COUNTY OF HUMBOLDT
OWNER OCCUPIED REHABILITATION / ACCESSORY DWELLING UNIT / JUNIOR ACCESSORY DWELLING UNIT POLICIES AND GUIDELINES

For Programs Funded by CalHome
Through the California Department of Housing and Community Development (HCD)

Serving the Unincorporated Areas of Humboldt County

Approved by HCD
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COUNTY OF HUMBOLDT
OWNER OCCUPIED REHABILITATION AND ACCESSORY DWELLING UNIT PROGRAM GUIDELINES

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COUNTY OF HUMBOLDT
OWNER OCCUPIED REHABILITATION AND ACCESSORY DWELLING UNIT PROGRAM GUIDELINES

1. GENERAL

The above-named entity, hereinafter referred to as "Sponsor," has entered a contractual relationship with the California Department of Housing and Community Development ("HCD") to administer one or more HCD-funded housing rehabilitation programs. The Owner Occupied Rehabilitation ("OOR") and Accessory Dwelling Unit or Junior Accessory Dwelling Unit ("ADU/JADU") loan programs described herein, and hereinafter referred to as the "Program" or "Programs," are designed to provide assistance to eligible homeowners for 1) correction of health and safety items, as well as code violations, located within the Program's eligible area, and 2) construction, reconstruction, repair, or rehabilitation of accessory dwelling units and/or junior accessory dwelling units. References to "ADUs" in these guidelines includes "JADUs." The Programs provide this assistance in the form of deferred payment loans used to finance the cost of necessary repairs that will provide the homeowner with a healthy, safe, sanitary, energy efficient, and code compliant home, and/or ADU, or JADU, referred to herein as "housing unit." The County of Humboldt as the Sponsor will be the "Program Operator."

1.1 PROGRAM OUTREACH AND FAIR MARKETING

All outreach efforts will be done in accordance with state and federal fair lending regulations to assure nondiscriminatory treatment, outreach, and access to the Programs. No person shall, on the grounds of age, ancestry, color, creed, physical or mental disability or handicap, marital or familial status, medical condition, national origin, race, religion, gender, or sexual orientation, be excluded, denied benefits, or subjected to discrimination under the Program. The Sponsor will ensure that all persons, including those qualified individuals with handicaps have access to the Programs.

1.2 APPLICATION PROCESS AND SELECTION

A. Waiting List/Homeowner Contact. The Program Operator will utilize a waiting list. In response to a homeowner's request, the homeowner completes and submits a pre-application form and is placed on the waiting list. Homeowners are offered the opportunity to qualify for assistance by waiting list priority, on a first-come, first-served basis.

   In the case where damage to housing occurs as part of a State or Federally Declared Disaster, the county may start a Disaster Relief Owner Occupied Rehabilitation Waiting List. The Disaster Relief OOR waiting list will be populated with homeowners whose homes were damaged by the declared disaster and can no longer safely occupy their homes. The safe occupancy determination will be made by the Humboldt County Building official or their designated inspector.

   The Program Operator will contact homeowners by mail, telephone, and/or e-mail to advise of funding availability. The homeowner has 30 days to complete and return the loan application and supporting documentation. Should a homeowner fail to respond to the initial contact for assistance or to provide any of the required documentation within the 30-day period, the homeowner's name will be removed from the waiting list and the homeowner will receive notification of that removal. A homeowner may return to the waiting list, placed on the bottom position, six months after they were removed.

Should the waiting list be exhausted, the Program Operator will conduct community wide outreach in a manner equitable to all populations in the County.

B. Application/Interview. An application packet is provided to the homeowner for completion and submittal to the Program Operator, along with supporting documentation. An interview is scheduled with the applicant. The program is fully explained, and application forms and required documentation are reviewed.

If the Program Operator encounters material discrepancies and/or misrepresentations, and/or there are income, asset, household composition, or other important questions that can't be resolved, the Sponsor reserves the right to deny assistance to the household. An applicant may also voluntarily take their name off the waiting list. An applicant who removes their name from the waitlist may re-apply after six months have elapsed from the time of removal.

Third-party verification is obtained for income and outstanding debts. Preliminary title reports and drive-by cost estimates may also be obtained. Participants in the County's OOR, ADU and JADU Programs are those determined eligible upon completion of this process.

C. Initial Inspection/Work Write-Up/Estimate. Prospective units are inspected by the Program Operator to determine eligibility and acceptability of properties for participation in the program. At the time of inspection, measurements and observations are noted about the property, including special conditions with potential cost consequences (dilapidated outbuildings, absence of curb and gutter when required by code, etc.). A floor plan and site plan, as needed, are drawn for the home and property, including all appurtenances. For an ADU or JADU, the site is evaluated for building suitability.

Findings are noted on an inspection form and used to prepare the work write-up. Estimated costs are determined by the Program Operator who has experience in the building industry, in reviewing contractor bids, and verifying costs with material suppliers. The homeowner reviews the completed work write-up and cost estimate, and if approved, it is incorporated into bid documents.

D. Bid Solicitation. A bid walk-through date and time are scheduled. The homeowner may choose to solicit their own bids or request that the Program Operator solicit bids on their behalf. Invitations to bid are distributed to all eligible contractors on file in an effort to obtain three reasonable bids. Bid results will be provided to participating contractors upon request.

