



# Los Alamos County Home Renewal Program Policies and Procedures



## EXPLANATION OF THE PROGRAM

### Purpose

The purpose of the Los Alamos County Home Renewal Program (HRP) is to provide financial and technical incentives to very low and low income homeowners which will encourage and enable them to make emergency repairs which address substandard conditions that pose a clear public health or safety hazard to the occupants; to make general repairs that bring part or all of the home up to current Code; to make improvements which will decrease the unit's energy consumption; to make improvements which allow seniors to age-in-place in their own home; and to repair or replace a home's stucco or siding.

The enabling Ordinance for the Home Renewal Program outlines the program parameters including eligible activities, loan terms and applicant, property, and project eligibility. These Policies and Procedures provide a framework for the administration of program activities and outline the various roles for the Los Alamos Housing Partnership, Inc. (LAHP), as program administrator, the County staff, homeowner participants, contractors, Loan Review Committee and any other entities that are participating within the program.

It should be noted that these Policies and Procedures will continue to be updated as needed, particularly as conditions change or situations arise which highlight the need to make necessary changes that ensure that the County, its program partners and participating homeowners are appropriately served and protected.

### General Program Description

The Home Renewal Program provides financial and technical assistance to low income homeowners in Los Alamos County. Low income limits are detailed in Exhibit A. Los Alamos Housing Partnership, Inc. (LAHP) is managing the HRP on the County's behalf. HRP will arrange financing, either directly or through its funding partners to cover most of, if not all of the cost of allowed improvements, and then will assist the homeowner in selecting the contractor and in providing oversight to the construction process.

HRP will invite applications during one to two cycles per year. Complete applications will be evaluated for eligibility relating to income eligibility of the applicant, eligibility of the property and the proposed project. Underwriting standards will be applied to determine the creditworthiness of the applicant and the amount of financing which can be reasonably extended. If the project request is still viable after these analyses are applied, HRP will prepare a work write-up for the project and a general cost analysis to be used in the preparation of a project funding plan.

The project funding plan will be prepared and applications for funding will be made to the County and other candidate funders for which the client income qualifies. The applicant will also be given a strong incentive to provide some share of funding for the project. Once funding commitments have been received from the County and/or other project funders, then HRP will proceed with preparing bid documents for the project and releasing same to appropriately licensed contractors. HRP will work with the homeowner in reviewing bids for the project and in creating a construction contract with the homeowner-selected contractor.

Following a pre-construction meeting at which time the work write-up will be reviewed once more and the construction contract and loan documents will be executed, work will commence and HRP will review the work being done for compliance with the construction contract and the HRP Housing Rehabilitation Standards. HRP will review and approve all construction draws along with the homeowner, and will perform a final inspection and acceptance of work, provided that the work passes inspections from Los Alamos County building inspectors and the New Mexico Construction Industries Commission building inspectors.

## **THE APPLICATION PROCESS BEGINS**

### **Application Process and Creation of Waiting Lists**

HRP will have one to two application cycles per calendar year. Each application cycle will be well publicized in local media prior to the formal opening of the application period. The methods for public outreach are set forth in a public outreach and information plan, included here as Exhibit B.

Each application cycle will be approximately 45 days in duration, preceded by a promotional campaign which raises public awareness of the program and the forthcoming application deadline. Applications will be available online at the LAHP website ([losalamoshousingpartnership.org](http://losalamoshousingpartnership.org)), at LAHP offices and at the Los Alamos County Customer Care offices. Completed applications may be submitted anytime during the announced application cycle and may be e-mailed to the Los Alamos Housing Partnership or may be physically brought in to LAHP offices. It is important to note that Los Alamos County will not accept applications for this program.

Using both a pre-application meeting and other informal consultations, HRP will invite inquiries from anyone interested in applying for the program and will explain the application forms and all of the documentation that is required for a complete application. HRP will review an application checklist and describe to the potential applicant all of the information that needs to be provided in order for an application to be complete.

Such consultations will be done face-to-face, over the phone and on-line. The goal is to promote understanding of what is offered under the Home Renewal Program, the application forms and documentation required of the applicant in order for HRP to determine that an application is complete. HRP will also review with the applicant the process utilized for determining eligibility and the steps in the approval process once eligibility has been confirmed.

Upon receipt of an application, HRP will review the application for completeness, using an application checklist. If the application is complete, the application will be date and time stamped and the applicant will be immediately placed on the HRP waiting list. If the application is incomplete, LAHP staff will contact the applicant and inform him/her of the specific information which needs to be brought forward in order for the application to be deemed complete. Once the revised application is received and deemed complete, then the applicant will be placed on the waiting list. The applicant will have until the end of the application period to bring in the additional requested information necessary for completeness.

Once an application is determined to be complete, it is placed in the general waiting list. A separate waiting list will be created for projects qualifying under the Emergency Repair Program. The need for emergency repairs of substandard conditions as defined in the Housing Rehabilitation Standards will be determined by the HRP and the County Building Official.

Complete applications will be reviewed by HRP to determine eligibility for the program. Eligibility is based on three standards: household income eligibility, property eligibility and project eligibility. The requirements for eligibility are presented in this narrative. Once an applicant and application is determined to be eligible for the HRP, he/she will be notified and HRP will work to secure financial assistance to fund the project and will provide technical assistance to help implement the project.

## **Completing the Application**

The following documents are required, at a minimum, by HRP in order to make a determination that the application is complete. 1) Completed and signed application for assistance; 2) Signed certification forms attached to the application which certify that the information provided is true and correct; there is no willful concealment of information, etc.; 3) Copy of two most current pay stubs from all household members 19 years of age or older; 4) If applicable, copy of current year's retirement and/or social security benefit statement, disability benefit, veteran's benefit, unemployment benefit, child support; 5) Copy of last two years most current Federal tax returns for all household members 18 years of age or older; 6) Copy of three most current bank statements for all household members 18 or older; 7) Copy of three most current statements for all financial accounts, including checking, saving, money market, CDs, stock and bond accounts, brokerage accounts, including IRA and 401(k) accounts; 8) Copy of warranty deed; 9) Copy of current month mortgage statement; 10) Copy of most recent County Assessor notice of value; 11) Copy of homeowner's insurance policy; 12) Court ordered divorce decree and child support requirement, if applicable; 13) Proof of clear title; 14) Copy of current utility bill; 15) Copy of most recent receipt for property taxes paid or end-of-year escrow account statement from lender; 16) Authorization from applicant for LAHP to pull a credit report.

