



CITY OF RAPID CITY

RAPID CITY, SOUTH DAKOTA 57701-2724

GROWTH MANAGEMENT

300 Sixth Street
Rapid City, SD

RAPID CITY NEIGHBORHOOD RESTORATION PROGRAM

POLICY & PROCEDURES

The City of Rapid City has entered into a Community Development Program under the Housing and Community Development Act of 1974 for residential rehabilitation and conducts a program of neighborhood restoration. This policy and procedures are adopted as official guidelines in accordance with the rules and regulations as set forth in HUD-312, Rehabilitation Loan Programs, as amended to date, and HUD-115, Rehabilitation Grant Programs, as amended to date. The City of Rapid City shall also utilize the Standard Operating Procedures, Property Rehabilitation Standards, and forms attached hereto for conducting the Neighborhood Restoration Program.

NEIGHBORHOOD RESTORATION PROGRAM FUNDING

The City of Rapid City will apply each year for rehabilitation funds from HUD's Community Development Block Grant Funds and any other sources of rehabilitation funds that may become available. Fifteen percent (15%) of the awarded funds will be used for program delivery costs which include, but are not limited to, inspection fees, credit reports, applicant counseling fees, applicant education fees, recording fees, and lead based paint inspection and testing fees.

REHABILITATION GRANT PROGRAM

The Neighborhood Restoration Rehabilitation Grant Program will provide grant funds to qualifying low-income applicants for use in rehabilitating their homes. Acceptable rehabilitation projects address structural, safety and energy efficiency issues, updating bathroom or kitchen fixtures and floor coverings. The Grant Program is subject to availability of funds.

The Neighborhood Restoration Program is available to qualifying low-to-moderate income Rapid City property owners residing within the corporate limits of the City of Rapid City.

The grant program may only be used for owner occupied homes. Owners must occupy the property as their primary residence for a period of not less than eleven (11) months of the year.

The property owner must have clear, fee simple title to the property. Individuals with contracts for deed for the purchase of the property are not eligible.

The minimum allowable grant amount is one thousand dollars (\$1,000). The maximum allowable grant amount is seven thousand dollars (\$7,000). Exceptions to the minimum grant amount may be authorized by the Growth Management Director or their designee for unusual or emergency situations.

Applicants must meet the income guidelines for total household income, as determined annually by HUD. Income from all adults over eighteen (18) residing in the household will be used in determining the total household income. The total household income must be below 50% of HUD median income for the area, adjusted for household size.

If the home is sold, refinanced for cash-out, or becomes non-owner occupied within ten (10) years of the date of closing, the full amount of the grant will become due and payable to the City of Rapid City. At the end of year ten (10), the grant will be fully forgiven. A mortgage shall be filed against the property at the time of closing.

The grant program may only be used one time per property.

An individual having a loan or grant will not be permitted to apply for another loan or grant on another piece of property for a period of five years.

The total rehabilitation grant will not exceed sixty percent (60%) of the appraised as-is value of the structure to be rehabilitated.

The Grant Program may be used in conjunction with the Loan Program for qualifying applicants.

- a. The maximum loan amount allowed when used in conjunction with the grant program is five thousand dollars (\$5,000)
- b. The maximum combined assistance limit (Grant plus Loan) shall be twelve thousand dollars (\$12,000).
- c. **If the home is sold, refinanced for cash-out, or becomes non-owner occupied within ten (10) years of grant/loan closing, then the full amount of assistance money shall be paid back to the City of Rapid City.**

Applicants must maintain hazard insurance on the home for the term of the loan.

REHABILITATION LOAN PROGRAM

The Neighborhood Restoration Rehabilitation Loan Program will provide loan funds to qualifying low-income applicants for use in rehabilitating their homes. Acceptable rehabilitation projects address structural, safety and energy efficiency issues, updating bathroom or kitchen fixtures and floor coverings. The Loan Program is subject to the availability of funds.

The Neighborhood Restoration Program is available to qualifying low-to-moderate income Rapid City property owners residing within the corporate limits of the City of Rapid City.

The loan program may only be used for owner occupied homes. **Owners must occupy the property as their primary residence for a period of not less than eleven (11) months of the year.**

The owner must have clear, fee simple title to the property. Individuals with contracts for deed for the purchase of the property are not eligible.

The minimum allowable loan amount is one thousand dollars (\$1,000). The maximum allowable loan amount is twelve thousand dollars (\$12,000). **Exceptions to the minimum allowable grant amount may be authorized by the Growth Management Director or their designee for unusual or emergency situations.**

Applicants must meet the income guidelines for total household income, as determined annually by HUD. Total Household Income must be below 80% of HUD median income for the area, adjusted for household size.