Program Operator shall verify contractors are licensed and bonded by the State of California Contractors Licensing Board. Contractors must also provide Program Operator with evidence of Workers' Compensation Insurance and Comprehensive General Liability and Property Damage Insurance with Combined Single Limits of at least $1,000,000.

E. Loan Request/Approval. An underwriting report will be prepared on behalf of the homeowner by the Program Operator. The loan report will include the cost of construction, a contingency fund, and other project costs (listed in Section 6.3.)

Providing there are no problems, the loan will be approved, the loan documents will be executed, and the loan will be funded.

F. Pre-Construction Conference. A pre-construction conference is scheduled with homeowner, contractor, and Program Operator. The Program Operator reviews the Owner-Contractor Construction Contract, including the work write-up, start date, pay schedule, and date of completion, with the homeowner and contractor. The construction contract and Sponsor-provided contract addendum are executed.

   Start-Up/Field Inspections. The Program Operator monitors the date of start-up and performs field inspections on a regular basis. The Program Operator will visit the job site regularly to check the scope of work, inspect materials, and to confirm the job is on schedule and within budget. The Program Operator works with the Sponsor's Building Inspector to ensure the work meets building codes and does not exceed funding limits. Original plans and specifications are used to verify work was completed as contracted.

   The Program Operator reviews the work status with the homeowner and with the contractor to remedy any developing problems quickly and to ensure that both are satisfied with the construction process. At the completion of each phase, the Program Operator inspects the work, and the homeowner authorizes contractor payments.

G. Change Orders. Written change orders are required when the homeowner requests any changes in the write-up, such as eliminating an item completely, eliminating one item and substituting another, or adding items. The change order will state the change and dollar value for the change. The change order must be signed by both the contractor and the homeowner and submitted to the Program Operator for approval. If the change order exceeds the approved financing, the homeowner will be asked to provide additional funds, or a request for additional funds may be presented to the Program Operator to evaluate prior to signing-off on the change order.

H. Progress Payments. Ninety percent (90%) of the contract amount is distributed to the contractor in the form of progress payments during construction. The final ten percent (10%) of the contract amount is set aside as a retention payment. The contractor requests a progress payment from the homeowner and notifies the Program Operator that has been done. Upon favorable inspection by the homeowner, Program Operator, and Building Inspector when applicable, the payment authorization is signed by the homeowner and submitted for payment.

I. Final Inspections/Notice of Completion/Final Payment. When the project is completed, the Program Operator inspects the work item by item with the homeowner and the contractor. The Sponsor's Building Inspector performs a final inspection. Any corrections or deficiencies are noted and corrected by the contractor. Upon favorable final inspections, a Notice of Completion is prepared, signed by the homeowner, and then recorded. The final ten percent (10%) retention payment is released after the Notice of Completion is signed by the borrower and approved by the Program Operator.

1.3 LOAN PROCESS

The Program Operator must approve all loans. The Program Operate may approve assistance of one hundred five percent (105%) of the after-rehabilitation value of the housing unit.

To obtain financing, applicants must meet all property and eligibility guidelines in effect at the time the application is considered. Homeowners will be provided with written notification of approval or denial. Any reason for denial will be provided to the applicant in writing.

2. APPLICANT QUALIFICATIONS

2.1 INCOME LIMITS

All homeowners must certify that they meet the current household income eligibility requirements set by CalHome and have their household income documented by the Program Operator using a CalHome Gross Income Worksheet. All applicants must have incomes at or below 80% of the County's area median income (AMI), adjusted for household size. See Attachment A for guidance on assets to include or exclude when calculating gross annual income.

Household means one or more persons who occupy a housing unit, without regard to age or income. Unborn children count for family size determination. Rent paying tenants living in the household are not included in household size. Program operator may require a copy of the rental agreement to document the unaffiliated household status of rent paying tenants.

Annual Income is the gross amount of income of all adult household members (18 years old and older) that is anticipated to be received during the coming 12-month period. Income of minors, of live-in aides, or of rent paying tenants is excluded. The rent paid to the owner-occupants by tenant is included in annual income.

Owner-occupants housing and/or debt ratios are not considered, nor is a credit report required, as the funding provided creates no additional monthly financial obligation. If an owner-occupant has a mortgage, it is verified that all payments are current and that no delinquent payments have been received in the past twelve months.

2.2 INCOME QUALIFICATION CRITERIA

Gross Income. Projected annual gross income of the applicant household will be used to determine whether they are above or below the most recently published CalHome income limits. Income will be verified by reviewing and documenting tax returns, copies of wage receipts, subsidy checks, bank statements and verification of employment forms sent to employers. All documentation shall be dated within six months prior to loan closing and kept in the applicant file and held in strict confidence.

Assets. There is no asset limitation for participation in the Program. Income from assets is, however, recognized as part of annual income. An asset is a cash or non-cash item that can be converted to cash. The value of necessary items such as furniture and automobiles are not included. *(Note: it is the income earned – e.g., interest on a savings account – not the asset value, which is counted in annual income.)*

Cash Value. An asset's cash value is the market value less reasonable expenses required to convert the asset to cash, including penalties or fees for converting financial holdings and costs for selling real property. The cash value (rather than the market value) of an item is counted as an asset.

