



**Rehabilitation Program
Policies and Procedures Handbook**

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CHAPTER 1: PROGRAM OVERVIEW

One of the core services of the Department of Housing is to maintain the Existing Supply of Affordable Housing and Invest in neighborhoods. This handbook describes how the Rehabilitation Program achieves its goals and objectives through the policies and procedures.

Goals

The main goals and objectives of the Rehabilitation Program are to:

- Improve the physical condition of single-family dwellings, duplexes, and mobilehomes owned and occupied by lower- income households;
- Respond to immediate threats to life and property through the provision of grant funds to make urgent repairs through the Minor Repair Program
- Enhance the exterior appearance of homes that are visible from public areas;
- Assist those individuals and households who lack the financial capacity to make necessary repairs and improvements to their homes;
- Work to utilize a minimum of 75% of total rehabilitation program in targeted neighborhoods. (Note: Funding used for Mobilehome repairs is not included in the 75% target areas per City Council).
- Improve the energy efficiency of rehabilitated homes and, to the extent feasible, incorporate green building features throughout the home.

CHAPTER 2: PROGRAM FUNDING SOURCES

The Housing Rehabilitation Program is funded by multiple federal, state, and local funding sources. In an effort to maintain adequate funding for the Program, staff continues to aggressively seek additional funding sources for the housing rehabilitation. Each type of funding comes with its own rules and regulations regarding the use of funds within the Program. This Chapter provides a summary of common funding sources of the single-family rehabilitation program.

Federal Funds

Community Development Block Grant (CDBG) (Fund 441) – The federal CDBG program was established by the federal Housing and Community Development Act of 1974, as amended (42 USC 5301). The primary federal objective of the CDBG program is the development of viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally to low- and moderate-income households. Since the establishment of the CDBG program in 1974, the City of San José has used a portion of these funds to provide housing rehabilitation services for lower-income homeowners.

Unique Characteristics – CDBG funds may be used to make both grants and loans and can be used for when properties are held in a living trust (certain exceptions apply). Specific rules and regulations related to implementation of the CDBG program are found in the Code of Federal Regulations (25 CFR Part 570).

HOME Funds (Fund 445) – One of the eligible activities in the HOME program is to expand the supply of decent, safe, sanitary, and affordable housing for lower-income homeowners. Specific regulations related to implementation of the HOME program are found in Code of Federal Regulations (24 CFR Part 92). The City of San José has periodically utilized HOME since 2004.

Unique Characteristics - In general, homeowners with living trusts are not eligible to participate in the program, since owner occupancy is required to be maintained during the period of affordability. Further, grants are not generally eligible through the City's rehab program, due to requirement that the home remain affordable through the period of affordability. Further, the use of HOME funds requires the use of a separate HOME agreement between the homeowner and the City.

General Federal Requirements: All federal funds are required to comply with numerous other federal regulations including, but not limited to, Davis-Bacon Wage Rates, the National Environmental Policy Act (NEPA), the Uniform Relocation Act (URA), Minority and Women Owned Business Outreach Policies, Federal Fair Housing Laws, and the City's Language Access Plan that requires targeted outreach to Limited English Proficiency (LEP) populations. Federal lead-based paint statutes are also triggered with the use of CDBG and HOME funds. All federally funded projects must be tracked and reported in the Integrated Disbursement & Information System (IDIS) as required by the U.S Department of Housing and Urban Development (HUD).

State Funds

CalHome (Fund 448) – One of the primary purposes of the CalHome program is to enable low- and very low-income households to remain homeowners and live in decent, safe, and sanitary conditions. Regulations related to the use of these funds are found in the CalHome Operations Handbook and are governed by the California Code of Regulations (Title 25, Division 1, Chapter 7, Subchapter 9) and California Health and Safety Code Section 7715. Since 2001, the Housing Department has periodically utilized State CalHome funds to provide deferred payment loans to low-income homeowners throughout the City.

Unique Characteristics – These funds may be used solely for 30-year deferred loans. CalHome Regulations require specific credit and insurance analysis, impose maximum per-unit subsidy levels, and can only be used to assist homeowners with home values less than or equal to the County median sales price. Further, specific CalHome grant allocations require that the property be located in a targeted neighborhood.

80% Tax Increment Local Funds

80% Redevelopment Agency Funds (Fund 448)-These funds are regulated by Section 33670 of the California Health and Safety Code. 80% Redevelopment Funds are derived from property tax revenues generated by increases in assessed value within redevelopment areas. In 2001, the Redevelopment Agency allocated funds for housing rehabilitation efforts in Strong Neighborhood Initiative (SNI) areas. Since that time, additional funds have periodically been allocated for special projects.

Unique Characteristics – Generally, 80% Funds are relatively flexible. The only notable restriction is that these funds must be used in Redevelopment Areas.

20% Low and Moderate-Income Housing Funds (Fund 443) -The collection of these funds are also based on California Health and Safety Code 33670, which requires that 20% of the Redevelopment Funds collected must be set aside to increase, improve and preserve the supply of housing affordable to low and moderate-income households. Regulations related to the use of Low and Moderate Income Housing funds are found in Section 33334 of the Health and Safety Code. The City has been using these funds for housing rehabilitation since the mid-1980s.

Unique Characteristics – Generally, 20% Funds are relatively flexible. 20% Housing funds can be used for affordable housing outside of the Redevelopment areas, provided findings are made that the assistance is of benefit to redevelopment areas. An affordability restriction must be recorded when the investment from the Low and Moderate Income Housing fund investment is equal to or greater than 25% of the after- rehab value of the property.

CHAPTER 3: PROGRAM DESCRIPTIONS

The Housing Department currently administers a number of loan and grant programs for San José residents:

- Emergency and Minor Repair Program (Minor Repair Program)
- Homeowner Grant Program (HGP)
- Mobilehome Grant Program (MHGP)
- Accessibility Improvement Program
- Zero% Interest Loan Programs (Z-Loan)
- Housing Preservation Program (HPP)

Emergency and Minor Repair Program

The Emergency and Minor Repair Program offers technical and financial assistance to lower-income homeowners that are deemed urgent and necessary to ensure the immediate health and/or safety of the residents.

- A. Eligible Applicants - Owner-occupants of mobilehomes or single family homes, whose gross annual income does not exceed 80% of the Santa Clara County Area Median Income (AMI), adjusted for household size. Refer to the *Eligibility Criteria* sheet for eligible income levels.
- B. Eligible Properties– Owner-occupied mobilehomes and owner-occupied single-family properties located in the City of San José.
- C. Grant Limits – The maximum grant amount available based on the repair or replacement need is:

Type of Repair	Maximum Grant Amount
Plumbing	\$2,500
Heating, Ventilating, and Air Conditioning	\$3,500
Electrical	\$2,500

Repairs under the Minor Repair Program are provided as a direct service to the household. Housing staff will arrange for a pre-approved contractor to make the necessary repairs once eligibility for the program is established. The final grant amount will be limited to the lesser of the actual cost of the repairs or the maximum grant amounts shown above.

- D. Emergency and Minor Repair Terms and Conditions
 - Certain improvements may be ineligible or beyond the scope of the City's minor repair program; a final determination will be given by the Housing Rehabilitation Inspector and/or Contractor
 - The disbursed amount will be deducted from any future program grants or loans
 - Grants are made at the discretion of the Housing Department
 - Repairs under the Emergency and Minor Repair Grant generally include of one or more of the following conditions:
 - Non-functioning furnace

- Leaky Water Heater/ Lack of Hot Water
- Lack of toilet/bathing facilities
- Direct water intrusion into the Home
- Gas Leaks (call PG&E immediately)
- Hazardous electrical (call PG&E immediately)
- Other emergency repairs as authorized by Housing staff

Homeowner Grant Program

The Homeowner Grant Program offers technical and financial assistance to lower-income property owners to make necessary home repairs.

- Eligible Applicants- Owner-occupants, whose gross annual income does not exceed 80% of the Santa Clara County Area Median Income (AMI) adjusted for household size. Refer to the *Eligibility Criteria* sheet for eligible income levels.
- Eligible Properties- Owner-occupied single-family or owner-occupied duplex properties located throughout the City of San José.
- Grant Limit– Home Repair grant limits are based on the owner-occupants’ annual gross income category and property location:
 - Citywide (Non-SNI)-Owners of properties that are not located in a Strong Neighborhood Initiative (SNI) area, may be eligible for a maximum grant amount of \$5,000.
 - Strong Neighborhood Initiative (SNI) Areas-Owners of properties located within an SNI area may be eligible to receive grants in amounts ranging from a maximum of \$5,000 to \$15,000, based on the income category of the household. See the back of the *Eligibility Criteria* sheet for SNI area boundaries.

Household Income Category (% Area Median Income)	Maximum Grant Amount
Extremely-low (up to 30% AMI)	\$15,000
Very-low (up to 50% AMI)	\$10,000
Lower Income (up to 80% AMI)	\$5,000

The final grant amount will be limited to the actual cost of repairs or improvements determined by Housing Department staff. The grant program may be offered in combination with other Rehabilitation loans.

- Homeowner Grant Terms and Conditions:
 - The applicant must live in and own the property for a minimum of one year prior to application

- Certain exterior improvements to the property may be required by the City
- Properties constructed prior to 1978 may require testing for lead-based paint
- Grants require no repayment from the owner
- Grants are available only one-time per property and one-time per owner, regardless of the actual grant amount approved or utilized in prior years. The HGP cannot be combined with any other grant programs available through the City of San José, except for grants made through the Minor Repair Program.
- Grants are made at the discretion of the Housing Department
- The actual cost of repairs cannot exceed the established grant amount in effect at the time of application
- Repairs or improvements will be prioritized by the Housing Rehabilitation Inspector based on the condition of the property
- Grant approval is subject to underwriting criteria and asset limitations in effect at the time of application
- Certain improvements may be ineligible or beyond the scope of the grant; the decision is determined by the Housing Rehabilitation Inspector
- Repairs under the Homeowner Grant generally include one or more of the following conditions:
 - Roof replacement
 - Furnace or water heater repair/replacement
 - Plumbing
 - Electrical
 - Window repair
 - Stairway, porch, and deck repairs
 - Other emergency repairs as authorized by Housing staff

Mobilehome Repair Program

The Mobilehome Repair Program offers technical and financial assistance to very-low income mobilehome owners to make home repairs.

- A. Eligible Applicants -Owner-occupants whose gross annual income does not exceed 50% of the Santa Clara County Area Median Income (AMI), adjusted for household size. Refer to the *Eligibility Criteria* sheet for maximum income levels.
- B. Eligible Properties-Owner-occupied mobilehomes located in the City of San José.
- C. Mobilehome Grant Limits -The maximum grant amount is up to \$15,000. However, the final grant amount will be based on the lesser of the actual cost of repairs or improvements as determined by Housing Department staff or \$15,000. If the Housing Rehabilitation Inspector determines that the cost of necessary repairs will exceed the maximum grant amount available to the homeowner, a Zero Percent (Z-Loan) of up to \$20,000 will be offered to the homeowner. If the homeowner either refuses or fails to qualify for a Z-loan, and the inspector has determined that a \$15,000 mobilehome grant is insufficient to cover the estimated cost of all necessary repairs, then both the mobilehome grant application and Z-loan application will be denied.
- D. Mobilehome Grant Terms and Conditions:
 - The actual cost of repairs cannot exceed \$15,000 (see grant limits above)
 - The applicant must own and occupy the mobilehome for a minimum of one year prior to applying
 - Grants require no repayment
 - Repairs or improvements will be prioritized by the Housing Rehabilitation Inspector, with higher priority given to repairs related to the health and/or safety of the residents.
 - Grant approval is subject to underwriting criteria and asset limitations in effect at the time of application
 - Certain improvements may be ineligible or beyond the eligible use of the grant funds; the decision is determined by the Housing Rehabilitation Inspector
 - Properties constructed prior to 1978 may require testing for lead-based paint
 - Grants are available no more than every 10 years based on the completion date of all previously completed repairs, regardless of the actual amount of grant funds utilized during a previous request.
 - Grants are made at the discretion of the Housing Department
 - Repairs under the Mobilehome Grant generally include of one or more of the following conditions:
 - Roof replacement
 - Non-functioning furnace
 - Water heater leaking/no hot water
 - Major plumbing leaks (typically at water supply lines under home)
 - Waste-line(s) leaking (typically at main connection or under home)
 - Raw sewage backup into the home
 - Gas leaks (call PG&E immediately)

- Hazardous electrical problems
- Other emergency repairs as authorized by Housing staff

Accessibility Improvement Program

The Accessibility Improvement Program offers technical and financial assistance to very-low income households with permanent disabilities to make repairs and/or upgrades that will enhance mobility and access for disabled homeowners.

- A. Eligible Applicants-Owner-occupants, who are permanently disabled and whose gross annual income does not exceed 50% of the Santa Clara County Area Median Income (AMI), adjusted for household size. Refer to the *Eligibility Criteria* sheet for eligible income levels and asset restrictions.
- B. Eligible Properties – Mobilehomes or single-family properties located in the City of San José.
- C. Grant Limits - The maximum grant amount is \$10,000. However, the final grant amount will be the actual cost of repairs or improvements as determined by Housing Department staff.
- D. Accessibility Improvement Grant Terms and Conditions:
 - The actual cost of repairs may not exceed \$10,000
 - Property must have been owned by the applicant for a minimum of one year prior to application
 - Repairs or improvements will be prioritized by the Housing Rehabilitation Inspector based on health and safety deficiencies.
 - Grant approval is subject to underwriting criteria and asset limitations in effect at the time of application
 - Applicants may be required to sign a Grant Agreement with the City of San José
 - Certain improvements may be ineligible or beyond the eligible uses of the grant; the determination is made by the Housing Rehabilitation Inspector
 - Properties constructed prior to 1978 may require testing for lead-based paint
 - Accessibility Grants are available only one-time per property and one-time per owner
 - Grants are made at the discretion of the Housing Department
 - Repairs under the Accessibility Improvement Grant generally include one or more of the following conditions:
 - Permanent ramps
 - Exterior lifts
 - Grab bars & safety rails
 - Tub shower conversions
 - Widening entry doors
 - Other emergency improvements as authorized by Housing Staff

Zero Percent Interest Loan Program

The Zero Percent Interest Loan Program offers technical and financial assistance to lower-income property owners to make a wide range of repairs and/or improvements to their homes. The goal of this program is to provide long-term housing improvements that enable homeowners to maintain decent, safe, and sanitary living conditions. The program serves as a vital tool in preserving the existing housing stock in San José through the rehabilitation of homes for lower-income homeowners.

- A. Eligible Applicants-Owner-occupants, whose gross annual income does not exceed 80% of the Santa Clara County Area Median Income (AMI), adjusted for household size. Refer to the *Eligibility Criteria* sheet for eligible income levels.
- B. Eligible Properties -Owner-occupied single-family or duplex properties located in the City of San José.
- C. Loan Limits – The maximum loan amount is up to \$40,000. However, loans equal to \$15,000 or less have separate equity requirements and loan terms. The final loan amount will be limited to the lesser of the actual cost of repairs or improvements as determined by Housing Department staff. The loan may be offered in combination with other Housing Department grants.
- D. Z- Loan Terms and Conditions

Loan Amount	Loan Term	Combined Loan to Value (CLTV)
Z- Loan (up to \$15,000)	15 years	None
Z- Loan (\$15,001- \$40,000)	30 years	90%

- Annual interest rate is 0%
- All loans are structured as deferred payment (no required monthly mortgage payments)
- Property must have been owned and occupied by applicant for a minimum of one year prior to application
- Repairs and improvements will be prioritized by the Housing Rehabilitation Inspector
- Loan approval is subject to underwriting criteria and asset limitations in effect at the time of application
- Certain improvements may be ineligible or beyond the eligible scope of work; the decision is ultimately determined by the Housing Rehabilitation Inspector
- Loans are made at the discretion of the Housing Department
- Repairs under the Zero Percent Interest Loan generally include one or more of the following conditions:
 - Roof repair or replacement
 - Furnace and water heater repair/ replacement
 - Plumbing

- Electrical
 - Window and/or door repair/replacement
 - Disabled accessibility
 - Interior/Exterior paint
 - Weatherization and energy efficiency upgrades
 - Seismic retrofit
 - Bathroom and/or kitchen improvements
 - Other emergency repairs as authorized by Housing staff
- E. Security for the Loan-The loan will be recorded as a lien against the real property and will be due upon the earlier of the following: loan maturity, cash-out refinance (see refinance guidelines), sale of the property, transfer of the property, or when property ceases to be used as the borrower's primary residence.

