjusted periodically. Applications will be reviewed by the Middletown ARC and the Agency.

C. Plan III: Indefinite Deferred Loan - Owner-Occupied

This plan is offered to elderly, handicapped, and/or hardship applications in owner-occupied structures. Hardship applicants are those whose income fall at or below 50% of median income.

TERMS: Loan funds will be repaid at no interest. All funds will be recovered by the City upon sale or transfer of the property.

Priorities For Processing

1. Owner-occupied dwelling units within the City of Middletown.
2. Absentee-owned dwelling units within the City of Middletown.

Outline of Agency Functions

In the performance of the obligation under the Rehabilitation Loan Program, the Agency will utilize rehabilitation and finance specialists to carry out the functions of the program.

Below is an abbreviated outline of the services that will be provided by these individuals in connection with the processing of loan applications.

- A. Interview and advise applicant of general rehabilitation objectives, the purpose and meaning of rehabilitation standards and the availability and benefits of a rehabilitation loan.
- B. Submit request to the City of Middletown's Department of Planning, Conservation and Development for a title search to be done on the applicant and preparation of mortgage documents.
- C. Inspect the property.
- D. Prepare the rehabilitation application with the property owner
- E. Prepare a work write-up and cost estimate of the rehabilitation work.
- F. Present property owner's application to the Application Review Committee.
- G. Advise applicant of terms and conditions under which loan is to be made.
- H. Upon availability of funding and approval of loans, applicant shall be referred to City related and other social agencies for housing management counseling, if required.
- I. Obtain bids and proposals from contractors, observing the procurement procedures as outlined in 24 CFR Part 84.40-48 and 84, if applicable.
- J. Prepare construction and financial documents for applicant.
- K. Assist applicant in selecting acceptable contractor, observing the procurement procedures as outline in 24 CFR Part 84.40-48 and 84, if applicable.
- L. Assist applicant to issue proceed order for construction work and obtain all necessary permits.

- M. Make periodic inspections of rehabilitation work and request progress payments as necessary.**
- N. Make final inspection of completed rehabilitation work and obtain completed approvals by the City of Middletown's Building Inspector.**
- O. At the completion of the rehabilitation project, the agency shall perform the following:**
 - 1.) Obtain final acceptance of the rehabilitation work from homeowner.**
 - 2.) Obtain from contractor: guarantee of work; release of liens from the general contractor, subcontractors and suppliers prior to final payment for rehabilitation work.**
 - 3.) Coordinate final payment to contractor for completed rehabilitation work.**
 - 4.) Submit the loan information to the servicing bank.**

Applicants Evaluation Criteria

In order to make determinations with respect to eligibility for the purposes and amount of rehabilitation loan, an applicant is identified as either an owner-occupant or an investor-owner. For purposes of determining an applicant's income, an applicant must be identified additionally either as a person or other legal entity, as defined below.

Person - The term "person" means one or more natural persons who either hold legal title to or occupy under a land sales contract a property to be rehabilitated.

Other Legal Entity - The term "other legal entity" means any legal entity other than a "person", such as a partnership or corporation that holds legal title to a property to be rehabilitated. Any "other legal entity" within the meaning of this definition is also any investor-owner.

- A. Sources of funds and amounts comprising applicant's income:**

The following is a listing of all elements comprising income for the purpose of a rehabilitation loan.

Applicant who is a Person - Income of an applicant who is a "person" includes the income of the applicant and his family. The applicant's family includes the applicant and any other person or persons related by blood, marriage or operation of law, who share the same dwelling unit. If ownership of the property rests in more than one person, the applicant is each owner and family. The applicant's income, therefore, is the sum of the household incomes of all applicants. An applicant's income is established on an annual basis at the time of applying for a rehabilitation loan and includes:

- 1. Applicant must qualify under the Department of Housing and Urban Development's definition of low to moderate income. Moderate income is 50% to 80% of median income. Low income is below 50% of median income. Income limits are revised by the Department of Housing and Urban Development on a yearly basis (February 1999 Income Limits attached - please refer to Department of Planning, Conservation and Development for revised Income Limits).**
- 2. Spouse's earnings and earnings of all other members of the family who share the household, if the employment of the spouse or other family member is a definite characteristic of family life. Where possible, previous year's Form 1040, employment verifications, self verifications, etc. will be used in combination to determine income for prior 12-month period from time of initial determination.**
- 3. Other income regularly received by the applicant or his/her family from any other source;**
- 4. Net income from real estate including the property to be rehabilitated based on:
 - a) Gross rental income, less;**
 - b) On the basis of an average of experience for one or more years, expenditures for mortgage principal and interest, mortgage insurance, real estate taxes and special assessments, maintenance and repairs, heating and utilities round rent and other case expenditures for the property, such as advertising vacancies.****
- 5. Any other business income.**

Applicant that is Other Legal Entity - The income of an "other legal entity" includes all other net income, before income taxes, attributable to the legal entity or any other enterprise owned by the applicant comprising:

1. Net income from all real estate and any other net income attributable to the legal entity or any other enterprise owned by the legal entity.
 - a) Net incomes from all real estate is to be calculated on the basis of gross rental income less expenditures (on the basis of any average of one or more year's experience) for mortgage principal and interest, mortgage insurance premiums, service charge, hazard insurance, real estate taxes and special assessments, maintenance and repairs, heating and utilities, ground rent and other cash expenditures for the property (including advertising vacancies).
2. Exclusions - Income of an "other legal entity" other than a partnership, limited partnership and closed corporations does not include the income of any director, official officer, employee, shareholder or other participant.

Truth In Lending Requirements

The Truth in Lending Act is Title I of the Consumer Credit Protection Act (Public law (90-321; Title 15, U.S. Code 1601 et. seq.), enacted by Congress on May 29, 1968. The act requires that borrowers in "consumer credit transactions" be vested with certain rights and protections in connection with the transaction and receive specified written information from their lenders. The disclosures must be made before credit is extended and before the borrower becomes obligated in connection with a transaction; i.e. before execution of a note or mortgage. This function will be provided by the Agency and, if applicable, the participating bank.

Revolving Fund

The principal and interest payments received from the Community Development Block Grant Fund portion of the loan will be directed from the servicing agency to the City. These monies will be set aside as program income which will provide funds for additional rehabilitation loans as needed.

Historical Properties

The City will review its Architectural Survey on any structure eligible for rehabilitation. If the structure is historically inventoried, then the rehabilitation will conform to the "Secretary of the Interior's Standards for Rehabilitation." Any structure not listed on the City's Architectural Survey but determined by the Agency and referred to the Middletown Preservation and Design Review Board as historical, rehabilitation will also be performed to the "Standards."

If, in either case, a rehabilitation of a historical structure will not conform with the "Standards", the City must seek State Historical Preservation Officer approval prior to the carrying out of the rehabilitation.

Rent Requirements

Investor-owned properties shall be rented to qualified low-and-moderate income tenants as defined by current income limits (attached) promulgated by the United States Department of Housing and Urban Development. The owner shall not rent any apartment on the premises at a rent in excess of the HUD existing fair market rents (attached) for the area in which the premises are located, for a period of two years after completion of rehabilitation. Tenant verifications as provided by the Agency will be required to be completed by each tenant occupying the premises.

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