2.3 HOMEOWNER ELIGIBILITY AND RESIDENCY REQUIREMENTS

The Sponsor's OOR and ADU/JADU Programs allow owner-occupied properties to participate in the Programs. Owner-occupied units must be the owner's principal place of residence, and owner must be on title. An ADU or JADU does not need to be occupied by the owner, only the primary housing unit. A photocopy of a recent utility bill will verify proof of occupancy. No unit to be rehabilitated, constructed or reconstructed will receive financial assistance if it is currently occupied by an over-income household or does not meet the eligibility standards outlined in these guidelines.

A. Continued residency is monitored regularly, generally, within the first 60 days of each fiscal year. Occupancy is verified by the submission of the following:

   1. Proof of occupancy in the form of a copy of a current utility bill; and
   2. Statement of unit's continued use as primary residence of the owner.

B. If a homeowner sells or transfers title of the property for any reason, the loan becomes due and payable.

C. If a homeowner discontinues residence in the primary housing unit, the loan becomes due and payable.

D. If a homeowner converts the primary housing unit to a rental unit, or any commercial or non-residential use, the loan is due and payable.

E. Loans may not be used for short-term rentals.

F. Loans provided by CalHome are not assumable. A loan may be transferable under the following limited circumstances:

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

3. PROPERTY ELIGIBILITY

A. No unit will be eligible if a household's income exceeds the current income limits set by CalHome.

B. Eligible units must be located within Humboldt County.

C. Property must contain a legal residential structure intended for continued residential occupancy. This may be a stick-built home or a manufactured home not on a permanent foundation.

D. All repair work will meet Local Building Code standards. At a minimum, health and safety hazards must be eliminated.

4. THE PROGRAM LOAN

CalHome loans are not assumable. Grants are not available in CalHome funded programs.

4.1 MAXIMUM AMOUNT OF PROGRAM ASSISTANCE

The maximum assistance provided will be the amount allowed under the most recent CalHome Notice of Funding Availability of $80,000. If the entire loan is not expended, the difference will be applied to the principal making the loan effectively the amount expended.

4.2 AFFORDABILITY PARAMETERS FOR HOMEOWNERS

Total indebtedness against property shall not exceed 105 percent (105%) of the after-rehabilitation value as determined by an appraisal. An estimate of after-rehabilitation value will be made prior to making a commitment of funds using the method outlined in Section 4.5.

4.3 RATES AND TERMS

A. Homeowners are eligible for Deferred Payment Loans, at three percent (3%) interest per annum, evidenced by a Promissory Note and secured by a Deed of Trust, with no payback required for 30 years unless the borrower sells or transfers title or discontinues residence in the dwelling. Payments may be made voluntarily on a loan. If it is determined by the Program Operator that repayment of a CalHome loan at the maturity date causes a hardship to the homeowner, the Program Operator may opt for one of the following:

1. Amend the promissory note and deed of trust to defer repayment of the amount due at maturity; calculated as the balance of the original principal plus the accrued interest, for up to an additional 30 years (at 0% additional interest). This may be offered once.
2. Convert the debt at loan maturity; calculated as the balance of the original principal plus any accrued interest, to an amortized loan, repayable in 15 years at 0% additional interest.

B. CalHome loans are NOT assumable.

C. If a homeowner converts the primary rehabilitated housing unit to any residential-rental, commercial or non-residential use, the loan becomes all due and payable.

D. Letting/renting/leasing an ADU or JADU for tenancies less than 30 days will cause the loan to become due and payable.

E. As specified in the Program's Loan Agreement, all applicants who participate in the Program must maintain the property at post-rehabilitation conditions for the term of the loan. Should the property not be maintained accordingly, the loan shall be considered in default and becomes due and payable, and if necessary, foreclosure proceedings will be initiated. The Program Operator will establish a method of inspection.

4.4 APPRAISAL/VALUE

The after-rehabilitation value for a project is determined using the "Estimates of value" method. The Program Operator determines estimates of value based on the sale prices of at least three comparable properties, sold within one year of the assistance date, which is the date the promissory note is signed, and located within one mile of the subject property. The participants' file will include the estimate of value and document the basis for the value estimates. The purpose of the "Estimates of value" is to determine that the After-Rehabilitation Value Limit of the housing unit will not exceed the most recent median sales price in the county posted at the California Association of Realtors website at: https://www.car.org/en/marketdata/data/countysalesactivity. If an appropriate estimate cannot be made, a licensed appraiser will determine the after-rehabilitation value.

The after-rehabilitation value for an ADU or JADU project is based on the sale prices of similar properties in the program area within one year of the assistance date.

4.5 INSURANCE

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

FIRE INSURANCE. The homeowner shall maintain fire insurance on the property for the duration of the program loan(s). This insurance must be an amount adequate to cover all encumbrances on the property. The insurer must identify the Sponsor as *Loss Payee* for the amount of the program loan(s). Evidence of insurance shall be provided to the Program Operator for the duration of the loan. Should the fire insurance not be maintained accordingly, the loan may be considered in default and become due and payable, and if necessary, foreclosure proceedings may be initiated.

FLOOD INSURANCE. For homes in a 100-year flood zone, the owner is required to maintain flood insurance in an amount adequate to secure the Program loan and all other encumbrances. This policy must designate the Sponsor as *Loss Payee* and a binder shall be provided to the Program Operator and maintained in Borrower's file. Evidence of coverage shall be provided to the Program Operator for the duration of the loan.

