One Irvine
Home Improvement
Loan Program

Program Guidelines

One Irvine Home Improvement Loan Program (HILP) Guidelines

Contents

I. INTRODUCTION

Housing is a basic and indispensable ingredient in the fabric of the Irvine community. Deterioration of the housing inventory due to improper or inadequate maintenance, particularly as neighborhoods age, would adversely affect all Irvine residents.

The One Irvine Home Improvement Loan Program (HILP) provides financial assistance to Irvine homeowners living in a One Irvine selected neighborhood for critical home improvement projects and sustainability upgrades. Financial assistance through the HILP consists of deferred payment loans. The HILP assists homeowners who may not have the resources necessary to correct health and safety code deficiencies, improve the livability and efficiency, enhance neighborhood aesthetics, and preserve the quality of the City's housing stock.

These Guidelines include step-by-step actions to be taken with the applicant from the initial application to the recordation of the Notice of Completion and the payoff of the HILP loan. The Housing Manager and designee(s) are responsible for program implementation in accordance with these Guidelines. The Housing Manager has the authority to waive eligibility requirements and loan limits at their discretion to address critical home improvement needs.

Equal Opportunity

Applicants will not be discriminated against on the basis of race, color, religion, sex, sexual orientation, creed, ancestry, national or ethnic origin, age, family or marital status, handicap or disability, or any other arbitrary basis. In addition, applicants may not discriminate in the use, occupancy, and awarding of contracts with respect to the property to be rehabilitated with the assistance of an HILP loan and/or grant.

II. PROGRAM DESCRIPTION

Owner-occupied properties within the One Irvine selected neighborhood may be assisted with City funds in the form of a deferred payment loan. Loans are only available to applicants meeting the criteria specified in these HILP Guidelines.

Criteria	Deferred Loan
Eligible Properties	Owner-occupied, single-family homes located within the One Irvine selected neighborhood.
Eligible Repairs	Code-related repairs shall take priority over general improvements. Room additions, additional dwelling units, swimming pools, Jacuzzis, or the construction of luxury items are not eligible.
Funding Limits	Up to $25,000 as recommended by staff and approved by the "LRC" (as defined in Article III). Applicants may elect to borrow less than the $25,000 limit. Loans will not be approved less than $5,000.
Terms	Deferred payment loans, 0% interest, due upon sale or transfer of the property

III. APPLICATION PHASE

A. PROGRAM MARKETING

The City will market the HILP to potential applicants through various means, including but not limited to:

1. Advertising through press releases and news bulletins, Cable TV, and the City website;
2. Distributing promotional material directly to homeowners that have code violations (brochures will ask residents to apply for HILP assistance if they feel that the HILP can help them bring their homes up to code);
3. Posting brochures in public building bulletin areas (areas may include: libraries, fire stations, Police Department, City Hall, etc.); and
4. Coordinating meetings (as necessary) to explain the HILP to potential applicants and other interested persons.

B. INTEREST LIST

Staff will maintain an on- going interest list (“Interest List”) containing the name, address, telephone number, date of first contact, and desired rehabilitation work. Following an entry on the Interest List, correspondence will be sent to the prospective applicant confirming their status.

As funds become available, application packets will be forwarded to prospective applicants, and each applicant will be given 30 calendar days to respond with a completed application. If 30 days elapse without an application submittal, staff will make reasonable efforts to contact the prospective applicant. If such efforts fail, the prospective applicant may be removed from the list after 60 days. Correspondence confirming their removal from the Interest List will be sent to the address provided.

Staff will use the Interest List as a mechanism to control the flow of rehabilitation work to ensure efficiency and the timely expenditure of funds. Based on demand, marketing efforts will be increased or decreased to achieve program objectives.

C. APPLICATION REVIEW AND APPROVAL PROCEDURE

Staff will perform the following tasks:

1. Review application for completeness and for income and owner-occupant eligibility status.
2. If upon review of the application staff determines the applicant is ineligible, staff will inform the applicant in writing of such determination.
3. If upon review of the application staff determines the applicant is eligible, staff will log the application into the program database, enter the approval date, and set up a six- part classification file to maintain all required documentation.
4. Run a property information report from the City’s GIS system or another property information service provided by the City’s title company. This report must include the Assessor’s Parcel Number, square footage, year built, ownership information, flood zone information, transaction history, and other pertinent information used to verify property type, size, age, value, and physical location.
5. Obtain preliminary title report and property valuation information.
6. Underwrite the loan.
7. Schedule the Loan Review Committee (“LRC”) Meeting.