The loan term shall be a minimum of one (1) year, with a maximum of fifteen (15) years, based on the dollar amount of the loan and ability to pay. There shall be a maximum term of ten (10) years on a loan used in conjunction with the grant program.

The loan may be pre-paid with no penalties or fees.

The loan will have a fixed interest rate of three percent (3%).

If the home is sold, refinanced for cash-out or becomes non-owner occupied prior to loan payoff the full amount of the loan shall become due and payable to the City of Rapid City.

A mortgage will be filed against the property at the time of closing.

The loan program may only be used one time per property.

An individual having a loan or grant will not be permitted to apply for another loan or grant on another piece of property for a period of five years.

The Grant Program may be used in conjunction with the Loan Program for qualifying applicants.

- d. The maximum loan amount allowed when used in conjunction with the grant program shall be five thousand dollars (\$5,000).
- e. The maximum allowable combined assistance limit (grant plus loan) shall be twelve thousand dollars (\$12,000).
- f. **If the home is sold, refinanced for cash-out, or becomes non-owner occupied within ten (10) years of the loan/grant closing, then the full amount of assistance money received shall be paid back to the City of Rapid City.**

Applicants must maintain hazard insurance on the home for the term of the loan.

GRANT/LOAN PROGRAM INCOME LIMITS

The Neighborhood Restoration Program is for low-to-moderate income households and is subject to maximum income limits. The income limits are based on current HUD median household income limits adjusted for family/household size for Rapid City, South Dakota. **Income from all occupying adult members of the household over 18 shall be used to determine income for purposes of determining eligibility.**

Grants may be offered to qualifying households whose income is less than fifty percent (50%) of the current HUD median income for the household size.

Loans may be offered to qualifying households whose income is less than eighty percent (80%) of the current HUD median income for the household size.

APPLICATION PROCESS FOR THE GRANT/LOAN PROGRAM

HUD guidelines for equal opportunity lending will be followed for all applicants of the Neighborhood Restoration Program.

Applications will be accepted on a first come, first serve basis. If there are no funds available, applicants will be placed on a waiting list for the next funding period. **Applications must be filled out completely and accompanied by the required income verifications and a list of the requested home repairs.**

Applicants are required to provide the following documentation for all adult members of the household over 18 years of age at time of application:

- a) pay stubs to cover the most recent 30 day period;**
- b) W-2's for all jobs for the past two years;**
- c) tax returns for the past two years;**
- d) award letters for pensions, SSI, VA benefits, etc;**
- e) other documentation appropriate for verifying any sources of income;**
- f) a list of current monthly bills and expenses; and**
- g) a copy of a current homeowner's insurance policy.**

An appointment to review the application and supporting documentation and to go over program disclosures will be made by the Community Development Block Grant Specialist. A phone application may be done in lieu of a face-to-face application for disabled applicants or for unusual circumstances.

Applications will be reviewed to determine whether

- a) the household income meets the adopted program guidelines;
- b) the debt ratios meet the program guidelines;
- c) residual income will cover required rehabilitation loan payment (if applicable);**
- d) the property is located within the Rapid City corporate limits; and
- e) the type of rehabilitation requested meets the program guidelines.

If an applicant does not provide the necessary documentation for income verification within two weeks of the date of application, the application may be denied as incomplete.

If the application meets the program guidelines, written verifications will be ordered from the Director of Equalization, the appropriate utility companies, and employers. Property tax payments must be current on the property before loan or grant approval may be given. **Alternative documentation meeting HUD underwriting guidelines may also be used.**

The Terms and Conditions of the Loan and/or Grant Program Disclosure detailing the terms and conditions of the program and what the applicant's responsibilities are will be reviewed with the applicant and signed by the applicant.

A Privacy Disclosure will be reviewed with the applicant and signed by the applicant.

An estimated Truth-In-Lending Disclosure Statement will be reviewed with the applicant and signed by the applicant for the loan/grant program at the loan application appointment, or mailed within three business days of the application. A final Truth-In-Lending Disclosure will be provided to the borrower at the loan closing reflecting actual loan amounts.

Applicants who meet the program-qualifying requirements will be scheduled for a home inspection to determine the scope of work.

EDUCATION AND BUDGET REVIEW

Financial education and a budget review shall be required of all applicants. A budget review and a financial education course will provide them with the skills and knowledge that they need to be successful in handling this loan and their future financial dealings.

The Growth Management Director or their designee may waive the financial education and budget review requirement if the situation warrants.

The financial education program must be approved by the Growth Management Director or their designee. A list of the approved financial education programs is attached. Additional programs may be submitted to the City for review and approval. The financial education program may be done as self-study or as a classroom instruction.

