

# **CITY OF FRISCO**

## **HOUSING REHABILITATION PROGRAM POLICIES AND PROCEDURES**

**October 2007**

City of Frisco  
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## **1. GENERAL PROVISIONS**

### **A. Purpose and Program Goals**

The purpose of this document is to establish and standardize the policies of the City of Frisco's Owner-Occupied Housing Rehabilitation Program so as to promote fairness and equitable treatment of applicants and recipients of program services. The goals of the Owner-Occupied Housing Rehabilitation Program are:

1. Improve neighborhoods by eliminating substandard housing conditions.
2. Preserve existing housing stock.
3. Provide affordable housing to low income households.

### **B. Program Funding Source**

The City of Frisco's Owner-Occupied Housing Rehabilitation Program is funded by the Community Development Block Grant (CDBG). These funds are awarded to the City of Frisco by the U.S. Department of Housing and Urban Development (HUD).

### **C. Applicability of Other Federal/State Regulations**

While all rehabilitation awards are subject to the requirements of these Owner-Occupied Housing Rehabilitation Program Policies and Procedures (Program Procedures), there may be additional special provisions and limitations on rehabilitation awards depending on the funding source. Consequently, additional requirements not shown in these Program Procedures may apply and thus, these Program Procedures may be amended from time to time by City Staff to reflect changes in the requirements of the funding source for this Program.

## **2. TYPES AND TERMS OF PROGRAM ASSISTANCE**

### **A. Type of Award**

1. **Emergency Repair** – The definition of an emergency repair is the existence of an immediate threat to the health or safety of an income-eligible homeowner, or a threat exists to the general public in the vicinity. An emergency waiver of the procedures may be approved in these instances.

2. **Housing Rehabilitation** –

- a. **Basic Rehabilitation**

- The eligible property must be determined to be “substandard suitable for rehabilitation” by the City. The definition of substandard suitable for rehabilitation means any “substandard” dwelling in which the

deficiencies are limited in number and magnitude such that the cost of rehabilitation would not exceed fifty percent 50% of the replacement cost of dwelling. Housing rehabilitation funds shall be used for those repairs necessary to bring the structure to a basic acceptable living condition. In addition to structural repairs, most projects will include provisions for correction of health/safety code violations and installation of smoke detectors.

**b. Disability Access**

Rehabilitation projects may include the elimination of architectural barriers and the installation of special equipment and appliances for physically disabled individuals. Allowable installations and repairs include, but are not limited to the following:

1. Construction of ramps for stairways or porches.
2. Alteration of doorways.
3. Lowering of sinks, lavatories, kitchen stoves, cabinets, etc.
4. Installation of special faucets and switches.
5. Installation of handrails.

**c. Air Conditioning**

No purchase of window units will be allowed under any circumstances. However, additional electrical outlets may be provided for future use by property owner if such additional circuits do not overload existing electrical service equipment.

**d. Unvented Heaters**

Applicant must allow removal of all unvented heaters. Refusal of this requirement will result in the denial of the loan.

**e. Lead-based Paint**

In homes built prior to 1978, lead-based paint may be present. Lead-based paint may be hazardous to humans. As required by HUD regulations, the City will test the home for lead-based paint. Lead-based paint hazard reduction techniques will be used when lead-based paint exceeds HUD's acceptable limits for lead content in existing paint, defined as the lead content exceeding 1 mg per cm<sup>2</sup>(one milligram per centimeter squared), or 5000 ppm (parts per million) by dry weight.

The reduction techniques used by this program are described and found in the U.S. Department of Housing & Urban Development's publication, Guidelines For the Evaluation and Control of Lead-Based Paint Hazards in Housing, issued June 1995. If lead-based paint is above the limits inside the house, the resident may not occupy a house while the lead abatement is being performed. The City will not pay relocation expenses for applicants. **Relocation is voluntary and if**

**the applicant does not agree to relocate, the project will be terminated.** Costs related to reduce or eliminate lead-based paint hazards will not be included in the total loan amount.

**f. Termites**

In the event termite infestation is found, the Housing Rehabilitation program may pay the exterminator's annual warranty fee for one year for applicants whose income is below the current year's very-low income level. Applicants of other income levels must pay the annual warranty renewal fee.

**g. Excluded Work**

Non essential or luxury costs, such as remodeling, swimming pools, spas, and new fence construction are excluded from funding. In general, cosmetic improvements that are not essential to the long-term structural soundness of the dwelling or not necessary to the health and safety of the occupants will not be authorized and will not be eligible for the program.

**h. Change Orders**

A change order must be executed for any deviation, addition or deletion made to the original job specifications approved with the Construction Contract. Change orders will not be authorized for additional work desired by the applicant, unless it is to include emergency work which is necessary in order to prevent further property damage.

Only under unusual circumstances will Change Orders be allowed with the approval of the Rehabilitation Inspector. The contractor, property owner, and City Inspector will approve Change Orders in writing before the Change Order is authorized to begin.

Total change orders on any one job shall not exceed 25% of the total contract amount. If change orders are necessary, the loan amount will increased to the new contract total. Work performed without an approved change order will not be paid for by the City and the work will not be covered under the contractor's warranty.

**B. Terms of Assistance**

- 1. Emergency Repair** – The emergency waiver will permit the immediate expenditure of up to \$5,000.00 to address the emergency threat to health and /or safety. Emergency repair projects do not require repayment, nor will a lien be filed against the property. If an applicant has been approved of the regular rehabilitation program and emergency situations arise before the project is

underway, City staff may approve immediate expenditures for repairs. All such emergency expenditures will count toward the \$25,000 maximum loan.