Housing Preservation Program

The Housing Preservation Program offers technical and financial assistance to lower-income property owners to achieve decent, safe, and sanitary living conditions, and to improve the physical condition of single family dwellings occupied by lower-income homeowners..

Eligible Applicants - Owner-occupants, whose gross annual income does not exceed 80% of the Santa Clara County Area Median Income (AMI), adjusted for household size. Refer to the *Eligibility Criteria* sheet for eligible income levels and asset restrictions.

- A. Eligible Properties – Owner-occupied single-family or duplex properties located in the City of San José.
- B. Loan Limits - The maximum per-unit loan limit is up to \$150,000. However, the final loan amount will be limited to the lesser of the actual cost of repairs or improvements as determined by Housing Department staff or the maximum loan limit. The HPP loan may be offered in combination with other Housing Department grants.
- C. Housing Preservation Program Terms and Conditions
- The actual cost of repairs cannot exceed \$150,000.
 - Annual interest rates are 3% simple interest for homeowners with properties not located in one of the City's Strong Neighborhood Initiative (SNI) areas. The interest rate is 0% for homeowners with properties located in a Strong Neighborhood Initiative (SNI) area.
 - Based on the applicant's ability to service the debt, the loan will be amortized or deferred. Amortized payment loans are offered only when the borrower's total (existing and proposed) monthly housing debt is less than or equal to 35% of the borrower's annual income. If the current and/or proposed total housing debt exceeds 35% of the borrower's household income, the borrower will be offered an initial deferral period of five years. The borrower must consent to a formal re-examination of his/her household income five years

from the date the loan is made. If the total proposed housing debt exceeds 35% of the borrower's income at the time of re-examination, the loan will convert to fully deferred loan. If, however, the total proposed housing debt is less than 35% of borrower's income at the time of re-examination, the outstanding loan balance will be converted to an amortized 3% loan over the remaining 25 year term.

- All loans requiring a 3% interest rate will have interest waived and payments deferred for one year, during the bidding and construction period.
- Permanently disabled borrowers and borrowers age 62 years or older who qualify for an initial five year deferral period will automatically be given 30 year deferred loans, as there is little likelihood of their income increasing into the future.
- The HPP loan term is 30 years.
- Property must be owned and occupied by the owner applicant for a minimum of one year prior to application.
- Repairs and improvements will be prioritized by the Housing Rehabilitation Inspector.
- Loan approval is subject to underwriting criteria and asset limitations in effect at the time of application.
- Certain improvements may be ineligible or beyond the scope of work; the decision is determined by the Housing Rehabilitation Inspector.
- Loans are made at the discretion of the Housing Department.
- The combined loan to value ratio (including all existing and proposed housing debt) may not exceed 95% for HPP loans, at the time of loan origination.
- Repairs under the Housing Preservation Loan generally include of one or more of the following conditions:
 - Roof repair or replacement
 - Furnace and water heater repair/ replacement
 - Plumbing
 - Electrical
 - Window and/or door repair/replacement
 - Disabled accessibility
 - Interior/Exterior paint
 - Weatherization and energy efficiency upgrades
 - Seismic retrofit
 - Bathroom and/or kitchen improvements
 - Stairway, porch, and deck repairs
 - Floor coverings and interior paint
 - Other emergency repairs as authorized by Housing staff

Pre-screening of Potential Applicant

A. Pre-Screening Interview

Potential applicants are provided an overview of all Housing Rehabilitation Programs. After discussing possible repair items, a Housing Department staff member begins the pre-screening process.

During the pre-screening interview, staff completes the *Pre-site Inspection Memo*. The Pre-screening process consists of the following questions:

1. “Do you own a Mobilehome or a Single-Family home in the City San José?”

- Property Location – All properties must be located within the City’s municipal boundaries. Properties located within City Council approved target areas may be eligible for programs or additional benefits not available to homeowners in non-target areas. Properties located within special flood hazard areas may be subject to additional requirements.
- Property Types – Eligible properties are owner-occupied single-family, duplex dwellings or mobilehomes (located within properly zoned mobilehome parks) in San José. Townhomes, condominiums, and other homes in planned unit developments (PUDs) may be eligible for certain repairs that are NOT the responsibility of the homeowners association. A review of the association’s governing documents may be required to determine what items may be repaired or replaced by the City.
- Property Condition – The property, upon initial inspection, must demonstrate a health and safety need, that left uncorrected, may result in damage to the health and/or safety of the occupant or further deterioration of the physical structure. Properties with a health and safety need may also qualify for other improvements.

2. “Is your name on Title?”

At least one of the owners of title must occupy the property as a primary residence. If the property is owned by a business or corporation the occupants are not eligible to participate in the Program. Family trusts may be eligible with the use of certain funding sources, provided that they are reviewed and approved by the City Attorney’s office.

3. “How long have you lived on the property?”

With exceptions made in the Minor Repair Program only, the applicant is required to both own and live in the property for at least one year prior to receiving the benefits of the housing rehabilitation program.

4. "Have you ever applied to any City of San Jose Housing Programs before?"

A database search is conducted on the potential applicant to verify previous participation in the Housing Rehabilitation Program and to determine what current programs they may be eligible for. Grants are only available one-time per property and one-time per owner, regardless of the actual grant amount used in prior applications. If staff determines that the potential applicant previously received a home repair grant or a mobilehome grant within the last ten years, then they will not be eligible for a new grant

5. "What type of repair needs are you concerned about?"

The repairs should be necessary to help ensure the health and/or safety of the property and its residents. The final list of repairs and/or improvements is determined by a Housing Rehabilitation Inspector. This question also helps Housing staff determine which loan and/or grant programs would be most beneficial for the potential applicant.

6. "How many people live in your home?"

In order to determine the income category of the household, staff must first know the size of the household.

7. "What is the gross household income of all adults living in household?"

See the *Eligibility Criteria* sheet to determine program eligibility based on total gross household income, adjusted for household size. Gross income generally includes, but is not limited to, income from the following sources:

- Wages and Salaries
- Net Business Income (if self employed)
- Unemployment, State Disability, and other Government payments
- Social Security Income Payments
- Pensions, Annuities, & Ongoing stipends from other sources
- Rental Income
- Child Support
- Alimony
- Monthly Income drawn from Individual Retirement Accounts (eg 401K's), Annuities, and IRA's are included as income

If the owner appears to qualify as a lower-income household, based on gross household income and size, Housing Staff will continue with the pre-screening questions. If the household exceeds the lower-income limit for the single-family housing rehabilitation program (or the very-low income limit for mobilehome residents), the potential applicant will not be eligible for the City's programs. At this point staff informs the potential applicant that they exceed the income limits of the City's programs and therefore they do not qualify for City assistance.

8. "What is the total value of assets of all adult household members?"

The applicants' assets may not exceed the maximum allowable asset limits in effect at the time of application. The maximum asset limits for senior and disabled households is equal to 100% of the Area Median Income (AMI). The maximum asset limit for all other households is no greater than 50% of AMI.

Capital accounts are considered assets. Assets generally include, but are not limited to, the following types of accounts:

- checking
- savings
- money market accounts
- Certificate of Deposits (CD's/time deposits)
- Stocks/ Mutual Fund Accounts
- Bonds, Treasury Certificates, etc.

Excluded from asset limits are:

- The value of the primary residence, and
- Cash value of non-liquid assets such as automobiles, jewelry, furniture, or the cash value of life insurance plans, etc.
- The unused portion of a Line of Credit
- The value of individual retirement accounts, if the owner is unable to withdraw the funds without incurring tax liabilities.

9. "Do you own a second property or is your name on title on another property?" If so, what type of property?

In general, loan and grant applicants may not have concurrent ownership of other real property at the time of application to the City. If the applicant owns more than one other property, they are not eligible for City assistance. Limited exceptions may apply (see Underwriting Guidelines for details)

10. "What is the current market value of the 2nd property (If applicable)

Housing Department staff will pull a property detail report on the 2nd property if needed. If it can be reasonably determined that there is substantial equity in the second property then the applicant may not qualify for the program. The equity, if any, in the second property is not applied against the asset limits of the program.

11. "How much is your current mortgage payment?" and "Are you current on your mortgage payment?"

General underwriting standards require that loan applicants have decent credit histories. Evidence of multiple late payments and a recorded Notice of Default (NOD) signal a history of late and/or missed payments and the client could be in jeopardy of losing his or her home. To ensure the applicants enjoy the long-term benefits of the program, the applicant must be current on their mortgage payment and able to make future payments. Potential applicants that are not current on their payments and/or are working with their lender to modify the terms or conditions of their loan are required to complete the loan modification and bring their payments current prior to being eligible for assistance from the City.

12. "What is the approximate equity in the property?"

Housing Department staff will ask the client both how much they owe and what the homeowner believes the home is worth, based on current market conditions and then generate an approximate Combined-loan-to-value (CLTV) ratio. The CLTV is determined by dividing the combined total of all outstanding mortgage debt by the home's current value. The CLTV ratio provides an indicator of how much equity is in the property, if any, and informs the potential applicant of which programs he/she may be eligible for based on the CLTV guidelines of the various loan programs. For instance, CLTV's near or greater than 95%-100% would presumably be eligible for \$5K-\$15K Grants and/or \$15K Loans only.

13. "Have you filed for Bankruptcy in the last 2 years?"

An inquiry into the potential applicant's current credit status assists in determining significant future challenges. If a potential applicant has filed for bankruptcy within the past two years, and has a recent history of late and/or past due payments, the applicant may not qualify for a loan from the City.

Once the pre-screening interview concludes, Housing staff will complete the *Pre-site Inspection Memo* and prepare an application packet for the Housing Rehabilitation Inspector.

B. Preparation of Pre-site Inspection Memo Packet

1. The following documents are attached to the *Pre-site Inspection Memo*:
 - Property Detail Report
 - Map: Housing staff will include an area map for single-family homes
 - Application package: Housing Staff will provide the appropriate loan and/or grant application based on the pre-screening interview.
 - Self Addressed Return Envelope
2. The completed pre-site inspection form is forwarded to the Building Rehabilitation Supervisor for review and the Rehabilitation Supervisor will assign the pre-site form to a Housing Rehabilitation Inspector.

Application Intake

A. Application Receipt

Upon receipt of an application package, Housing Staff performs the following:

- Assembles the project file
- Inputs the borrower and project data into the database
- Obtains a credit report, as applicable
- Obtains an updated property detail report with comparable sales
- Collects required property data and enters information into database
- Prepares Underwriting Checklist (Transmittal Sheet)

The project file is given to Management Staff to assign to a staff member.

B. Cancellation/Denial

On occasion, Housing Staff may need to cancel or deny a loan or grant application. Once the application is cancelled or denied, the applicant must wait one full year from the date of cancellation to reapply for a Housing loan and/or grant.

Causes for cancellation would include but are not limited to:

- Applicant request
- Failure to respond in timely manner (31 days from the date of the written request from the Department)
- Disposition of property
- Defective Title
- Failure to meet City guidelines
- Failure to accept Deed Restrictions
- Failure to provide necessary documents

In the event an applicant voluntarily cancels their transaction, the date of the verbal or written request from the applicant is noted in the file and entered into the database.

Whether initiated by Housing Staff or the applicant, a *Cancellation/Denial Notice*, an internal document is prepared by Housing Staff member. This document is signed and reviewed by originator; all staff involved and is ultimately signed by Management Staff. A formal *Cancellation/Denial Letter* is then prepared and then reviewed and signed by Management Staff, the letter is then sent via certified mail to the applicant, and all denial/cancellation letters include the toll-free telephone number of the regional office of the U. S. Department of Housing and Urban Development.

Note: A copy of the Cancellation/Denial Letter and a copy of the Cancellation/Denial Notice are placed in the file and in the Cancellation Binder. All steps of the cancellation process are accurately entered into the database by Housing Staff and the project file is properly placed in the file room.

Underwriting Guidelines

A. Conditions of Loans and Grants

The City offers housing grants and loans to eligible property owners to assist them in the rehabilitation of their owner-occupied single-family residence or mobilehome, and to eliminate health and safety deficiencies due to deferred maintenance.

Housing grants are awarded on a one-time basis to property owners for urgent repairs and smaller rehabilitation needs for single-family residences and one-time every 10 years for Mobilehome residences. Generally applicants are provided both loans and grants for eligible work. Repayment of grant funds is not required. If there are eligible repairs and the applicant chooses not to utilize a loan, the grant amount available to the household must be sufficient to correct all health and safety hazards at the home. If the maximum grant amount is not enough to correct critical deficiencies, the homeowner will be required to obtain a rehabilitation loan. If the applicant decides not to participate in the Housing loan programs, and the cost to correct critical deficiencies exceeds the grant amount, the City will not approve a grant to that applicant.

Although standard underwriting practices are used in evaluating loan applications, as a “public purpose” lender, the terms of City loan are typically more favorable for the applicant than terms offered by private lenders. The ability to make monthly mortgage payments, in most cases, is not considered when underwriting or approving a City loan. However, poor credit history and/or a long pattern of the misuse of credit may disqualify an applicant, or, at a minimum, the City may require the applicant to attend credit counseling or be subject to other conditions imposed by the Housing Department.

Loan underwriting is intended to qualify both the borrower and the home for the specific loan or grant program desired by the homeowner. Loan underwriters evaluate the household and the home for compatibility with the policies set forth in this Housing Rehabilitation Handbook and any rules and regulations imposed by outside funding agencies.

B. Underwriting and Approval Process: Grant Programs

The procedure for reviewing and analyzing a grant consists of:

1. Review of required income documentation to ensure that the applicant household qualifies as low-income under the guidelines.
2. Review title of property to verify ownership by the applicant. For single-family homes, this may be done through a review of a property tax statement, and/or a title search. If ownership cannot be verified by these methods, a property profile report from a title company is ordered by Housing Staff.
3. Using the cost estimates prepared by the Rehabilitation Inspector from the *Pre-site Inspection*, Housing Staff ensures that the grant funds needed to provide the requested repairs necessary

to correct health and safety deficiencies can be accomplished within the established maximum grant amount available to the household.

4. If all documentation in the file is complete and Housing Staff determines that the applicant and property are eligible, Housing Staff recommends approval, and submits the file to Management Staff.
5. Upon final approval by the Division Manager, Housing Staff places a copy of the approval in the file and forwards the original approval to the fiscal division. If the grant request is denied, the steps outlined under “cancellation” in Chapter 4 are followed.
6. An *Approval Letter* is mailed to applicant.

C. Underwriting and Approval Process: Zero Interest Loan Program and Mobilehome Loan Program

Loans are available to assist homeowners of single-family homes requiring up to \$40,000 in repairs in addition to assisting applicants who have previously received the City’s maximum grant amount, but find themselves in need of additional home repairs.

Zero Interest loans up to \$15,000 are recorded with the Santa Clara County Office of the Clerk/Recorder, against the borrower’s single-family residence without the service of title companies and without consideration to lien position. All Zero Interest Loans are deferred until term, sale, or other transfer of title. The deferral period is either fifteen or thirty years, depending on the loan amount. Zero Interest Loans less than or equal to \$15,000 provide a streamlined, low-cost method to fund small rehabilitation projects with fewer transaction costs for the borrower and administrative expenses to the Department.

Mobilehome loans of up to \$20,000 are also available through the program, but only if the mobilehome client has exhausted the maximum amount of grant funding through the mobilehome program and is not eligible for the Emergency and Minor Repair Program. Mobilehome loans are underwritten in the same manner as real property loans; however, the lien (in favor of the City of San José) is recorded against the title to the coach with the State of California, Department of Housing and Community Development (HCD). The homeowner is required to cover any recording fees charged by HCD. Certain unique risks to the City are associated with the use of mobilehome loans and therefore mobilehome loans are infrequent and recommended by staff only under only exceptional circumstances. First, lien holders (aka lenders) of a mobilehome may be left responsible for space rental costs should the homeowner abandon or fail to make payments to the mobilehome park owner. Also, mobilehomes generally do not appreciate in the same manner as real property, and some older units actually depreciate over time. Under no circumstance will mobilehome loans be provided to owners of trailers (defined as mobile units not affixed to a permanent foundation). If a homeowner qualifies for a \$20,000 mobilehome loan but the loan amount is insufficient to make necessary repairs and replacement of the entire mobilehome is necessary by a housing rehabilitation inspector, staff may seek an exception to these guidelines on a case-by-case basis. All replacement mobilehome loans are subject to the availability of program funds, policies in effect at the time of application, and all rules and regulations of outside funders.