HRP is available to answer applicant's questions regarding the application, required documentation and the process. The application form for the Home Renewal Program is included as Exhibit C.

## **ELIGIBILITY IS DETERMINED**

### **Overview of the Process for Determining Eligibility**

HRP will review an applicant's eligibility by determining three types of eligibility. First, the applicant's household income is reviewed according to the criteria set forth herein. This is an income restricted program and a homeowner must have income equal to or less than program limits. Second, the property which is to be improved under the Program must meet requirements having to do with type of home, location, value, owner-occupancy and other factors. Third, the specific project being requested in the application must be an eligible project under the emergency repair, energy conservation or general repair elements of the program.

If all of these eligibility requirements are met, HRP will conduct an underwriting analysis of the applicant's ability to take on new debt. Even though the assistance from the County would be in the form of a non-amortizing deferred payment loan which is due on sale or vacating of the property, this underwriting analysis is prudent in order to insure that the County's financial interests are protected.

The underwriting analysis will determine whether the applicant may feasibly take on new debt and if so, in what maximum amount. This information will be important in determining the scale and cost of the improvement project that may be undertaken and is essential input into the creation of a project funding plan which outlines how the proposed improvements will be financed.

The following is more of a detailed description of the eligibility determination and underwriting process.

## **Income Eligibility and Asset Limitation**

To qualify for assistance under the HRP, the homeowner must qualify as low income with annual gross income not to exceed eighty percent (80%) of Los Alamos Area Median Income, adjusted for household size, according to the chart included herein as Exhibit A. Income limits shall be revised annually.

Income certification is performed by HRP after the application is accepted as complete. Income recertification will be done after six months if project funding has not been committed during this time.

Household income is the anticipated gross income for the next twelve months from all household members 19 years and older living year-round in the home. Current income is projected to continue over the next twelve months, unless there is third party documentation that evidences that income will change. The Department of Housing and Urban Development definition located in Title 24 CFR Part 5 Gross Income Inclusions and Exclusions shall be used to determine total household income. Any wage and salary income of household members that was represented in the application will be verified by pay stubs and income tax returns that are collected by HRP at the time of application.

There is no asset limitation for participation in the HRP. However, one of the prioritization criteria for the ranking of applications on the waiting list is the value of assets owned by the applicant. Income from assets is recognized as part of annual income. An asset is a cash or non-cash item that can be converted into cash. Asset inclusions and exclusions shall be determined as set forth by HUD, using the same technical reports used to calculate gross income inclusions and exclusions. Annual income from assets equals the greater of the following: 1) Actual income from assets; 2) Imputed income from assets calculated by multiplying total market value of assets times 2%.

## **Property Eligibility**

In order to be eligible for the program, the property must be in residential use (except for approved home occupations) and may be a single family detached, townhome, condominium or manufactured home on a permanent foundation located within Los Alamos County.

The home owner must have clear title to the property, to be confirmed by a title search conducted from County Clerk records, with the exception that acquisition and rehabilitation projects are allowable, provided that there is an executed purchase contract, subject to financing contingencies, from an income-qualified household. There is no minimum time limit on how long the applicant has owned the property. Ownership does not have to be fee simple, as owner-occupants of condominium units are eligible. Cumulative loan amounts on the property may not be greater than 100% of the value of the property, as established in the most recent Notice of Value provided by the Los Alamos County Assessor.

Acquisition and rehabilitation projects are allowable under this Program, where the purchaser has a contract to purchase, and the purchase may be contingent upon receiving County assistance for the needed rehabilitation work. The purchaser must be income qualified and must meet all other requirements of the HRP, except for the requirement that the applicant is the current owner and occupant of the property. The purchaser must certify that he/she will be the occupant of the property, upon closing of the purchase. County assistance for an acquisition and rehabilitation project would be in the form of a subsidy loan which would close as part of the closing on the purchase of the home.

The home must be owner-occupied, otherwise the subsidy loan from the County becomes due and payable. Continued residency and compliance with HRP requirements is monitored annually through the provision of the following information: 1) copy of a current utility bill; 2) verification that property taxes are current; 3) verification that mortgage payments are current; 4) verification of current required homeowner's insurance policy.

The applicant must be current in mortgage payments, property tax payments and utility payments and must maintain a current homeowner insurance policy with limits acceptable to the LAHP, and which names Los Alamos County as additional insured if the County does provide a subsidy loan.

Maximum property value, as determined by the most recent Notice of Value provided by the Los Alamos County Assessor's office cannot exceed \$272,400, which is the maximum after-rehab value limit determined by the New Mexico Mortgage Finance Authority for its House to House Rehabilitation Program.

In order to promote an efficient use of County funding, there is a limit on the total improvement cost of a project to be financed under the HRP. The limit is the lower of the following: 1) 33% of the value of the property, as established by the Los Alamos County Assessor; 2) \$45,000. This limit includes all hard construction and soft costs allocable to the project. Additional funds may be contributed by the homeowner or other non-County funding sources.

Property owners subject to a reverse mortgage are not eligible for the Home Renewal Program. Individual property owners and individual properties are eligible one time only for participation in the Program.

## **Project Eligibility**

The enabling legislation for the Home Renewal Program authorized expenditures on three distinct types of programs: Energy Conservation Program; Emergency Repair Program; and General Housing Repair Program.

