# City of Bellingham
# HOME REHABILITATION PROGRAM GUIDELINES
## Owner-Occupied Home Repair Loans

### Purpose of the Home Rehabilitation Program

- To assist property owners within the city limits of Bellingham in the repair or rehabilitation of their homes to a safe and livable condition, within the parameters of the program as set forth herein.
- To offer loans that are within a homeowner's financial capacity.
- To improve energy efficiency and conservation of resources, consistent with the City of Bellingham Climate Action goals.[1]

### Who Qualifies

- Homeowners that are under the age of 62 that have a household income less than 60% area median income (AMI).
- Homeowners that are disabled (of any age) that qualify as low or moderate income (income less than 80% AMI).
- Homeowners that are over 62 years of age that qualify as low or moderate income (income less than 80% AMI).
- Exceptions to income limits in certain emergency situations may be granted on a case-by-case basis.

### Financial Assistance

The City provides financial assistance to repair or rehabilitate your home as a loan. Terms depend on the homeowner's net assets. (See "Loan Terms" Section below.)

Funding for the Home Rehabilitation Program comes from the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant Program (CDBG). Each year, the City has set aside funds for the Home Rehabilitation Program (HRP) with the anticipation that funds will be paid back over time. When the funds are paid back, the City is required to invest those funds back into projects or programs that benefit low- and moderate-income households.

### Loan Terms

The Home Rehabilitation Program will charge interest rates depending on the homeowners' net worth. Net worth will be defined exclusive of retirement accounts. Interest rates will have a minimum (1%) and a maximum (5%).

[1] See https://cob.org/services/environment/climate

1. Net Worth $350,000 or below: Those homeowners with a net worth $350,000 or below will be charged 1% interest rate for a 15-year term.
2. Net Worth above $350,000: Those homeowners with a net worth of more than $350,000 will be charged 1% ***below*** the Wall Street Journal Prime Rate for a 15-year term. For example, if the Prime Rate at closing is 3.50%, the loan would then carry a fixed rate of 2.5% for the 15 year term.

## TYPES OF LOANS

### Deferred Payment with a 5 year Term

**Who Qualifies:** Homeowners that are under the age of 62 that have a household income less than 60% area median income (AMI).

**Interest Rate:** Interest will be charged at a fixed rate of at least 1%, but no greater than 5% (depending on homeowner assets).

**Terms:** The home rehabilitation loan payment is deferred until it has been determined that the household is financially able to make payments. The interest is calculated for 15 years.

The loan is termed meaning that **t**he income of the household would be reviewed comprehensively (source documents) in five years to determine whether the household can make payments at that time.

The loan is due when the house is sold, the property title is transferred, or there is a change of use or occupancy.

**Loan Amount:** Up to $60,000.00 may be borrowed, depending on the amount of lead paint stabilization work needed as part of the rehabilitation. Exceptions may be granted on a case by case basis (see "Loan Limit Criteria" Section below).

### Deferred Payment Loan

**Who Qualifies:** Homeowners that are disabled and/or over 62 years of age that qualify as low or moderate income (income less than 80% AMI).

**Interest Rate:** Interest will be charged at a fixed rate of at least 1%, but no greater than 5% (depending on homeowner assets)

**Terms:** the home rehabilitation loan payment is deferred and interest is calculated for 15 years. The loan is due when the house is sold, the property title is transferred, or there is a change of use or occupancy.

**Loan Amount:** Up to $60,000.00 may be borrowed, depending on the amount of lead paint stabilization work needed as part of the rehabilitation. Exceptions may be granted on a case by case basis (see "Loan Limit Criteria" below).

## Loan Limit Criteria

**Exceptions to increase loan limits may be granted on a case-by-case basis.**

If housing components are identified through a risk assessment conducted by a certified risk assessor as having lead paint hazards containing lead above the HUD and EPA threshold,[2] the project cost must include the costs to cover the safe removal and replacement of lead-based painted components as long as non-lead related work does not exceed $25,000.00.[3] In the case of a dwelling unit that is identified as having no lead present through a lead risk assessment or lead screen conducted by a certified risk assessor, the loan maximum is $60,000.00 to bring the dwelling unit up to Local Housing Standards.

