



CITY OF RAPID CITY

RAPID CITY, SOUTH DAKOTA 57701-2724

COMMUNITY DEVELOPMENT DIVISION

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MEMORANDUM

TO: Legal & Finance Committee

FROM: Barbara Garcia, Community Development Specialist

DATE: August 16, 2006

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 Community Development Division had established "Policy and Procedures for the Rapid City Neighborhood Restoration Program" in 2004. Due to the significant revisions and re-formatting of the document, staff has re-written the Policy and Procedures.

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.



EQUAL OPPORTUNITY EMPLOYER

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

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.



CITY OF RAPID CITY

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COMMUNITY DEVELOPMENT

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 is adopted as official guidelines in accordance with the rules and regulations as set forth in the Housing and Urban Development (HUD) Entitlement Community Development Block Grant program, 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, staff salaries, inspection fees, credit reports, applicant counseling fees, applicant education fees, recording fees, and lead based paint inspection and testing fees.

NEIGHBORHOOD RESTORATION PROGRAM GUIDELINES

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 City of Rapid City offers rehabilitation programs for two types of homes for qualified homeowners:

- 1) homes classified as real estate
- 2) manufactured/mobile homes

All programs offered are subject to the availability of funds.

The 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.

Applicants must meet the applicable income limits.

Funds for properties classified as real estate may be used for projects that address health, safety, structural, energy efficiency or handicap accessibility issues, and updating of bathroom or kitchen fixtures and floor coverings.

Funds for properties classified as manufactured/mobile homes may be used as follows:

Acceptable rehabilitation projects include, but are not limited to:

- Furnace repair or replacement
- Water heater repair or replacement
- Plumbing repairs
- Electrical wiring repairs
- Flooring repair
- Replace entry doors
- Handicap Accessibility renovations that do not alter the frame of the structure
- Modest stairs or deck for access (Max deck size of 5 ft. x 5 ft.)

Prohibited rehabilitation projects for mobile homes include, but are not limited to:

- Roofs
- Window replacement
- Adding additions
- Kitchen cabinet replacement

The total rehabilitation loan on properties classified as real estate will not exceed sixty percent (60%) of the current tax assessed value or appraised as-is value of the structure to be rehabilitated.

The total rehabilitation loan on manufactured/mobile homes shall not exceed four thousand (\$4,000) dollars.

An individual receiving a loan from the Neighborhood Restoration Program will not be permitted to apply for a loan on another piece of property for a period of five years.

The property owner must have clear, fee simple title to the property. Individuals purchasing homes with a contract for deed are not eligible for this program.

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

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

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 or lien will be filed against the property at the time of closing.

The City of Rapid City offers two loan programs for qualifying homeowners whose property is classified as real estate:

- 1) Zero Percent (0%) Interest Loan Program
- 2) Three Percent Interest (3%) Loan Program

The two programs may be used in combination for those who qualify, and have the need for both programs.

The City of Rapid City offers three loan programs for qualifying homeowners whose property is classified as a manufactured/mobile home:

- 1) Grant program
- 2) 0% interest, 5-Year Recoverable Loan Program
- 3) 3% interest Loan Program

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.

1) For Properties Classified as Real Estate:

- a) Zero Percent Interest (0%) Loans may be offered to qualifying households whose income is less than fifty percent (50%) of the current HUD median income for the area for household size.
- b) Three Percent Interest (3%) Loans may be offered to qualifying households whose income is less than eighty percent (80%) of the current HUD median income for the area for household size.

2) For Properties Classified as Manufactured/Mobile Homes:

- a) The Grant program may be offered to qualifying households whose income is less than 50% of HUD Median Income for family size *and* the manufactured/mobile home is over 15 years old.
- b) Zero Percent Interest (0%), 5-Year Recoverable Loans may be offered to qualifying households whose income is less than 50% of HUD Median Income for family size *and* the manufactured/mobile home is less than 15 years old.
- c) Three Percent Interest (3%) Loans may be offered to qualifying households whose income is less than 80% of HUD Median Income for family size.

REAL ESTATE LOAN PROGRAMS:

A. Zero Percent Interest (0%) Loan Program

The Neighborhood Restoration Zero Percent Interest (0%) Loan Program will provide zero percent interest (0%) funds to qualifying low-income applicants for use in rehabilitating their homes.

The minimum allowable zero percent interest (0%) loan amount is one thousand dollars (\$1,000). The maximum allowable zero percent interest (0%) loan amount is seven thousand dollars (\$7,000). Exceptions to the minimum zero percent interest (0%) loan amount may be authorized by the Community Development Director or their designee for unusual or emergency situations.

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 zero percent interest (0%) will become due and payable to the City of Rapid City. At the end of year ten (10), the zero percent interest (0%) loan will be fully forgiven. A mortgage shall be filed against the property at the time of closing.

The Zero Percent Interest (0%) Loan Program may be used more than one time per property, but the cumulative total may not exceed the \$7,000 maximum loan amount of the program.

B. Three Percent (3%) Interest Loan Program for Single Family Owner Occupied Housing

The Neighborhood Restoration Rehabilitation Three Percent Interest (3%) Loan Program will provide loan funds to qualifying low-income applicants for use in rehabilitating their homes.

Owners must occupy the property as their primary residence for a period of not less than eleven (11) months of the year.

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 0% interest loan amount may be authorized by the Community Development Director or their designee for unusual or emergency situations.