The purpose of the Energy Conservation Program is to fund improvements which will significantly reduce energy consumption and home heating and cooling bills. Eligible improvements which achieve this end include, but are not limited to the following: 1) Insulation; 2) Exterior doors; 3) Windows; 4) Heating and cooling system; 5) Hot water heaters; 6) Repair of penetrations in building envelope; 7) Caulking and foam sealants to reduce air leakage; 8) replacement of incandescent light bulbs with CFLs; 9) Solar photovoltaic and solar hot water systems. In order to qualify, the homeowner must first perform an energy audit which demonstrates the amount of energy savings that can be achieved through making the proposed improvements. Los Alamos Department of Public Utilities may provide this service free of charge.

The purpose of the Emergency Repair Program is to make home improvements which address substandard conditions and remove an immediate threat to the health and safety of the occupants. Eligible improvements which achieve this end include, but are not limited to the following: 1) Penetrations of the building envelope; 2) Severe roof leaks; 3) Electrical system failure; 4) Plumbing system failure; 5) Heating and cooling system failure; 6) Environmental contamination issues such as mold, asbestos and lead-based paint removal; 7) Unsafe interior or exterior steps, porches, decks and walkways; 8) sewer or water line lateral leaks or blockage. In order to qualify, the HRP and the Los Alamos County Building Official must first confirm that the emergency represents a substandard condition as defined in the HRP Housing Rehabilitation Standards and/or the Code.

The purpose of the General Repair Program is to bring all or part of the home up to code compliance, as determined by the Los Alamos County Building Official and the New Mexico Construction Industries Division. Such improvements may include electrical, plumbing, heating ventilation and air conditioning systems, flooring, fire code issues, severely deteriorated exterior siding, roof repair and replacement and other repairs. Demolition of part of the heated area and/or unheated garage or storage space is an allowable expense, provided that the structure is dilapidated and a threat to health and safety, in the determination of the LAHP and the County Building Official. Also included in this category are aging-in-place improvements, determined by HRP to be necessary for resident safety. Examples of aging-

in-place improvements include, but are not limited to the following: 1) doorway expansion; 2) flooring improvements; 3) outside ramps; 4) grab bars; 5) curbless shower; 6) enhanced lighting; 7) countertop modification. In order to qualify for aging-in-place improvements, the homeowner is encouraged to first perform a home safety check. This service may be performed by a vendor selected by the homeowner, the County or the HRP.

Due to limited resources, there are some restrictions on the HRP. It does not fund luxury type of improvements, additions, landscaping, driveways and walkways, unless unsafe, and interior remodeling, if not required to correct health and safety issues. It is not intended to fund projects intended to improve interior aesthetics, such as flooring, drywall and painting, unless such work is part of a larger health and safety oriented project. New appliances cannot be purchased with program funds. The owner cannot be reimbursed with program funds for previously incurred expenses. Owner-build projects are not eligible for this program, as all work must be done by properly licensed contractors on the HRP approved contractors list.

### **Underwriting Standards**

An application which is determined by HRP to pass the income eligibility, property eligibility and project eligibility tests will then be evaluated on the basis of underwriting standards as presented herein. Only if the applicant meets these underwriting standards will the application be presented as a deferred payment loan request to the Loan Review Committee. The County Administrator appoints the Loan Review Committee. Each loan request will be evaluated first by HRP, and then by the Committee using the following underwriting standards.

HRP will obtain a credit report on the applicant. Credit scores for the applicant from all three credit bureaus will be received and the middle score must equal or exceed 600. If the middle score is less than 600 but above 550, then the loan may be approved at a lower LTV than the program maximum, at the discretion of HRP and the Loan Review Committee. Any score below 550 will not be considered.

No assistance will be provided to an applicant whose credit history shows any current delinquencies more than 60 days. No assistance will be provided to an applicant who is not current on his/her mortgage payments, property taxes or utility bills. No assistance will be provided to any applicant who has had any unpaid charge-offs or debts designated as uncollectible by a creditor in the past two years. Unpaid medical bills may be excluded from consideration in regards to the applicant's credit history, at the discretion of the HRP and the Loan Review Committee.

Homeowners who have filed and completed any type of bankruptcy cannot apply for the HRP within three years of the bankruptcy dismissal date. Homeowners must have received a release from any judgments or liens attached to the property prior to applying for HRP funding.

Maximum cumulative Loan-to-Value (LTV) for applicants with credit scores of 600 and over is 100% of pre-rehabilitation value, as determined by the most recent Notice of Value from the Los Alamos County Assessor. All loans which are secured by the subject property will be counted, including the requested loan from Los Alamos County. Maximum cumulative Loan to Value (LTV) for applicants with credit scores between 550 and 600 is 90%.

Maximum Debt-to-Income ratios will be considered by LAHP staff and the Loan Review Committee in determining the creditworthiness of the applicant. The monthly cost of all long-term debt must not exceed 50% of gross monthly income. Long-term debt includes: monthly housing expense, payments on loans, notes, installment loans or revolving charge account debts with more than 10 remaining payments, alimony, child support or separate maintenance payments. Exceptions can be granted by the Loan Review Committee provided that the ratio does not exceed 5% above the established limit.



Maximum County assistance available under the Emergency Repair Program, as defined above, is \$24,999. Maximum County assistance available for improvements under the General Repair Program, as defined above, is \$45,000. Maximum County assistance available under the Energy Conservation Program is \$14,999.

If LAHP determines that the applicant and the requested project may qualify for assistance under another program and has made application for funding under another program(s) and the status of those funding requests remains undetermined, then it may recommend to the Loan Review Committee that funding of 100% of the project request be committed, with the condition that the County funding be reduced in the amount of any other funding which is received.

### **Prioritization Criteria**

For each funding cycle of the HRP, the County shall determine the maximum amount of available funds which can be allocated during that funding cycle. Projects eligible under the Emergency Repair program are considered and funded first, followed by projects eligible under the General Repair Program and the Energy Conservation Program.

Projects in each category will be prioritized for funding according to the following criteria: 1) Household Income; 2) Disability; 3) Senior; 4) Value of Assets; 5) Property Valuation; 6) Debt to Income ratio; 7) Cumulative Loan to Value; 8) Amount of Private Funds Committed; 9) Degree of Cost Burden (% of Gross Income spent for PITI); 10) Existing Homeowner vs Acquisition and Rehab Request.