2. **Housing Rehabilitation** – There are three forms of liens and three methods of repayment.

a. **Deferred Payment Loan**

The first type of lien note is a deferred payment loan and is awarded to applicants with income ranging from 0% - 30% of median income. See Table on page 15. The deferred payment loan shall carry zero (0) percent interest and continue until the applicant has satisfied the conditions listed in the Deed of Trust and Real Estate Lien Note executed prior to the project start date. Deferred payment loans are secured by a lien on the property. The loan amount will be forgiven at a monthly rate to be determined by the amount of funds spent on the project. See the Table below.

The lien period will be for 10 years if the amount of assistance is between \$10,000 and \$15,000 and forgiven at 1/120th per month. The lien period will be 15 years if the amount of assistance is between \$15,001 and \$20,000 and forgiven at 1/180th per month. The lien period will be 20 years if the amount of assistance is between \$20,001 and \$24,999 and forgiven at 1/240th per month.

Repayment is not required unless Applicant fails to retain ownership of the property during the lien note period. If the property is sold or transferred before the lien period expires, the applicant is credited for every month of residency. The credit is subtracted from the total loan amount to determine the unforgiven loan balance. The unforgiven portion of the loan will be due and payable upon transfer of the property by the applicant or the applicant's estate.

<u>Amount of Assistance</u>	<u>Lien Period</u>
\$10,000 - \$15,000	10 Years
\$15,001 - \$20,000	15 Years
\$20,001 - \$24,999	20 Years

b. **Partial Repay/Partial Deferred Payment Loan – 50/50**

The second type of assistance is a partial repay/partial deferred payment loan and is awarded to applicants with an income ranging from 31% - 50% of the median income. See Table on page 15. The applicant will be required to pay back 50% of the cost of the project at 5% interest and 50% of the cost of the project will be forgiven at a rate to be determined by the amount of assistance. The lien period will be for 10 years if the amount of total assistance is between \$10,000 and \$15,000 and the amount to be forgiven will be forgiven at 1/120 per month. The lien period will be 15 years if the amount of the total

assistance is between \$15,001 and \$20,000 and the amount to be forgiven will be forgiven at 1/180 per month. The lien period will be 20 years if the amount of total assistance is between \$20,000 and \$24,999 and the amount to be forgiven will be forgiven at 1/240 per month. The 50% pay back will be in monthly installments at a 5% interest rate and the term will coincide with the forgiven rate.

**c. 100% Repay Loan**

The third type of loan is the 100% Repay Loan and is awarded to applicants with income ranging from 51% - 80% of median income. See Table on page 15. The applicant will be required to pay back the total cost of the project with an interest rate of 5% for a lien period to be determined by the total cost of the project. The lien period will be for 10 years if the amount of total assistance is between \$10,000 and \$15,000. The lien period will be 15 years if the amount of the total assistance is between \$15,001 and \$20,000. The lien period will be 20 years if the amount of total assistance is between \$20,000 and \$24,999.

**d. Continued Occupancy**

The mortgagor must reside on the assisted property as his/her principal residence for the life of the loan. If for any reason, other than a hospital or nursing home stay, the mortgagor vacated the premises for more that a period of 120 days in any one calendar year, such a period shall constitute a default.

In case of death, if remaining income qualified family members continue to reside in the house, the loan will not be payable solely due to the change in ownership.

**e. Loan Requirements**

If applicant's housing expenses including the rehabilitation loan exceed 33% of their monthly income, repayable loan amounts and terms may be adjusted to keep housing expenses at no more than 33% of the monthly income.

Repayable loans will require payments monthly. Failure to make the required payments may lead to the lien being called due in full and foreclosure proceedings may be initiated. Applicants who are having trouble making the loan payments should contact the Rehabilitation Office as soon as possible, in order to avoid foreclosure proceedings. The City will make every effort to work with the applicant to avoid foreclosure and will examine each situation on a case by case basis.

If after repayment begins, a household experiences a permanent, substantial loss of household income, an applicant can request a review to extend the total payable loan portion to make the monthly payment more affordable. The loss of income must be from an income-earning applicant whose income was used in determining the original loan assistance category. Loss of employment (voluntarily or involuntary) is not considered a “permanent loss”. For purposes of this program “permanent loss” is defined as death, mandatory retirement, permanent disability, or other substantial permanent loss of income, when approved by the Housing Coordinator.

To determine if extension of the loan is eligible, all household members must complete all income information forms as required. A determination will be made after evaluating the household size and income using the most current program income guidelines.

A \$15.00 late fee will be due for loan payments not paid by the due date.

Contract documents to be executed by the applicant and general contractor will be prepared by the City of Frisco. Standard form contracts will be reviewed with the applicant at the pre-bid conference and are available for applicants to review at any point in the project process. Homeowners will be required to sign a Home Repair Funding Contract, a Construction Contract, a Real Estate Lien Note and a Deed of Trust.

The City will subordinate the loan to the existing first lien on the property. However, the City will not further subordinate the loan unless the first mortgage is being refinanced.

The City will not subordinate for debt consolidation loans, unless the debts being consolidated are for housing expenses, and the total amount of all liens is less than the appraised value of the house. The City will not accept less than a second lien position.

All documents must be fully executed prior to beginning of rehabilitation work.

## **C. Loan Policy**

### **1. Eligibility Requirements**

- a. Loans shall be available to service Frisco property owners who meet the HUD low-moderate income guidelines.
- b. The borrower’s income and credit history must provide assurance to staff and/or the Housing Trust Fund Board that the borrower will repay the loan.