In addition to the procedures required for underwriting a Home Repair grant or Mobilehome Repair grant, the 0% Z-Loan and Mobilehome Loan also consists of:

1. Conducting a title search to determine debt and other liens on the property.
2. Establishing the value of the home by using the comparable sales approach for area.
3. Obtain evidence of adequate hazard insurance for both mobilehomes and real property. The amount of hazard insurance coverage should be enough to replace the existing home with similar square footage, amenities and construction type.
4. If all documentation is complete and Housing Staff determines that the applicant and property are eligible, the Underwriter recommends an approval and forwards the file to Management Staff.

D. Underwriting and Analysis: Housing Preservation Program (HPP)

The HPP is intended for mid to large size rehabilitation projects with the goal of extending the useful life of the residential property by at least 35 years. The maximum loan amount available is \$150,000.

Underwriting consists of evaluating both the household and the property to ensure compliance with funding source guidelines and this handbook. A thorough underwriting analysis consists of, but is not limited to, the following:

Credit Analysis

The Housing Department considers the applicant's credit history to be a strong indicator of the applicant's attitude toward credit and ability to manage debt. In general, the Department will not approve HPP loans to applicants who are considered poor debt managers and high credit risks (i.e. applicants who have a history of three or more late payments within the last twelve months, or more than one account deemed to be in collections. Potential applications should not have a history of, disputed debts, repossessions, and/or delinquencies and lawsuits by creditors. Applicants may not have a bankruptcy unless the discharge date is greater than two years from the date of application to the City, however, there may be circumstances that were beyond the control of the applicant and Housing Staff may recommend an exception to the credit guidelines.

All credit documents must be no more than 90 days old when the application is presented to City.

In analyzing the applicant's credit report, credit history is to be reviewed with the applicant so that he/she will have a reasonable opportunity to provide explanations or correct inaccurate credit report information.

Housing Staff performs the following analysis:

- Reviews incidence(s) of late payments, collections, disputed debts, bankruptcies, repossessions, and delinquencies. In order to be considered for an exception to policy, the applicant must be able to show one or more of the following: (1) just cause for negative credit

actions, (2) a responsible resolution to the credit issues, and (3) a clean credit record for at least six months following resolution of credit problem(s).

- Existence of child support and judgment liens, assessments, attachments or judgments, unless satisfied, may disqualify the applicant as a high credit risk. Staff must provide a written explanation of the negative credit occurrence and make a recommendation for approval or denial based on analysis of the applicants overall credit standing.
- The applicant will be required to submit a *Letter of Explanation* (LOE) on City letterhead that describes the circumstances and/or resulting actions from noted credit issues.
- If the applicants poor credit history is serious enough to reasonably believe that the applicant is likely to default on a new mortgage loan, the applicant will either be denied a loan from the City or be referred to one or more of the following agencies:
 - Neighborhood Housing Services of Silicon Valley (NHSSV), a non-profit partner of the City of San José offering consumer credit counseling and budgeting services; or
 - Consumer Credit Counseling Services of Santa Clara Valley.

Applicants that are referred to a credit counseling agency and meet the terms of the City's credit referral, may be allowed to reapply for the home repair program once the terms and conditions of the credit referral are met.

Income Analysis

Review of the household's eligibility consists of an analysis of the household income and household size.

Household income may not exceed the income limit in effect at the time of application to the program. Income is defined as income earned from all household members age 18 years and above. Income includes earnings from employment, government benefits, investments, interest income, and other cash-generating activities. All loan applicants must submit three of their most recent paycheck stubs as part of their loan application. The following methods will be used by City staff to calculate income:

1. Income from full-time employees will be calculated as follows:
 - a. **Third party verification**-Using third-party documentation is the City's preferred method of determining income eligibility. Housing staff will verify the income statements of salaried or hourly employees based on information provided on a Verification of Employment and/or an Employment Acceptance Offer signed and dated from the employer on letterhead. Any Employment Acceptance Offer must state the date in which employment shall commence, the salary, and it must be signed by the employer and employee.
 - b. **Hourly Employees**- The City may rely on Income documentation obtained from the applicant's three most recent paystubs. Base pay income will be calculated by taking the gross year-to-date (YTD) earnings and averaging the income over the number of months employed during

the year to obtain the gross monthly income. The gross monthly income will be projected forward at the same level of earnings for 12 consecutive months. Paystubs are considered outdated after 90 days.

- c. **Salaried Employees-** Income will be calculated and projected forward by multiplying the bi-weekly gross salary by 26 weeks or the bi-monthly gross salary by 24 pay-periods and adding in the amount earned from annual bonuses, commissions, in-lieu payments, etc...
2. Income from part-time or variable income employees will be calculated as follows: If the applicant has been employed for more than a year, Housing Staff will calculate the gross year-to-date income from the most recent pay stub and average the income over the number of months employed during the year to obtain the gross monthly income. The gross monthly income will be projected forward at the same level of earnings for 12 consecutive months. If the year-to-date income covers less than three months in the current year, Housing Staff may include the average year-to-date earnings from the prior calendar year in addition to the current year if the employee's work schedule has not significantly changed. Any income discrepancies can be verified by multiplying the hourly rate by the average number of hours worked provided on a formal Verification of Employment form from the applicant's employer.
 3. Income from overtime, commissions, ongoing stipends, shift differential pay, and other sources will be averaged (using year-to-date earnings) and included in the applicant's gross monthly income. Income that is received in lieu of earnings, despite the temporary nature of such pay (i.e. unemployment, worker's compensation, and severance pay) will also be included as income and projected forward for the next twelve months. Income received from one-time non-recurring bonuses, non-recurring lump-sum payments from the sale of stocks or bonds, stock options, lump-sum inheritances, retro-pay, insurance payments, or relocation benefits can be excluded. The non-recurring nature of such income must be documented by a Verification of Employment (e.g. VOE) or from alternate source documentation acceptable to the City.
 4. Interest income from investment and capital accounts, such as checking, savings, money market, certificate of deposit accounts, dividend income from mutual fund accounts, stocks, and other income-generating assets must be included in the applicant's income. The income earned from such assets will be calculated at the greater of the actual interest earned or 10% per annum. These amounts will be included in the applicant's household income only when the interest income meets the following criteria:
 - a. The account is considered liquid, and the applicant can withdraw the funds without tax penalty.
 - b. The interest rate earned on the account is variable, and subject to change based on market conditions.

Exception: For HOME and CDBG funded loans, the City will include the interest income earned from retirement accounts, even when the interest income is fully reinvested into the retirement account, and the applicant is not eligible to withdraw the account, in part or in full, without tax penalties.

Exception: For HOME, CDBG, and CalHome funded loans, the interest income earned will be calculated at the greater of the actual annual earnings, or 2.5% on all capital and retirement account balances, when the total asset values exceed \$5,000.

Exception: Interest earned from Long term investment accounts with fixed interest rates for periods longer than the coming twelve months shall be calculated at the stated fixed interest rate.

Exception: If the applicant is over the age of 70 ½ years old at the time of application and owns an individual retirement account, the City will add the value of the required minimum distribution amount to the applicants overall income calculation.

5. Current monthly income and annuity payments from retirement accounts, (including social security and pensions), alimony, child-support, and other steady, ongoing sources will be included in the applicant's gross monthly household income calculation. Non-taxable incomes will not "be grossed up" by the City, regardless of other agencies determination of such income.
6. All forms of income from non-applicant spouses and other household members over the age of 18 will be included in the gross monthly income calculation, regardless of the taxability of such income. Annual income from full-time college students will be capped at \$480 per annum.
7. Income from seasonal and non-durable part-time jobs such as fishing, coaching, lecturing, test proctoring, day etc., will be included only when the applicant can reasonably be expected to continue to be employed in the same line of work over the coming twelve months.
8. Income from Self-Employed Homeowners- For self-employed applicants, the following documents may be required by Housing Staff to determine income eligibility and applicants should be prepared to document their projected annual earnings using any or all of the following methods:
 - a. Applicants must provide the most recent 3 years of W-2's and/or 1099's. If the applicant has W-2's or 1099's, deducting business expenses or losses is not allowed. Positive net income from a side business will be added to the applicant's gross income.
 - b. A year-to date profit/loss and income statements prepared and signed by a Certified Public Accountant, with information covered through the last quarter and a letter of explanation, signed and certified by the applicant, stating the anticipated net household income (after deducting business expenses) over the next 12 months; or
 - c. A year-to-date-balance sheet, prepared and signed by a Certified Public Accountant, reflecting the financial position of the business at a specific point in time and a signed letter of explanation regarding the applicant's anticipated net household income (after deducting all allowable business expenses except depreciation) signed and certified by the applicant; or
 - d. Current owner salary documentation and three year's of profit/loss statements from partnerships and S Corporations prepared and signed by a Certified Public Accountant; and a signed letter of explanation regarding the applicant's anticipated gross household income over the next 12 months, signed and certified by the applicant.
 - e. In addition to the methods above, the applicant must provide the previous three year's of tax returns to verify the consistency of the information being provided, including a Schedule C. For the purpose of self employed individuals, net income from the operation

of a business may be used only if the net income is derived by deducting expenses solely associated with the operation of the business.

9. Income the applicant rents out one or more rooms in his/her primary residence, rental income received must be included in the applicant's household income.

Household Size Defined

The Household is comprised of ALL individuals who will be occupying the home over the next or upcoming twelve months. The following individuals are not counted as part of the household: foster children, unborn children, children who live with the applicant (parent) **less than** 50% of the time, and children being pursued for legal custody or adoption who are not yet living with the household at the time of application. A child, who resides with the household at least 50 percent of the time and receives over 50% of the care from the applicant, can be counted as a household member.

Note: The income of family caretakers (e.g. relatives) who live with the applicant will be included in CalHome funded loans.

1. Co-signors: Any individual listed on the loan application, except for defined cosigners, must occupy the City-assisted unit as their primary residence. All persons whose names will appear on the deed of trust must also be listed on the loan application.
2. Household members are people who will occupy the residence full-time. All household members aged 18 or older are required to submit income and asset documentation. Non-income dependents who will be living with the applicant over the coming twelve months and receive over 50% in support from the applicant are eligible household members. If the household member is new to the residence or if they are not claimed on the previous year's tax return; the applicant will be required to submit verifiable evidence that the household member will live with the applicant over the coming twelve months. All letters of explanation provided by the applicant must be signed by the applicant under penalty of perjury.
3. Full-time college students over the age of 18, living away from home, and who continue to receive over half of their support from the applicant, may be considered a household member. Student's income must be counted in the applicant's total income calculation. If the student is unable to produce income documentation, the City will add \$480 to the applicant's annual household income. However, if the student is a head of household or a spouse/domestic partner of the applicant, the student will be required to produce verifiable income documentation. Each adult household member who does not receive income from any source shall be required to submit an Income Affidavit, Letter of Explanation, and Social Security Administration Consent for Release of Information, Request for Verification of Benefits and an Authorization for Release of Records from the Employment Development Department.

Tenants and House-sharing -If the owner rents out one or more rooms in their primary residence, the tenant(s) are generally excluded from the inclusion of household size, and their income is not included, if one or more of the following conditions are met:

- The renter/tenant and owner are unrelated and the tenant pays the owner/landlord a monthly or weekly sum of money in exchange for rights to occupy the unit.
- The renter/tenant does not consider the owner a member of his/her family, and receives other government payments or subsidies based on his/her sole household income; or
- The renter/tenant and landlord mutually agree that the relationship among them is one of contract (verbal or written) and they are not legally or socially obligated or tied to the one-another beyond the terms of their rental agreement.

Welfare Reform Act and Immigration Status: The City may use Federal or State funds to assist homeowners. As such, all federally funded loans are subject to verification requirements of the Welfare Reform Act (WRA). To be eligible for benefits under the WRA, all household members must be a U.S. Citizen, a U.S. non-citizen national, or a “qualified alien”. A “qualified alien” is:

- An alien lawfully admitted for permanent residence under the immigration and Nationality Act (INA);
- An alien granted asylum under section 208 of INA;
- A refugee admitted into the U.S. under section 207 of the INA; 4. An alien paroled into the U.S. under section 212(d)(5) of the INA for at least one year;
- An alien whose deportation is being withheld under section 243(h) of the INA as in effect prior to April 1, 1997 or whose removal is being withheld under section 241(b)(3) of the INA;
- An alien granted conditional entry pursuant to section 203(a)(7) of the INA as in effect prior to April 1, 1980;
- An alien who is Cuban or Haitian entrant as defined in section 501(e) of the Refugee Education Assistance Act of 1980; or
- An alien who (for whose child or parent) has been battered or subjected to extreme cruelty in the U.S. and otherwise satisfies the requirements of § 431 (c) of the Act. An applicant whose household does not meet the eligibility requirements under the Welfare Reform Act is ineligible for a federally funded City loan program.

Determining Housing Costs/Ratios

In general, the applicants housing debt ratio should not exceed 35% of gross monthly income. Underwriting consists of determining the applicants housing debt ratios by calculating the actual monthly payment or monthly average of:

- Annual property taxes; and
- Annual hazard insurance; and
- Minimum required debt service (principal and interest) payments on existing and proposed loans secured by the property.

The Total Debt Ratio includes the total housing debt, in addition to the following:

- Monthly installment debt payments, if more than ten payments remain;
- Minimum monthly payment for all revolving debt with balances greater than \$100;
- Alimony and/or court ordered child support payments;
- Other legally required payments

The total debt ratio is calculated by adding together the total monthly payments of all existing long-term debt (debt with a remaining term of 10 or more months) and the total monthly housing payment and dividing that sum by the applicant's gross monthly income. As a general rule, the total debt ratio should not exceed 45% of the applicant's gross monthly income.

Property Analysis

The following documents will be used to verify property ownership existing liens, and amounts of any mortgage debt secured by the property:

- A copy of all promissory notes and deed of trusts recorded against the property;
- Current mortgage balance statements;
- A preliminary title report to confirm that the applicant is the legal owner of the property and to determine the nature and amount of any liens against the property; and
- Written verification from each lien holder concerning amount and status of each lien (only if necessary).

Exception: For loans less than or equal to \$15,000, a copy of all promissory notes, deed of trusts, and current mortgage balance statements will not be reviewed. Also, a Property Detail Report provided by RealQuest or a substitute vendor, rather than a preliminary title report, will be used to verify property ownership and any foreclosure activity for Z-Loans less than or equal to \$15,000.

Determining the Property's "After-Rehabilitation" Value – It is necessary to establish an after-rehabilitation value of the property to ensure that there is adequate collateral for both any existing and proposed debt and also as the basis for determining whether the property will be subject to affordability restrictions, when utilizing funds from the City's Low and Moderate-Income Housing Fund.

The procedure for obtaining the after-rehabilitation value is as follows:

- Staff obtains comparable sales information using the property evaluation method and conducts a review of the recent comparable sales. Staff will choose three comparable sales most like the subject property in terms of square footage, age, amenities, and neighborhood composition. All comparable sales must be recent (within the last six months) and be considered as normal arm's length market rate sales. Staff will average the per-square foot price of the three comparable sales and multiply the average square foot price by the net living square footage of the subject property to determine the homes market value. If fewer than three property sales occurred in the neighborhood within the most recent six months, staff may use

comparable sales data provided by a licensed realtor familiar with the local area or an alternative data source widely accepted in the industry and deemed acceptable to the City.

- An independent fee appraiser will be used if the total of the existing and proposed debt secured by the subject property exceeds 80% of the after-rehabilitation value indicated by comparable sales approach conducted by housing staff.
- If a formal appraisal is required, staff will confer with the applicant and discuss the appraisal options. In general, housing staff will order an appraisal from a qualified appraiser approved by the Housing Department. Housing staff provides the proposed work write-up and current preliminary title report to the appraiser. In the event the applicant wishes to utilize the services of an outside licensed appraiser, the applicant must first obtain the City's written approval. The actual cost of the appraisal will be passed through to the owner and included in a list of itemized charges at the time the owner signs the loan documents.

Once the appraisal is complete, staff will review the appraisal to ensure that the property data is correct, any proposed improvements were considered (as appropriate), and that the comparable sales are appropriate for the neighborhood. Based on the home's value, as determined by the comparable sales approach within the appraisal, staff calculates the maximum loan amount available to the applicant, based on property value or the estimated cost of work, based on the total Combined Loan to Value (CLTV) of all existing and proposed mortgage loans secured by the property. Note: If a borrower has one or more existing loans on a property with a provision for potential negative amortization, principal increases on deferred interest, or a balloon payment due prior to the amortization period, the borrower's maximum Combined Loan to Value shall not exceed 80%.

