



# CITY OF RAPID CITY

RAPID CITY, SOUTH DAKOTA 57701-2724

## GROWTH MANAGEMENT

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### MEMORANDUM

TO: Legal & Finance Committee

FROM: Barbara Garcia, Community Development Specialist

DATE: January 26, 2004

RE: Rapid City Neighborhood Restoration Program – Policy & Procedures

Attached please find a draft, "Policy and Procedures for the Rapid City Neighborhood Restoration Program," for your review and approval.

The attached document will provide a comprehensive policy with related procedures all identified in a single document. The attached document identifies the proposed changes and additions in bold. This document reflects the current HUD guidelines, as well as additional procedures that have been previously discussed or acted on by City Council.

Neighborhood Restoration Program Funding – This section establishes a fifteen percent (15%) set-aside fund to cover program delivery costs which include, but are not limited to, inspection fees, applicant education fees, recording fees, lead-based paint inspection and testing fees, and rehabilitation contingency reserves.

Grant Program - This section clarifies the clear title requirements and adds a minimum grant amount of \$1,000.00. The minimum grant amount is needed due to the amount of time, work and fees required to set up and service a loan of this type. The program guidelines allow for exceptions to be made for special circumstances or emergency situations. The draft document also adds a clause for recovering the full amount of the grant if the property is sold, refinanced for cash-out or becomes non-owner occupied within ten years of the date of closing. This provision will help create a revolving source of funds that can be reused for low-income home rehabilitation in the future. A clause has also been added to require homeowners insurance to be maintained on the home for the term of the loan to protect the City's collateral interest.

Loan Program - This section addresses the same clear title requirement, minimum loan amounts, and resale/refinance/non-owner occupied status provisions identified in the grant program. In addition, this section indicates that the loan term may be fifteen (15) years and will be based on



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the dollar amount of the loan and the owner's ability to repay the loan. This will allow a payment amount to be established that will be reasonable for the owner's budget, reducing the risk of non-payment. A clause has also been added to require homeowners insurance to be maintained on the home for the term of the loan to protect the City's collateral interest.

**Income Limits** - This section establishes the requirement that income from all occupying household members over the age of eighteen (18) be considered for program eligibility. This is a standard requirement on many low-to-moderate income programs.

**Application Process** – This section addresses the application process. The proposed procedures would require that income verifications be received at the time of application along with a list of the requested repairs. This will help to shorten the processing and review time for applicants and the number of appointments needed with applicants and the Community Development Block Grant (CDBG) Specialist. If an applicant does not provide the requested documentation in a reasonable time frame, their application may be denied as incomplete. The client may reapply when the information is available, but the application will be treated as a new one for "first come, first serve basis." Disclosures regarding the terms and conditions of the Neighborhood Restoration Program, a Privacy Disclosure and a Truth-In-Lending statement will be reviewed and signed by the applicant at the time of application to insure City compliance with lending disclosure laws.

**Education and Budget Review** - This section proposes the addition of budget review and education requirements. Studies have shown that credit counseling and financial education together decrease the default rate on loans. It is important to provide low-income home owners with the knowledge and skills to handle their loan and financial responsibilities. Loan programs usually require a credit report to determine ability to repay. Many of the applicants for this program are unable to secure funds from traditional lending sources due to poor credit and spending habits, and credit reports do not reflect other financial obligations that affect the borrower's ability to meet their real living expenses. A budget review will take into account all of the applicant's financial obligations, such as loan payments, credit cards, student loans, medical bills, pharmaceutical expenses, child care costs, insurance expenses, utility bills, and food costs. The CDBG Specialist will be able to determine if the loan payment will realistically fit into the applicant's monthly budget. It is also proposed that a financial education course be completed prior to loan closing. A list of approved financial education programs shall be maintained by the CDBG Specialist. The financial education program may be completed either through self-study or classroom instruction. If there is a fee for the education program, it may be paid from the Neighborhood Restoration program delivery funds, up to a maximum of Forty dollars (\$40.00). Minimum standards shall be set for approved financial literacy education curriculums by the Growth Management Director or their designee.

**Loan Qualifying** - This section proposes to allow debt ratios to exceed the HUD-312 loan guidelines of 28% and 36%, with a budget review and completion of an approved financial education program. Staff believes that a housing ratio of thirty-three percent (33%) and a total debt ratio of fifty-two percent (52%) are more realistic ratios, considering the higher percentage of income that low to moderate income households pay for housing, the cost of homes and other living expenses incurred in our area, and the ratios allowed on conventional loans today.

**Scope of Work** – This section addresses the need to have a home inspection completed by a qualified, knowledgeable inspector and identifies the funding mechanism. An initial home inspection shall be conducted to identify any structural, safety, health or energy issues that need

to be addressed. Additional inspections shall be conducted as work is completed, upon the written request of the CDBG Specialist. Lead-based paint inspections and tests shall be conducted on all housing built before 1978, according to HUD guidelines. The cost of the inspections and tests may be paid from the Neighborhood Restoration program delivery funds. All work shall be done by licensed (if required), insured contractors. The owner shall be responsible for obtaining a minimum of two bids for each work item identified on the Scope of Work. The final scope of work shall be determined once all bids are received. The owner shall be responsible for selecting the contractor from the approved bids.

Loan Closing – This section addresses the notification of the homeowner's insurance company of the addition of the City of Rapid City as a Loss Payee on the policy and the notification of the owner and contractor that they may proceed with the rehabilitation of the property as outlined in the Scope of Work by the Community Development Block Grant Specialist. This section also addresses the payment of any recording fees from the program delivery funds. Notice to Proceed shall be sent to both the contractor and the owner by the CDBG Specialist. This is to prevent work from starting on the home before the loan and the escrow account set up has been approved by the CDBG Specialist and the mortgage agreements signed by the City Council. This section also makes provisions for extensions to the completion date for weather delays and unusual circumstances with the approval of the Growth Management Director or their designee.

Grant/Loan Rehabilitation Escrow – This section suggests guidelines and procedures for the release of funds to contractors upon the completion of their work. Staff suggests that a contractor may make a maximum of two draws upon receipt and approval of their bill, progress inspection, the owner's satisfaction with their work and receipt of the required lien waivers. Staff also suggests that the program not front money to a contractor for the purchase of materials. It is also suggested that the check be released by the CDBG Specialist to the contractor, after obtaining proper approval of the owner, so that lien waivers may be verified as received before funds are released. The section addresses how change orders should be handled if an unforeseen site condition should occur. If there are funds remaining in the escrow account upon completion of the accepted scope of work, it is suggested that the funds first be applied to another identified rehabilitation item on the preliminary scope of work, if possible. If there are insufficient funds remaining to complete any other identified rehabilitation project, then staff suggests that the funds be applied to the balance of the Rehabilitation Loan.

Loan Servicing – This section addresses how the loan will be serviced for loan payments and loan delinquencies. The CDBG Specialist shall send out 15 and 30 day late notices on loans whose payments have not been received. The CDBG Specialist shall contact the owner to arrange repayment of the delinquent amount or continue to pursue collection on the loan as allowed by the Promissory Note. This section also makes a provision for allowing a special forbearance or mortgage modification if the owner is able to resume full payments on the loan but is unable to make a lump sum payment on the delinquent amount, with the approval of the Growth Management Director or their designee. A new Note and Mortgage would be executed and filed for a mortgage modification and a written agreement for a repayment plan would be executed for a special forbearance.