At the end of the application period, all complete and logged-in applications on the two waiting lists will be prioritized according to the above criteria and submitted to the Loan Review Committee for consideration. It will be assumed that these applications will receive no money from other sources, unless other funding is already in-hand, although application will be made to other funding sources. The Loan Review Committee will be asked to evaluate HRP prioritization and recommend funding for projects based on the amount requested and the amount of funding committed by the County during the particular funding cycle.

### **Subordinations**

The assistance provided by the County shall be in the form of a deferred payment loan which is subordinated to the first mortgage. Future requests for subordination in order to accommodate first mortgage refinancing may be approved under the following circumstances: 1) The lien position of the County loan will remain the same or be advanced; 2) The new first mortgage loan is no greater than the balance of the loan being refinanced, except the costs of refinancing may be added to the principal balance; 3) The purpose of the new first mortgage loan is to reduce the interest rate being paid and/or reduce the owner's payment; 4) The new first mortgage loan must have terms acceptable to the County.

## **THE FINANCING PROCESS BEGINS**

### **Description of Work and Cost Analysis**

As was referenced previously, once an application has been accepted, determined to be complete, and received a determination that the basic eligibility tests have been met and underwriting criteria have been met, then HRP will assess the work that the homeowner has asked to be done in relation to applicable building codes and HRP Housing Rehabilitation Standards. Although the entire unit does not have to be brought up to applicable building codes as part of a housing rehabilitation project, the specific work to be done must be fully Code compliant and compliant with HRP Housing Rehabilitation Standards.

HRP will prepare a complete work write-up identifying the scope of work for the project. The work write-up will typically focus on tasks to be performed, outcomes to be achieved and standards to be met, rather than specifying specific materials to be used and will state that all work to be performed must be compliant with all applicable local and State Building Codes and HRP housing rehabilitation standards.

If the home is a pre-1978 home, the HRP will generally highlight the need for testing in the work write-up and will describe to the homeowner the protocols that must be followed by the contractor in regard to lead-based paint. These protocols will also be included in the work write-up which is prepared by HRP and distributed to contractors as part of the bid package. If the presence of asbestos and mold is suspected, then that potential condition will also be discussed with the homeowner and included in the work write-up.

The work write-up will be used to prepare a cost analysis of the work to be done. The cost analysis will be prepared using data from previous construction bidding experiences, published estimating resources and product costs available from a variety of vendors. The cost analysis will include a significant contingency which recognizes the difficulty of preparing a preliminary cost analysis, the unpredictability of housing rehabilitation work, as well as the possibility of adding necessary change orders to the work. The cost analysis will be kept confidential from potential contractors to insure that undue advantage is not given to prospective bidders based on accessibility to estimated cost data.

The scope of work write-up and cost analysis will be provided to the homeowner for review, comments and final approval. The homeowner will be required to sign off on the work write-up prior to proceeding with the project. The homeowner signature represents their acceptance of the work write-up. This cost analysis will be used as input into the creation of the funding plan for the project.

## **Overview of Process for Creating the Funding Plan**

Once an application is submitted and determined to be complete, HRP determines income eligibility, property eligibility and project eligibility, based on the information presented in the application. If the applicant passes all of these eligibility requirements, HRP performs initial underwriting according to the criteria presented herein, again to determine if the applicant is qualified to proceed to the next step in the process. The applications are ranked according to the prioritization criteria set forth herein.

Then, as set forth earlier in this narrative, HRP performs a site visit of the property, creates a work write-up for the project and a project cost analysis. This cost analysis serves as the basis for the project funding plan.

## **Creating the Funding Plan**

The first step in creating the project funding plan is to review with the applicant a monthly budget which indicates net monthly income and all expenses. HRP will work with the applicant to determine the applicant's ability to contribute some funds (debt or equity) to the project. As explained later in this narrative, there is a strong incentive for the applicant to contribute some funds to the project, as applicant funding of 1% of the project cost would create a 5% reduction in the County loan amount (principal and interest) at the end of the Affordability Period, as explained herein. HRP will work with the applicant to determine what amount of funds, if any, can be contributed to the project.

The second step in the creation of the funding plan is to determine the various funding programs, as outlined herein, for which the applicant may be eligible based on income or other characteristics, such as special needs, veteran status, elderly, etc. If the applicant qualifies for a particular program and the considered project is eligible under program requirements, HRP will contact the funder to determine if there is money available and if it is feasible to continue with an application. If such applications are determined to be feasible, then HRP will work with the homeowner to complete and submit the



applications. Depending upon the funder, the timeline for an application may be longer than the timeline for securing approval of County assistance from the Loan Review Committee, so it is advisable for LAHP and the homeowner to submit these applications as early as possible.

The third step in this process is to create the funding request of the County. This funding request will include the funding plan for the applicant created by the HRP. This funding plan will include any amount to be contributed by the applicant, the amounts requested of other funders, if any, and the amount requested of the County. This request will be presented to the Loan Review Committee, who will be charged with evaluating the information presented in the HRP-prepared package and determining if the underwriting criteria, as presented herein, have been met.

In the event that the requested amount of County assistance exceeds the funds available in an application round, the Loan Review Committee will be asked to evaluate the project prioritization ranking submitted by the HRP and determine if the recommended priorities for funding are to be accepted or revised. The decisions of the Loan Review Committee are advisory only, as the final loan approvals/denials are made by the County Administrator.

Unless third party funder approval of an application is already in-hand at the time of presentation to the Loan Review Committee, LAHP will assume, as should the Loan Review Committee, that such funding will not be forthcoming. The Loan Review Committee would be asked to recommend a specified maximum funding amount, which may be reduced if another funding request(s) was approved, after an approval from the Loan Review Committee. This commitment will allow LAHP and the homeowner to proceed with creating the bid package and soliciting contractors. If funding commitment(s) comes in from another funder during this time, prior to executing the construction contract, at which time the County funding amount would have to be set, then the amount of committed County assistance would be decreased in an amount equal to the additional funding received.