If the existing and/or proposed CLTV exceeds the CLTV limits allowed under each program's guidelines, the loan will not be approved. Staff may work with the inspector and/or the applicant to seek alternative solutions. Alternative solutions generally consist of a reduction in the proposed scope of work and associated cost, requiring the owner to pay down existing debt or contribute to the project costs from his/her own funds, seeking an exception to the established policy from the Director of Housing, or canceling the loan request. Note: All requests for exceptions to the CLTV policy must be submitted on a formal memo and clearly explain the rationale for the recommended policy exception. The Director may make an exception only if the scope of work is limited to the basic repairs necessary to correct any deficiencies related to the immediate health and/or safety of the home. The Director's authority to approve loans is granted by the City Ordinance and is limited to loans at or below 100% CLTV.

Security for Loans -The borrowers will be required to sign a Promissory Note and a Deed of Trust. The loan will be recorded as a lien against the real property and will be due upon the earlier of the following: loan maturity, unapproved cash-out refinance, sale of the property, transfer of the property, or when property ceases to be used as borrower's primary residence.

Maximum Home Values – The City does not place a cap on the value of the home assisted in the housing rehabilitation. However, certain funding sources do cap the value of homes, such as federal HOME and State CalHome Programs. Staff ensures that the after-rehab value of the property will not exceed 100% of the County Median Sales price as determined by the US Department of Housing and Community

Development (HUD) when utilizing CalHome funds, or 95% of the County median sales price when utilizing federal HOME dollars.

Loan Closing Procedures

1. -Loans under \$15,000 - Once a loan has been approved, staff prepares a loan document transmittal worksheet and drafts all loan documents to be signed by the applicant. Management staff reviews the transmittal for loan review document package and, once approved, the borrower is called to schedule a time for loan signing. Staff must ensure that a California Notary Public is present during the loan signing. During the loan signing, the borrower is given a copy of all of the loan documents for his/her own records.

After the signing, copies of all of the documents are placed in the project file. Staff obtains an updated Hazard Insurance Policy that covers the replacement cost of the home, if necessary, and ensures that the City is named as an additional loss payee. The original loan documents and a funding request form is given to staff in the Fiscal/Admin division. Approximately four days from the date of loan signing, staff records the Deed of Trust and Affordability Restriction (if applicable) in the Office of the County Recorder. Upon receipt of a conformed copy of the Deed of Trust, staff delivers the document to the fiscal/admin division and a copy remains in the project file. The loan review package is then turned over to program support staff for electronic delivery to Amerinational Community Services (the City's loan servicer) and placed in the file for permanent safekeeping.

2. Loans larger than \$15,000 - Once a loan has been approved, staff prepares a loan document transmittal worksheet and drafts all loan documents to be signed by the applicant. Staff utilizes the services of an escrow company to coordinate the loan closing. Management staff reviews the loan document package (including escrow closing instructions) and, once approved, the borrower is called to schedule a loan signing. Staff requests the services of a title company to pick up the signed loan documents, clear any title issues, and record the City's loan documents.

Upon recordation, the title company will deliver a conformed copy of the Deed of Trust and other signed loan documents to staff which contains all of the following information;

- Title Insurance policy-- staff verifies that the City's loan appears in the proper place on the title insurance policy, the amount of City loan is correct, the names and address of the borrowers are correct, etc.); and
- Title Insurance policy type is correct based on the City's loan program and recording order. In general, all junior loans in favor of the City should appear on a Junior Loan Policy (JLP). If the City's loan is a first loan, the City will generally order a ALTA Title Insurance Policy.
- Hazard Insurance policy—staff verifies that the owner's hazard insurance policy names the City as an additional loss payee, the amount of coverage is sufficient to cover the replacement cost of the home and satisfy lien holders, and that the insurance policy covers damage caused by earthquakes and/or floods, if required, etc.);

The loan document package is then turned over to staff for electronic delivery to Amerinational Community Services (the City's loan servicer) and placed in the file for permanent safekeeping.

C. Mobilehome Loans

Mobilehome loans are secured by a lien against title and recorded with HCD. Staff hand carries each of these documents to the local office of the California Department of Housing and Community Development (HCD):

- Power of Attorney
- Duplicate Registration (if necessary)
- Duplicate Certificate of Title (if necessary)
- Statement of Lien
- Application for Title Registration (if a replacement mobilehome or trailer)
- Check from applicant payable to HCD for fees (calculated prior to loan signing)

Rehabilitation Program General Terms and Conditions

Refinance Guidelines – Housing loan proceeds may not be used to refinance an owner's existing debt on the property. The Director may approve an exception to this rule if it is both necessary to improve the City's overall security position in the property and is allowed by the regulations of the source of funds (e.g. CalHome, CDBG, HOME, etc.). The amount of such take out of senior debt shall not exceed \$5,000. Proceeds cannot be used (1) to satisfy liens against the property for obligations not related to the property, (2) to satisfy judgments against the borrower, or (3) to pay for personal expenses. The Department may, as a condition of approving such refinancing, establish an escrow account for payment of outstanding obligations with respect to the property.

Affordability Restrictions –State law governing the use of 20% Funds requires the placement of an affordability restriction when the rehabilitation is substantial. Since February 1993, the City has defined substantial rehabilitation of single-family homes to be when the total investment from the use of Low and Moderate Income Housing Funds exceeds 25% of the median sales price of single-family homes in the City of San José, adjusted annually, and based on the most recent quarterly data set published by the Santa Clara County Association of Realtors (25% of like-sized rental properties for multi-family units).

In the case that a HPP loan requires substantial rehabilitation from the City's LMIHF (20% fund), an affordability restriction is created and recorded on the unit for the term of the loan. A typical thirty year loan would be extended for 45 years and the City's affordability restriction would describe a recapture provision in which the City's investment is returned to the City if the home did not remain owner occupied and affordable to the homeowner for a period of forty-five years. In general, the City avoids the use of an Affordability Restriction whenever possible.

Additional Financing – The Department may consent to the refinancing of existing loans or addition of new junior new loans secured by the property, provided certain conditions are met. The City must give advance written approval of further encumbrances to the property and the City's security interest as a lender must be protected. In general, the Department will withhold consent if (1) the principal amount(s) of the proposed financing/refinancing and the outstanding balance of all existing debt exceeds 90% of the property value, (2) during a refinance, the total amount of the new loan exceeds the outstanding principal amount of the existing non-City loan(s) plus reasonable and necessary financing and closing costs and there is insufficient equity in the property defined as having less than 10% equity in the home, (3) the City determines that the addition or new debt would pose immediate or long-term financial risk to the homeowner and/or would be otherwise unaffordable to the homeowner over the long-term; or (4) the City's security interest would otherwise be impaired.

Satisfaction of Liens – Existing tax, mechanics and other existing liens against the property must be satisfied prior to approval of loans.

Designees/Power of Attorney – An applicant may choose to designate another party to act as his/her agent. The applicant must provide his/her designees with a Power of Attorney indicating the property in question and the specific areas his/her designee may act on behalf of himself/herself. The City Attorney's Office and the Title Company must approve the Power of Attorney.

Insurance Requirements – All homeowners must maintain replacement value hazard insurance on the real property with the City named as additional insured loss/payee. This hazard insurance shall include fire and any other extended coverage that the City reasonably requests. Flood insurance may be required if the home is located in a Special Hazard Flood Area. Staff may require that loan proceeds be used to purchase hazard insurance in order to ensure that the security for the City's loan is adequately protected.

Legal Advice – It is the policy of the Department not to provide legal advice to applicants. Should an applicant require the services of an attorney (i.e. to clear up a title problem), staff should give the applicants the names of both of the following organizations:

- Legal Aid Society of Santa Clara
- Lawyers Referral Service of the Santa Clara County Bar Association

Tax Advice – It is the policy of the Department not to provide tax advice to the applicants. If an applicant asks for a referral, staff should name both of the following (depending on the nature of the need):

- The Yellow Pages listing of Certified Public Accountants
- The U.S Internal Revenue Service, the State Franchise Tax Board and/or the Santa Clara Tax Assessor

Relocation – Owner-occupants of single-family properties do not qualify for temporary relocation benefits from the City. In cases, where all other options have been exhausted, the costs associated to temporarily relocate a household, as verified by the Building Rehabilitation Supervisor, may be included as part of the rehabilitation loan.

Correction of Existing Illegal Additions – The Director or his/her designee may approve loans to be used to remove or rebuild existing and/or illegal room additions, screen rooms, or converted garages in order to bring the unit into compliance with all City Housing, Zoning, and/or Building Codes.

Impound Accounts – Impound accounts for real estate taxes and insurance are not required for all loans, but will remain an option for the Underwriting Staff to recommend to the Loan Review Panel and Director of Housing for amortizing loans, upon request of the applicant.

Notifications – All senior lenders must be sent a “Notification to Senior Lenders of Intent to Further Encumber” notifying them of the intent to place a junior lien against the applicant’s home.

Other Lender Approvals – City funds used for demolitions and construction of replacement units require written approval from existing lenders and other lien holders.

Project File Close out Process

A rehabilitation file is ready for close-out when all the construction work has been completed and the final payment (including retention) has been paid to the contractor. The project file is returned to program staff for review. The *Construction File Completion Check List* is used to ensure that all necessary documents are in the file. If any deficiencies are noted, the file is returned to the Inspector for follow-up.

Note: All steps of the Close out process are accurately entered into the database by Housing Staff and the project file is properly placed in the file room.

CHAPTER 6: INSPECTION AND CONSTRUCTION PROCESS

Eligible Use of Rehabilitation Funds

A. Eligible Use of Rehabilitation Program Funds

Eligible Rehabilitation Work Items

Housing Rehabilitation Grades and Standards (Exhibit 6.B7), details the required and permitted rehabilitation that can be funded under the City's loan and grant program. A summary follows:

1. Basic Requirements

In order to receive funding, the proposed rehabilitation must be for health and safety repairs, including, but not limited to the correction of the following items:

- Substandard Buildings: Repairs required to ensure that the building will meet the City's Housing Code, as amended.
- Outstanding Permit Work and Correction Notices: Repairs to correct prior incomplete work authorized under building permits, outstanding correction notices or nuisance abatement citations from a governing jurisdiction.

Examples of repairs necessary to meet basic requirements include:

- Dry rot/termite damage
- Foundation repair/replacement
- Electrical system repair/replacement
- Plumbing repair/replacement (including fixtures)
- Heating repair or replacement
- Swamp coolers
- Roof replacement
- Gutter repair/replacement
- Window, door and siding repair/replacement
- Exterior/interior painting
- Heating and water heating system repairs/replacement
- Floor covering repair/replacement when it poses a health or safety hazard
- Correction of unsanitary conditions such as excessive mold/mildew
- Smoke alarms and carbon monoxide detectors
- Repair of existing burglar alarms and protection bars, when necessary for occupant safety
- Replacement of built-in appliances

Urgent conditions are those that present an imminent life safety threat. A list of urgent conditions and likely repairs, includes:

Urgent Condition	Temporary Repair
Roof leak	Install tarp
No hot water	Install water heater
No running water	Install clamp, change out water main
Gas leak	Contact PGE for site check, shut off main
No heat (cold weather)	Repair existing furnace
Arcing electrical	Assessment by licensed electrician
Sewer back-up	Snake sewer line
Structural failure	Individual assessment
Plumbing leak	Install clamp
Other urgency	Individual assessment

Due to their nature, properties with urgent work items will be processed on an expedited basis. It is a program goal that such repairs are completed within 15 days in a manner that abates the urgent condition. (Additional, basic rehabilitation associated with an abated urgent condition will be processed in a normal manner.) In case of gas leaks, the Inspector shall advise the homeowner to immediately contact PG&E to report the condition. The inspector may also assist the homeowner in doing so, at their request. The Inspector should use professional judgment on any other immediate action required to address urgent conditions.

2. Other Eligible Improvements

In addition to the above mentioned items, rehab funds may be used for the following:

Code Corrections – Existing, unpermitted room addition or garage conversions will be removed to conform to the requirements of the Housing, Building and/or Zoning Codes. Approval for rebuilding any unpermitted areas must be provided by the Technical Review Committee and the Division Manager. The Director or designee must approve any funding required for such work. Abatement will be any one of the methods indicated throughout Construction Section and Section F of General Construction.

Mobilehome Park Corrections – Corrections of other items required by Mobilehome parks will be permitted. Items such as skirting, siding, and decking are examples of items that if left uncorrected, may result in tenant eviction.

New bedroom and bathroom additions – New bedroom and bathroom additions, where required to mitigate a specific problem or to achieve compliance with the occupancy standards of the City Housing Code, as amended, are eligible. Such additions will be done only in conjunction with

other funded rehabilitation work as part of an HPP funded loan. The Department, in making its determination, will consider only those occupants who are eligible residents.

Historic Properties – Repairs to the building exterior which are necessary to meet the requirements of the Secretary of the Interior’s “Guidelines for Historic Properties,” or local historic preservation requirements, are eligible work items.

Energy Conservation Measures – Rehabilitation funds may be used for energy conservation work when done in conjunction with other eligible rehabilitation work, unless specific funding is targeted for those improvements. These improvements shall not exceed 40% of total rehabilitation hard costs when used in conjunction with rehab funding. Housing Rehabilitation Grades and Standards (Exhibit 6.B7), details the standards for energy conservation work.

Landscaping – Installation or refurbishing of front-yard landscaping, including drought-tolerant sod, limited shrub/trees, street trees and an automatic irrigation system are eligible work items.

Driveways, Front Walkways – In situations where there is no paved driveway or walkway, or the existing driveway or walkway is in such disrepair as to cause a trip and fall hazard, installation of a new driveway or walkway is eligible. The primary intent of this improvement is for health and safety and for visual impact on the neighborhood. The front setback and an additional 40 feet behind the front setback of the structure (on properties with detached garages) is the general guideline for such work. More extensive driveway installation may be permitted in cases where safety considerations so dictate.

Exterior Paint – When funding becomes available, the Department of Housing may make available to the public, exterior paint grants. Exterior paint may also be allowed in conjunction with other Rehabilitation Program grants and loans. (See Housing Rehab Grades and Standards).

Perimeter Fencing – Rear -yard fencing (6-foot standard) – along side and rear property lines and between side property lines and the main structure -- is an eligible expense when the existing fencing is falling or otherwise presents a safety hazard.

Landscape improvements, new driveways/walkways and perimeter fencing are eligible only to the extent that: (a) they are done in conjunction with other rehab funded work (b) the improvements do not exceed 40% of total hard costs for the project (c) specific funding targeting such improvements. Expenditures exceeding these cost guidelines require Technical Review Committee and the Division Manager’s approval.

B. Ineligible Use Of Rehabilitation Funds

Several types of improvements are not eligible for rehab funding. These include, but are not limited to:

- Appliances*
 - Clothes washers and dryers
 - Microwave or toaster ovens

- Free-standing ranges
 - Refrigerators
 - Trash Compactors
- Barbecues or other outdoor fireplaces or outdoor heaters.
 - TV sets, antennas, wiring for cable, internet, etc.
 - Furniture and area rugs
 - Window coverings and related accessories
 - Swimming pools, spas and tool sheds
 - Installation of burglar alarms or protection bars
 - Kennels or other facilities for the care of domestic or farm animals
 - Fixed or free-standing equipment, alterations or additions to structures or property that are intended for business, recreation or hobby use
 - Farm or dairy equipment
 - Expensive luxury or designer goods such as stained glass windows, decorative skylights, chandeliers, hardwood floors, tiled roofs etc.
 - All other items that do not expressly correct property deficiencies and/or improve upon the decent, safe and sanitary condition of the property
 - Temporary patching of roofs

*Unless specific funding is targeted for such improvements.

Pre-construction Work

A. Pre-Site Inspection

The Rehabilitation Supervisor will disburse the pre-site inspection request to the appropriate Rehabilitation Inspector. Those requests determined to be an urgent will be flagged as such by Loan Staff and will receive priority over non-urgent requests. The Rehab Inspector assigned the pre-site shall:

1. Review the property and owner information in preparation for the pre-site inspection.
2. Conduct a detailed on-site inspection of the property with the owner or the owner's designee. The Rehabilitation Inspector will assess the property for rehabilitation and eligible repair needs. (See eligibility above).

The purpose of the pre-site inspection is to determine three basic issues:

- Do the rehab needs at the property meet program eligibility criteria;
- Is the need of the applicant and property considered an urgent (See Below Definition of Urgent); and
- What will be the approximate cost of required repairs and what program or combination of programs are required.

The assessment should also identify problem areas that require further evaluation, whether:

- The property is in violation of zoning, subdivision or other land use regulations or permit requirements;
- City Housing Code violations exist;
- The extent of required repairs would make abatement/demolition and replacement of the existing property necessary; and
- A structure on the site qualifies as an “historic property” (See General Construction Section E, Historic Review).