The budget review session will be done at the application appointment. There must be adequate residual income to cover the rehabilitation loan payment, if applicable. The financial education program must be completed before funds will be disbursed, unless the repair situation is deemed to be an emergency situation by the Growth Management Director or their designee.

LOAN QUALIFYING

The Neighborhood Restoration Loan and Grant Programs recognize that low-to-moderate income households pay a higher percentage of their income for housing, which may also cause them to have a higher total debt ratio.

The loan qualifying guidelines will follow standard HUD guidelines for low-income homebuyer programs, but will allow expanded debt ratios for individuals who have completed an approved financial education program and whose budget review shows an acceptable residual income to support the payment for the rehabilitation loan.

The programs will follow the standard HUD loan qualifying guidelines for income and employment.

The monthly housing expense should not exceed thirty-three percent (33%) of the gross monthly income.

The monthly housing expense plus the fixed monthly debt, (total monthly debt), including the rehabilitation loan payment, should not exceed fifty-two percent (52%) of the gross monthly income. An exception may be granted by the Growth Management Director or their designee if:

- a) compensating factors support a higher ratio; or
- b) the residual income will cover the loan payment.

SCOPE OF WORK

A home inspection is required to determine and prioritize the rehabilitation projects to be accomplished. Rehabilitation projects shall be health, safety, energy and/or structural related. In some cases replacement of carpet, flooring, bathroom fixtures or kitchen fixtures may be included as needed for functional restoration of the room with the approval of the Growth Management Director or their designee.

The home inspector shall be contracted according to the Policy for Technical Consultant Selection Process for the City of Rapid City.

The home inspection shall be ordered from an approved inspector.

The home inspector shall perform a full home inspection and identify any health, safety, energy or structural issues that need to be addressed. This program will not fund luxury items. The inspector shall prioritize the rehabilitation items and provide an estimated cost of repair in a preliminary scope of work along with a recommended contingency reserve percentage, based on the unknown risk for the type of work. The cost of the inspection shall be paid by the City of Rapid City from the Neighborhood Rehabilitation program delivery funds. The Community Development Block Grant Specialist shall review the scope of work provided by the Inspector with the applicant to determine which items meet the program guidelines and can be accomplished with the money available. A lead paint inspection and test shall be done on homes built prior to 1978 in accordance with HUD Lead-based Paint Requirements. If there is a cost for the Lead-based paint inspection and test it shall be paid for by the City of Rapid City out of the Neighborhood Restoration program delivery funds. Contractors shall be required to follow HUD guidelines for performing repairs on homes identified as having a lead-based paint hazard. Environmental reviews shall be done in accordance with HUD Requirements for Environmental Reviews.

The applicant shall be responsible for obtaining a minimum of two bids for the work identified in the scope of work. The applicant shall provide the scope of work to the contractor(s) so that they will know exactly what work needs to be done and the materials that should be used for the project. All contractors shall provide proof that they are licensed (when required) and insured to work in Rapid City. All work must be done by contractors. This is not a “do it yourself” program.

Once the bids are obtained, the Community Development Block Grant Specialist shall review the bids with the applicant and determine the final scope of work allowable with the funds available. The applicant shall be responsible for choosing the contractors. The applicant and the Community Development Block Grant Specialist shall sign the finalized scope of work detailing the contractors, their bid prices and a contingency reserve amount. Once this form is signed, no further changes can be made to the work without prior approval of the Community Development Block Grant Specialist and completion of a Change Order.

The home inspector shall conduct escrow progress inspections, as needed, upon receipt of an inspection request from the Community Development Block Grant Specialist. The fees for escrow progress inspections may be paid out of the Neighborhood Restoration Program delivery fees.

LOAN CLOSING

The loan closing will be coordinated with the City Finance Department staff for the escrow account set up. The Community Development Block Grant Specialist will prepare the loan documents and meet with the applicants to sign documents.

The Community Development Block Grant Specialist shall prepare a Purchase Order for the escrow setup amount and deliver it to the City Finance Department staff when the final Scope of Work has been determined and agreed upon. The City Finance Department staff shall submit the Purchase Order to the City Council for approval. Upon receipt of City Council approval, City Finance shall set up an escrow account in the name of the applicant and prepare the payment coupon book for the closing.

A Contract for Rehabilitation Services shall be signed by the applicant and each individual contractor for the work that is to be done, as detailed in the Scope of Work and bids.

The Community Development Block Grant Specialist shall prepare the closing documents, meet with the applicants to review the documents, and secure their signatures.