- c. Any borrower who has delinquent federal student loans will be ineligible for assistance.
- d. Although total household income determines program eligibility, only income from the actual property owners will be considered for loan repayment. (Example: If a household consists of 6 persons, but 2 are on the deed, the loan repayment is figured based on the income for the 2 persons on the deed.)
- e. Generally all existing liens other than the 1<sup>st</sup> lien must be paid off so that the City is not in less than 2<sup>nd</sup> position.

**2. Loan Criteria** - Staff may approve loans that meet the following criteria:

- a. Housing Expense Ratio not exceeding 33%. Housing Expense Ratio is defined as the sum of principal, interest, taxes, and insurance (PITI) divided by gross monthly income.
- b. Debt Ratio not exceeding 43%. Debt ratio is defined as the sum of PITI, monthly credit card minimum payments, childcare, child support, etc. divided by gross monthly income.
- c. Residual income equal to or exceeding the following:
 

1 – Individual	\$300/month
2 - Persons	\$600
3 - “	\$670
4 - “	\$790
5 - “	\$910
6 - “	\$ 50 additional per person over 5

Residual income is the income remaining after the applicant has paid housing, debts, payroll deductions, utilities/maintenance, child support and child care expenses.
- d. FICO credit score of 600.
- f. The Housing Trust Fund Board shall consider loans that do not meet the above criteria.
- g. The Housing Coordinator is authorized to approve an increase in the loan amount approved by the Housing Trust Fund Board. This increase will not exceed 25% of the original loan approval.

**3. Loan Processing Procedure**

- a. Request a title commitment from the City Attorneys and pull the applicants’ credit report. Upon receipt of both, analyze, underwrite, and present to the Housing Trust Fund Board for approval, if loan does not meet staff approval criteria.
- b. Upon approval of the loan, schedule a conference with the homeowner(s) prior to the loan closings. At that time, samples of all

legal documentation will be reviewed and given to the homeowner to read prior to the closing.

- c. It is preferred that the Deed of Trust be recorded with the Collin County Clerk's Office in McKinney and the Denton County Clerk's Office in Denton following the loan closings. However, staff may hold the Deed of Trust until project closeout to avoid doing multiple loan modifications.

#### **4. Loan Security**

- a. Loans, except for emergency loans, will be secured by a promissory note.
- b. Costs associated with removing Lead Based Paint hazards will not be secured on the promissory note.

#### **5. Credit**

For applicants who have less than satisfactory credit histories, detailed letters of explanation must be submitted with the loan package. Applicants who do not meet the criteria for loan approval may agree in writing to receive credit counseling and/or home maintenance training. After six (6) consecutive months of successful debt management, the applicant may again be considered for a rehabilitation loan.

#### **6. Closing Costs**

As a result of the "closing", interest begins to accrue prior to the first payment. This interest is added to the back end of the loan and the applicant is not expected to provide these funds at the closing.

#### **7. Repayment**

- a. Loans are set up for the first payment to be due upon completion of the project.
- b. Loan Servicing and Collection – Loan payments are due on the first of every month. Late charges shall be \$15 for each month a payment is late. Monthly payments are considered late after the 15<sup>th</sup> of the month. The first payment on a new loan is due on the first of the month following the closing. Loans may be prepaid at any time without penalty. A partial payment on a current loan account shall be placed in an impound account until the full amount may be posted to the account. In the event of a permanent, substantial loss of income, the applicant may request assistance with a workout plan.
- c. COF staff shall be authorized to negotiate payment arrangements with respect to any account delinquent for not more than 90 days. Such delinquencies shall continue to be listed on the delinquency portfolio.
- d. Recasting of loans shall be considered when a borrower's financial

situation has changed significantly since the closing of the loan.

## **8. Collection Procedures**

### **a. Origination of loan and set-up process**

At the time the loan is closed, the homeowner signs a form agreeing to contact the City if he starts having trouble making his first mortgage payments. It is explained that, if the homeowner contacts us, we may be able to help him to avoid foreclosure proceedings.

A note receivable is placed on the books after a loan is closed and work is completed on the rehab project, but before the 30 day final. The Housing Coordinator inputs the loan information into the computer and provides to the Notes Receivable Clerk, a copy of the application, a copy of the Real Estate Lien Note, and a copy of the amortization schedule.

At this time the Notes Receivable Clerk prepares and mails to the homeowner a packet that includes coupons for payments, a copy of the Real Estate Lien Note, a copy of the amortization schedule, and a letter explaining how and when payments are to be made.

The Notes Receivable Clerk prepares a loan file which includes the application, the Real Estate Lien Note, the amortization schedule. This file will be used to collect copies of checks, cash receipts and money orders used to make payments. The new note receivable account is added to the hand-kept ledger.

### **b. Collection of Payments**

Payments can be mailed or delivered, but must be received by someone other than the Accounts Receivable Clerk. This person is usually an Administrative Assistant in the front of the department. The Administrative Assistant collects the payments, completes the deposit slips for accounting, and delivers the deposit slips to the accounting department daily. They also make copies of the checks, cash receipts or money orders as well as copies of the deposit slips daily. They maintain a copy of these and provide a copy to the Notes Receivable Clerk.

The Notes Receivable Clerk uses the deposit slip to post monthly payments to the computer tracking system and to the hand-kept ledger. The deposit slips are filed chronologically in an annual file, and the copies of checks, cash receipts or money orders are filed in the individual homeowners file. This system provides many cross checks to avoid mistakes or misuse of homeowner's funds.