If problem areas are identified, the case will be referred to the Rehab Supervisor for appropriate action. NOTE: From initial inspection to completion of construction, the Inspector will maintain notes relevant to the case for both in-progress monitoring as well as post-completion review.

3. Inspector shall document property assessment and recommendations including:

- Proposed course of action (i.e. already coordinating contractors)
- Estimate of total cost needed for complete project
- List of required repairs
- Any additional information detailing property or applicant needs
- Verification of household size

4. Provide the appropriate application to the owner or owner representative.

5. Explain the loan approval, bid and the contractor selection process to the owner and the estimated timeframe involved in each process.

- If the preliminary cost estimate exceeds the maximum loan amount, the Rehab Inspector refers the case to the Rehab Supervisor. The Rehab Inspector presents the available alternatives concerning the case and a recommendation for resolution of the case. (See Rehabilitation Alternatives in Section F).

B. Urgent Repairs

If the Rehabilitation Inspector determines that there is an immediate threat to the occupant’s health and safety or to the structure, the inspector shall flag that project as an urgent repair.

If the repairs are determined to be urgent, the program objective is to abate the condition within 15 calendar days from initial inspection to date of abatement. The Rehab Inspector assigned the pre-site shall:

1. Collect applicant information from the owner sufficient for Loan Staff to determine owner eligibility;
2. Summarize urgent repairs and recommendations for Building Rehabilitation Supervisor review and approval;
3. Coordinate with Loan Staff regarding funding either through an approved grant or unsecured Pre-development Note (See Pre-development Note Section);
4. After securing funding through a grant or Unsecured Note, the Rehab Inspector shall coordinate the urgent repairs with the owner and the appropriate contractor(s) from the pre-approved contractor's list. No lead-based Paint test is required if limited to urgent repairs; and
5. After urgent repairs have been completed, the Rehab Inspector shall either prepare the file for closure or continue the project as a Non-urgent project (See Non-urgent section).

C. Non-Urgent Repairs

The Rehab inspector shall:

1. Itemize deficiencies on the Pre-Site Request Memo. The list will be turned into the Rehabilitation Supervisor for review and approval. The pre-site recommendations (Exhibit 6.B1) will state:
 - Program or combination of programs recommended;
 - Estimate of total funding needed to complete the project;
 - List of required repairs; and
 - Any additional information detailing property or applicant needs.
2. Building Rehabilitation Supervisor shall review and approve or reject the Rehab Inspector's recommendations and forward to Loan Staff for funding approval.
 - 2.1 HPP loans require the inspector to prepare a Rehabilitation Cost Work Sheet (Exhibit 6.B9). This may be prepared after grant approval if the Rehabilitation Inspector is working with the applicant to further develop the final scope but is proceeding with up-front grant work.
3. Construction staff shall request lead testing of all structures that were built prior to 1978. The Lead Based Paint Inspector or Rehab Supervisor will review the potential Scope of Work documented in the Pre-site Deficiency List to determine the extent of LBP testing (additional testing may be required after the final scope of work).

D. Project Preparation

Loan staff will review and evaluate the application and recommendations and forward the approved application to the Rehab Supervisor for assignment to a Rehab Inspector. The construction process will commence as follows:

1. Approved files

Rehab Inspector will review the approved loan/grant file for funding source, lead-based paint report, relevant code sections, and approved funding amounts.

2. Deficiency List

The Rehab Inspector shall then prepare a more comprehensive Deficiency List. The Deficiency List must be prioritized starting with the most critical and required repairs, ending with less critical, general improvements, which may not be required. The Rehabilitation Inspector shall prepare the Deficiency List taking into consideration:

- Funding requirements
- Lead-Based Paint Inspector recommendations
- The property's critical needs
- Owner's desired improvements
- Overall budget

The Deficiency List must state:

- That contractor commencement of work without a Notice to Proceed accepts the risk of non-payment.
- Explanation of priorities
- Project Number
- Owner and property information

A large loan project Deficiency List, such as HPP projects, may require a more comprehensive deficiency list, describing to both the owner and bidding contractors a limited Scope of Work. For example, in the case of a roofing deficiency, the Rehab Inspector will describe removal of the existing roof cover, expected minimum substrate preparation and roof covering type. For more general items, the Rehab Inspector may also choose to provide contractors with the Rehabilitation Grades and Standards (See Section 6.B-7).

3. Technical Review Committee (TRC)

The function of the Technical Review Committee is for review of the Rehabilitation Inspector's findings and recommendations, in order to ensure consistency and compliance with program policies and associated codes and regulations. The committee shall consist of one of the Rehab

Inspector peers, the Rehabilitation Supervisor and, with projects where lead-based paint is present the LBP Inspector shall also review and make recommendations. In cases where exceptions are likely, the Division Manager will also review and make recommendations. For all projects, the Rehabilitation Inspector shall prepare a TRC form (Exhibit 6.B4). In addition to standard owner/project information, the Rehab Inspector shall include a copy of:

- The Deficiency list or brief description of work on projects of limited scope
- Lead Based Paint (LBP) report findings
- Estimated construction hard costs and funding sources, if known

Projects that have properties testing negative for LBP must be reviewed and approved by a peer Rehab Inspector and the Rehabilitation Supervisor. The review is to ensure consistency with Housing Rehabilitation Standards. If the property tested positive for LBP, the Rehab Inspector must include additional Information as follows:

- Copy of the LBP test
- Briefly detail those components positive for LBP that may be affected by construction.

The LBP Inspector must review and make recommendations for course of action with regard to lead related work, contractor requirements and clearances required, prior to supervisor review and approval. The TRC is to be kept in the construction file. The Rehab Inspector may then proceed to preparation of an owner packet.

4. Owner Packet

4.1 For small projects such as HGP, MHGP and Z-loans, the Rehabilitation Inspector will prepare an Owner Packet. The packet will consist of:

- Cover letter (Exhibit 6.B5) to the property owner detailing project information, 30-day bidding deadline and bid process
- Three copies of the final Deficiency List or Scope of Work
- Pertinent pre-approved contractors list
- Contractor License and Insurance requirements (See Insurance Requirements Section D, General Construction)

4.2 In addition to the items listed above, large projects, such as HPP, must also include the following in the Owner Packet:

- Owner package
- Contractor proposal and bid package with 45-60 day bid deadline
- Special instructions (if required)
- Plans (If required)

The owner packet is intended for the owner to review and distribute required bid documents to bidding contractors (see Bid Process Below).

E. Pre-Development Work

For large projects such as HPP projects, the Rehabilitation Inspector may need to use a portion of the project funds for development of the project's final scope and bid documents. One example is in the case of legalization of an existing addition. The Rehabilitation Inspector may need to coordinate the services of an architect to draft plans and a structural engineer for required engineering. With the combination of HPP Loan and grant, the Rehab Inspector shall use the approved grant portion to secure any project predevelopment costs. All services and costs shall require owner approval.

Pre-development costs over the approved grant amount shall be in the form of an Unsecured Pre-Development Note. The Director or designee shall approve amounts over the standard grant amount for pre-development costs.

F. Bidding and Contractor Selection

1. Contractors List

For all projects the Rehabilitation Inspector shall provide the owner with a pre-approved list of contractors. The owner is not required to use the contractors on the provided list. The list is provided as a convenience to the owner.

2. Obtaining Bids

The owner will be responsible for obtaining bids based on the Inspector's Deficiency List. The owner will provide to each of the bidding contractors one copy of the Rehabilitation Inspector's Deficiency list. Additionally, for the large loans, such as HPP, the owner will provide the contractor with any other pertinent information provided by the Rehabilitation Inspector as instructed in the cover letter. Additional documentation may include, but not limited to, plans, engineering calculations, project specific specifications, etc.

2.1 In some cases the owner may wish to delegate this responsibility to the Inspection Staff. Should the owner choose not to solicit bids, the Rehab Inspector shall provide a minimum of three separate contractors from the pre-approved contractors list with a copy of the Deficiency List. The list of contractors will be rotated to ensure equal distribution.

2.2 The owner may choose to use a contractor not on the pre-approved list. Prior to issuance of a Notice to Proceed, the Inspector will verify contractor eligibility (See Section C, General Construction).

3. Bidding Process for Urgent Repairs

Urgent repairs will require immediate dispatch of contractors. Urgent repairs typically consist of single trade repairs such as plumbing or roofing. The Rehabilitation Inspector shall dispatch one of

the contractors from the pre-approved list that is best suited for the required repairs. For urgent repairs to mobilehomes, the Rehab Inspector will also seek park approval prior to starting repairs. The list of contractors will be rotated to ensure equal distribution. The Rehab Inspector shall obtain an estimate for the repairs. The proposal will be reviewed by the Rehab Inspector for reasonableness and approved by the owner. (For inspection procedures and qualifying repairs see pages 43 & 48.)

4. Bidding Contractors

Bidding Contractors will be responsible for reviewing the Rehab Inspector's Deficiency List and making a thorough site visit. The Contractors will provide a complete proposal with prices broken down by line item and full Scope and Description of work. The description of work must describe in detail the repairs, and types of material allowances.

5. Number of Bids

5.1 Larger projects – Due to the complexity of the larger projects such as HPP the owner will be encouraged to obtain three bids to ensure a competitive process and as a means to compare costs and materials. If the owner has proven to the Rehab Inspector that he/she has diligently tried to obtain three proposals but was unable, the Rehab Inspector may allow less than three proposals so long as the acceptable bid is reasonable and competitive in the Rehab Inspector's opinion. The Rehab Inspector must state the circumstances on the bidding contractors form when submitting loan construction packet for Supervisor approval.

5.2 Small projects – It is recommended that the owner obtain three bids for smaller projects such as HGP, MHGP, and Z-loans. However, due to the difficulty of scheduling contractors, the owner may choose to only receive one proposal. This will be allowed as long as the Rehab Inspector has reviewed the bid for reasonableness. The proposal must also contain all of the required repairs in the bid.

6. Bid Review and Selection

The owner will forward copies of all bids to the Rehabilitation Inspector. Once the owner has chosen the proposal, the Rehab Inspector will review the proposal to ensure:

- Reasonableness
- All required items are being addressed
- All permitting issues are addressed
- Program standards and specifications are being met

The Rehab Inspector will have the homeowner sign and date the bid to indicate their contractor selection.

Should the Rehab Inspector evaluate the contractor's proposal and determine that the proposals are either inadequate or unreasonable, the Rehab Inspector will consult with the Rehabilitation Supervisor and may ask the owner to obtain at least one more proposal.

7. Contracts

Once the Rehab Inspector has made a recommendation to the owner, a project timeline will be established and the owner may enter into contract with the chosen contractor. The Inspector will issue a Notice to Proceed once all of the requirements have been met. The Contractor will use a standard agreement and contract provided by the City. Proposals and contracts become binding once the owner has signed the contract. All contracts must conform to the California State Contractors Board requirements.

8. Contingency

The contingency is a fund set aside above and beyond the original contract amount. The contingency amount is calculated as a certain percentage of the original contract. Once the contract(s) have been finalized and the contract(s) amount has been determined, the Rehabilitation Inspector shall include a contingency for all large loan projects. The Rehabilitation Inspector will determine the amount of contingency based on site conditions and anticipated need. The contingency shall be no less than 2% of the project budget and no more than 20%.

Grants shall not require contingency, however any changes in the original contract requiring additional funds for loan or grants shall – in the following order:

- Use any remaining grant balances
- Seek additional Program funds (if available) or
- Owner funds

All changes to the original contract and use of contingency shall require owner approval prior to acceptance.

Any contingency balance of program funds shall be credited back to the borrower's loan.

9. Loan Preparation

HPP loan projects require the Rehabilitation Inspector to prepare a construction packet. The construction packet contains pertinent information required for the Loan Staff to underwrite the loan. The Rehab Inspector shall include any and all project costs including any pre-development costs. Once the Rehabilitation Inspector has completed assembling the packet it will be turned into the Rehabilitation Supervisor to review for consistency with program standards and policy. The packet will have a standard checklist (See Exhibit 6.B12) detailing the required documentation.

Construction

A. Start of Construction

Grant funding only- For projects that have already received required approvals, the Rehabilitation Inspector may proceed with the construction phase.

Mobilehome Grants-In addition to in-house approvals as with the HGP grants, the Rehabilitation Inspector shall ensure that the park approval form is signed by the park manager or park representative approving the proposed repairs prior to issuance of Notice to Proceed.

Z-loan funding- For projects that are Z-loan funded, the Rehabilitation Inspector must only proceed with that portion of the project after receiving Notice of Funding from the Loan Staff. In projects that have combined loan/grant funds, the inspector may proceed with the grant portion of the project. In this case a separate Notice to Proceed may need to be issued if the contract is to be segregated. The Rehab Inspector may also elect to Change Order the additional items into the contract at a later date, pending Z-loan Approval.

HPP Loan funding- As in the case of the Z-loan the Rehab Inspector must only proceed with the Loan portion of the Contract upon receiving the Notice of Funding from the Loan Staff. See Z-loan above for combination Loan grant.

1. Contractor Clearance

Prior to Issuance of contractor Notice to Proceed, the Rehab Inspector must obtain the following clearances:

Check California State License Board Website to verify:

- Active License and correct License designation. Indicate expiration date on Insurance Clearance form.
- Any pending disciplinary action.
- Any suspended license.

The Rehab Inspector will notify the homeowner of any adverse findings

- Receive insurance clearance from the Office of Risk Manager verifying all required liability and workers compensation insurance meets City requirements, and noting the date of insurance clearance. Use Insurance clearance form via Fax (See 6.C-2) or email.

Inspector shall obtain clearance for each prime contractor paid directly through the City of San José.

2. Photo Documentation

Throughout the course of the project the Rehabilitation Inspector shall document unusual or severe conditions through photographs. Some projects may also require before and after photographs. (See Photo policy section G General Construction).

3. Pre-construction Meeting

On larger projects such as HPP or grant/loan combinations, the inspector may choose to conduct a pre-construction walkthrough with both the owner and the contractor. The purpose of this meeting

is to ensure that the all parties are in agreement and full understanding of the scope or work, schedules and to discuss any unusual issues that might arise during the course of construction.

4. Grant Agreements

As required by various funding types and sources, some projects will require grant Agreements between the property owner and the City of San José prior to start of construction. For projects requiring Agreements, the Rehabilitation Inspector will ensure that the Agreement is signed prior to start of construction. The Agreement will be prepared by loan staff and either mailed to the owner or hand delivered by the Rehab Inspector or Loan Staff, depending on the urgency of the project.

Once the property owner has signed the Agreement, the Inspector will give the original Agreement to the Loan Staff. Loan Staff will provide copies to the loan/grant construction file and one copy to the IDIS database entry staff member. The Original signed agreement will be given to the Fiscal officer.

5. Notice to Proceed

Once the Rehabilitation Inspector has secured project funding and all required clearances, the inspector may issue a Notice to Proceed (See Section A6 Construction) to the contractor. The Notice to Proceed (NTP) must include the following information:

- Homeowner and property Information
- Contractor Information
- Reference to contract (contract Amount)
- Commencement date
- Completion date
- Any special instructions to the contractor

Owner is not required to sign the NTP. The Rehabilitation Inspector issues the NTP as authorization to the contractor to start the project.

Contractor will be responsible for scheduling work directly with the homeowner.

B. In-Progress Construction

1. Inspections

1.1 Inspection Purpose – Is to verify that the work in progress meets all program standards, contract requirements, and Housing Code Standards. In-progress Inspections are also required to verify the project is on schedule and meeting project budget. The Rehabilitation Inspector may advise the owner or contractor of pertinent codes. However, the Rehabilitation Inspector is not responsible for making Building Code or Permitting determinations or to schedule other building or planning inspections.