4.6 LOAN SECURITY

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

B. A manufactured home in a mobile home park, or on leased land, which is not on a permanent foundation will be secured by an HCD 480.7 or an HCD 484 Statement of Lien and will also include a Promissory Note and Loan Agreement.

C. Entering into subordinate lien is acceptable, however the Sponsor will not subordinate a first lien position once established.

5. PROGRAM LOAN SERVICING AND MAINTENANCE

5.1 RECEIVING LOAN REPAYMENTS

A. Program loan payments will be made to:

County of Humboldt
Planning & Building Department
Attn: Housing Programs
3015 H Street
Eureka, CA 95501

B. The Sponsor will be the receiver of loan payments or recapture funds and will maintain a financial recordkeeping system to record payments and file statements on payment status. Payments shall be deposited and accounted for in the County's appropriate Program Income Account. The Sponsor will accept loan payments from borrowers prepaying deferred loans, and from borrowers making payments in full upon sale or transfer of the property. All loan payments are payable to the County. The Sponsor may at its discretion, enter into an agreement with a third party to collect and distribute payments and/or complete all loan servicing aspects of the Program.

5.2 LOAN SERVICING POLICIES AND PROCEDURES

See Attachment B for Sponsor's loan servicing policies and procedures. While the attached policy outlines a system that can accommodate a crisis that restricts borrower repayment ability, it should in no way be misunderstood: The loan must be repaid. All legal means to ensure the repayment of a delinquent loan as outlined in the County of Humboldt CalHome Loan Servicing Policies and Procedures will be pursued.

5.3 LOAN MONITORING PROCEDURES

Program Operator will verify that property taxes are current and receive notices that the County remains named additional insured. Homeowners will be required to submit:

a) proof of occupancy in the form of a copy of a current utility bill, and

b) verification of required insurance policies each year for the term of the loan.

5.4 DEFAULT AND FORECLOSURE

If an owner defaults on a loan, and foreclosure procedures are instituted, they shall be carried out according to the County of Humboldt Foreclosure Policy adopted by the County, and attached to these guidelines as Attachment C.

5.5 SUBORDINATIONS

The Sponsor may approve a request to subordinate a loan, for the owner to refinance the property, under the following conditions:

A. The lien position of the Sponsor loan will remain the same or be advanced.

B. The new primary loan is no greater than the balance of the loan being refinanced, except the costs of refinancing the loan may be added to the principal balance.

C. The purpose of the new primary loan is to reduce the interest rate being paid and/or reduce the owner's payment.

D. The refinanced loan must have an impound account for taxes and insurances.

E. The refinancing terms must be acceptable to the Sponsor.

F. There can be no cash out.

6. CONSTRUCTION

6.1 STANDARDS

A. All repair, rehabilitation, construction, and reconstruction work will meet local building code standards. At a minimum, health and safety hazards must be eliminated. For ADU/JADU construction projects a building permit is required. Site standards for ADU/JADU will be insured through the building permit process. Program Operator may also require elimination of code deficiencies. However, if certain components of the house are sound and were built to code prescribed at the time of installation, no repair or alteration will be made to those components.

B. Contracting Process

1. Contracting will be done on a competitive basis.

2. The homeowner will be the responsible agent, but the Program Operator will prepare the work write-up, prepare and advertise the bid package, and assist the owner in negotiating the construction contract.

3. The Sponsor and Program Operator do not warrant any construction work or provide insurance coverage.

C. Approved Contractors

1. Contractors are required to be licensed with the State of California and be active and in good standing with the Contractors' License Board.
2. Contractors must have public liability and property damage insurance, and worker's compensation, unemployment, and disability insurance, to the extent required by State law.
3. Contractors must agree to comply with all federal and state regulations.

6.2 ELIGIBLE CONSTRUCTION COSTS

"Rehabilitation" means, in addition to the definition in Section 50096 of the Health and Safety Code, repairs and improvements to a substandard residential structure, including manufactured homes, necessary to correct any condition causing the home to be substandard pursuant to Section 1704 of Title 25, California Code of Regulations. Rehabilitation also includes room additions to alleviate overcrowding. Rehabilitation also means repairs and improvements where necessary to meet any locally adopted standards used in local rehabilitation programs. Rehabilitation includes replacing failed or incipient repair items.

Rehabilitation does not include replacement of personal property.

Rehabilitation includes reconstruction. Reconstruction is defined as the demolition and construction of a structure. The Program Operator must document that the reconstruction costs are less than the cost to rehabilitate the existing substandard housing.

The residential structure to be reconstructed must be a structure with cooking, eating, sleeping, and sanitation facilities which has been legally occupied as a residence within the preceding 12 months. Fifth wheels or recreational vehicles, for example, are not considered dwellings and therefore are not eligible under this Program.

Like for like requires that the structure being demolished must be replaced with a like structure (replace manufactured housing with manufactured housing, for example).

Allowable rehabilitation\reconstruction costs for a primary housing unit include:

A. Cost of building permits and other related government fees.

B. Cost of architectural, engineering, and other consultant services which are directly related to the rehabilitation of the property.

C. Rehabilitation or Replacement of a manufactured home not on a permanent foundation. Rehabilitation of a manufactured home may include the replacement of the unit with a used manufactured home, and the cost to repair it, if the unit has been occupied and not used as a demonstration model. Should the unit meet the criteria for reconstruction a new manufactured home can be used for replacement and all costs associated with the purchase and transportation can be added to the loan.