### **c. Late Payments**

Payments are due on the 1<sup>st</sup> day of each month, and late fees of \$15.00 are assessed if payment is made after the 15<sup>th</sup> of the month. At the end of each month computerized letters will be mailed to any homeowner that is over 15 days delinquent on a payment. These letters continue as long as the payment is not received. The letters become more direct and severe as the length of the delinquency increases.

If a payment becomes 60 days delinquent, the Notes Receivable Clerk will attempt to call the homeowner in addition to sending the letter. If the homeowner indicates there has been a major change in the household income or there has been a life-changing occurrence for the family, the Notes Receivable Clerk will invite the homeowner to the office to review the account and reconfigure the loan if appropriate. For example, if a homeowner's income has been temporarily decreased or halted, a three to six month forbearance could be initiated pending new sources of income. Or if a permanent reduction in income is apparent, then a refinance of the loan might be completed. This would require re-qualification based on the new income, and could result in decreased payments or total forgiveness of the loan, as approved by the Housing Coordinator.

If the loan becomes 90 days delinquent and the property owner does not respond to phone calls or letters, then another attempt will be made by sending another letter, and making another call to invite the homeowner in to discuss a payment workout plan. The letter at this point will explain to the homeowner that their account will be turned over to the City attorney if a course of action is not put in place within 15 days of the date of the letter.

If the homeowner responds within the 15 day time frame, then a payment plan based on the income situation will be completed and implemented. If the homeowner does not respond in the time frame, the Notes Receivable Clerk will make a trip to the home within 10 days of the end of the 15-day period to determine whether the homeowner still resides at the property. After the site visit, and it is determined that the property owner still resides at the property, the file will be forwarded to the City Attorney's Office for further action.

If the homeowner does respond but fails to comply with the plan of action for a two (2) month period, a trip to the home will be made by the Notes Receivable Clerk to determine whether the homeowner still resides at the property. After the site visit, and it is determined that the property owner still resides at the property, the file will be forwarded to the City Attorney's Office for further action.

At this point, the loan will have been delinquent for 115 days.

**d. Attorney's Action**

Within two (2) weeks of receiving the file, the City Attorney's office will compose and mail to the homeowner a certified letter indicating that the file has turned over to them for further handling and to possibly initiate foreclosure, and requesting a response within 30 days. In most cases this should prompt some reaction from the homeowner.

If the City Attorney's Office does not receive a response from the property owner by the end of the 30-day period, the City Attorney's Office will notify the Housing Coordinator about the file. City Staff will then conduct a title search and attempt to inspect the property to assess its status and the cost of repair, if applicable.

The Notes Receivable Clerk, the Housing Coordinator, and the City Attorney will then meet to review the loan file and all pertinent information, including the homeowner's income, response level of the property owner, liens on the property, available equity in the property, cost of foreclosure, probable cost of repairs, and cost of sale after foreclosure, to determine whether to initiate foreclosure. A debt to value ratio of 80% (including all liens with priority over the City's lien, plus the City's lien) generally will indicate that foreclosure is appropriate.

If it is estimated that the cost of foreclosure, repair, and sale can be recouped, then the City Attorney's office will begin foreclosure proceedings within 30 days of the decision.

If the above conditions are not met, the City's note considers the entire amount to be payable in case of default. It will remain on the property as a lien which will be repaid in its entirety upon sale of the house. The City would probably lose its investment if the first lien holder forecloses, but if notified of the foreclosure the City will consider whether it would be appropriate to foreclose prior to the first lien holder taking action.

**e. Hazard Insurance**

Borrowers must carry hazard insurance in an amount at least equal to the Loan amount or 80% of the replacement value, whichever is higher, and the policy must indicate COF's interest as the mortgagee.

**f. Equal Credit Opportunity Act**

In accordance with the provisions of the Equal Credit Opportunity Act, there shall be no discrimination against the credit applicant on the basis of age, sex, race, marital status, national origin, handicap or religion.

**D. Maximum Number of Awards**

1. Emergency Repair – Properties receiving emergency repairs are eligible for assistance once per twelve (12) month period.
2. Housing Rehabilitation – Properties receiving housing rehabilitation repairs are not eligible for further assistance.

### **3. HOUSEHOLD SELECTION AND ELIGIBILITY**

Priority will be given to applicants who are determined income eligible and over the age of 62 and applicants who are physically disabled. Other eligible applicants will be accepted into the Program in the order that their name appears on the City's Rehabilitation Program waiting list. In the case where no waiting list exists, applicant will be selected on a first-come, first-served basis.

Applicants must submit all information requested in the application that applies to his/her household and complete all verification forms. The submission of an application includes permission to allow verifying the information including credit information. Applicants shall provide complete and accurate information regarding their household composition, household income, and housing situation. Failure to disclose information which may affect eligibility requirements may constitute fraud and result in denial of the application. Applicants shall be required to make full restitution to the City in the event Housing Rehabilitation services are provided to applicants who provided inaccurate or incomplete information in order to meet eligibility requirements. Requests for further services will be denied unless restitution is made in full.

Household eligibility will be assessed on the following:

#### **A. Ownership**

Applicant must be named on the Warranty Deed or Title, as the owner of the Property and principal resident. Title may not be shared with anyone other than regular household members. Judgments against the property owner, liens, etc. attached to the Warranty Deed must be cleared except for a purchase mortgage. Title research will be used to verify this requirement. A Contract for Deed is not an acceptable form of ownership. For inherited property, the necessary legal documents must be filed for record with the name of the applicant as sole deed holder.

