Homeowners Guide to the Housing Rehabilitation Process

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Introduction

This brief description of the rehabilitation process is provided to answer many of the typical questions homeowners have. It provides a general outline (or checklist) that you can refer to; however, it is important to remember that each rehabilitation case is as different as the houses and people the program serves. While this outline is consistent with most rehabilitation cases, there may be situations that arise during your case that will cause it to vary from this outline.

Application and Initial Financial Screening

The first step is to complete the Screening Application included with this Guide and return it to our office. All owners must sign the application. Once received, we can make sure that you meet the minimum requirements for participation in the program. We will make sure your property taxes are current, that you own the property, that your income is less than 80% of the area median income, adjusted for family size and that you meet certain credit and debt criteria. Your signature on this application gives the City permission to pull your credit report, which is done at no charge to you. After we have reviewed this information, we will call you either for further information or to schedule an appointment to take the full application. If an appointment is scheduled, we will mail you a letter to confirm the date of your appointment and list the documents that you should bring. Please make necessary arrangements that will allow you to be on time for this meeting and bring all of the information outlined in the Appointment Letter.

During this application appointment, you will be introduced to your Housing Finance Specialist, who will handle the financial part of your case through the entire rehabilitation process. The Finance Specialist will assist you with completing your application by asking you questions about your house and your household income and expenses.

After taking your application, the Finance Specialist will review your application and supporting information including your credit report, verification of all income amounts and sources for you and other members of your household, and verification of the value of assets such as bank accounts, retirement accounts or other property you own. As long as your liquid assets (not including retirement accounts) do not exceed $25,000.00, you are NOT disqualified from the program, however income you earn or could earn from those assets is counted as part of your income. We count gross income, that is, your income before taxes and other deductions are taken out. Your Finance Specialist will also check to be sure your mortgage payments are up to date. This information, along with information obtained when we first received your screening application, is used to determine if you meet the basic program requirements

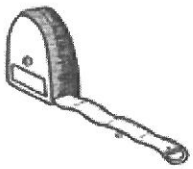
and your ability to repay a housing rehabilitation loan. If no major problems have surfaced during this initial financial screening, a request for inspection is forwarded to the Construction Manager for assignment to a Rehabilitation Specialist; your Rehabilitation Specialist will be your construction consultant throughout your case, much as your Finance Specialist will handle your financial matters.

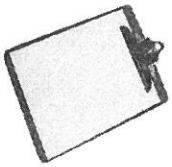
If there is a problem, you will be given the chance to correct the problem when possible. We may request that you go to a credit-counseling program, pay past due bills or taxes or resolve title issues before your house is inspected or your loan is approved. Because you must meet the eligibility criteria at the time the loan is made, it is important that you let your Finance Specialist know if you obtain any additional loans or if there is a change in your family situation prior to loan closing. All verifications will be updated prior to loan closing if they are older than six months.

It is important to realize that proceeding with a housing inspection does not mean that your rehabilitation loan has final approval. It only indicates that many of the financial matters that can lead to problems have been reviewed, and the case has a reasonable chance of success.

The Inspection, Work Write-Up, and Budget Estimate

After being assigned to your case, your Rehabilitation Specialist will contact you to make an appointment to inspect your property. During this inspection, the Rehabilitation Specialist will sketch a layout of your home, take measurements, and make notes of existing conditions as well as items that need repair. Your Rehabilitation Specialist will also talk with you regarding any special concerns you have with your property. The primary function of the Rehabilitation Inspection is to identify code violations that exist, threatening the property's ability to function as a safe, decent and sanitary home. *The most common misconception by property owners participating in our Rehabilitation Programs is that rehabilitation means the same thing as remodeling.* While this can be true in certain parts of the rehabilitation, the thrust of the program is identifying and correcting items that exist as code violations, or are code violations in the making.

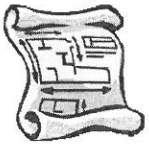




If there are work items you would like to include that do not qualify as code violations, you should discuss them with your Rehabilitation Specialist, as a small amount (5%) of the cost is allowed for General Property Improvements as long as all Code and Incipient requirements are taken care of. If the cost of General Property Improvements exceeds 5%, you must provide the extra funds from another source for it to be part of the rehabilitation job.

During the rehabilitation inspection, it is important for the Rehabilitation Specialist to have reasonable access to all areas of your house, including the attic and

basement/crawl space areas. Please unlock any areas that you have secured, and move all aggressive pets to a secure area. If areas of your home are not accessible or there is a cluttered condition that does not allow for reasonable inspection, the Rehabilitation Specialist will probably require the situation to be corrected before he/she will complete the inspection.



After returning to the office with the notes and sketches gathered during the inspection, the Rehabilitation Specialist prepares a detailed Work Write-Up that lists the items to be included in the rehabilitation. The Work Write-Up will later become a part of the rehabilitation contract.