D. Owner-occupied rehabilitation activity delivery fees, pursuant to Section 7733(f), as reimbursement to the Sponsor for the actual costs of services rendered to the homeowner that are incidentally but directly related to the rehabilitation work (e.g., planning, engineering, construction management, including inspections and work write-ups). See 6.4.

E. Rehabilitation will address the following issues in the order listed. Eligible costs are included for each item.

1. Health and Safety Issues. Eligible costs include, but are not limited to, energy-related improvements, lead-based paint hazard evaluation and reduction activities, improvements for handicapped accessibility, repair, or replacement of major housing systems. A driveway may be considered part of rehabilitation if it is determined to be a health and safety issue.

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

3. Demolition. Eligible costs include, but are not limited to, the tear down and disposal of dilapidated structures when they are a part of the reconstruction of an affordable housing unit. If a garage or carport is detached, it may not be rehabilitated but may be demolished if it is determined to be a health and safety issue.

4. Rehabilitation Standards. All repair work related to health and safety conditions will meet State and Local Building Code standards. The priority will be the elimination of health and safety hazards and code compliance.

F. Eligible costs for construction, reconstruction, repair, conversion or rehabilitation of an ADU and/or JADU include:

1. Structural modification to the existing home necessary to accommodate an ADU and/or JADU.

2. Building permits and other related government fees, including all fees necessary to build and occupy an ADU and/or JADU.

3. Activity delivery fees, pursuant to Section 7733(f), as reimbursement to the Sponsor for the actual costs of services rendered to the homeowner that are incidentally but directly related to the rehabilitation work (e.g., planning, engineering, construction management, including inspections and work write-ups). See 6.4.

4. Non-recurring loan costs.

6.3 ELIGIBLE PROJECT COSTS

Expenses related to permits, building plans and recording fees are eligible project costs and may be included in the loan. All fees are subject to change and are driven by the market.

Eligible costs include construction of additional bedrooms and bathrooms if needed to alleviate overcrowding as defined in the latest Census, and construction or reconstruction of ADUs and JADUs.

The Program will not fund additions to a home for a den, home office, family room, covered parking, or a garage.

6.4 ELIGIBLE ACTIVITY DELIVERY COSTS

Expenses for income qualifications, preparation of documents, title reports and appraisals, bidding, inspections, and processing of invoices are eligible Activity Delivery costs. Costs are based on charges currently incurred by the Sponsor, or its Program Operator, for these products and/or services. These costs are not included in the participants loan and do not need to be paid back.

6.5 INELIGIBLE COSTS

The following are prohibited uses of funds:

A. Refinancing existing loans or payoff of personal obligations with CalHome funds.

B. Costs associated with the rehabilitation or repair of property owned by a mobile home park owner.

C. Insurance of any kind may not be purchased with CalHome funds.

D. Relocation assistance is not an eligible expense with CalHome funds.

6.6 REPAIR CALLBACKS

Contractors will comply with State law regarding all labor and material warranties. All labor and material shall meet FHA minimum specifications.

Once a Notice of Completion is filed any disagreements that may arise regarding warrantees would be between the homeowner and the contractor.

7. EXCEPTIONS AND SPECIAL CIRCUMSTANCES

7.1 AMENDMENTS

The Sponsor may make amendments to these Program Guidelines. Any changes made shall be in accordance with federal and state regulations and submitted to CalHome for approval.

7.2 EXCEPTIONS

Any case to which a standard policy or procedure does not apply, or an applicant is treated differently from others of the same class, is an exception.

7.2.1 PROCEDURES FOR EXCEPTIONAL CIRCUMSTANCES

The Program Operator may initiate consideration of an exception and prepare a report. This report shall contain a narrative, including the Program Operator's recommended course of action and any written or verbal information supplied by the applicant.

The Sponsor shall make a determination on the exception based on the recommendation of the Program Operator. The request may be presented to the County's governing body for a decision.

8. DISPUTE RESOLUTION AND APPEALS PROCEDURES

8.1 PROGRAM COMPLAINT AND APPEAL PROCEDURE

Complaints concerning the County's OOR and ADU/JADU Programs should be made to the Program Operator first. If unresolved in this manner, the complaint or appeal shall be made in writing and filed with the County. The Sponsor will then schedule a meeting with the homeowner and Program Operator's staff. A written response will be made within thirty (30) working days after that meeting. If the applicant is not satisfied with the decision, a request for an appeal may be filed with the County's governing body. Final appeal may be filed in writing with CalHome within one year after denial or the filing of the Project Notice of Completion.

8.2 GRIEVANCES BETWEEN PARTICIPANTS AND CONSTRUCTION CONTRACTOR

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

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

ATTACHMENT A

Title 25 Section 6914 Gross Income Inclusions – For CalHome Activities

“Gross income” shall mean the anticipated income of a person or family for the twelve-month period following the date of determination of income.

