



Deferred Housing Improvement Loans **(Deferred Improvement Loans)**

Budget: Annual allocation to be determined pursuant to the Agency's budget process and in conformance with the Agency Five —Year Implementation Plan.

Goal: To provide very low, low and moderate-income residents with sufficient funds to address health and safety deficiencies, exterior deterioration of their properties, and if funds are available, fund other needed improvements to improve the quality of their lives through a deferred two percent (2%) interest loan mechanism.

Deferred Loan Maximum: Deferred Loan amounts are provided in a **maximum amount that is less than 25% of the property's after rehabilitation value not to exceed \$50,000** for very low, low and moderate-income (up to 120% of median income) persons or households on a citywide basis. Deferred Loans are funded to first address health and safety issues and exterior deterioration, and secondly, other improvements that would improve the general character and living environment of the housing unit, including providing room additions to alleviate overcrowding. The 2% simple interest is accrued and if the home is held for the 10-year covenant period both principal and interest are forgiven in full.

Interest Rate: The loan has a 2% interest rate.

Eligibility: Homeowner of a single —familyhome with an annual income that does not exceed Moderate Income (120% of area median income adjusted for family size [see Appendix 1 for definitions of income category and what constitutes income]). The home to be improved must be the primary residence of the person or persons applying for the Deferred Improvement Loan. For the purposes of this program, Homeowner shall mean that person, or persons jointly, who has/have legal title to an eligible dwelling. Homeowner shall also mean and include a person, or persons jointly, who is/are the trustor(s) and beneficiary(ies) during his/her/their life or lives of the trust estate under a Family or Living Trust.



Deferred Loan Terms:

- The Deferred Loan shall accrue interest at two percent (2%) per annum on the unpaid or remaining Loan.
- The Deferred Loan may not be combined with any other type of program assistance. Applicants may only receive one Deferred Loan during a 10-year period. The recipient must hold the property for a 12-month term or the Deferred Loan must be repaid in full with interest.
- The Homeowner must enter into an affordability covenant, in the form of a trust deed/promissory note to secure the 10-year obligation. The Loan obligation, including accrued interest, would be forgiven equally over a 10-year period. **Affordability covenants are recorded against the property and apply to all subsequent purchasers.**
- If the property is sold before the end of the 10 year period to a non-qualified purchaser, **or the owner fails to occupy the property as their principal residence**, the Homeowner shall repay to the Housing Fund the remaining Loan obligation, including principal and interest.

Security: Total of Homeowners existing trust deed(s) and new Deferred Loan may not exceed 95% of the value of the property after improvements. Deferred Loans will be secured by a trust deed and shall not be subordinated to any loan due to refinancing. The Agency may consider subordinating its position under the following conditions:

- A Fair Market appraisal of the property is obtained by the lender, the cost of which will be paid by the Homeowner.
- A copy of the appraisal is submitted to the Agency for its review.
- All debt on the property does not exceed 80% of the property value.
- The Homeowner does not receive cash out of the new loan unless the owner can prove that the cash will be used only to cure an emergency situation pertaining to the property or will be used for medical reasons, which is verified by the Agency. The cash out of the refinancing may not be used to consolidate existing household or credit card bills.
- **If a Homeowner has sufficient equity in the property to provide a total loan-to-value ratio on the property that is less than 60%, the Agency will subordinate to a new loan that will allow the owner to access their equity in an amount that will maintain the 60% loan-to-value ratio.**



Title: A Homeowner who is a trustor/beneficiary under a Family or Living Trust shall submit to the Agency's Executive Director, on each subsequent anniversary date of the Loan provided hereunder, a declaration executed under penalty of perjury under the laws of the State of California attesting to the fact that the Trust has not been modified and that the trustor/beneficiary is still the beneficiary under the trust. Failure to submit such a declaration annually shall be deemed a default under these Guidelines.

Cost of Loan: Homeowner costs associated with processing the Loan (appraisals, loan processing fee, credit reports, title policy, escrow, notary, recording documents) will be paid for from Loan proceeds. **If a loan is cancelled during the application process, any funds expended by the Agency in conjunction with that loan application (i.e. appraisal cost) are to be reimbursed by the property owner; if the Agency has not expended such funds but costs have been incurred, payment is the responsibility of the property owner and the cost shall be deducted from the property owner's deposit.**

Permitted uses for the Deferred Loan Funds: Deferred Loan proceeds may be used for rehabilitation activities in the following order of priority.

- *First - To Correct All Code Violations* - Electrical, plumbing, heating and air conditioning, and structural building deficiencies that are in violation of current building codes. Correction of any safety problems not covered by codes, such as broken windows, missing window screens, doors and the provision of facilities for handicapped access.
- *Second - To Refurbish Exterior Items* - New roofs, rain gutters, conversion of carports to garages, garage and entry door replacement, fencing replacement, and driveway/walkway repairs.
- *Third - Alleviate Overcrowding* - Based upon the overcrowding standards set forth in the United States Department of Housing and Urban Development Public Housing Occupancy Handbook Chapter 5 b (attached as Appendix 2), fund bedroom additions to alleviate overcrowding. Additionally, if a second bathroom does not exist in a home of four bedrooms or more and each bedroom is occupied, an additional bathroom may be provided.
 - *Because overcrowding is a condition determined by the makeup of a household, no limitation is placed on the age of the structure. Therefore, if a household is deemed overcrowded pursuant to the above noted HUD standards, and the house was built in the 1980s or 1990s, the household would be eligible for assistance if the income requirements are met and plans to add an additional bedroom meet planning and zoning requirements of the City.*



- *Fourth - Exterior Cosmetic Improvements* - Repainting, replacing dried or broken landscape materials and/or inoperable irrigation systems, and replacing broken or damaged awning improvements.
- *Fifth - Security Improvements* - Upgrade door and window locks, installing security lighting and doors and security-related fencing.
- *Sixth - Energy Efficiency Improvements* - Heating and cooling system replacement/upgrades, install insulation, ceiling fans, weather stripping, water heater replacement, and low flow plumbing fixtures.
- *Seventh - Interior Improvements (necessary to improve general living conditions)* - Interior paint, wall coverings, new flooring, repair of existing hardwood flooring, needed kitchen appliances (built in only), replacement of deteriorated kitchen or bathroom cabinets, replacement of counter tops with mid-grade tile or Formica, replacement of inoperative lighting fixtures etc. All such interior items would be allowed only at mid-grade quality.
- *Improvements that are not to be funded by Loan* - Indoor and outdoor fireplaces, pools, Jacuzzis, hardwood flooring, expensive counter tops, washers, dryers, barbecue pits, flower boxes, greenhouses, family rooms, new patios or deck construction, decorator planters, custom concrete work on driveways and walkways, detached workshops and/or other non-permanent structures and improvements considered to be a luxury as determined by the Executive Director.
- *Work Conducted Under Program* —All work conducted under the Loan must be performed with approved building permits and by state licensed contractors. Building permit fees shall not be waived by the City.