After the Work Write-Up is complete, the Rehabilitation Specialist does a cost estimate on the specified work to establish a budget for the project. If the estimate for rehabilitating your existing home approaches the cost of building you a new home, a replacement home may be recommended as a solution. The cost estimate is sent to the Finance Specialist, who then prepares a financing package that includes the programs you may be eligible for, and the amount of monies that will come from each source. Your Finance Specialist will then send you a proposed financing package that fully explains the amount of money you will be borrowing, the interest rate, the loan term, and the amount of the estimated monthly payment. The proposed financing is subject to final approval. When you receive your letter, please review it carefully, and contact your Finance Specialist with any questions you have. If you are satisfied with the proposed terms of your rehab loan, your case can proceed to the next step. Once we have the final loan approval, we will order a title search and an after-rehab appraisal on your home. Both items are at no cost to you. The title search must show good title and the appraised value must meet or exceed the total amount of all mortgage loans against the property, including the proposed City rehab loan.

Lead Based Paint Inspections, Bidding, and Loan Closing

After you have decided to proceed with rehab, a Lead Based Paint Inspection is performed on your property. Per Federal Law (24 CFR 35), all deteriorated Lead Based Paint (LBP) surfaces existing in housing receiving federal financial assistance (such as the City's Rehabilitation Programs) must be corrected. This inspection is required if your house was built prior to 1978 and your home will be rehabilitated. If Lead-Based Paint is found in your home, a written Risk Assessment Report that details the surfaces where it was detected, as well as the control/abatement method to be used will be prepared, and the scope and cost of this work will be added to the work write-up. In most cases, the cost of lead based paint work is funded through a grant, meaning that it will not affect your monthly repayment amount.

After completion of the Lead Based Paint inspection, your project is ready to be bid on by building contractors. For your convenience, the Community

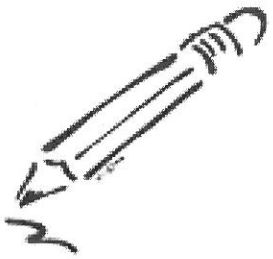
Development Office maintains a Contractors Bid Registry that features licensed local building contractors pre-approved to perform work under our rehabilitation programs. *These companies are independent businesses; they are not employees or agents of the City of Knoxville.* The Department also maintains files on these contractors past performance on the program that are open to public inspection at any time; review of these files may help you decide which contractor you would like to perform the work. You can select a licensed contractor not appearing on our pre-approved contractor registry, but they will have to apply to the program and be approved prior to being allowed to bid on your project. Also, if your rehabilitation includes the removal of any Lead Based Paint hazards, your contractor will have to be certified by either HUD or the State of Tennessee to do the Lead Paint work, depending on the estimate amount.

You will be asked to sign a Contractor Preference Statement that explains your options for selecting a contractor. **The U.S. Department of Housing and Urban Development (HUD) requires that the agencies receiving federal funds for housing rehabilitation or new construction give preference to low and very low-income residents of the local community, and businesses that employ such persons in new employment, training, and contracting opportunities resulting from HUD-funded projects. Section 3 contractors/ businesses will be included in the list of bidding contractors. Whenever possible a section 3 contractor should be chosen by the homeowner.** In most cases, homeowners choose to put the job out to bid to several approved contractors. As soon as the bidding contractors are identified, the Rehabilitation Specialist will send them an Invitation to Bid. The Rehabilitation Specialist will conduct a *walk-through*, meeting all interested contractors at your property, and touring them through the property and explaining the work to be performed.

On a pre-designated date, the contractors' bids for your project will be opened in the Department's offices. Any contractor submitting a bid that is within an acceptable range may perform the work, and you will select from these bidders. If you select a bidder other than the low bidder, you will be responsible for paying the difference between the prices, but it can be financed with the City rehab loans as long as it is still affordable for you.

A very important thing to remember is that when you choose the contractor, his/her bid price will replace the budget price estimated by the Rehabilitation Specialist, and your contract and repayment terms will be based on that amount.

Now that a contractor and an acceptable construction price have been determined, your Finance Specialist will prepare the loan papers, and schedule a loan closing where these documents will be signed. Prior to loan closing, the Finance Specialist will check to see that any conditions in your commitment letter have been met and that you have Homeowner's Insurance with the City listed as a lien holder in place. The papers you will sign at loan closing include a Promissory Note for each loan and Deferred Payment Loan, a Deed of Trust, a Construction Contract and a Right of Rescission giving you three days to cancel the loan if you change



your mind. The Deed of Trust puts a lien on your property so that if you sell your home the balance of the City loan will be paid, or, if you do not pay your loan, the City will have the ability to foreclose. The Deed of Trust also means you probably will not be able to borrow additional money against your property since this will be a debt against your property just like a mortgage from a Bank or mortgage company. *Remember that the construction contract you sign will be with the contractor that you choose to do your work, not with the City of Knoxville.* The documents you sign at loan closing are important legal documents, and should be kept in a safe place, where they can be easily found if you need to refer to them in the future.