“Income” shall consist of the following:

(a) Except as provided in subdivision (b), “Exclusions”, all payments from all sources received by the family head (even if temporarily absent) and each additional member of the family household who is not a minor (under 18) shall be included in the annual income of a family. Income shall include, but not be limited to:

1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses;
2) The net income from operation of a business or profession or from rental or real or personal property (for this purpose, expenditures for business expansion or amortization of capital indebtedness shall not be deducted to determine the net income from a business);
3) Interest and dividends;
4) The full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts;
5) Payments in lieu of earnings, such as unemployment and disability compensation, worker’s compensation, and severance pay;
6) Public Assistance. If the public assistance payment includes any amount specifically designated for shelter and utilities which is subject to adjustment by the public assistance agency in accordance with the actual cost of shelter and utilities, the amount of public assistance income to be included as income shall consist of:
   A. The amount of the allowance or grant exclusive of the amount specifically designated for shelter and utilities, plus
   B. The maximum amount which the public assistance agency could in fact allow for the family for shelter and utilities,
7) Periodic and determinable allowances such as alimony and child support payments, and regular contributions or gifts from persons not residing in the dwelling;

   All regular pay, special pay, and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family or spouse.

Title 25 Section 6914 Gross Income Exclusions

(b) The following items shall not be considered as income:

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

ATTACHMENT B

CALHOME LOAN SERVICING POLICIES AND PROCEDURES

The County of Humboldt, hereinafter called "Lender", has adopted these policies and procedures to preserve its financial interest in properties, whose "Borrowers" have been assisted with public funds. Lender will, to the greatest extent possible, follow these policies and procedures but each loan will be evaluated and handled on a case-by-case basis. Lender has formulated this document to comply with state and federal regulations regarding the use of these public funds and any property restrictions associated with them.

The policies and procedures are broken down into the follow areas:

1. Required monthly payments or voluntary payments on a loan's principal and interest
2. Required payment of property taxes and insurance
3. Required Request for Notice of Default on all second mortgages
4. Annual occupancy restrictions and certifications
5. Restrictions and Transfers
6. Required noticing and limitations on any changes in title or use of property
7. Requests for subordination
8. Process for loan foreclosure
9. Short sales

1. Loan Repayments:

   Lender will collect monthly payments from Borrowers who are obligated to do so under Notes, which are amortized promissory notes. Late fees will be charged for payments received after the assigned monthly date.

   For Notes, which are deferred payment loans; Lender may accept voluntary payments on the loan. Loan payments will be credited to the interest first and then to principal. Borrower may repay the loan balance at any time with no penalty.

   All loan payments are payable to Lender. Lender currently maintains loan amortization software. Lender may, at its discretion, enter into an agreement with a third party to collect and distribute payments and/or complete all loan servicing aspects of the Programs.

   Lender will maintain a financial record-keeping system to calculate interest and principal and record payments. These payments will post first to outstanding interest and then to principal. Payments shall be deposited and accounted for in Lender's CalHome Revolving Loan Account. Loan payments will be made to the County of Humboldt and sent to the address below:

   County of Humboldt
   Attn Housing Programs
   3015 H St
   Eureka, CA 95501

   When all debt to Lender has been satisfied, a Notice of Reconveyance will be issued to Borrower. The Notice of Reconveyance will release without warranty, all the estate, title and interest acquired by Lender under the Deed of Trust for that property.

2. Payment of Property Taxes and Insurance: To maintain the loan, Borrower must maintain property insurance coverage naming Lender as loss payee in first position or additional insured if the loan is a junior lien. Evidence of insurance must be provided to Lender for the life of the loan. If Borrower fails to maintain the necessary insurance, Lender may procure force-placed insurance to cover the property while Borrower puts a new insurance policy in place. All costs for force-placed insurance will be added to the loan balance.

   When a property is located in a 100-year flood plain, the Borrower will be required to carry the necessary flood insurance. A certificate of insurance for flood and for standard property insurance will be required at close of escrow. Evidence of insurance must be provided to Lender for the life of the loan.

Property taxes must be kept current during the term of the loan. If Borrower fails to maintain payment of property taxes, Lender may pay the taxes current and add the balance of the tax payment plus any penalties to the balance of the loan.

3. Required Request for Notice of Default: When the Borrower's loan is in second position behind an existing first mortgage, it is Lender's policy to prepare and record a "Request for Notice of Default" for the subject Deed of Trust. This document requires any senior lien holder listed in the notice to notify Lender of initiation of a foreclosure action. Lender may contact the Borrower and assist them in bringing the first loan current. Lender may also monitor the foreclosure process and make an analysis to determine if the loan can be made whole or preserved. When Lender is in third position and receives notification of foreclosure from only one senior lien holder, it is in their best interest to contact any other senior lien holders regarding the status of their loans.

4. Annual Occupancy Restrictions and Certifications: A requirement of the Owner-Occupied Rehabilitation and ADU/JADU Programs is that the applicant must remain the owner and occupant of the home applied for as a principal residence. If the applicant does not remain the owner occupant, Lender reserves the right to make the loan due and payable.

   Lender will require annual verification via insurance statements and/or other documentation that the home remains the primary residence. Lender reserves the right to perform site visits to document occupancy status during the term of the loan.

5. Restrictions and Transfers:

   Loans provided by CalHome are not assumable. Loans may not be used for short-term rentals. A loan may be transferable under the following limited circumstances:

   A. The transfer of the Property to the surviving joint tenant by devise, descent or operation of the law, on the death of a joint tenant.

   B. A transfer of the Property where the spouse becomes an owner of the property.

   C. A transfer of the Property resulting from a decree of dissolution of marriage, legal separation or from an incidental property settlement agreement by which the spouse becomes an owner of the Property.