### **Type of County Assistance and Affordability Controls**

County assistance limits under the Emergency Repair Program is \$24,999 and the Energy Conservation Program limit is \$14,999. The Affordability Period for loans made under each of these programs is ten years. Affordability Period is defined as the minimum amount of time that a subsidized unit must be maintained as affordable housing stock. The minimum loan that can be made is \$1,500.

County assistance limit under the General Repair Program is \$45,000. The Affordability Period for loans made under this program is fifteen years. The minimum loan that can be made is \$1,500.

County assistance is provided in the form of a non-amortizing deferred payment loan which is due on sale, vacating of the property, death of the owner or other transfer of title to the Property (unless title is assumed by another income qualified household) or other form of default on the mortgage and note securing the subsidy loan. If the applicant is certified with total household income at or below 50% of Los Alamos County Area Median Income (AMI), then the deferred payment loan will bear 0% interest. If the applicant has household income between 50% - 60% of AMI, then the deferred payment loan will bear 0.5% interest. With household income at 60%-70% of AMI, the deferred payment loan will bear 1% interest. And, if total household income is between 70%-80% of AMI, then the deferred payment loan will bear 1.5% interest.

Interest only accrues over the term of the Affordability Period; once that term expires, interest no longer accrues. Principal and interest of the subsidy loan may be entirely forgiven at the end of the Affordability Period under one condition: If the applicant pays for 20% of the total cost of the home rehabilitation project, either through an equity contribution or a separate amortizing loan at the closing of the HRP loan. For each 1% of the total home rehabilitation cost paid by the applicant at loan closing, 5% of the outstanding HRP loan principal and interest will be forgiven at the end of the Affordability Period. If this condition is not met, then all of the outstanding principal and interest will remain due and payable to the County.

An applicant who receives County assistance shall execute at closing, an affordability agreement, a note in the amount of the loaned funds and a mortgage which secures the note and restricts the use of the property to that which is contemplated under this program. This note and mortgage will be subordinated to the first mortgage on the property. A form of the note and mortgage is included as Exhibit D. A form of the affordability agreement is included as Exhibit E.

Those applicants who may receive a grant or loan under another federal, state or private foundation program will be subject to the long term affordability controls specific to each individual program.

### **Loan Review Committee**

A three to five member Loan Review Committee shall be appointed by the County Administrator. Members shall have experience in either housing rehabilitation, construction, finance, law or management and shall evaluate, recommend approval or disapproval of all loan requests presented by HRP. All loan applications shall be reviewed using standardized criteria included in these Program Policies and Procedures. The Committee shall make recommendations to the County Administrator, who has the responsibility for final approval of all loan requests.

### **Other Potential Funders to be Considered**

In order to make the HRP sustainable, additional resources should be tapped from federal, state and private funding sources, in addition to County assistance. When an application comes in, HRP will review income and all other information to determine whether the applicant may qualify for another funding program, in addition to the HRP. The following narrative explains different programs which may be used in conjunction with the HRP.

#### **Energy Smart Program**

The New Mexico Energy Smart Program provides grants averaging up to \$5,500 per household for low income households with incomes under \$48,500 for a household size of 4, with adjustments by household size. The following improvements may be available under this program: repair/replacement of broken windows and frames; sealing/caulking cracks; repair/replacement of exterior doors and broken frames; repair/replacement of fireplace dampers and stove pipes; refrigerator replacement; installation of thermostat controls; installation of insulation in ceilings and walls; furnace/boiler repair or replacement; installation of smoke and carbon monoxide detectors.

Central New Mexico Housing Corporation (CNMHC) is the vendor of this program in Los Alamos County. HRP has coordinated with CNMHC, has numerous application material to distribute, and is authorized to explain the program and accept and forward individual applications for the program to CNMHC. CNMHC will accept applications throughout the year.

Upon receipt of an application under the HRP, staff will review income and proof of ownership to check if an application to Central New Mexico Housing Corporation (CNMHC) is warranted. If so, HRP will assist the homeowner to complete and forward the application. Given the modest assistance amount, it is likely that the applicant will still pursue funding from the County, and this process will be followed,

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as well. CNMHC can determine eligibility within a few weeks. Successful applicants will be placed on a waiting list, where they may be in the queue for several months. If the applicant is successful in receiving assistance from this program, CNMHC would undertake and manage the repair work with in-house staff.

### **House by House Rehabilitation Program**

This program provides funding of up to \$65,000 to homeowners whose annual income does not exceed 60% of HUD-defined Los Alamos Area Median Income. The funding is in the form of a non-amortizing, 0% deferred payment loan which is due on sale, refinance, or transfer to a nonqualified owner during the Affordability Period.

Eligible activities are similar to what is allowed under the HRP and must comply with MFA Construction Standards, which are quite similar to the Housing Rehabilitation Standards for the HRP.

Applications are only accepted after issuance of a Notice of Funds Availability (NOFA) from MFA. This year, the NOFA was issued in late September; in years past, it was issued in August. It is important to have projects lined up and ready for this time period. In addition to the income limit, the after-rehab property value limit for Los Alamos County is set at \$272,400. MFA is very concerned that the property has clear title as shown on a title search.

Approval processing time for MFA to award funds for a project is approximately 30-60 days. Under the MFA program, HRP would work with the homeowner to scope out the work and create a cost analysis, create bid packages, solicit contractors, assist the homeowner in selecting the contractor, inspect the work and approve draw requests, including final inspection and payment, using the same processes created for the HRP. There are additional reporting requirements for this program related to the fact that the source of funding is the federal HOME program.

### **Federal Home Loan Bank Programs**

The Federal Home Loan Bank (FHLB) offers a grant program called SNAP (Special Needs Assistance Program) to fund needed home improvements for applicants who are determined by a third party to be mentally disabled, physically disabled, recovering from physical abuse, recovering from substance abuse, or who have HIV/AIDS. Applicant household income must be at or below 80% of HUD-defined Los Alamos County Area Median Income. The maximum amount of a grant is \$6,000. Funds are available on a first come-first serve basis and tend to be completely committed by August or September. There is a quick turn-around in processing an application of approximately 5-7 business days. If HRP determines that an applicant may qualify for this program, after reviewing the application material, it would partner with a FHLB member to submit the funding application.