#### **B. Occupancy**

Homeowner must reside in and been the owner(s) of the Property to be rehabilitated for at least six months prior to the submission of its application. Applicant will retain ownership for the term of the lien note. The occupancy period will be for term of the lien note. The applicant may vacate the property after it has been sold or the lien note expires.

**C. Property Taxes**

All delinquent property taxes shall be paid on the property prior to the Program award, or the applicant must have qualified for and received the tax deferral as allowed under Section 33.06 of the Texas Property Tax Code. Written verifications must be placed in each applicant’s file.

**D. Mortgage Payments**

Mortgage payments must be current.

**E. Maximum Income**

For the purposes of this Program, all persons named on the title and all persons on the Property are considered household members for the purposes of determining income eligibility unless it can be proven through evidence satisfactory to the City that a person named on the title is NOT living on the Property. The **GROSS** annual income for **ALL** household members with the exception of minors aged 18 and under cannot exceed the applicable income shown in the following chart:

MAXIMUM INCOME CHART

Household Size	Low Income (80% of AMI)	Very Low Income (50% of AMI)	Extremely Low (30% of AMI)
1	\$37,250	\$23,300	\$13,950
2	\$42,550	\$26,600	\$15,950
3	\$47,900	\$29,950	\$17,950
4	\$53,200	\$33,250	\$19,950
5	\$57,450	\$35,900	\$21,550
6	\$61,700	\$38,550	\$23,150
7	\$65,950	\$41,250	\$24,750
8	\$70,200	\$43,900	\$26,350

Source: U.S. Department of Housing & Urban Development. These income figures are subject to change annually. (Effective February 11, 2005)

**F. Priorities** – on a monthly basis, the Housing Trust Fund Board will prioritize the requests for funding using the following system.

1. First priority shall be given to Applicants whose annual family income is thirty percent (30%) or less than median as identified in the chart above and income eligible elderly or disabled occupants.
2. Second priority shall be given to Applicants whose annual family income is fifty percent (50%) or less than median as identified in the chart above.

3. Third priority shall be given to Applicants whose annual family income is eighty percent (80%) or less than median as identified in the chart above.
4. If there is no waiting list, then applications will be considered on a first come, first served basis.

**G. Household Assets**

Household assets (total combined for all household members) may not be in excess of \$50,000. This does not include retirement accounts or the value of the house.

**4. PROPERTY SELECTION AND ELIGIBILITY**

Eligibility will also be assessed on the following:

**A. Location**

To qualify for an award, the Property must be located within the corporate city limits of Frisco.

**B. Types of Structures**

Eligible structures include owner-occupied single-family property (one unit), condominiums, and town homes.

**C. Applicant's Insurance**

Proof of homeowner's insurance is required in an amount at least equal to the value of the rehabilitation loan, unless otherwise approved by the Housing Trust Fund Board. Applicant must agree to list the City of Frisco as a mortgagee on the insurance policy.

**D. Property Condition**

Applicants will be required to clean up any accumulation of personal items, old furniture, junk, or other property that may impede the ability of the contractor to complete work.

**E. Project Feasibility**

Property must be economically feasible for rehabilitation. If costs for repair exceed program limits, or a home is in such disrepair that the costs are not justifiable, the property may not be eligible for housing rehabilitation funds.

**F. Administrative Requirements**

All program participants shall be required to execute a contract with the City of Frisco detailing the conditions and agreements governing the provision of the rehabilitation work. Additional paperwork will be necessary to ensure compliance with funding and other local, state or federal guidelines. Completion of all relevant documentation and agreements shall be required as a condition of acceptance of any given project.

## **5. DETERMINATION OF ADJUSTED GROSS INCOME**

### **A. Method of Determining Income**

As of October 1, 2007, the City shall follow the IRS Form 1040 Adjusted Gross Income requirements for computing annual income for housing rehabilitation projects and Section 8 Part 5 for computing annual income for emergency projects.

### **B. Adjusted Gross Income Calculation**

The IRS Form 1040 method requires reporting certain kinds of income which are added together to constitute what is referred to as gross income. From the gross income figure, certain deductions are taken to arrive at an adjusted gross income number. This is the figure that is used to determine an applicant's eligibility for participation in the CDBG program.

### **C. Sources of Income - Inclusions**

Sources of income used in determining gross annual household income are as follows:

1. All wages and salaries, overtime pay, commissions, fees, tips and bonuses and other compensation for personal services (before any payroll deductions).
2. Taxable interest.
3. Dividends
4. Taxable refunds, credits or offsets of state and local income taxes.
5. Alimony (or separate maintenance payments).
6. Business income (or loss).
7. Capital gain (or loss).

8. Other gains (or losses) (i.e. assets used in a trade or business that were exchanged or sold.)
9. Taxable amount of individual retirement account (IRA) distributions. (Includes simplified employee pension (SEP) and savings incentive match plan for employees (Simple IRA).)
10. Taxable amount of pension and annuity payments.
11. Rental real estate, royalties, partnerships, S corporations, trusts, etc.
12. Farm income (or loss).
13. Unemployment compensation payments.
14. Taxable amount of Social Security benefits.
15. Other income, including prizes and awards; gambling, lottery or raffle winnings; jury duty fees; Alaska Permanent fund dividends; reimbursements for amounts deducted in previous years; income from the rental of property if not in the business of renting such property; and income from an activity not engaged in for profit.