The Community Development Block Grant Specialist shall notify the applicant's homeowner's insurance company to add the City of Rapid City as a loss payee on their policy.

The Community Development Block Grant Specialist shall have the Note and Mortgage recorded by the Pennington County Register of Deeds. **Recording fees will be paid by the City of Rapid City out of the program delivery funds.**

A Notice to Proceed shall be issued in writing to the applicant and the contractor(s) by the Community Development Block Grant Specialist once closing has been completed and the escrow account is set up. It is the applicant's responsibility to schedule work dates and access to their home with the contractor. Work should commence within 10 days of notification and be completed within 30 days of commencement. **Extensions to 60 days may be allowed for weather related delays or unusual circumstances, with approval of the Growth Management Director or their designee.**

GRANT/LOAN REHABILITATION ESCROW

The City Finance Department staff shall establish and maintain an escrow account for each rehabilitation project. The Community Development Block Grant Specialist shall maintain client files; oversee the rehabilitation projects and inspections.

The Community Development Block Grant Specialist shall order progress inspections, final inspections, prepare invoices for escrow payment releases as work is completed, and provide the required documentation to the City Finance Department.

The Community Development Block Grant program shall not front funds to a contractor for the purchase of materials.

There may be a maximum of two escrow draws per contractor. Exceptions may be made by the Growth Management Director or their designee for larger dollar projects or unusual circumstances. The contractor must provide a bill to the owner for the completed work. The owner shall sign an authorization to release funds for the work and deliver it and the bill to the Community Development Block Grant Specialist, to request the rehabilitation progress or final inspection. The Community Development Block Grant Specialist shall call the inspector and request the progress or final inspection. The inspector shall contact the owner to schedule access to the home for the inspection and shall provide a written inspection report to the Community Development Block Grant Specialist. Upon receipt of the report, the Community Development Block Grant Specialist shall write up a Purchase Order, attach the supporting documentation, and deliver it to the City Finance Department staff. The City Finance Department staff shall obtain approval to issue the check from the City Council. The purchase orders requesting escrow set-up or funds disbursements must be to the City Finance Department by noon on the Wednesday following a City Council meeting to be on the agenda for the next City Council meeting. The City Finance Department staff shall make out a check in the name of the owner and the contractor for the approved amount and deliver the check to the Community Development Block Grant Specialist. The City Finance Department prepares checks on Tuesdays and Thursdays for contractor payments. **The Community Development Block Grant Specialist shall notify the owner that the check has been prepared and is ready for disbursement. The owner shall sign the check and the Community Development Block Grant Specialist will notify the contractor that the check is ready for release. The contractor must sign an acknowledgement of receipt of the check and provide lien waivers to the Community Development Block Grant Specialist before the check shall be released.**

There shall be no change orders after loan closing, except for unforeseen site conditions. Change orders must be approved by the Community Development Block Grant Specialist prior to continuing work. Construction funds or contingency funds remaining after the completion of the project may be used to complete another scope of work identified rehabilitation project, if funds are sufficient to complete the work, and the Community Development Block Grant Specialist approves the project. If there are insufficient funds to complete another identified project, the funds shall be applied to the balance of this loan. This payment will not be in lieu of the regularly scheduled payment.

LOAN SERVICING

The Community Development Block Grant Specialist shall service the closed loan files. Owners shall make payments to the City Finance office. Loan payments shall include a monthly \$2.00 escrow fee. Payments shall be due on the first of the month. There shall be no prepayment penalties. All payments on the Note shall be applied first to the interest due on the Note and then to the principal due on the Note.

The Community Development Block Grant Specialist will send out reminder delinquency notices when loans are 15 days and 30 days late. The Community Development Block Grant Specialist will contact the owner to arrange repayment of the delinquent amount or continue to pursue collection on the loan as allowed by Promissory Note.

If the owner is able to resume full loan payments but can not make up delinquent amounts, the Growth Management Director or their designee may approve a mortgage modification, changing one or more terms of the loan, or a special forbearance. A

special forbearance would be a written agreement for a repayment plan. A new Note and Mortgage would be filed by the Community Development Block Grant Specialist for a mortgage modification.

If the loan becomes seriously delinquent and collection of the delinquent amount is not likely, the Community Development Block Grant Specialist will refer the file to City Attorney's Office for legal action.

The Community Development Block Grant Specialist will prepare and record a Satisfaction of Mortgage with the Pennington County Register of Deeds upon notification from the City Finance Department Staff of a paid in full loan. The recorded Satisfaction of Mortgage will then be forwarded to the property owner and a copy kept in the file.

PROGRAM REPORTING

The Community Development Block Grant Specialist is responsible for all City and HUD required program reporting.