## Non-Assumable

Upon sale or other transfer of the property, whether by operation of the law or otherwise; in the event that the property ceases to be used as the primary residence of the owner; or upon change from a single-family residence, the loan amount will, at the lender's option, become due and payable.

# ELIGIBILITY CRITERIA

## Applicant Priority

The Home Rehabilitation Program assists low to moderate income households. The city's - Consolidated Action Plan prioritized housing for special needs populations and those with fewer financial resources. The following households on the city's waiting list will receive higher priority for housing rehabilitation services:

- Seniors (62 and over)
- Households with disabled persons
- Very low-income households (60% AMI or below)
- Veterans
- Any qualified owner-occupied household in a neighborhood with more than 60% renter households according to the most recent Census data

Exceptions will be made for emergency health and safety repairs.

## Applicant Eligibility

- Applicants must fit the criteria under the respective loan type.

[2] Lead-Based Paint means paint or other surface coatings that contain lead equal to or exceeding 1.0 milligram per square centimeter or 0.5 percent by weight or 5,000 parts per million (ppm) by weight.
[3] Federal law requires lead abatement rather than lead paint stabilization if non-lead related work is more than $25,000. The City of Bellingham does not currently have a lead abatement program.

- Applicant must be credit worthy.
- Applicant is not eligible if they received a Home Rehabilitation Program loan within the past five (5) years. An exception may be approved in the case of an emergency repair, or if otherwise allowed by the City as recommended by the Loan Review Board.

## Participation Requirements

- The program requires engagement and timely decision-making by applicants. Applicant must respond promptly and decisively within HRP timeframes to keep the project moving forward. Applicant will be contacted by HRP staff when their application is at the top of the waiting list to schedule the formal application intake, meet for the intake, submit all required documentation, and schedule a site visit with the Home Rehab Program Specialist (a process that should take about two weeks). The HRP Specialist will work with the applicant to develop a scope of work, publish this scope for contractor response, work with the applicant to choose a responsive contractor, and bring the loan with the agreed-to scope before the Loan Review Board for approval (a process that should take no more than 2 months). Failure of the applicant to engage and make timely decisions may result in loss of loan funding and/or removal from the waiting list. Applicants will be removed from consideration if 5 months have lapsed from notification of formal application intake with no contract and/or no loan agreement signed.[4]
- Applicant agrees to allow Home Rehabilitation Program staff to photograph exterior/interior and before/after views of the property.
- A program sign is placed in the front yard (location decided with borrower approval).
- All loans must be secured with a Deed of Trust.
- Adequate fire and hazard insurance must be maintained to cover total liens against the property, with the City named as additional insured.
- All taxes, assessments, and insurance premiums currently due on the property must be paid prior to loan closing.
- If the property contains rental units, low or moderate income households must occupy at least seventy percent (70%) of the residential units after rehabilitation.
- The rehabilitation project is expected to be complete within twelve months from signing the promissory note and deed of trust. Failure to complete construction within that time period may result in loss of funding.

[4] More information is provided on the scope of work timing and process in the following sections entitled “Scope of Rehabilitation Work” and “Construction Phase”.

## Income Determination

- Eligibility for the Housing Rehabilitation Program is based on the household falling below HUD Program Income Limits.
- The City determines annual income as the *adjusted gross income* as defined for the purpose of reporting under IRS Form 1040 series for individual Federal annual income tax purposes. The City will use HUD's Technical Guide for Determining Income and Allowances for the HOME Program.
- Gross income includes income received by all household members, aged 18 years and older, which is taxable under the IRS guidelines and any other taxable income as defined by the IRS Code, as follows:
    - All income in the form of wages, salary, bonuses, and tips.
    - The full amount received from social security, pensions, and annuities.
    - Payments in lieu of earnings, such as unemployment compensation, other social security benefits, and dismissal wages.
    - Benefits in lieu of earnings other than lump sum payments under health and accident insurance.
    - Alimony, child support and the like.
    - Subsistence allowance or receipts in connections with education or training.
    - Income from earning assets, rental income.