**D. Income Exclusions**

**The following income exclusions shall apply in the determination of adjusted gross income:**

1. Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone). **Note: Foster children shall not be used in the determination of the number of persons in the household.**
2. Child Support is excluded.
3. Money or property that was inherited, willed, or given as a gift.
4. Life insurance proceeds received as a result of someone's death.
5. Income from a live-in or periodic medical care assistant (e.g. visiting nurses or care attendants) Note: A live-in or periodic medical care assistant shall not be used in the determination of the number of persons in the household. Live-in aide means a person who resides with one or more elderly persons, or near-elderly persons, or persons with disabilities, and who:
  - (1) Is determined to be essential to the care and well-being of the persons;

- (2) Is not obligated for the support of the persons; and
- (3) Would not be living in the unit except to provide the necessary supportive services

**E. Federal Income Tax Returns**

All household members and all persons named on the title shall be required to provide Federal Income Tax Returns for the two previous calendar years. The Federal Tax Return will be used as a basis to verify gross income as well as household composition.

**F. Anticipated Income**

The Housing Coordinator will compare the tax returns with the present income determination to anticipate income during the next 12 months. This comparison shall be the final step in income determination under the IRS 1040 method.

**6. IMPLEMENTATION PROCEDURES**

The following implementation procedures may be modified at the discretion of the Housing Coordinator:

**A. Program Application**

Applications will be provided to all persons. The applicant must call the Housing Coordinator, 972-292-5114, for an application interview and must submit the following documents at that time:

1. Signed application for all persons named on the title.
2. Copy of Warranty Deed or Title for single family homes, condominium, or town homes. Copy of a current mortgage statement (within 1 month) if applicable.
3. Copy of signed complete set of most current and previous Federal Income Tax Returns, including all schedules and attachments for all persons in the household and named on the title.
4. Copies of paycheck stubs for the last thirty (30) days for all wage earners in household or verification of wages from current employer. Upon receipt the Housing Coordinator will send a Verification of Employment to the employer.
5. Other income documentation (supply a copy of the award letter or a copy of the check or direct deposit bank statement):

- a. Social Security/SSI
  - b. Retirement
  - c. Disability
  - d. AFDC
  - e. Interest on Savings/Income Earning Accounts
6. Three (3) most recent bank statements;
  7. Proof that property tax payments are current;
  8. Copy of Social Security Card;
  9. Copy of valid **current** identification (e.g. driver's license or State of Texas ID);
  10. Signed Lead Based Paint Notification Form (required for properties built before 1978);
  11. Signed Residency Verification Form for each adult.
  12. Copy of Homeowner's Insurance.
  13. Other support documentation as requested by the City.

**B. Application Review**

Applicants must pass the following eligibility tests: income eligibility, loan repayment eligibility (if applicable), property eligibility, and project feasibility. Upon receipt of the completed Application, City Staff reviews the application as follows:

1. City Staff determines if applicant and property are eligible based on application and other supporting documentation.
2. The type of loan must be determined. If the applicant's income is between 0% and 30% of the median income for this area, the applicant may be awarded a deferred payment loan. If the applicant's income is between 31% and 50% of the area median income, then the applicant may be would be awarded a partial repay/partial deferred payment loan. If the applicant's income is between 51% and 80% of the area median income, then the applicant may be awarded a 100% repay loan.
3. If applicant is deemed income eligible, City Staff will arrange for a title search to be completed on the property.

3. If the title search comes back clear, then the City Staff will review perform and environmental review of the property. See below, **Environmental Review**.

If City Staff has issued a disapproval notification, an applicant may appeal the decision in writing to the Deputy City Manager within ten (10) days following receipt of the City's written notification. The Deputy City Manager shall notify the applicant in writing of the final decision on the appeal of the application for funding.

### **C. Environmental Review**

Upon receipt of the Application, City Staff prepares environmental documentation assessing the environmental eligibility of the rehabilitation Property.

City Staff shall determine whether the property to be rehabilitated meets the Environmental Review Criteria format per 24 CFR §58.15:

1. Property is an existing residential structure;
2. Property is not located in a Special Flood Hazard Area;
3. Property is not located within a Coastal Zone;
4. Property does not require further consultation from the State Historic Preservation Office;
5. Property is not located in an Airport Clear Zone;
6. Property will not result in increased density or cause a vacant building to become physically or legally habitable; or
7. Property is not located near visible toxic substances, chemical waste, dumps, landfills, industrial sites, or any other facilities capable of releasing toxic chemicals, hazardous wastes, or radioactive materials.

If the property meets all of the above, City Staff will determine whether the property to be rehabilitated meets all environmental requirements under 24 CFR Part 58.5 and can be rehabilitated through the Program. If the property does not meet criteria in Section 6, Paragraph C, or does not comply with 24 CFR Part 58.5 based on completion of the Environmental Review form, the property cannot be rehabilitated through the Program.

### **D. Initial Property Inspection**

Once it has been determined that the applicant meets the basic financial and property eligibility requirements, a meeting will be scheduled with the applicant at the property site with City Inspection Staff and the applicant to inspect and identify home maintenance items for repair or replacement, building code violations, local code violations, and health and safety deficiencies, as appropriate. In addition, a Licensed Risk Assessor will test homes built before 1978 for lead-based paint and a report will be sent to the homeowner within 15 days. If the project is feasible, the City Inspection Staff will prepare a statement of work or work description and cost estimate.

#### **E. Work Description**

Once the initial inspection has been conducted, City Inspection Staff prepares a Statement of Work, which details the repair work to be done on the property. City Inspection staff will review the work description with the applicant and finalize the work description. Any changes to the work description should be completed with the City Inspection Staff before the project is put out for bid. No additions to the work description may be added after the bid has been sent out.