- 1.2 When to Inspect – After issuance of the Notice to Proceed, the Rehabilitation Inspector shall monitor the project’s progress. For all projects the inspector shall conduct at least two inspections. One inspection shall be conducted either prior to or during the early stages of construction. A final inspection shall be conducted on all projects to verify that the work is complete, to the satisfaction of the owner and that all work meets the contract and program standards. The Rehabilitation Inspector shall also make progress inspections upon payment request to verify that the requested portion of work is complete and meets the contract and Program standards.
- 1.3 Unscheduled Inspections – The Rehabilitation Inspector may choose to make unscheduled inspections of the project in order to verify progress. On projects with difficult Scopes of Work or applicants with special needs, the Rehab Inspector may choose to make site visits daily in order to work with the owner and contractor and to ensure a good working relationship.
- 1.4 Not Meeting Requirements – In the event that the Rehabilitation Inspector determines that the work being performed or the schedule is not meeting the contract or program standards, the Rehab Inspector will immediately notify the property owner or owner representative and the contractor of the discrepancy. The Rehab Inspector will work with the two parties to seek resolution (see Unauthorized or Substandard Work During Construction).
- 1.5 As needed Third party Inspections – The Program shall, on some occasions, require the need for Third Party Inspections. In cases where a very specific area of expertise is required, the Rehabilitation Inspector shall dispatch a third party inspector on an as needed basis.
- 1.6 On-going Third Party Inspections – The program or program funding may require the services of ongoing Third Party Inspections such as Environmental Inspections. In those cases the Rehabilitation Supervisor with approval of the Director, Division Manager and Management Staff will solicit the services of an outside company. The Rehabilitation Supervisor shall develop a RFP in coordination with Purchasing.
- 1.7 Construction tracking – Inspection Staff shall track all projects in two ways:
 - Each Rehab Inspector, for each project, shall keep construction Logs or diaries. The Inspector may choose to enter project progress and information in the computer database or give his/her own notes to support staff to enter those notes in the database diary. Information such as construction progress, owner and/or contractor conversations of particular interest to the progress of the project and problems or disputes that might arise during the course of the project are examples of pertinent information to be documented.
 - In addition to the above, each Rehab Inspector shall maintain a standard construction report supplied by the Rehabilitation Supervisor. The report shall document critical dates such as initial inspection, Notices to Proceed and completion dates. This report is a working report that will be used both by the Rehab Inspector and Supervisor. The report will be updated frequently and submitted to the Supervisor monthly.

2. Payments to Contractors

For all projects – No payment shall be given to the contractor up front. All payments will be predicated on the work that has been performed. Payments may be made directly to manufacturers or material suppliers upon request in the interest of the project. If a payment schedule is not predetermined by the contract and agreed upon by all parties, the following payment schedule will apply.

- 2.1 Administrative cost – On projects such as HPP loans, administrative costs or soft costs such as escrow fees, title insurances and third party inspections may occur. These costs are required for project progress and therefore do not require owner approval. Loan Staff will explain these costs to the owner after application approval.
- 2.2 Grants – Due to the limited scope and length of grant projects, the prime contractor will be expected to complete the scope of work and receive payment at completion. The contractor may request and receive a progress payment, based on work completed and project schedule, subject to approval of the Rehab Inspector. One example is in the case of a prime contractor who has hired a sub contractor and that sub-contractor has completed his portion of the project. The Rehab Inspector shall receive owner approval on all payments where possible and must receive owner approval on all 100% payments. Then submit for Rehabilitation Supervisor approval.

The Rehab Inspector may authorize up to a 90% payment to the contractor for grants, if the homeowner is uncooperative and work is done satisfactorily.

- 2.3 Z-loans – Because the Z-loans are typically approved in conjunction with grants, the projects are more complex and lengthy. Therefore, progress payments are acceptable. All payments, unless otherwise agreed-upon, are at the discretion of the Rehab Inspector. Payment must be predicated on the work completed and the balance of work to be completed. All payments must have the signed approval of the owner prior to the contractor receiving the payment. Submit to Rehabilitation Supervisor for approval.
- 2.4 HPP Loans – HPP Loans are large loans that are more complex and lengthy. Unless otherwise agreed upon, the standard payment schedule for HPP loans is as follows:

- Progress at 25% of completion
- Progress at 50% of completion
- Progress at 75% of completion
- Progress at 90% of completion

After project is complete and only minor punch list items remain

- Progress at 100% of completion
(see final payment Below)
- Release of retention

If the Inspector does not believe that the amount of work completed justifies the progress payment, he may request that the contractor supply itemized invoices for materials purchased, subcontractor's bills and labor records to substantiate the payment request.

All payments, unless otherwise agreed-upon, are at the discretion of the Rehab Inspector. Payments may be made at any interval throughout the project with owner and Rehab Inspector approval. Payments must be predicated on the work completed and the balance of work to be completed. All payments must have the signed approval of the owner prior to the contractor receiving the payment. Submit to Rehabilitation Supervisor for approval of all payments.

- 2.5 Project Retention – On HPP loans only, a Project Retention of 10% will be withheld from all payments. The Project retention is to be held in security until the Sub-contractor lien period has elapsed. The Project retention will be released to the contractor, by the Fiscal Division, 35 days after the Notice of Completion. The retention period can be waived or extended, under certain circumstances, with Rehab Inspector and Supervisor approval. For example, when all work items (including punch list items) are completed, and the contractor has provided all required documentation, including unconditional lien releases from him or her and all his or her subcontractors and materials suppliers involved in the project.
- 2.6 Final Payments – Prior to submission of final payment for Rehabilitation Supervisor approval, all final payments shall have the owner endorsed Payment Certificate, final contractor invoice, copy of final Building permits (if applicable) final approved Housing and Community Development (HCD) Permit for pre-fabricated or Mobilehomes, all sub-contractor lien releases, prime contractor lien release and contractor affidavit. HPP Loan projects also require a Notice of Completion (See Exhibit 6.C-9)
- 2.7 Reimbursement to Owners – Owner reimbursement will be allowed on a limited basis. Payment may be made directly to owners for material or contractor reimbursement only. Reimbursement for labor will not be allowed unless the owner contracted directly with a licensed contractor. All reimbursements must be pre-approved by the Rehabilitation Inspector. Owner must submit readable copies of receipts. The Rehab Inspector will review for legitimacy and submit to Rehab Supervisor for approval.
- 2.8 Payment Certificate – A Standard Payment Certificate format will be used for all projects. For each payment:
 - The contractor will submit his/her invoice or endorse the Payment Certificate with payment amount;
 - The Rehab Inspector will calculate the payment amount minus any retention;
 - Indicate funding source(s) of payment;
 - Contractor Information; and
 - Owner Information
- 2.9 Disputed payments – If the property owner disputes the contractor payment, the Rehab Inspector may submit grant payments of up to 90% without owner signature or special approval. If the owner is unwilling to sign the final payment on grant-funded projects and the

Rehab Inspector has made the determination that the contractor has completed the work per the contract and program standards, the Rehab Inspector may submit a memo to the Division Manager requesting permission to pay the 100% payment. The Memo will explain project background and the Inspector's determination.

For other payment disputes, the Rehabilitation Inspector will work with the parties to try and resolve the dispute. If the two parties cannot reach an agreement, the Rehab Inspector shall recommend that the contractor remove the disputed portions of the payment from the billing. The contractor can remove the disputed item completely through a Change Order or defer the item until the end of the contract. If the two parties do not come to terms with the dispute they must then seek other legal options (See Arbitration Section A, General Construction).

- 2.10 Payment to City-Contracted Vendors – In cases where the program must contract directly with an outside vendor, as in lead testing, invoices will be directed to the construction Support Staff as tasks are completed. Support Staff will review invoices and forward them to the designated Rehab Inspector. In the case of environmental testing, the Lead Based Paint Inspector will review all invoice(s) for accuracy, cost, and compliance with the vendor's contract. Once the designated Inspector approves the invoices, he/she will forward them to the Supervisor for approval.
- 2.11 Submitting for Rehabilitation Supervisor Approval – Once all of the proper documentation has been collected for payment, the Rehab Inspector shall submit the payments and Change Orders for Rehabilitation Supervisor review and approval. If the Supervisor finds that all requirements are met, he/she will approve payment and provide support staff with the original document. The Support Staff shall provide one copy to database entry staff and the original to the Fiscal Division for payment.

3. Changes to Scope of Work

Statement of Purpose: Changes to the scope of work will only be authorized where necessary and only to the extent that the goals of increasing the decent, safe and sanitary condition of the property are enhanced. Changes to the original, approved scope of work that may be eligible for program funding include damage not previously visible (e.g., behind sheetrock, under floor coverings, etc.), materials availability, market-wide materials price surges, or additional, unanticipated labor costs. Necessary changes to the scope of work may require the deletion or scaling back of other prior-approved work not already completed. All changes are subject to funding limitations and are at the sole discretion of the Rehab Inspector.

- 3.1 Owner initiated Changes – Homeowners requesting to add, delete, or change items from the original contract must get prior approval from the Rehab Inspector before such changes can be authorized and/or paid for from program funding. Additions or changes initiated without Rehab Inspector approval may result in the homeowner having to pay for such changes out of pocket.
- 3.2 Contractor initiated changes – Contractors requesting to add, delete, or change items from the original contract must get prior approval from the Rehab Inspector and property owner

before such changes can be authorized and/or paid for from program funding. Additions or changes initiated without Rehab Inspector approval may not be paid for through program funding.

- 3.3 Required changes to scope – Changes required as a result of a Building, Planning or zoning review are an approvable expense, subject to funding limitations.
- 3.4 A Standard Change order format shall be used in all large projects such as HPP loans. For Smaller projects the contractor may provide changes to the contract in his/her own format. All Change Orders shall contain the following Information:
 - Property and owner information;
 - Contractor Information;
 - Details regarding work items, including the materials, products, colors, etc.;
 - Line item costs;
 - Change order total;
 - Schedule changes if required; and
 - Change in product.

All Change Orders must be endorsed by the owner after acceptance by all parties.

4. Construction Close-Out

4.1 Completion of Contract

Due to the nature and condition of some repairs, the Rehabilitation Inspector may choose to coordinate two or more prime contractors to complete a project. The Rehab Inspector will conduct an inspection of each contractor's work and review all pertinent permits. The Rehab Inspector will collect all of the required documentation (see Close-out Documentation) prior to authorizing the final payment to the contractor.

4.2 Project Completion

After the contractor has requested that the Rehabilitation Inspector conduct the final inspection, the Rehab Inspector will review the contract terms and conduct a final walkthrough with the owner and contractor. The parties will complete a final punch list of items to be completed. If the list is extensive in the Rehab Inspector's opinion, the final payment will be withheld. If the Punch list items are minor in nature the Rehab Inspector may submit for final payment, pending Close-out documentation. The Rehabilitation Inspector may use his/her discretion with HPP loans where retention is being held.

4.3 Close-out Documentation

The following documentation will be required to be placed in the construction/loan file for complete files:

- Payment Certificate – Contractor will provide invoice or signed original Payment certificate and applicable Change Orders.
- Copy of Final permits – Contractor will provide Rehab Inspector with all applicable permits with evidence of Building Department inspections and approvals.
- Contractor final Invoice – Contractor will supply Rehab Inspector with a final invoice.
- Lien Releases – The Prime contractor shall supply the Rehab Inspector with all lien releases associated with his/her contract with the owner.
 - Unconditional Lien Release must be supplied from any sub-contractor performing work at the site prior to final payment.
 - Conditional Lien Release – Prime contractors may submit a standard Conditional Lien Release prior to final payment. If a conditional Lien Release is submitted it must state the final payment amount, and that receipt of that amount will constitute release of contractor's right to lien.
- Contractor Affidavit – Contractor shall supply Rehab Inspector with signed Contractor Affidavit for Prime Contractor.
- Notice of Completion – The property owner, upon completion and acceptance of the project shall, with HPP Loans, sign a Notice of Completion. The Notice of Completion shall be a standard format acceptable for recording at the County Recorder's Office.

On smaller loans and grants the final signature of the owner on the Payment Certificate will be acceptable for close-out.

5 Close-out Process

Prior to close-out and retention of file, the Rehab Inspector will ensure that the Construction/loan file is neatly organized, preferably in chronological order, and that the following information and documentation is within the file:

- Copies of all Payment Certificates with all signatures (or otherwise noted)
- Other bids
- Copies of all applicable permits
- Copies of all contractor invoices
- Change Orders
- Insurance Clearances

- Copy of State of California Contractor's State License Bureau (CSLB) website
- All original Lien releases
- Original Contractor Affidavit
- Recorded copy of Notice of Completion (if applicable)
- Complete log or project diary
- Historical Review (Appendix A)
- Update database

Once the Rehab Inspector has completed the construction close-out, the inspector will provide all project files to the Construction Support Staff. Staff will review the construction files using a standard checklist (See Exhibit 6.C11) If the file is complete, staff will proceed with the File close-out and retention procedure. If the file is incomplete, staff will provide the Rehab Inspector with the list of missing documentation. Staff will re-review until file is complete.

The Construction Support Staff will mail a customer Satisfaction Survey to each property owner who received a Rehabilitation Loan or grant. (See Survey section I, General Construction)

General Construction Procedures

A. Arbitration

All claims, disputes and other matters in question arising out of, or relating to the Contract Documents or the breach thereof, shall be settled by "Arbitration" in accordance with the Construction Industry Arbitration Rules of the American Arbitration Association, unless the parties mutually agree otherwise. This agreement to arbitrate shall be final, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction thereof.

At the discretion of the Director of Housing or his/her designee, any fees needed to initiate an arbitration process can be paid for by the Housing Department if all other sources have been exhausted.

B. Code Enforcement

Included in the City's Housing Code are provisions that require that dwelling units meet decent, safe and sanitary living standards. The Code Enforcement Division of the Planning, Building and Code Enforcement Department is responsible for enforcing these provisions. Legal actions may be imposed

on property owners as part of the enforcement process. Applicants for the Housing Rehabilitation Program may be subject to a code enforcement action.

Upon receipt of a completed application for an HPP loan, the Loan Staff asks the applicant whether there are any enforcement actions regarding the property. If enforcement actions are present, the Loan Staff requests a copy of the citation, Compliance Order, or Official Warning Notice from Code Enforcement staff and transmits it to the Rehab Inspector as part of the case file. The Rehab Inspector then:

- Includes the violation(s) in the deficiency list and all items that qualify for HPP funds in the scope of work;
- Advises Code Enforcement staff of code violations that do not qualify for HPP funding; and
- Advises Code Enforcement staff of the final disposition of the loan application where there was a citation (i.e. approval, disapproval, cancellation or withdrawal).

If, in the course of an inspection, the Rehab Staff notes a condition that poses an immediate threat to health or safety on either the property being inspected or on neighboring properties, the Rehab Staff informs the Rehabilitation Supervisor of the condition(s). The Rehabilitation Supervisor will forward the information to the responsible department.

C. Contractors

1. Maintaining Lists

The Program shall have and maintain a list of contractors to provide to the property owners receiving loans or grants. The list will be updated at least once every quarter. Contractors may be removed from or added to the list periodically. Contractors may be removed from the bidding list for lack of participation. Staff will first notify the contractor. This list will be made available to the general public upon request.

2. New Contractors

2.1 Contractors desiring to become eligible to bid on rehabilitation projects may contact the Department at any time. Contractors must have a minimum of 3 years experience in their respective trade(s). Contractors with less than 3 years experience will be required to provide financial data to establish viability. Such data is in addition to the requirements listed below. Contractors making such inquiries will be furnished with an information packet (see Exhibit 6.D5), which includes:

- Basic eligibility criteria for the Rehabilitation Program (including State license and insurance requirements);
- The Contractor's Questionnaire; and
- Request for at least two references of completed rehabilitation/ remodeling or construction projects.

- 2.1 When the Contractor's Questionnaire is returned to the Department, it is forwarded to one of the Building Rehabilitation Supervisors. If the prospective contractor indicates possession of the correct contractor's license, the Supervisor will:
- Inquire of the Contractor State Licensing Board (California Department of Consumer Affairs) the current status of the license (valid with expiration date; suspended; etc.);
 - Check at least two of the references provided by the contractor to determine prior applicants' satisfaction with the contractor and his/her work;
 - Check the City Clerk's Office or on the City website for debarred contractors to ensure the contractor is in good standing with the City; and
 - Schedule an interview with the contractor.
- 2.3 During the interview, the Supervisor or designated Rehab Inspector will describe the Rehabilitation Program and the roles that the City staff, contractors and property owners play in the Program. The contractor will be informed of General Conditions and Rehab Grades and Standards which govern the program, conflict of interest issues (including how the City's Gift Ordinance, the City's Code of Ethics, and the Department's Guidelines for the Appearance of Conflict of Interest, may affect the contractor's relationship with Department staff), the bid process, the owner-contractor agreement, the payment process and the contractor evaluation process, including contractor Disciplinary actions and grounds for debarment.
- 2.4 If at the conclusion of the interview the contractor signifies his willingness to abide by the rules of the program, and the Supervisor is satisfied that the contractor's experience and record qualify him for the Program, the Supervisor forwards the Questionnaire and evidence of insurance (if available) to the Construction Support Staff to:
- Prepare a contractor file for the new contractor containing the documents cited above; and
 - Enter the new contractor's name and other required information on the computerized Contractor's List and database.
- 2.5 New contractors will be on probation until at least the completion of their first job under the program. Until the contractor is off probation, he/she will not be permitted to bid jobs if he/she has one in progress. At the discretion of the Rehabilitation Supervisor, new contractors may be allowed to bid only on jobs of limited size and/or scope, depending on their background and experience. At the discretion of the Supervisor, probation may be extended beyond the first job a contractor receives. This may occur if the first job raises questions regarding the contractor's abilities, or, the contractor still needs to demonstrate his/her capabilities for jobs of larger size and/or scope.