## Property Eligibility

- The property must be located within the Bellingham City limits.
- The home must be a one to four unit residential structure. A section of the structure may have a commercial use.
- At the time of application, the residential property value must generally be at or below 95% of the area median property value. [In 2022, this was $517,750.][5]
- The Program will only allow for rehabilitation of an outbuilding, such as a detached garage, if it is determined by the Loan Review Board to be necessary.
- The property must be in need of repairs due to one or more of the following conditions, as described in the Housing Rehabilitation Loan Program, Local Housing Standards:
    - Overcrowding
    - Structural defects

[5] Staff will review your application against the current value limit. Exceptions to this limit will be considered if the home value alone (excluding the land value) does not exceed 75% of the maximum property value, or if there has been deferred maintenance combined with financial distress in the past 3 years.

  - Inadequate or hazardous heating facilities
  - Inadequate or defective plumbing system
  - Inadequate or hazardous electrical system
  - Inadequate ventilation
  - Inadequate energy conservation
  - Inadequate long-term maintenance
  - Lead-based paint or asbestos hazard
  - Any other hazardous condition
- The residence is required to meet Local Housing Standards after rehabilitation to the degree possible within the parameters of the program.
- Health and safety items, as specified by the HRP staff, must be corrected using no more than the maximum loan amount for which the applicant qualifies.
- A residence in need of less than $5,000 in rehabilitation repairs is generally not eligible.
- Exceptions may be granted on a case-by-case basis.[6]

The total property debt, including the Home Rehabilitation Program loan, may not exceed 90% of market value of the property after rehabilitation.

## SCOPE OF REHABILITATION WORK

Upon household income qualification for the Home Rehabilitation Program, program staff will contact the homeowner to schedule an onsite visit to determine the extent of the work needed.

A scope of work will be generated based on the priority of the work needed on the house as described below. Producing the scope of work is an iterative process, with input from the homeowner and City staff. When the scope of work is suitable to both the homeowner and the HRP, a "Request for Proposals" will be distributed to contractors, typically by email. This process is expected to take no more than six weeks. The program's contractor list is not exclusive; licensed and bonded contractors are encouraged to submit a contractor qualification form to the HRP to become eligible to submit proposals for projects.

### Priority 1: Health and Safety Improvements

Items necessary to bring the property into a safe and sanitary condition including, but not limited to:

[6] Depending on the scope of the loan, an inspection to identify the relevant area conditions not meeting Local Housing Standards will be conducted. The inspection will only specify observed conditions that fail to meet Local Housing Standards. It will not warrant correction of, or protection against, latent conditions.

- Leaking plumbing
- Rotten wood
- Overloaded electrical system
- Broken windows
- Leaking/damaged roof
- Presence of lead-based paint or asbestos

There may be instances when multiple Priory 1 items need to be addressed, and cannot be, due to the constraints of funding limits related to nonlead and lead-based work and/or the lack of availability of lead abatement contractors. In these instances, all rehabilitation will exclude disturbing painted surfaces.

**Priority 2: Long Term Maintenance**

Those items which will appreciably reduce future maintenance and operating costs to the owner:

- Exterior painting, insulation, window replacement, gutters, roofing, heating, etc.
- Purchase of equipment is limited to stoves, refrigerators or built-in fixtures and **only if the existing equipment is unsafe, unsanitary, or lacking.** Price of appliances: new refrigerators not to exceed $1,000; new range not to exceed $800. Installation, delivery, and tax are exclusive of the price limit.
- Energy efficient/energy star rated appliances are required for appliance, heating or plumbing replacements.
- Heating: Electric base board heaters may be upgraded to forced air wall heaters, hydronic heaters or installation of a ductless mini-split heating system; gas furnace replacement will be with a 90% AFUE rated or better gas furnace.
- Hot Water Heaters: Existing hot water heater will be replaced with a High Efficiency Water Heater/Energy Star Qualified Hot Water Heater as practical.
- Plumbing: when plumbing fixtures are replaced, low flow fixtures will be installed (i.e., toilets, showerheads, faucets).
- Alternatively, use of recycled fixtures from used appliance stores such as the Appliance Depot or ReStore may also be allowed.
- Installation of rain barrels is an allowable expense.
- Energy conservation improvements are done in coordination with other repair or rehabilitation efforts, such as window or furnace replacement.