Things You Should Know About the Rehab Construction

Most property that is currently occupied will require the residents to move out during rehabilitation. This is a necessity on nearly all rehabilitation jobs, due to major systems (electric, water, heat) being unavailable for long periods, the repair of structural systems, as well as the stress caused to occupants during a rehabilitation project that may take 30 – 90 days. In addition, any Lead Based Paint work that must be performed on your home is hazardous, and you cannot stay in your home during this work.

When you relocate, the Community Development Office will assist you with expenses, both in moving and rent. The Finance Specialist will give you a copy of our Temporary Relocation Policy and your options for moving assistance. The moving assistance will generally be in the form of a *one time payment* that will allow you to rent storage space, trucks, etc. for your move out and your subsequent return to the home after rehab is complete. The amount of the payment will depend on how many furnished rooms you have to relocate. Though you will be responsible for finding a place to live while work is being done on your home, the City of Knoxville will pay reasonable rent at these temporary quarters. *However, please do not sign a lease, move out of your property, or make other moving arrangements before checking with your Finance Specialist.*

Shortly after your move-out is complete (time varies from case to case), the contractor will move his equipment and workers onto your property and start work in accordance with the contract. Please be aware that your access to the interior of the house may be restricted during the construction. As construction proceeds, the contractor has a lot of money invested in your home, both in materials and labor costs, that he/she hasn't been paid for yet, as well as personal tools/equipment used to perform the work. For this reason, most contractors restrict access to the property to the hours they are on-site through the use of their own locks, which gives them control over their investment.

Once Rehabilitation work has started, several people will be on your property at various times. These people include the contractor and his work crew, the subcontractors hired by your contractor, and material suppliers. In addition, your property will be inspected regularly by your Rehabilitation Specialist, as well as Building Inspectors from the City of Knoxville, to monitor contract and code compliance, respectively. Also, the contract requires you to inspect your property, and be familiar enough with the work being done to protect your interests.

If during the construction, it is discovered that additional work items that were not included in the contract are needed to meet code, these items must be added to the contract through a change-order. Your loan will include contingency funds that will be available to pay for change-orders, so a change-order will not normally change your monthly payment. Any contingency funds left over at the end of the job will be used to reduce the balance of your loans.

The rehabilitation contract you sign with your contractor will have a definite time period (typically between 30 and 90 days depending on the size and difficulty of your rehabilitation). The contract time begins when the contractor moves on-site and begins construction, not from the date the contract is signed. Work probably won't take place on your home daily, and in fact, there could be several days in a row when no work is done on your home. While this is sometimes disturbing to owners, it is not a contract requirement that work be performed daily on your property. As long as the contractor completes work within the time provided in your contract, terms of the contract have been met.

Post-Construction Responsibilities and Information

When the construction work is completed on your home, several things must happen before the project is final and you move back into your home. The contractor must contact the City of Knoxville Building Inspections Office to have the building permit closed, and then call our office to have us do a final inspection on your residence.

At the final inspection conducted by the Community Development Office, we require the homeowner(s) to be present. During the final inspection, the Construction Manager will want your input as to how the job went, if there were any problems during construction, and/or if any issues remain that need to be answered. The Construction Manager will compare a copy of the work write-up and the work performed to check that all contract work has been completed. Also at this final inspection, if all work is completed according to the contract, you will be required to sign a document accepting the work, and authorizing final payment to the contractor.

After the final inspections are complete, you may move back into your residence and begin enjoying the benefits of the rehabilitation. However, the provisions of your contract do not stop there. The contract provides for a general one-year warranty on all work your contractor performed. Keep your contractor's phone number and address at hand in case you need to contact him/her during the one-year warranty period; as they are the ones who performed the work, they are the first people you need to contact if there is a problem. If you have difficulty contacting your contractor, call and ask your Rehabilitation Specialist for assistance.

For some items, there may be manufacturers warranties that apply to equipment beyond the one-year warranty period (items such as roof shingles, water heaters, heating or air conditioning equipment, typically carry such warranties). Your contractor will provide you with copies of product warranties as a provision of your contract; keep these warranties in a safe place. Remember to fill out any product registration cards that may come with these manufacturer's warranties and send them in as soon as possible; otherwise the manufacturers warranties may become invalid. Please keep in mind that these are manufacturer's warranties, and generally only cover the material or equipment, and not the labor to replace them if necessary. In the case of manufacturers warranties, it will be your responsibility to contact the manufacturer after the one-year general warranty period has expired.

Funding for these activities is primarily provided by the U.S. Department of Housing And Urban Development through the Community Development Block Grant and HOME Programs.

The City of Knoxville is an EEO/AA/Title VI/
S 504/ADA/ADEA Employer.

The City of Knoxville does not discriminate on the basis of race, color, national origin, sex age, veteran status or disability in provision of employment opportunities, services and benefits.

EQUAL HOUSING OPPORTUNITY

Property Owners Acknowledgement

The undersigned applicant(s) to the City of Knoxville's Housing Rehabilitation Program acknowledges receipt of the **"Homeowners Guide to the Housing Rehabilitation Process"** dated December September 7, 2011.

_____ _____

Property Owner Date

_____ _____

Property Owner Date

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Finance Specialist or Rehabilitation Specialist