The 3% interest 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 0% interest loan program.

An applicant may utilize the three percent interest (3%) loan program more than one time, but the cumulative total may not exceed the maximum allowable loan amount, per the program guidelines, of twelve thousand dollars (\$12,000).

C. Combined 0% Interest & 3% Interest Loan Program

The Zero Percent Interest (0%) Loan Program may be used in conjunction with the Three Percent Interest (3%) Loan Program for applicants who meet the guidelines for both programs and the additional work is identified as a priority by the Home Inspector.

- a. The maximum three percent interest (3%) loan amount allowed when used in conjunction with the zero percent interest (0%) loan program shall be five thousand dollars (\$5,000).
- b. The maximum allowable combined assistance limit (0% loan plus 3% loan) shall be twelve thousand dollars (\$12,000).
- c. Two mortgages will be filed on the home, one for the zero percent interest (0%) loan and one for the three percent interest (3%) loan.
- d. If the home is sold, refinanced for cash-out, or becomes non-owner occupied within ten (10) years of the loan closing, the full amount of assistance money received shall be paid back to the City of Rapid City.

MANUFACTURED/MOBILE HOME PROGRAMS

The Neighborhood Restoration Manufactured Home Rehabilitation Grant/Loan Program will provide loan funds to qualifying low-income applicants for use in rehabilitating their manufactured/mobile homes.

The Neighborhood Restoration Program is available to qualifying low-to-moderate income Rapid City manufactured/mobile homeowners residing within the corporate limits of the City of Rapid City.

A. The Grant program

The Grant program may be offered to qualifying households whose income is less than 50% of HUD Median Income for family size *and* the manufactured/mobile home is over 15 years old.

B. Zero Percent Interest (0%), 5-Year Recoverable Loans may be offered to qualifying households whose income is less than 50% of HUD Median Income for family size *and* the manufactured/mobile home is less than 15 years old.

C. Three Percent Interest (3%) Loans may be offered to qualifying households whose income is less than 80% of HUD Median Income for family size.

The grant/loan programs may only be used for owner occupied manufactured/mobile 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 title to the property. Individuals purchasing homes with a contract for deed are not eligible for this program.

The minimum allowable loan amount is five hundred dollars (\$500.00). The maximum allowable loan amount is four thousand dollars (\$4,000). Exceptions to the minimum or maximum allowable grant amount may be authorized by the Community Development Director or their designee for unusual or emergency situations.

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 Community Development 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 Community Development 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 Community Development Director or their designee.

LOAN QUALIFYING

The Neighborhood Restoration Loan 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 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 Community Development Director or their designee if:

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

APPLICATION PROCESS FOR NEIGHBORHOOD RESTORATION LOAN PROGRAMS

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;

In addition, the following documentation will be required

- a) Copies of current monthly bills and expenses, to include but not limited to: utility bills, credit cards, car payments, student loans, and mortgage payments;
- b) A copy of a current homeowner's insurance policy;
- c) A copy of the recorded deed or title to the property
- d) A copy of the current tax assessment and property tax bill

An appointment to review the application and supporting documentation and to go over program disclosures will be scheduled with 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.

All persons listed on the title to the property are required to sign loan documents, notes and mortgages, and provide verification of their income. Income from non-occupying co-owners will be included in the household income for qualifying purposes.

If the application meets the program guidelines, written income and payment verifications may be requested to include, but not limited to: Director of Equalization, utility companies, lot rent, employment and creditors. Alternative documentation meeting HUD underwriting guidelines may also be used.

Mortgage payments, lot rent payments, and property tax payments must be current on the property before loan approval may be given.

The Terms and Conditions of the Loan Program's Disclosure detailing the terms and conditions of the programs 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 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.

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, handicap accessibility and/or structural safety 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 Community Development Director or their designee.

Home inspections will not be required for projects that only involve repair or replacement of water or sewer lines from the street to the house.

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, handicap accessibility, 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 safe practices when 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) to work in Rapid City, and insured for Liability and Workman's Compensation. All work must be done by licensed, insured 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

An acceptable Environmental Review of the proposed project must be accomplished prior to the loan closing and any commitment of funds. 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 applicant(s) 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.

The Community Development Block Grant Specialist shall prepare the closing documents, meet with the applicants to review the documents, and secure their signatures on all applicable disclosures, agreements, Notes, Mortgages, and contracts.

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 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 Community Development Director or their designee.

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 Community Development Director or their designee for larger dollar projects or unusual circumstances. The contractor must provide a bill to the owner for the completed work. Upon completion of the work, the contractor shall notify the Community Development Block Grant Specialist of the job completion and provide the final bill. The Community Development Block Grant Specialist shall verify the completion of the work with the owner and then send the inspector a request for 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 for payment processing. 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 prepares checks on Tuesdays and Thursdays for contractor payments. The City Finance Department staff shall make out a check in the name of the contractor for the approved amount and shall notify the Community Development Block Grant Specialist when the check is ready. 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 City Finance Department or 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 as a principal curtailment to the balance of the loan. Principal curtailments will be applied to Three Percent Interest (3%) Loans when both Zero Percent and Three Percent Interest Loans have been executed. 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. Payments shall be due on the first of the month and shall include a monthly \$2.00 escrow fee. 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 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 the Promissory Note.

If the owner is able to resume full loan payments but cannot make up delinquent amounts, the Community Development 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 and file maintenance.