Every effort will be made to coordinate with local agencies serving low-to-moderate income households.

### Priority 3: General Property Improvements

These are improvements needed to increase livability of the structure. For example, new flooring, new counter tops, or new carpeting. Loan funds may be used for Priority 3 only after provisions have been made to complete all Priority 1 and 2 items.

The following items are considered limited under the Home Rehabilitation Program:

- Landscaping is limited to the repair of the grounds following lateral sewer replacement.
- Ineligible items include, but are not limited to, the following:

| | | |
|---|---|---|
| Intercom systems | Kennels | Furniture |
| Outdoor fire places | Central vacuum | Portable appliances |
| Detached greenhouses | Hot tubs or spas | Area rugs |
| Tools | Fencing | Drapes/Blinds |

## CONSTRUCTION PHASE

The City will assist in all phases of the Program from loan application through construction. It is the policy of the Program that a general contractor oversees construction. Some exceptions may be granted if approved by the Rehabilitation Specialist. The homeowner selects the contractor from bids based on a scope of work prepared by the Rehabilitation Specialist and approved by the homeowner. Exceptions for homeowners to act as their own contractors are at the sole discretion of the Program staff.

### Lead & Asbestos Hazards

If your home was built before 1978, it may have lead-paint hazards that could pose a particular hazard to children aged six and younger. The City will require a lead-paint hazard assessment for your home, or lead-based paint will be assumed to be the present. Lead paint hazards identified in the risk assessment must be addressed in accordance with the Residential Lead-Based Paint Hazard Reduction Act of 1992—Title X.

The costs associated with a Lead-Based Paint Risk Assessment and the cost of clearance testing on work performed on lead-painted surfaces will be provided to the homeowner as a GRANT, with no expectation that the funds be paid back.

If asbestos is suspected to be present on building components to be renovated with program funding, asbestos testing by a certified firm will be performed. The costs associated with asbestos testing will be provided as a GRANT; the cost for the asbestos removal will be paid with funds from the homeowner's HRP loan.

## Loan Review Board (LRB)

After the "Request for Proposals" for the project closes, all proposals received will be given to the homeowner for review prior to contractor selection. The lowest reasonable and responsive proposal submitted will be given the opportunity to contract and perform the work. If a homeowner chooses a contractor with a higher proposal cost, the homeowner will pay the difference between the lowest responsive proposal received and the higher proposal cost. Typically, an additional 10% to 20% of the proposal cost will be added to the loan amount as contingency to cover additional costs for any change orders that may arise during the project. Once the cost of the project is determined, the project is presented to the HRP's Loan Review Board (LRB) for their comments and recommendation.

The LRB reviews each loan application based on the eligibility criteria described in these Guidelines, the applicant's financial situation and credit history, the condition of the structure and the recommendations of the staff members. The LRB may recommend exceptions to these guidelines on a case-by-case basis.

After Board approval, a promissory note and deed of trust are signed as security for the loan and recorded at the Whatcom County Auditor's Office. The borrower will owe only those funds disbursed on the project, with any undisbursed funds returned to principal.