FHLB also offers a grant program called HAVEN (Housing Assistance for Veterans) to fund home modifications for disabled veterans. Households must have an occupant who was disabled as the result of active military service since September 11, 2001 and who has received one of the following medals: Afghanistan Campaign, Iraq Campaign, Global War on Terrorism, Expeditionary, Global War on Terrorism Service, Purple Heart or higher award. Households must have an income of 120% or less than the HUD-defined Los Alamos County Area Median Income. The maximum amount of a grant is \$7,000 and funds availability and application processing times are similar to the SNAP program.

FHLB's flagship funding program is its Affordable Housing Program (AHP) which provides grant funding for a range of affordable housing activities, include housing rehabilitation. In recent years, the most competitive grant applications are the ones who have requested \$7,000 or less per unit, and who have committed to serve households at or under 60% of HUD-defined Area Median Income. These funds are very competitive, and are typically used in new construction and/or acquisition/rehabilitation projects. The funding cycle typically begins in February, with the award announcement on actual funds being

approximately 6 months after that time. If this funding vehicle is to be used, HRP would need to line up several prospective properties at one time and make one application which addressed rehab projects on all of the properties.

### **USDA RDS Section 504 Loan/Grant Program**

Rural Development Service (RDS) offers a grant and loan program for low income households with income below 50% of HUD-defined Area Median Income. The maximum loan amount is \$20,000 and the maximum grant amount is \$7,500. The applicant must be 62 years old or older. Grants must be used to remove health and safety hazards from the home, whereas, loans may be used both for general repairs and to remove health and safety hazards. The loans have a fixed interest rate of 1% and a maximum term of 20 years.

Applications may be made year-round, as funds have consistently been available. HRP has met with RDS staff and is enabled to accept both pre-applications and full applications and review requirements of the program with the applicant. The time between loan application and commitment is approximately 60-120 days, although some time can be saved if HRP collects all required information from the applicant.

For the RDS loan option, HRP will need to work with the homeowner on completing their monthly budget to confirm if there is an ability for the homeowner to increase housing expense and total debt. With a 1% interest rate and maximum 20 year term, a maximum \$20,000 loan from RDS would increase house expense by \$92 per month.

### **Private Equity and Debt**

As part of the income certification process and the homebuyer education process both of which are components of the Home Renewal Program, HRP will work with the applicant to create a monthly budget which outlines monthly net income and itemized expenses, by category. HRP will also review any liquid assets which may be available to contribute to funding the home rehabilitation project.

The County is offering an incentive for applicants to bring equity or cash to the project. For every 1% of total project cost contributed by the applicant, the County may agree to a 5% reduction in the total amount of the principal and interest on the loan which is otherwise due at the end of the Affordability Period. In order to take advantage of this incentive and bring some money to the loan closing, the applicant may take one of the following actions: 1) take some money out of savings, if available; 2) take out a separate home improvement loan, either from one of the sources mentioned herein, or another source which may be facilitated by HRP; for such a scenario to work, any additional debt cannot push the applicant to Home Renewal Program limits on total debt to income ratio; 3) refinance the existing first mortgage loan and slightly increasing the amount of principal borrowed (using this increase in principal to contribute to total project cost), if it can be demonstrated that the refinancing will still result in a decreased or equivalent monthly housing payment.

### **Final Funding Plan and Affordability Requirements**

After reviewing all funding sources for which the applicant may qualify, HRP will draft a final funding plan which outlines the sources of funding which will be applied for to finance the scope of work and estimated cost which had been developed by HRP. HRP will explain the nature of each type of assistance and the affordability requirements, and review with the homeowner the associated agreements which provide security for that assistance and which they will be asked to sign if funding is later approved.

HRP will again explain the incentives for homeowner contribution to the project cost, and will explain that if non-County and homeowner funding has not yet been committed at the time of funding application to the County and the Loan Review Committee, that the funding request of the County will assume that non-County funding will not occur and that County assistance amounts can be adjusted later if this other funding is received.

HRP will then ask for homeowner's approval of the funding plan, and will present a document for signature which evidences the homeowner's understanding of the elements of the funding plan and his/her approval of the plan.

### **Eligible Rehabilitation Costs**

Hard construction costs for eligible projects as identified in this narrative are allowable expenses under the Home Renewal Program. Assessment, testing and remediation of lead-based paint hazards, asbestos and mold are also allowable expenses under the Program. Soft costs including credit reports, title search and commitment, appraisals, architectural and engineering fees and other direct soft costs incurred on a specific project are allowable expenses. These costs can be included in the loan package to be offered to the homeowner.

## **THE CONSTRUCTION PROCESS BEGINS**

### **Creating and Maintaining a List of Contractors**

The work write-up that had been created earlier will indicate the type of contractors that need to be sought for this project. HRP has created and maintains a list of appropriately licensed contractors that meet the eligibility requirements for particular types of work. To be placed on the HRP approved contractor list, the contractor must be licensed to perform the particular type of work being requested, have a Los Alamos County Business License, and must be in good standing with Los Alamos County and the New Mexico Construction Industries Commission. All subcontractors must also be similarly licensed and registered with Los Alamos County and the State of New Mexico. References of past projects will be requested and maintained on file.

All contractors and their subcontractors must be in good standing with the Los Alamos Home Renewal Program and shall not have any contract violations or owner complaints that are pending adjudication and resolution. Approved contractors cannot be on any suspended or disbarred list.

Approved contractors must provide evidence of current liability insurance, automobile insurance and workers' compensation with limits acceptable to the HRP. Contractors must offer warranties acceptable in form, length and coverage to the HRP.