   D. A transfer to an inter vivos trust in which Borrower is and remains the beneficiary and occupant of the property.

6. Required Noticing and Restrictions on Any Changes of Title or Occupancy: In all cases where there is a change in title or occupancy or use, Borrower must notify Lender in writing of any change within thirty days of any change. Lender and Borrower will work together to ensure the property is kept in compliance with the original Program terms and conditions.

   The voluntary or involuntary transfer of title to any interest in the real property, except those transfers allowed in CalHome guidelines, causes the whole of the unpaid principal and interest, plus applicable fees, charges, and penalties, to be immediately due and payable in full.

   If a transfer of the property occurs through inheritance, the heir (as owner-occupant) may be provided the opportunity to assume the loan at an interest rate based on household size and household income, provided the heir meets all program qualifications. If the heir intends to occupy the property and is not low-income, the balance of the loan is due and payable. If the heir intends to act as an owner-investor, the loan becomes due and payable. All such changes are subject to review and approval by Lender.

Change from owner-occupant to owner-investor is not allowed. This occurs when an owner-occupant decides to move out and rent the assisted property, or if the property is sold to an investor. If the owner converts any assisted unit from owner occupied to rental, the loan is due and payable in full.

Conversion to use other than residential is not allowable where the full use of the property is changed from residential to commercial or other. In some cases, Borrowers may request that Lender allow for a partial conversion where some of the residence is used for a business, but the household still resides on the property. Partial conversions can be allowed if it is reviewed and approved by any and all agencies required by local statute. If the use of the property is converted to a fully non-residential use, the loan balance is due and payable.

7. Requests for Subordinations: When Borrower wishes to refinance the property, they must send a subordination request to Lender. Lender will only subordinate the loan when there is no “cash out” as part of the refinance. Cash out means there are no additional charges on the transaction above loan and escrow closing fees. There can be no third-party debt pay offs or additional encumbrance on the property above traditional refinance transaction costs. Furthermore, the refinance should lower the housing cost of the household with a lower interest rate and the total indebtedness on the property should not exceed the current market value.

   Upon receiving the proper documentation from the refinance lender, the request will be considered for review and approval. Upon approval, the escrow company will provide the proper subordination document for execution and recordation by Lender.

8. Process for Loan Foreclosure: Upon any condition of loan default, Lender will send a letter to Borrower notifying them of the default situation. Defaults include: 1) nonpayment; 2) lack of insurance or property tax payment; 4) change in title or use without approval; 5) default on senior loans. If the default situation continues, then Lender may start a formal process of foreclosure.

   A. Lender as Junior Lien Holder: When a senior lien holder starts a foreclosure process and Lender is notified via a Request for Notice of Default, Lender, as junior lien holder, may cancel the foreclosure proceedings by "reinstating" the senior lien holder, if CalHome funds are available for this purpose. The reinstatement amount or payoff amount must be obtained by contacting the senior lien holder. This amount will include all delinquent payments, late charges, and fees to date. Lender must confer with Borrower to determine if, upon paying the senior lien holder current, Borrower can provide future payments. If this is the case, then Lender may cure the foreclosure and add the costs to the balance of the loan with a Notice of Additional Advance under the existing Promissory Note.

      If Lender determines, based on the reinstatement amount and status of Borrower, that bringing the loan current will not preserve the loan, then staff must determine if it is cost effective to protect their position by paying off the senior lien holder in total and restructure the debt such that the unit is made affordable to Borrower. If Lender does not have sufficient funds to pay the senior lien holder in full, they may choose to cure the senior lien holder and initiate foreclosure on the property. If there is sufficient value in the property, Lender may pay for the foreclosure process, pay off the senior lien holder, and retain some or all of their investment.

      If Lender decides to reinstate, the senior lien holder will accept the amount to reinstate the loan up until five days prior to the set "foreclosure sale date." This "foreclosure sale date" usually occurs about four to six months from the date of recording of the "Notice of Default." If Lender fails to reinstate the senior lien holder before five days prior to the foreclosure sale date, the senior lien holder would then require a full pay off of the balance, plus costs, to cancel foreclosure. If Lender determines the reinstatement and maintenance of the property not to be cost effective, and allows the senior lien holder to complete foreclosure, Lender's lien may be eliminated due to insufficient sales proceeds. However, Lender may make an application for surplus funds.

B. Lender as Senior Lien Holder: When Lender is in first position as a senior lien holder and monthly payments are required, active collection efforts will begin on any loan that is thirty-one or more days in arrears. Attempts will be made to assist the homeowner in bringing and keeping the loan current. These attempts will be conveyed in an increasingly urgent manner until loan payments have reached ninety days in arrears, at which time Lender may consider foreclosure. Lender’s staff will consider the following factors before initiating foreclosure:

   1. Can the loan be cured, and can the rates and terms be adjusted to allow for affordable payments such that foreclosure is not necessary?
   2. Can Borrower refinance with a private lender and pay off Lender?
   3. Can Borrower sell the property and pay off Lender?
   4. Does the balance warrant foreclosure? (If the balance is under $5,000, the expense to foreclose may not be worth pursuing.)
   5. Will the sales price of home "as is" cover the principal balance owing, necessary advances, (e.g., fire insurance, delinquent and current property taxes, monthly yard maintenance, periodic inspections of property to prevent vandalism, etc.) foreclosure, and marketing costs?