3. Contractor Disciplinary Action

The Rehabilitation Supervisor may discipline contractors, as a result of negative surveys or as recommended by the Rehabilitation Inspector. Because there will be variation in nature and severity of poor contractor performance, a simple formula can not be established to automatically

trigger specific follow-up actions by the Department in response to negative ratings. A recommendation that the Department should initiate debarment proceedings is a judgment call by the Rehabilitation Supervisor on advice by the Rehabilitation Inspector. Prior to recommendation for debarment, the following steps are available for complaints deemed legitimate. Action will depend on the severity and nature of the complaint:

- The first complaint will result in a warning to the contractor. Warning will be documented in the contractor file.
- If the contractor receives multiple complaints and the numbers of complaints are disproportionate to other participating contractors, the contractor may be placed on probation. The contractor will be notified of the probation and duration. If, during the probation period the contractor continues to under perform, the Rehabilitation Supervisor will remove the contractor from the bidding list. Probation will be documented in the contractor's file.
- The contractor will be notified by the Supervisor of his/her poor performance and grounds for removal from the bidding list. Should the contractor feel that removal is unwarranted, he/she may choose to proceed with a formal debarment process.
- Debarment Process (See City Debarment Policy) – The Rehabilitation Supervisor may at his/her discretion recommend formal debarment if the poor performance of the contractor is severe, and the contractor is unwilling to take corrective measures.

D. Insurance Requirements

Contractors, at contractor's sole cost and expense, and for the full term of the contract, or any renewal, thereof, shall obtain and maintain at least all of the following minimum insurance requirements prior to commencing any work or receiving payments under this contract:

1. A Commercial General Liability policy with a minimum limit of not less than \$1,000,000 combined single limit for bodily injury and property damage providing at least all of the following minimum coverages (without deductibles):
 - a. Premises Operations; including X,C and U (Explosion Collapse and Underground) coverage
 - b. Owners' and Contractors' Protection
 - c. Blanket Contractual
 - d. Products and Completed Operations
2. A Comprehensive Business Auto policy with a minimum limit of not less than \$1,000,000 combined single limit for bodily injury and property damage, providing at least all of the following coverage (without deductibles):

- a. Coverage's shall be applicable to any and all leased, owned, hired, or non-owned vehicles used in pursuit of any of the activities associated with this contract.
 - b. Any and all mobile equipment including cranes which are not covered under the above Comprehensive Business Auto Policy shall have said coverage provided for under the Comprehensive General Liability policy.
3. A Workers' Compensation And Employers' Liability policy in accordance with the laws of the State of California and providing coverage for any and all employees of the contractor:
- a. This policy shall provide coverage for Workers' Compensation (Coverage A).
 - b. This policy shall provide coverage for \$1,000,000 Employers' Liability (Coverage B).
4. Course of Construction insurance form providing for "All Risks" of loss in the amount of the completed value of the Project.
5. Developer shall cause its consultants as listed below to maintain Design Professionals errors and omissions insurance no less than the following limits: \$1,000,000 per occurrence
- a. Architect
 - b. Structural Engineer
 - c. Civil Engineer
 - d. Mechanical Engineer
 - e. Electrical Engineer
 - f. Any other professional deemed necessary
6. Endorsements – The policies are to contain, or be endorsed to contain, the following provisions:

Commercial General Liability and Automobile Liability Coverages.

- a. "The City of San José, its employees, officers, agents and contractors are hereby added as additional insureds."
- b. "This policy shall be considered primary insurance as respect to any other valid and collectible insurance the City of San José may possess, including any self-insured retention the City may have and any other insurance the City does possess shall be considered excess insurance only."
- c. "This insurance shall act for each insured and additional insured as though a separate policy had been written for each. This however, will not act to increase the limit of the insuring company."
- d. All Coverages.

Each insurance policy required by this clause shall be endorsed to state that coverage shall not be suspended, voided, cancelled, or reduced in limits except after thirty (30) days prior written notice has been given to the Agency and City.

e. Course of construction policies shall contain the following provisions:

- The City shall be named as loss payee.
- The insurer shall waive all rights of subrogation against the City of San José.

7. Acceptability of Insurers – Insurance is to be placed with insurers acceptable to the City’s Risk Manager.

a. “Thirty (30) days prior written notice of cancellation shall be given to the City of San José in the event of cancellation and/or reduction in coverage of any nature.” Such notice shall be sent to:

Risk Management
Finance
City of San José
200 East Santa Clara St.
San José, Ca 95113-1905
Ph: (408) 535-7060
Fax: (408) 292-6489

PROOF OF COVERAGE: Copies of all the required ENDORSEMENTS shall be attached to the CERTIFICATE OF INSURANCE, which shall be provided by the contractor’s insurance company as evidence of the stipulated coverage’s. This proof of insurance shall be mailed or faxed to:

Risk Management
Finance
City of San José
200 East Santa Clara St.
San José, Ca 95113-1905
Ph: (408) 535-7060
Fax: (408) 292-6489

E. Historic Review

Overview

Older residential structures, those of which are most likely to need rehabilitation work, will often meet the definition of an “historic property”. Federal, State and City regulations and policies dictate that special procedures be followed to ensure that historic resources are preserved and maintained in their original character to the extent possible. The requirements for historic review depend on the sources of funds for rehabilitation or demolition/replacement. It is imperative that the funding source be identified early in the process when work is proposed on an historic property.

Rehabilitation

CDBG regulations require that the State Historic Preservation Officer (SHPO) review and approve any work to the exterior of an “historic property” (except repainting) pursuant to Section 106 of the National

Historic Preservation Act of 1966. For purposes of historic review, exterior work includes replacement of windows, siding, roofing, porch and stair elements (whether with materials conforming to the historic character of the structure or not) and additions.

At the time that the Rehab Inspector initially inspects a property, he/she will determine whether it is an "historic property." Generally, the two threshold criteria for making this determination are that the building either (i) exceeds 50 years in age, and/or (ii) is listed in the San José Historic Resources Inventory. (The Rehab Inspector will check the Planning Department's Historic Resources Inventory to determine whether the property is identified as a listed historic property.) If the property is determined to be historic and exterior work to the structure requires more than repainting, the Rehab Staff will immediately inform his/her Supervisor and the Loan Staff, who will determine the project funding.

The Rehab Inspector will include in the deficiency list the requirement that any exterior work on structures 50 years or older conforms to Attachment A of the Programmatic Agreement (see Exhibit 6.D1). In addition, the Rehab Inspector will indicate on the Rehabilitation Environmental Review form that the structure conforms to exemptions in the Programmatic Agreement and the project does not, therefore, require referral to the SHPO.

F. Rehabilitation Alternatives

1. Alternatives to approval

If the Rehabilitation Inspector determines that the property cannot be rehabilitated for the maximum loan amount, the Rehab Inspector and Technical Review Committee may choose the following Alternatives:

- Reducing the scope of work – The Rehab Inspector may reduce the scope of Work to only include critical repairs
- Require the applicant to provide funding (if applicant has available)
- Rejecting the loan – The Loan or construction staff may choose to not fund a project. (see Cancellation Process)
- Proceeding with recommending the loan for Technical Review Committee consideration based on special circumstances. These circumstances must be explained in writing. In cases where an exception is recommended based on a higher Loan to Value ratio, a full appraisal report by a licensed appraiser must be ordered by the Staff. In case where the rehabilitation costs exceed the Director's Delegation of Authority and Demolition/Replacement is not feasible, the TRC may recommend seeking City Council approval for permission to extend the loan at a higher value. The Director, or his/her designee, must approve this course of action prior to seeking Council approval.
- Replacement House

2. Referrals

- Code Enforcement Referral – If in the course of an inspection, the Rehab Staff notes a condition that poses an immediate threat to health or safety on either the property being inspected or on neighboring properties, and the Property owner is unwilling to address the condition, the Rehab Inspector may notify the Code Enforcement Division of the threat, after consultation with the Rehab Supervisor.
- Economic and Social Opportunities – Staff may refer property owner to other organizations with the capacity to assist the property owners with needs. Organizations such as Economic and Social Opportunities (ESO) may be used for non-critical repairs such as handrails or accessibility ramps where program fund may not be available.
- Other Referrals – Inspectors may observe other social or family conditions that suggests additional intervention and based on consultation with the Rehab Supervisor may make referrals to social service, advocacy, or legal authorities.

3. Replacement Housing

Replacement of an equivalent sized unit can sometimes be more cost-effective than rehabilitation. In general, the cost to replace a unit is compared to the cost to rehabilitate the unit. The Director or his/her designee will approve replacement only if the cost of rehabilitation is equal to or greater than the cost of replacement and the life expectancy of the unit after rehabilitation is less than twenty years or preservation of an historic property is not warranted.

In general, replacement costs may include:

- Demolition and site preparation;
- Construction of a dwelling of the same square footage and number of bedrooms and bathrooms as the one being replaced;
- Any additional rooms/areas to comply with City of San José Housing Code occupancy standards;
- Soft costs; and
- A contingency consistent with Pre-Construction Section Part 7

At the time that the Rehab Staff initially inspects a property and it is determined that the existing structure should be demolished and replaced, he/she will consult the Historic Resources Inventory.

3.1 If the property is not listed in the Inventory, the review process may proceed.

3.2 If the property is listed in the Inventory as a designated City landmark or located in a City historic district, the Rehab Staff will advise the Rehabilitation Supervisor that an application for an Historic Preservation (HP) Permit will need to be filed with the Planning Department.

If the property is listed in the Inventory but is not a designated City landmark nor located in a City historic district, the Rehab Staff will advise the Rehabilitation Supervisor that a historic

report must be submitted to the Planning Department for review by the Historic Landmarks Commission.

In either (b) or (c) above, the Rehabilitation Staff will consult with the Historic Preservation staff in the Planning Department regarding (i) the time necessary to perform the required historic preservation approvals, and (ii) the likelihood that approvals will be granted. From this consultation, the Rehabilitation Staff may determine that he/she recommend to the Technical Review Committee and Loan Review Panel that rehabilitation of the existing structure may be preferable to pursuing demolition/replacement, even though the latter may be less costly.

Prior to issuing a demolition permit, the Building Department also requires proof that issues relating to the abatement of asbestos are being addressed. A demolition permit will not be issued by the Building Section of the Department of City Planning and Building without a site development permit from the Planning Department and an Acknowledgment Form from the Bay Area Air Quality Management District (BAAQMD) that indicates that a plan for abating asbestos, if necessary, has been submitted.

When it has been determined that the existing structure should be demolished and replaced, Rehab Staff will:

- a. Arrange to contract out testing to determine the presence of asbestos and the preparation of an abatement plan.
- b. Submit the abatement plan to the BAAQMD and receive the acknowledgment form.
- c. Obtain a site development permit from the Planning Department.
- d. Submit the Site Development Permit and the Acknowledgment Form from the BAAQMD the Building Department and receive the demolition permit.

G. Rehabilitation Photograph Policy

Inspectors shall take “before” and “after” digital pictures, on an as-needed basis, to document existing property conditions and subsequent construction improvements. Typical situations where pictures should be taken include:

- Demonstration projects
- Whole-house replacements
- Substantial dilapidation of one or more residential systems
- Diagnostic purposes for later consultation with the Rehab Supervisor
- Document severe or potentially controversial repairs

There is no need to take pictures where the original, failing condition will not be apparent in a photograph, for example, a whole house re-pipe or a leaky roof with no marked wear on the exterior.

Digital photos should be maintained in an electronic folder on a department network drive. Hard copies should be printed and included with the file at the time the project is completed.

H. Standards for Rehabilitation Work Items

Standards for rehabilitation funded from HPP proceeds are indicated in Exhibit ____, Housing Rehabilitation Standards.

I. Surveys

Customer Service Surveys will be provided to all Rehabilitation Program customers to evaluate program staff, contractor and overall program for customer satisfaction. Surveys may also be reviewed by program management to evaluate overall program effectiveness. Results of these surveys will be collected and summarized in the Investing In Results report quarterly, Chapter ____ (see Reports).

- After each rehabilitation project has been completed and the construction file has been closed, Construction Support Staff shall mail surveys to the applicant, self-addressed and stamped for return.
- When the applicant response has been received, the Rehabilitation Supervisor shall review all surveys. The Rehabilitation Supervisor will follow-up on those surveys indicating an unfavorable response. Applicant's comments or outcome will be noted on survey form.
- For contractors who receive negative or unsatisfactory responses see "Contractor" section for actions.
- Once the follow-up is complete, the Construction Support Staff shall enter unfavorable responses into the Program database.
- Copies of all negative surveys will be filed in the contractor's file. The original surveys will be kept in a binder for easy access.

J. Recourse of Property Owner in Case of Problems

If during the course of Construction the owner feels that there is a problem with the work or the performance of the contractor, the owner should contact the Rehabilitation Inspector immediately. The Rehabilitation Supervisor will be informed and updated throughout process. The following steps will be taken:

1. The Rehabilitation Inspector will conduct an inspection to review the contractor's work. The inspector will review the contract terms to evaluate contractor performance with regard to scope and schedule. If the Rehab Inspector determines that the contractor is meeting the scope and schedule, the Rehab Inspector will notify the owner verbally of his/her determination and reasoning for that determination. If the Rehab Inspector determines that the contractor is not performing to the terms of the contract or that the work is not meeting Program or Industry Standards, the Rehab Inspector will notify the contractor of his/her determination. If the contractor does not respond and

take corrective measures within 3 working days the Rehab Inspector will notify the contractor in writing, and also inform the contractor of possible owner recourse.

2. If the contractor fails to respond or the Rehab Inspector is unable to mediate a compromise between the owner and Contractor, the Rehab Inspector can recommend the following actions:
 - Terminate the contract through a “change order” or other legal agreement. The terms of the termination must be mutually agreeable.
 - Stop Notice issued by the Rehab Inspector. The Rehab Inspector will notify the contractor in writing of the owner’s decision to stop the project. The Contractor will also be notified of the owner’s intended recourse.
3. The property owner may file a complaint with the California State Contractors Board if he/she wishes. The Rehabilitation staff will provide the owner with the required forms and any documentation requested by the Board.
4. The property owner may seek Arbitration (See Arbitration Section).
5. The owner may also choose to seek legal council on his/her own. This will be done at the owner’s expense.

K. Unauthorized or Substandard work during Construction

If during any in-process inspection of construction the Inspector finds work performed by the contractor which is either in addition to the scope of work spelled out in the Description of Work or substandard according to the program Standards and/or the Description of Work with regard to the quality of materials or workmanship, the Inspector will immediately advise the owner and contractor orally and in writing that:

1. All work by the contractor on the project is to be suspended until such condition has been remedied;
2. All unauthorized work is to be included in the contract pursuant to a Change Order or removed;
3. All substandard work is to be corrected; and
4. No further progress payments will be authorized by the Housing Department until such condition has been remedied.

L. Use of Insurance Proceeds

If the proposed rehabilitation work includes repairs resulting from fire, storm, or other casualty, the borrower or grantee will be required to apply any insurance recovery for the real property damage to the proposed rehabilitation project. These funds, if any, will be deposited in the construction escrow account with the consent of the first lender, if applicable, or owner deposit fund and will be disbursed prior to Loan or grant funds.

CHAPTER 7: SPECIAL PROJECTS

The Housing Department from time to time receives additional funding for special projects and initiatives. This chapter identifies special programs in place during FY 05-06.

Strong Neighborhood Initiative (SNI):

The Initiative is a partnership between the City, the Redevelopment Agency, and the community to build clean, safe, and attractive neighborhoods that foster strong, independent and capable neighborhood organizations. In 2002-03, the City Council adopted nineteen SNI Neighborhood Improvement Plans, each identifying the priority improvements for particular neighborhoods. The plans, developed by community members, are now being used as implementation tools to program delivery of services such as the alleviation of blight, vehicle abatement, and neighborhood cleanups as well as housing rehabilitation improvements.

The SNI Program has several goals:

- Improve Neighborhood Conditions
- Enhance Community Safety
- Expand Community Services
- Empower Community Residents

The Housing Department recognizes the importance of using the NACs, and established Neighborhood Associations in researching and responding to identified neighborhood priorities, and remains committed in reaching out to these organizations in forging empowerment opportunities. In a number of SNI areas, the rehabilitation of multi-family housing was identified as a top ten priority for the community. In coordination with other City Departments, Neighborhood Advisory Committees, and Property Owner Associations, the Housing Department is the lead in facilitating the coordination and implementation of the SNI Rehab Multi-family projects.