### **Creating and Distributing a Bid Package**

For each project, HRP will create a bid package for distribution to appropriately licensed contractors. The bid package will include a cover sheet identifying the project location and owner and HRP information, invitation to bid, scope of work, bid submittal requirements which would include the description of work to be performed as detailed in the work write-up, HRP Housing Rehabilitation Standards, bid deadline and submittal instructions, contact information for any questions or clarifications on the bid, scheduled date and location for a pre-bid conference held at the property, insurance requirements, copy of HRP sample construction contract, contractor billing and payment instructions, warranty document requirements, anticipated start date and maximum project length, and description of conflict resolution procedures.

HRP will provide the homeowner with a copy of the bid document and request that the homeowner sign off on the document, thereby signifying approval of what is being requested.

HRP shall request a bid from at least three contractors on the approved list. The bid packages may be e-mailed, faxed, mailed, picked up at LAHP offices or accessed on-line. Contractors not on the approved HRP contractor list may obtain a copy of the bid package, attend the pre-bid conference and bid on the project. However, bids from such contractors will not be accepted unless they meet the requirements for being placed on the HRP contractor list prior to the bid deadline.

HRP will conduct a pre-bid conference at the property and will invite the homeowner to participate in that conference. The objective is for the HRP, prospective bidders and the homeowner to communicate so that everyone has a clear understanding of the work being requested and the terms of the engagement. All attendees to this pre-bid conference will be requested to sign an attendance sheet.

A bid addendum will be created for any change, addition, deletion or clarification to the bid package prior to the bid opening date. Any such addendum will be distributed to every contractor who was sent a bid package or who attended the pre-bid conference.

### **Selecting a Contractor**

Bids may be mailed in to LAHP offices, hand delivered or e-mailed. Once received, a bid will be date and time stamped. Bids received after the submittal date and time indicated in the bid package will not be accepted. All bids will be opened immediately after the submittal deadline indicated in the bid package.

HRP will first review the bids to determine if they are accurate and responsive to the requirements set forth in the bid package and the work write-up, and that funds are sufficient to finance the project. HRP will complete a bid tabulation on the project and provide a copy of that analysis to the homeowner. After HRP makes a determination on all of the bids that were responsive, HRP will review the responsive bids and make recommendations on which bid is the lowest bid and which bid is the best in terms of price and value. This may or may not be the low bid depending upon the scope of work which a contractor proposes.

The homeowner will review the HRP recommendations and will select the contractor. There are three potential scenarios that can occur. Scenario 1: The homeowner selects the low bidder which was also recommended by HRP as having the best price and value. Scenario 2: The homeowner selects a contractor who is not the low bidder and HRP has concluded that the low bidder's proposed work is equal or better in terms of price and value. In such a case, the homeowner will be given three options: 1) select the low bid contractor; 2) pay the difference between the low bid contractor and the homeowner-selected contractor; 3) not proceed with the funding request. Scenario 3: The homeowner selects a contractor who is not the low bidder but whose proposed work HRP has concluded is the best in terms of price and value. In such a case, the homeowner may select this next lowest bid contractor.

In the event that the homeowner-selected contractor has a bid higher than the amount of funding committed for the project, there are three options: 1) the homeowner can commit the additional funding in excess of the previously committed funding; 2) HRP, the homeowner and the selected contractor can agree on changes in the scope of work which would lower the bid under the approved funding amount; 3) HRP can choose to bring back a request to the Loan Review Committee for the higher amount, provided that funds are available and provided that the difference between the originally funded amount and the proposed amount being requested is less than or equal to 25% of the originally funded amount. Combinations of these three options may also be pursued.



## **Pre-Construction Meeting and the Construction Agreement**

Once a contractor is selected and the contract amount is within acceptable limits, a pre-construction meeting will be held, at which time the contractor and homeowner will evidence their agreement of the scope of work and price by executing a construction contract using the form of contract provided in Exhibit F. Attached to the construction contract shall be the scope of work, exhibits of applicable product specifications that the contractor used in creating his/her bid and the warranty document to be used by the contractor.

During the meeting with the contractor, the homeowner and HRP, the contract will be reviewed, as well as the scope of work and all attachments, so that there is another opportunity to insure that there is a clear understanding between all parties as to what is being provided for in the construction contract and the work. If there is complete understanding, then the homeowner and contractor will execute the contract.

Prior to construction contract signing, HRP will explain the roles and responsibilities of contractor, homeowner and HRP, will review inspection procedures and the timelines for draw requests and payments. The pertinent elements of Building Code and the HRP Housing Rehabilitation Standards will be explained. The process for submitting, reviewing and approving any change orders will be discussed prior to contract signing. Change orders are discussed in more detail below. Both the homeowner and the contractor will sign off on the pre-construction meeting form that states they attended the meeting and understand and accept the material presented.

At the same time the construction contract is being signed, the homeowner will be asked to sign the Affordability Agreement, and the Mortgage and Note that secure the amount of the County subsidy loan which is provided. Each of these documents would have been explained to the homeowner at the time of application and after the completion of the final funding plan.

If there is additional funding coming from sources other than the County, then the agreements which are associated with each of these sources of funds will need to be signed as well. Again, these agreements and/or security instruments would have been explained to the homeowner at the completion of the funding plan.

## **Working with the County and the Fiscal Agent**

The County and the HRP will designate a fiscal agent/ financial institution that will receive money in the full contract amount from the County for each project and deposit the funds in a designated account for each construction project. Each construction project will have its own individual account. The fiscal agent will make disbursements from each account for properly documented draw requests for that construction project. The fiscal agent will maintain records of the balance and activity in each account, from the beginning deposit to the final disbursement.

Upon homeowner execution of the construction contract, note and mortgage securing the subsidy loan and the affordability agreement, the County will wire funds in the full contract amount to the fiscal agent, who then establishes a separate account for that project. HRP will request funds from the fiscal agent necessary to pay the contractor for each draw request. For each requested withdrawal, HRP will send to the fiscal agent and County Finance: the draw request spreadsheet with the current amount requested, previous request amounts and current balance, the lien release from the contractor, the inspection results from HRP, County and CID, if applicable, including the sign-off from the homeowner, and pictures of the work that was done. This process will be repeated for each draw request, culminating in the final payment, final inspection and Certificate of Final Completion from HRP and Certificate of Occupancy or Final Inspection Pass from the County/CID, sign-off from the homeowner and the final lien release from the contractor.