#### **F. Final Approval**

At this time, the cost estimate is used to determine the loan amount. The loan amount is used in determining the percentage of housing expenses that are used on a monthly basis. No more than 33% of monthly income can be housing expenses. If the percentage is more than 33%, the work description may be altered or the project may be denied. See the Loan Policy. If the project is approved, an approval letter is sent to the applicant and a pre-bid conference is coordinated with the Housing Coordinator, City Inspector, and applicant. If the project is not approved a letter is sent to the applicant explaining the denial.

#### **G. Pre-Bid Conference**

During the pre-bid conference the work write up is reviewed by the City Inspector and the applicant. The City Inspector and the applicant will sign the statement of work. The Housing Coordinator will also review all contract documents with the applicant. The applicant will be provided with form copies of all contracts to be reviewed and read before the contract closing. At this time, the Housing Coordinator will schedule the bid walk-through with the applicant, contractors, and City Inspector.

#### **H. Bidding and Selection of Contractor**

Bids will be obtained in accordance with the City's policies and procedures.

#### **I. Best Bid Evaluation**

City shall select a contractor using the following guidelines. All bids received shall be evaluated based on the best value for the City. Best value will be determined by considering all or part of the criteria listed, as well as any relevant criteria specifically listed in the solicitation.

1. Bid price
2. Reputation of the bidder and of bidder's goods and services.
3. The quality of the bidder's goods or services.
4. The extent to which the goods or services meet the City's needs.
5. Bidder's past relationship with the City. All vendors will be evaluated on their past performance and prior dealings with the City to include, but not limited to, failure to meet specifications, poor quality, poor workmanship, late delivery.
6. City Staff will evaluate the bids received for each Statement of Work utilizing the R.S. Means Residential Cost Data 2004 or latest version and/or local estimating experience.
7. City Staff reviews Contractor bids for cost reasonableness. Any equipment being replaced or repaired shall be substantially equal to the original condition, unless an upgrade is required for Code compliance. If the bids are determined to be unreasonable, City Staff will rebid and revise Statement of Work.
8. The applicant has five (5) days to qualify the lowest bidder. If the applicant rejects the lowest bidder, City staff must receive the rejection in writing. The applicant letter will be evaluated. If the low bidder is rejected, the next lowest bidder will be considered. If all bidders are deemed non-responsive, the City will re-bid the project. If the lowest bidder is rejected without verification of non-responsibility, the City will cancel the project.
9. The applicant may choose any bidder within the range if he/she is willing to pay the difference between the selected contractor's bid and the low bidder. The amount of the difference shall be deposited with the City at the time of contract signing.
10. The City reserves the right to rebid if in its sole opinion the bids are above the customary price for such construction work.

11. Any contractor who is excluded from the federal procurement or is on the HUD's list of Debarred Contractors is not eligible for participating in the program. Contractors must have all debts to the City of Frisco paid in full. All Contractors must obtain City permits and must possess all licensing. Contractors are expected to fully comply with the Contractor Policies and Procedures.
12. Notification of the award is sent to all contractors that participated in the bid request process.
13. The Housing Coordinator will contact the winning contractor to set up a closing date.

**J. Closing**

1. City Staff will contact the applicant to set up a closing date.
2. The closing shall include the applicant, City Inspector, Housing Coordinator, and Contractor.
3. The City Inspector will review the work description with those present. The applicant and contractor will initial each line item of the work description.
4. Upon acceptance of terms and conditions stated in the award letter, Applicant shall sign the Community Housing Repair Program agreement including the lien note and a deed of trust and the applicant shall enter into an agreement with the contractor.
5. Prior to the execution of the applicant's agreement with the contractor, City Staff shall verify that the Contractor is not listed in HUD's Federal List of Debarred Contractors, a listing of Contractors who are debarred from participating in federally funded Properties.
6. Notice to Proceed  
Upon the execution of all award documents, City Staff shall issue a written Notice to Proceed to the Contractor with a copy to the Applicant.

**K. Commencement of Work**

Work will commence no later than thirty (30) calendar days after receipt of the Notice to Proceed.

**L. Fund Disbursement/Contractor Payments**

1. Request for Payment

Upon completion of work set out in the Award Letter and Agreement, the Contractor will submit the following to City Staff:

- a. Original invoice identifying the work items completed and their cost;
- b. Original, completed and signed material and labor release forms; and
- c. Copy of signed-off building inspection cards.

2. Pre-Payment Inspection

Upon receipt of all items in Section 6, Part L, Paragraph 1, a City Inspection Staff shall:

- a. Inspect the property to ensure all work has been completed;
- b. Determine if all applicable permits have been obtained;
- c. If lead-based paint work was part of the contract, the work must pass a final lead paint clearance. If the work fails the inspection, the contractor must continue to clean the house until it passes the clearance inspection;
- d. Obtain a signature from the Applicant on the Contractor Payment Request form that indicates the Applicant is satisfied with the work and the amount to be paid to the Contractor; and
- e. After a signature has been obtained from the applicant, City Inspection staff will sign the authorization for payment stating that all work has been completed as agreed to in the contract.
- f. Before the contractor is released for the contract, the applicant must sign the Final Acceptance and the City Inspector must complete his Final Inspection Report.
- g. The contractor's warranty begins the day the Final Acceptance is signed by staff and applicant.