Consistent with the Council adopted "Final SNI Policy Document", the Department strives to show immediate results and balance the most pressing needs within the overall SNI area with the desires of each NAC to have tangible results for all their hard work. During FY 05-06, the Department is active in the implementation of these special projects in the following SNI areas:

- Winchester
- Five Wounds Brookwood Terrace
- Hoffman Via Monte
- Blackford
- Burbank Del Monte
- Greater Gardner

SNI Multi-Family Housing Rehabilitation Project Implementation Process

If using Redevelopment Agency funds, the Department shall enter into a Project Services Memorandum (PSM) Agreement with the Agency to define scope of services and develop project timeline. Upon

execution of the Project Services Memorandum by all parties, a budget appropriation action by the City Council/Redevelopment Agency Board allows for the transfer of funds to the Housing Department.

The Housing Rehabilitation Program Manager develops a consulting contract for the hiring of a Landscape Architect/Project Consultant. The Landscape Architect is hired from the list of service providers identified by the Neighborhood Advisory Committee as a result of a Request for Proposals.

The Landscape Architect/Project Consultant works with the Housing Rehabilitation Project Manager to coordinate with owners, tenants and neighbors to identify needs, and develop short and long terms neighborhood improvement recommendations.

The Landscape Architect/Project Consultant develops a "Sourcebook" which outlines the process and the project design recommendations to clarify intentions and to guide future neighborhood improvement initiatives.

The Housing Rehabilitation Project Manager and the Rehabilitation Supervisor, in coordination with the Landscape Architect/Project Consultant assist the property owners in the selection of the contractor. A minimum of three bids must be solicited for the work.

The Rehabilitation Project Manager creates a Project Oversight Team composed of owners, tenants, community leaders and appropriate City Staff to meet on a regular basis during the construction period of the project.

Airport ACT/Housing Rehabilitation Partnership

Properties that are identified to be within the "Airport Noise Impact Area" are eligible for the Airport's acoustical treatment improvements (See Map of Eligible Areas). The purpose of the program is to improve the quality of life of residents by reducing interior noise to meet the State of California Noise Standard.

All work associated with the acoustical treatment is paid by the City of San José at no cost to the eligible homeowner. Typical improvements include replacement of windows and exterior doors, installation of weather stripping, and air conditioning.

Low-income owner occupied households in the Washington Guadalupe SNI area may combine the acoustical treatment with housing rehabilitation grants and loans for additional improvements to preserve their home. Improvements include roof replacement, plumbing repairs, bathroom rehabilitation, water heater replacement and exterior paint.

Airport Staff, trained in the City's Housing Rehabilitation Program, may provide a housing rehabilitation program application to a potential customer or REFER customer to the Housing Rehabilitation Staff assigned as the liaison for the partnership.

The same housing rehabilitation program guidelines/eligibility requirements apply to Airport ACT/Housing Rehabilitation Partnership customers.

City of San Jose Energy Conservation and Improvement Grant Program

The purpose of the Energy Conservation and Improvement Grant Program is to provide financial assistance to low-income households to make home improvements that reduce energy consumption.

The energy program one-time funds will be targeted as follows:

1. Target all funds to low-income households, currently defined as those households earning below 80% of Area Median adjusted annually for household size by the Department of Housing and Urban Development (HUD).
2. Target owner-occupied properties in Strong Neighborhood Initiative areas of the City, but funds may be used in the non-SNI areas.
3. Allow the use of energy funds in addition to the standard housing rehabilitation grants/loans for City-wide owner-occupied low-income mobilehome residents.

Eligible Improvements include the following:

- Windows
- Water heater
- Furnace
- Duct system repair/replacement
- Insulation
- Air Conditioning/Swamp Cooler
- Attic Fans
- Weatherstripping
- Exterior energy efficient lighting
- Energy-Star compliant refrigerators
- Energy-Star compliant washer/dryer
- Energy-Star compliant dishwashers

The grant program is administered in conjunction with the Housing Rehabilitation Program and qualified customers may receive energy conservation in addition to the regular loans/grants. Inspectors will require contractor(s) to break out energy improvements on a separate budget line-item. Housing Staff will track energy improvement expenditures separately on the program database.

The program's grant limits are as follows:

- Projects that are approved in conjunction with the Housing Rehabilitation Program may receive a maximum of \$2,500 for energy conservation.
- Stand-alone energy conservation projects may be approved for a maximum of \$5,000 or the cost of the energy improvement, whichever is less.
- Mobilehome projects may receive a maximum grant of \$3,000 or cost of the energy improvement, whichever is less.
- Grants will not be approved for projects below \$1,000.
- All other housing rehabilitation program underwriting guidelines apply accordingly.

CHAPTER 8: REPORTING AND PROGRAM EVALUATION

In an effort to provide for checks and balances, and the proper oversight of program activities and results, a number of standard reports are generated by Department Staff.

Quarterly Program Reports

The Department submits Quarterly Reports to the City Council summarizing activities in the Housing Rehabilitation Program. The report is presented in three sections:

1. Program Intake – Includes information related to workload associated with applications from customers for housing rehabilitation assistance.
2. Program Completions – Includes information related to construction activity.
3. SNI Multi-family Demonstration/Special Projects – Highlights activities and progress in the City's SNI areas, and special initiatives by the City Council.

In addition, the report also includes program budget performance information, and a section on public outreach conducted by the Department during the reporting period.

Monthly Internal Reports

A Monthly Internal Report is submitted to the Director by the management staff. The report serves as a management program tracking and decision-making tool, capturing monthly data and previous year monthly data.

Investing in Results (IIR)

The Housing Rehabilitation Program is a tool used by the City in an effort to “Maintain the Existing Affordable Housing Supply” Core Service. IIR performance measures have been developed for the program, and are submitted on a quarterly basis to the City Manager's Budget Office. The measures are then included in the City's Proposed and Adopted Operating Budgets. Key measures are used to track overall project performance, including measurements to evaluate timeliness of requests related to health and safety deficiencies in single-family homes.

CDBG Reports

Management staff submits to the Community Development Block Grant (CDBG) monitoring staff a quarterly report called a Memorandum of Performance (MOP).

CalHome Reports

As a recipient of CalHome funds for housing rehabilitation efforts, the Department submits both quarterly status and an annual report to the California Department of Housing and Community Development (HCD). The information provided is in accordance with the “CalHome Program Reuse and Loan Servicing Monitoring Agreement”, and includes the following:

In accordance with the committee’s annual work plan, the Department provides a bi-annual status report on the Housing Rehabilitation Program to committee members. The purpose of the committee report is to highlight significant program activities, including the status of SNI Rehab Demonstration Projects, recent successes, before and after pictures of neighborhood improvement projects, program challenges, and new initiatives and/or partnerships.

Client Program Evaluation Surveys

All Housing Rehabilitation customers are provided a “Customer Service Survey” to evaluate program staff, contractors, and overall customer service. Customers are asked to respond to the following questions:

1. How satisfied were you with the selected Contractor?
2. Were any of the repairs performed on an “Urgent” basis? If so, what type of repair was made?
3. Would you have been able to make the urgent repair(s) to your home if City funds were not available?
4. How satisfied were you with the service you received from the Housing Staff?
5. Would you recommend the program to family and friends?
6. How did you hear about the program?

Management Staff use the survey as one of the tools to evaluate overall program effectiveness. All unfavorable responses are tracked in the program database for further review and follow-up. In addition, the survey results are summarized in the Investing in Results (IIR) quarterly reports included in the City’s Proposed and Adopted Operating Budgets. If the survey identifies specific concerns and/or problems associated with the implementation of the home improvements, the Rehab Supervisor will follow-up with an investigation and seek to resolve concerns/problems noted.

CHAPTER 9: OTHER PROGRAM POLICIES AND PROCEDURES

This Handbook contains the policies and procedures of the Rehabilitation Program. The Director of Housing (or designee) must give written approval of any changes or exceptions to these policies or procedures.

Equal Opportunity

The City of San José shall not discriminate against, and shall ensure that Applicants are treated without regard to their race, religion, color, national origin, ancestry, physical handicap, medical condition, marital status, sexual orientation, gender, or age. Such actions will include, but not be limited to the following: order of processing applications, approval of application, hiring and/or certification of Contractors, inspection practices, inclusion of items in the Project, standards of construction or quality of materials, and timeliness of payments to Contractors.

Delegation of Authority

The purpose of the Department of Housing is to administer the City's comprehensive affordable housing program. The loans and grants approved by the Housing Director (or authorized designees) as part of the Housing Rehabilitation Program are done so through a Delegation of Authority approved by the City Council. The current delegation was approved on May 23, 2000 and is found in Ordinance 26127 of Chapter 5.06 of Title 5 of the San José Municipal Code. Certain limits may be changed by resolution of the City Council at a future date.

Appearance of Conflict of Interest

City employees and their immediate family members may apply for the various housing rehabilitation loans and grants. In accordance with the Housing Department's "Guidelines for Employees to Avoid Appearance of Conflict of Interest", city employees and their immediate family members are not precluded from receiving loans and grants administered by the Department, so long as they abstain from any involvement in the processing of the application, and they qualify for the loan/grant based on the program's standard guidelines and requirements. The following additional procedure is used in the approval of loans/grants to City employees:

1. In the case of city employees (non-Housing Department), the Division Manager submits a memorandum to the Director of Housing attesting that the employee or the employee's family has had no direct involvement in the approval of the grant/loan or inspection oversight associated with the repairs to the subject property. If the Director concurs that no actual conflict of interest has occurred, the Director signs the "Approved" section of the memorandum, and the document is placed in the project file and a copy is mailed to the applicant.
2. In the case of Housing Department employees, the Director of Housing submits a memorandum to the City Manager attesting that the employee has had no direct involvement in the approval of the grant/loan or inspection oversight associated with the repairs to the subject property. If the City Manager concurs that no actual conflict of interest has occurred, the City Manager signs the

“Approved” section of the memorandum, and the document is placed in the project file and a copy is mailed to the applicant.

Exceptions to Policies and Procedures

Individual exceptions may be required due to specific hardship or to better achieve the goals of the program. Exceptions may be recommended by the Division Manager or Program Manger directly in the form of a memorandum, or through a loan or grant recommendation by the Department’s Program Staff

Changes to Policies and Procedures

Amendments to this handbook are made through the following process:

1. A written proposal addressing the following points is shared with all affected staff for comments:
 - a. What policy/procedure needs to be changed and what is the need for the change;
 - b. What the proposed policy/procedure is, and what are its perceived advantages and/or benefits;
 - c. What are the proposed effective dates and any grandfathering provisions;
 - d. Date requested for comments;
2. A final proposal, incorporating staff comments is submitted to the Director.
3. The Director gives written approval of the change(s) by signing the memorandum.
4. Staff receives approved memorandum and the revised handbook amendment(s).

APPENDIX A: GLOSSARY

20% Housing Funds – Redevelopment tax increment funds that by State law are to be allocated to increasing, improving and preserving the supply of affordable housing for lower-income households.

Affordability Restrictions – The requirements imposed by a public agency that housing units remain affordable to low and moderate income households for a specified number of years.

Affordable Housing – According to federal law, housing in which a household spends no more than 30% of its gross monthly income for rent and utilities, or for principal, interest, property taxes and insurance.

Amortization – Loan repayment by equal or nearly equal payments (usually monthly); repayment is calculated to retire the principal at the end of a fixed period (term) and to pay interest on the outstanding balance as it accrues.

Appraisal – A report made by a qualified person setting forth an opinion or estimate of value. The term also refers to the process by which this estimate is obtained.

Appraised Value – An opinion of value reached by an appraiser based upon knowledge, experience, and a study of pertinent data.

Balloon Payment – An installment payment on a promissory note-usually the final one for discharging the debt-which is significantly larger than the other installment payments provided under the terms of the promissory note.

CDBG – Community Development Block Grant. – Under Title I of the Housing and Community Development Act of 1974, eight former categorical grant and loan programs were replaced by a system of unified block grants under which communities over 50,000 people are entitled to receive funding while other communities may apply for discretionary funding. Its purpose is to encourage more broadly conceived community development projects and expand housing opportunities for low- and moderate-income persons.

Construction Costs – Broadly, all costs incurred in bringing a building to completion, not including land acquisition, financing or sales costs.

Debt Coverage Ratio – The ratio of effective annual net income to annual debt service.

Debt Service – A borrower's periodic loan payment comprised of the loan principal plus payment of interest on the unpaid balance.

Deed of Trust – As with a mortgage, a legal document by which a borrower pledges certain real property or collateral as guarantee for the repayment of a loan. Differs from the mortgage in a number of

important respects. For example, instead of two parties to the transaction, there are three -- there is a borrower who signs the deed of trust and who is called the trustor; there is a neutral party, to whom trustor deeds the property as security for the payment of the debt who is called the trustee; and there is a lender who is called the beneficiary, the one who benefits from the pledges agreement in that, in the event of a default, the trustee can sell the property and transfer the money obtained at the sale to lender as payments of the debt.

Deed Restriction – A limitation placed in a deed limiting or restricting the use of the real property.

Deferred Loan – A loan whereby payment of part or all of the loan is deferred until a later time as specified in the loan.

Disabled Household – Households in which at least one of the residents is an adult with a disability. A person is considered to have a disability if s/he has a physical, mental, or emotional impairment that (1) is expected to be of indefinite duration, (2) substantially impedes his or her ability to live independently, and (3) is of such nature that the ability could be improved by more suitable housing conditions (federal definition).

Equity – The interest or value which an owner has in real estate over and above the current indebtedness; usually referred to as the owner's interest.

HCD – California Department Housing and Community Development. Provides housing and planning information and guidance, State bond funds, low-interest loans and grants for housing development and rehabilitation. Oversees the annual Housing Element review process to ensure that Housing Elements are in compliance with State law.

HOME – The HOME Investment Partnerships Act, which is Title II of the National Affordable Housing Act.

Household – All persons, whether related or unrelated, living in a housing unit.

Housing Code – Local standards that ensure that maintenance and improvements of housing meets accepted standards and is adequate for occupancy.

HUD – The U.S. Department of Housing and Urban Development. Established by the Housing and Urban Development Act of 1965 to supersede the Housing and Home Finance Agency. Responsible for the implementation and administration of government housing and urban development programs includes community planning and development, housing production and mortgage credit (FHA), equal opportunity in housing, research, and technology.

Interest Rate – The percentage of a sum of money charged for its use; rent or charge paid for use of money, expressed as a percentage per month or year of sum borrowed.

LTV – Loan-to-Value Ratio. The relationship between the amount of the mortgage loan and the appraised value of the security, expressed as a percentage of the appraised value.

Negative Amortization – A situation in which monthly payments are insufficient to pay accrued interest and the amount owed on the loan, so that the loan balance increases rather than decreases with each

payment. Adjustable Rate Mortgages (ARMs) and some graduated payment mortgages (GPMs) have negative amortization.

Notice of Completion – Notice recorded after completion of construction.

Offsite Improvements – Improvements outside the boundaries of a property which enhance its value.

Onsite Improvements – Any construction of buildings or other improvements within the boundaries of a property which increases its value.

Overcrowded – A housing unit containing more people than is permitted by various laws. For example, the Census defines an overcrowded household as one in which there is more than one person per room.

Principal – The amount of debt, exclusive of accrued interest, remaining on a loan; before any principal has been repaid, the total amount loaned is the principal.

Promissory Note – Following a loan commitment from the lender, the borrower signs a note promising to repay the loan under stipulated terms; the promissory note establishes personal liability for its payment. The evidence of debt.

Rehabilitation – The process of returning a property to a state of utility, through repair or alteration.

Replacement Housing – Housing that a public agency must cause to be produced to replace housing destroyed by public action.

Senior Household – One- or two-person households containing a person at least 62 years of age.

Subordinate – The act of a party acknowledging, by written recorded instrument, that a debt due is inferior to the interest of another in the same property, subordination may apply not only to mortgages, but also to leases, real estate rights, and any other of debt instruments.

Substandard Unit – In general, any unit that suffers from some type of physical defect, such as electrical wiring that is not up to Code or lack of plumbing. There is no common definition of "substandard" housing among the federal, State, or local levels.

Tax Increment Funds – Additional tax funds that result from increases in property values occurring within a specified Redevelopment Area. State law permits these funds to be earmarked for redevelopment purposes and requires that at least 20% be used to increase and improve the community's affordable housing supply.

Underwriting – Process of evaluating borrower credit, collateral value, and risks involved in making a loan.