At project close-out, the fiscal agent will transmit the account activity statement to the HRP and County Finance. Any balance of funds remaining in the account at the end of the job, along with the final account statement, will be returned to the County.

## **Managing Change Orders**

Only that work identified in the scope of work which is part of the construction contract, along with any change orders in the work to be provided, will be permitted under the executed contract. Change Orders to the scope of work may be approved under the following provisions: 1) Where deficiencies are uncovered and identified after the start of the work; 2) Where the method of correction of deficiencies as set forth in the scope of work that is part of the contract needs to be changed; 3) Where materials set forth in the scope of work that is part of the contract needs to be changed; 4) Where corrections are necessary due to an emergency situation; 5) Provided that sufficient funds are available in the approved project budget.

Under no circumstances shall a contractor be paid for any work completed outside the scope of work included in the executed contract, unless a written Change Order, executed by the owner and contractor and approved by HRP, has been processed prior to the contractor starting the work.

## **Construction Inspections and Draw Requests**

The responsibility for monitoring the contractor's workmanship and progress will be shared by the homeowner and the HRP. The homeowner is encouraged to monitor the work daily, when feasible. HRP will respond to concerns expressed by the homeowner and the contractor during the construction process and will help resolve any misunderstandings of the scope of work included in the construction contract.

A contractor is allowed once a month construction draws which will be made in amounts equal to the value of the portion of the work that is completed at the time of the request for payment. In the construction draw request, the contractor will itemize the percentage of work completed and the total amount requested to be paid. Upon receipt of the draw request, LAHP shall inspect the work to verify that it was done in compliance with the construction contract and the HRP Housing Rehabilitation Standards and that the percentage of completion represented in the draw request is accurate. If inspections are required for that portion of the work that had been completed, LAHP will request proof that the contractor did pass those inspections.

HRP must also determine that the homeowner is satisfied with the completed work and receive a sign-off from the homeowner. If there is any work that has not been completed as represented, or in accordance with the payment request and/or the construction contract, or if there are arithmetic errors in the draw request, HRP may adjust or reject the contractor's draw request. If this occurs, HRP will notify the contractor in writing and verbally of this change made to the payment request, along with a detailed explanation of the reasons for a change and ways in which corrections can be made.

HRP may approve, disapprove or modify the contractor's draw request within eight to nine business days of receipt of the request with all required information. Upon approval, HRP will prepare a package consisting of the draw request spreadsheet, in the form of Exhibit G, HRP inspection results, other inspections, if applicable, any change orders, the homeowner sign-off and HRP written approval to pay the draw request, and any required release of liens. This package will be delivered to the fiscal agent for processing, with a copy to County Finance. The fiscal agent will process this payment within one to two business days of receipt.

At the completion of a project, the contractor will request a final inspection through the HRP. All other required inspections from the County Building Official and the NM Construction Industries Division must have been successfully completed prior to the final inspection. If the final inspection from HRP is satisfactory, a certificate of final completion will be executed. If there are items requiring remedial action, the contractor must take action to correct such items.

Upon approval by the HRP, the homeowner will also be asked to perform a final sign-off on the contractor's work. The contractor will be asked to provide an executed release of lien form along with lien releases from any subcontractors used on the project. The contractor must produce a copy of the warranty for all work, along with any applicable product warranties, and procedures for making warranty claims on the work.

If lead-based paint was disturbed during the work, then a complete copy of all applicable lead based paint reports including homeowner receipt of disclosure information, assessments, testing, and final clearance report shall be provided to HRP as part of the final inspection and request for final payment.

HRP may approve the contractor's final draw request within eight to nine business days of receipt of the complete request. Upon approval, HRP will deliver a package with the information provided in the progress payment draw requests, plus the additional information presented above. This package will be delivered to the fiscal agent for processing, with a copy to County Finance. The fiscal agent may process this final payment within one to two business days of receipt.

HRP will prepare a Certificate of Final Completion which will be signed by the homeowner, HRP and the contractor, once full payment has been received.

## **Dealing with Contract Disputes**

During the construction process, HRP will work with the homeowner and the contractor to informally mediate any disputes regarding the work. Ultimately, HRP's decision to recommend payment will be based on its determination that the work was done in conformance with the construction contract and the work write-up which is attached as an exhibit to that contract.

As part of the process for making each progress payment, the homeowner will also be requested to approve the work and sign off on the payment. If the homeowner refuses to give his/her approval to pay the contractor, and if HRP determines that the work was done in conformance with the construction contract and that all required inspections were passed, then HRP may authorize the progress payment and/or the final payment and transmit same to the County. In such an instance, HRP would document the reasoning for such authorization and would place a written copy of the explanation in the project file.

If HRP determines that work has not been performed according to the construction contract and attached scope of work, or that the percentage of work completed is not accurate, then HRP will recommend withholding all or a share of the payment to the contractor, according to the provisions of the construction contract.

It shall be agreed by all parties that the County will not function as an arbitrator or mediator in a dispute between the homeowner, contractor and the LAHP. If there is a conflict between homeowner and contractor and the HRP that cannot be resolved between the parties, then all parties agree to resolve the dispute by binding arbitration, as set forth in the construction contract. All parties shall agree that their participation in binding arbitration is the sole solution to resolving conflict, rather than pursuing any other available legal or equitable remedy.

## **Contractor Default**

In the case the contractor defaults on the construction contract through its unwillingness or inability to correct a deficiency or complete the work, HRP will properly notify the contractor of such default and provide the contractor with a notice of its right to cure the default within a reasonable time period. If the contractor does not cure the default within the specified time period, then HRP will issue a stop work order to the contractor along with a written explanation. The homeowner will terminate the construction contract and HRP and the homeowner will undertake another process to select a qualified contractor to complete the work and correct any deficiencies which exist in the work that had been done.

In case of such a default, HRP will remove the contractor in default from the approved contractor's list.