3. Payments will be made within thirty days after the city receives the supplies, materials, equipment, or the day on which the performance of services was completed or the day on which the City receives a correct invoice for the supplies, materials, equipment or services, whichever is later. The Contractor may charge a late fee (fee shall not be greater than

that which is permitted by Texas law) for payments not made in accordance with this prompt payment policy; however, this policy does not apply to payments made by the City in the event:

- a. There is a bona fide dispute between the City and Contractor concerning the supplies, materials, or equipment delivered or the services performed that causes the payment to be late; or
- b. The terms of a federal contract, grant, regulation, or statute prevent the City from making a timely payment with Federal Funds; or
- c. There is a bona fide dispute between the Contractor and a subcontractor or between a subcontractor and its suppliers concerning supplies, material, or equipment delivered or the services performed which caused the payment to be late; or
- d. The invoice is not mailed to the City in strict accordance with instructions, if any, on the purchase order or contract or other such contractual agreement.

#### 4. Processing Payment

- a. City Staff will request payment. Attached to the request will be:
  - i. The original invoice; and
  - ii. Copy of the Contractor Payment Request Form.
  - iii. City of Frisco signed authorization to pay.
- b. The check will be made payable to the Contractor.
- c. City Staff will make a copy of the check, making a “Received by” notation where the Contractor or person picking up the check will sign. If the check is to be mailed, a notation of the mailing date is to be noted on the copy of the check.

## 7. CONTRACTOR SELECTION

### A. Performance of Work

Applicants may **NOT** perform repairs themselves. Work may not be performed by members of the homeowner’s immediate family. All work must be performed by Contractors meeting the requirements of City of Frisco approved contractors and those requirements listed below.

### B. Letters of Interest

The City of Frisco will accept letters of interest from qualified Contractors for the purpose of bidding on rehabilitating properties. Eligible Contractors shall submit the following documentation to the City:

1. A photocopy of their current license from the State of Texas Contractors State License Board indicating the classification (“B” for general and “C” for specialized work).
2. Certificate of Insurance for general liability in an amount not less than \$1,000,000, naming the City of Frisco as additional insured.
3. Evidence of current worker’s compensation coverage, if applicable.
4. Not less than three (3) references.
5. Certification that that the Contractor will not discriminate against any protected group of persons under State and Federal law.
6. A performance bond, if applicable.

**C. Warranty**

All work performed by the Contractor shall be warranted for a period of not less than one (1) year from the date the City approves the work under paragraph 6(M)(2)(d) of these procedures. (The equipment shall be warranted against defects in material and workmanship for a period of not less than twelve (12) months beginning with the date of acceptance. If the manufacturer's standard warranty exceeds the minimum required time, then the manufacturer's standard warranty shall be in effect. The successful Contractor shall furnish a copy of the manufacturer's warranty at time of delivery. Such warranty shall be stipulated in the bid submitted from the Contractor to the City. For the warranty period, the Applicant may require the Contractor to correct defects or problems arising from his or her work. Should the Contractor fail to do so, the Applicant may take any necessary legal recourse.

**8. PROGRAM CHANGES**

At the discretion of the Housing Trust Fund Board, the Program may be modified to ensure timely expenditures of Program funds and to otherwise meet the intent of assisting lower income applicants in improving their homes through the Program.

**9. EXCEPTIONS**

The Housing Trust Fund Board may make an exception to the type of loan a household will be offered. The exception will be based on extenuating family circumstances such as a long term disability, fatal disease, etc. The extenuating circumstance will be documented in the household file.

## **10. FILES AND RECORDS**

The Housing Coordinator shall maintain accurate files and records on each applicant and shall retain all pertinent documentation for a period of five (5) years after the completion of the Program. Such files shall be open for inspection in accordance with the Texas Public Information Act.

## **11. PROPERTY CLOSE-OUT**

City Staff shall ensure that upon completion of each rehabilitated Property, the following close-out forms are retained in the files:

- A. Homeowner Rehab Completion Report – CDBG;
- B. Minority/Women Owned Business Enterprise (M/WBE) Report; and
- C. Certificate of Completion and other such forms as may be required by the City.

## **12. EMPLOYEES NOT TO BE HELD LIABLE**

No member, officer, agent or employee of the City of Frisco or member of the Housing Trust Fund Board shall be held personally liable concerning any matters arising out of or in relation to the commitment of CDBG Program funds with regard to feasibility or viability of the proposed project.

# ATTACHMENT 1

## Application Checklist

This form must be checked off and attached to the front of the completed application.

- Signed application for all persons named on the title including, but not limited to, the following attachments;
  - 1. Application Checklist
  - 2. Exhibit "A" – Current Monthly Income Chart
  - 3. Exhibit "B" – Household Composition Chart
  
- Copy of Warranty Deed or Title for single family homes, condominium, or town homes. Copy of the current (within 1 month) mortgage statement.
  
- Copy of signed complete set of most current and previous Federal Income Tax Returns, including all schedules and attachments for all persons in the household and named on the title. Sign a form releasing copies of tax returns.
  
- Copies of paycheck stubs for the last thirty (30) days for all wage earners in household or verification of wages from current employer.
  
- Other income documentation (supply a copy of the award letter or a copy of the check or direct deposit bank statement):
  - Social Security/SSI
  - Retirement
  - Disability
  - AFDC
  - Interest on Savings/Income Earning Accounts
  
- Three (3) most recent bank statements;
  
- Proof of property tax payment;
  
- Copy of Social Security Card;
  
- Copy of valid **current** identification (e.g. driver's license or State of Texas ID);
  
- Signed Lead Based Paint Notification Form (required for properties built before 1978;
- Signed Residency Verification forms for all adult household members.
- Copy of Homeowner's insurance.



Community Development Block Grant Program  
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Frisco TX 75034

972-292-5114 Phone  
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<http://www.friscotexas.gov/>