## Loan Commitment Terms

Upon approval, the City of Bellingham, Home Rehabilitation Loan Review Board reserves the right to cancel the commitment or terminate the loan under the following conditions:

- After 30 days from signing the promissory note and deed of trust, or 30 days from the "notice to proceed" as stated in the construction contract, the Borrower or contractor fails to commence work on the project, unless the period is extended by the Project Manager.
- The Borrower or the Contractor cease work for more than fifteen (15) days, unless an extension has been approved in writing, or fails or refuses to complete the improvements within a reasonable time, as determined by the Project Manager. Awaiting dry/warmer weather for paint application or awaiting ordered materials will automatically be assumed an approved extension, provided that work commences within fifteen (15) days of the onset of that weather or arrival of materials.
- The Borrower changes or terminates the Rehabilitation Contract, or enters into another contract or volunteer agreement for work on the property, without prior written approval of the Project Manager.
- The Borrower does not follow the dispute resolution procedure provided under the Rehabilitation Contract (or litigation, if applicable) when inspection indicates that the work in dispute was done in accordance with the Rehabilitation Contract.
- The Borrower passes away or becomes legally incapacitated, or otherwise legally unable to act prior to the completion of the improvements.

- The Borrower abandons the property, or fails to facilitate necessary access to the property. Necessary access means that staff and (sub)contractors are able to come on site and get to the areas to be worked on without any impedances, including those that may create the feeling of an unsafe work environment. Necessary access further means that HRP staff or Contractor may contact Borrower with 24-hours notice, and expect to access the home for any necessary interior work beginning at 9 AM (or other agreed-to time) on regular business days for consecutive days. Reasonable negotiation may occur between Borrower and Contractor as to appropriate days and times for the work to occur, but all parties understand that time is of the essence, and all will prioritize work continuation. Any rejection or impeding of reasonable access by the Borrower or others in the Borrower's home will constitute a breach of contract and trigger closing of the project and loan.
- Any interest in the property is sold or transferred prior to the completion of the improvements (as evidenced by the Home Rehabilitation execution of a Certification of Final Inspection) without the Housing & Services Program Manager's prior written consent, except for (a) the creation of a lien or encumbrance subordinate to the Mortgage, or (b) the creation of a security interest for household appliances.
- The loan review board commitment is subject to completion of an environmental review by the city. The approval letter does not constitute a commitment of funds or site approval. Such commitment of funds or approval may occur only upon satisfactory completion of an environmental review under 24 CFR § 58 and receipt, as appropriate, by the city of a release of funds from the U.S. Department of Housing and Urban Development. The provision of any funds for this project is further conditioned on the city's determination to proceed with, modify, or cancel the project based on the results of a subsequent environmental review.

## Displacement

It is the policy of the City of Bellingham not to fund rehabilitation projects that will result in the displacement of low or moderate-income tenants. The LRB must grant any exception to this policy. If there were an exception made by the LRB, the City of Bellingham will follow the Uniform Relocation Assistance and Real Property Acquisition Policy Act of 1970 (URA) (42 U.S.C. 4201-4655) and 49 CFR § 24.

A displaced person is defined as a person who is required to move permanently and involuntarily as a direct result of a rehabilitation activity. Further explanation of the displacement policy is available upon request.

## Temporary Relocation Policy

Recipients of Home Rehab Program Deferred Payment and Subsidized loans who must be temporarily relocated during the rehabilitation process may be eligible to have temporary housing paid with program funds. A copy of the Temporary Relocation Policy is available upon request.

## Grievance Procedure

You have a right to appeal the decision of the Loan Review Board, or an action taken by a program staff member. A copy of the appeal process is available upon request.

## Subordination Policy

The City of Bellingham requires subordination requests to comply with the Policy for Review of Subordination Request Guidelines, available upon request.

## Income Limits

**2023 INCOME TABLE[7]**
**Whatcom County**
**(Median Income $97,300)**

Maximum Annual Gross Income

| Household Size | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8+ |
|---|---|---|---|---|---|---|---|---|
| Low Income (<= 80%) | $ 50,800 | $ 58,050 | $ 65,300 | $ 72,550 | $ 78,400 | $ 84,200 | $ 90,000 | $ 95,800 |
| 60% AMI | $ 38,100 | $ 48,560 | $ 49,020 | $ 54,420 | $ 58,800 | $ 63,180 | $ 67.500 | $ 71,880 |

[7] Annual income limits are typically updated in April.