   If the balance is substantial and all the above factors have been considered, Lender may opt to initiate foreclosure. Borrower must receive, by certified mail, a thirty-day notification of foreclosure initiation. This notification must include the exact amount of funds to be remitted to Lender to prevent foreclosure.

   At the end of thirty days, Lender should contact a reputable foreclosure service or local title company to prepare and record foreclosure documents and make all necessary notifications to the owner and junior lien holders. The service will advise Lender of all required documentation to initiate foreclosure and funds required from Borrower to cancel foreclosure proceedings. The service will keep Lender informed of the progress of the foreclosure proceedings.

9. Short Sales: A short sale occurs when the sales price of a home is less than the total amount of liens encumbering the property. To close, a short sale must have approval from all lenders acknowledging that the sales price will not cover a portion of their existing loan amount. Short sales usually begin when a homeowner contacts a listing agent to sell (maybe due to homeowner’s difficulty in making their mortgage payments) and it is determined that the sales price will not satisfy all liens. The listing agent will want to continue the process, assuming they can get one or more of the lien holders to “forgive” a portion or the entire lien amount. This may or may not be the best answer for the household.

   The Short Sale Request form must be submitted electronically to the jurisdiction’s CalHome Program Representative along with a Preliminary Title Report (current ALTA polices may also be used). Additional supporting documentation may be required after the request forms and preliminary title report have been received.

   HCD will review and approve/disapprove the Request, which outlines the circumstances of a household’s short sale, but not the short sale itself. Since the State Recipient is the lien holder, all short sale transaction terms must be negotiated and approved by the State Recipient. The Short Sale Request, HCD approval and all supporting documents must be maintained by the jurisdiction in the project file.

ATTACHMENT C

FORECLOSURE POLICY

County As Junior Lien holder

It is the County of Humboldt's (County's) policy to prepare and record a "Request for Notice" on all junior liens (any lien after the first position) placed on properties financed by a loan.

This document requires any senior lien holder to notify the County of initiation (recordation of a "Notice of Default") of a foreclosure only. This is to alert the junior lien holder that they are to monitor the foreclosure with the senior lien holder. When the County is in a third position and receives notification of foreclosure from only one senior lien holder, it is in their best interest to contact both senior lien holders regarding the status of their loans.

The junior lien holder may cancel the foreclosure proceedings by "reinstating" the senior lien holder. The reinstatement amount is obtained by contacting the senior lien holder. This amount will include all delinquent payments, late charges, advances (fire insurance premiums, property taxes, property protection costs, etc.), and foreclosure costs (fees for legal counsel, recordings, certified mail, etc.)

Once the County has the information on the reinstatement amount, staff must then determine if it is cost effective to protect their position by reinstating the senior lien holder, keeping them current by submitting a monthly payment thereafter, foreclosing on the property possibly resulting in owning the property at the end of foreclosure, protecting the property against vandalism, and paying marketing costs (readying the home for marketing, regular yard maintenance, paying a real estate broker a sales commission).

If the County decides to reinstate, the senior lien holder will accept the amount to reinstate the loan up until five (5) days prior to the set "foreclosure sale date." This "foreclosure sale date" usually occurs about four (4) to six (6) months from the date of recording of the "Notice of Default." If the County fails to reinstate the senior lien holder before five (5) days prior to the foreclosure sale date, the senior lien holder would then require a full payoff of the balance, plus costs, to cancel foreclosure. If the County determines the reinstatement and maintenance of the property not to be cost effective and allows the senior lien holder to complete foreclosure, the County's lien may be eliminated due to insufficient sales proceeds. However, Lender may make an application for surplus funds.

County As Senior Lien holder

When the County is in a first position, or the senior lien holder, active collection efforts will begin on any loan that is 31 or more days in arrears. Attempts will be made to assist the homeowner in bringing and keeping the loan current. These attempts will be conveyed in an increasingly urgent manner until loan payments have reached 90 days in arrears, at which time the County may consider foreclosure. County staff will consider the following factors before initiating foreclosure:

- Can the loan be cured (brought current or paid off) by the owner without foreclosure?
- Can the owner refinance with a commercial lender and pay off the County?
- Can the owner sell the property and pay off the County?
- Does the balance warrant foreclosure? (If the balance is under $5,000, the expense to foreclose may not be worth pursuing.)
- Will the sales price of home "as is" cover the principal balance owing, necessary advances, (e.g., fire insurance, delinquent and current property taxes, monthly yard

maintenance, periodic inspections of property to prevent vandalism, etc.) foreclosure, and marketing costs?

If the balance is substantial and all the above factors have been considered, the County may opt to initiate foreclosure. The owner must receive, by certified mail, a thirty-day notification of foreclosure initiation. This notification must include the exact amount of funds to be remitted to the County to prevent foreclosure.

At the end of thirty days, the County should contact a reputable foreclosure service or local title company to prepare and record foreclosure documents and make all necessary notifications to the owner and junior lien holders. The service will advise the County of all required documentation to initiate foreclosure and funds required from the owner to cancel foreclosure proceedings. The service will keep the County informed of the progress of the foreclosure proceedings. When the process is completed, and the property has "reverted to the beneficiary" at the foreclosure sale, the County would then contact a real estate broker to market the home.