D. PROGRAM ELIGIBILITY

To be eligible for assistance, the following conditions must be met:

1. Applicant Eligibility

Applicants must be of legal age. Applicants will be served on a first-come, first- served basis. No member of the governing body of the City and any other official, employee, or agent of the City Government who exercises policy, decision-making functions or responsibilities in connection with planning and implementation of the program shall be directly or indirectly eligible for HILP assistance. This restriction shall continue for two (2) years after an individual's relationship with the City ends.

2. Property Eligibility Requirements

- Existing conventional owner-occupied single-family dwellings located within the One Irvine selected neighborhood are eligible for assistance. The applicant must be the fee owner of the property under an officially recorded grant deed and shall furnish appropriate evidence with their application. Properties with reverse mortgages shall be ineligible for assistance. All taxes, assessments, and insurance premiums currently due or in arrears on the real estate must be paid before any loan is made. The property must have sufficient fire and flood insurance as necessary to protect the owner and the City's interest in the property. Seniors and households on fixed incomes, which have their taxes deferred and can provide documentation to that effect, are exempt from this requirement as related to property taxes. Applicants must disclose to the City any current lawsuits pertaining to the house, yard, utilities connections, or any other issues associated with the property. One Irvine funds may not be used to address any property improvements that are the subject of current lawsuits, unless One Irvine funds are needed to address immediate life and safety issues. City code enforcement and City Attorney's office will review and issue a finding on One Irvine applications to address immediate life and safety issues for scopes of work items that are also the subject of current lawsuits.

E. DETERMINATION OF PROGRAM ASSISTANCE LEVEL PER UNIT

The level of program assistance for a particular property depends on three (3) factors: (1) the maximum and minimum assistance limits; (2) the condition of the property; and (3) the owner's ability to repay the loan as determined through loan underwriting.

1. Minimum and Maximum Loan

   The minimum loan is $5,000 per eligible property. This minimum is established to offset the administrative costs associated with the implementation of the program. The maximum loan amount is $25,000 per eligible property.

2. Condition of the Property

   The composition and level of assistance depends largely on the condition of the dwelling that is to be rehabilitated and whether major health and safety conditions are present.

3. Loan Underwriting Standards and Assistance Level

   The amount of loan assistance provided is determined by the amount of housing rehabilitation that is eligible, necessary, and reasonable, and also by the ability of the homeowner to repay the loan. Key considerations in determining ability to repay loans include the loan-to-value ratio of the property, which is the property's total secured indebtedness inclusive of the proposed loan, divided by the estimated post-rehabilitation value. This loan-to-value ratio may not exceed 95%. Properties with reverse mortgages shall be ineligible for assistance.

   Loans may not exceed the amount necessary to perform the City and owner-approved rehabilitation work, as determined by the results of the homeowner's competitive procurement.

4. Use of Loan Funds

   With the approval of the Housing Manager, loan funds may be used for home improvement purposes and sustainability upgrades after staff has reviewed the application and supporting documentation to confirm applicant and property eligibility. Examples of eligible uses of funds include front yard landscaping, roof repair, solar panel installation, electric vehicle charging stations, service panel upgrades, and replacement of gas or electric appliances with heat pump appliances.

5. Local Rehabilitation Standards

   Following rehabilitation, all dwellings must meet, at minimum, local code requirements to the greatest extent feasible and practicable given program assistance limits. The City of Irvine has adopted the State of California codes, which shall be used as the minimum standard for all work performed under the HILP.

6. Project Selection, Reservation of Funds & HILP Interest List

   Staff will process and receive applications on a first-come first-served basis. All applications will be date-stamped as they are received. Following staff's determination of property eligibility, loan and/or grant funds shall be reserved in order of application receipt and approval. The reservation of funds is a planning function and not a commitment to provide funds or service. The City is not committed to provide assistance until all processing procedures have been implemented and the applicant enters into an Improvement Agreement (as defined in Section V, Paragraph G of these Guidelines) with the City.

7. Property Inspection Procedures

   Inspections will occur a minimum of three (3) separate times during the rehabilitation process. The initial property inspection takes place following staff's determination of applicant and property eligibility to determine rehabilitation needs for the purpose of the funding recommendation, environmental review and whether or not hazardous materials testing will be necessary. The next inspection will take place during the construction phase to verify compliance with contract specifications in order to validate the release of funds from escrow to the contractor. Staff and the owner will conduct the final inspection upon completion of all work items.

8. Work Description

   Following the initial inspection, staff drafts the "Work Description and Bid Proposal Form." This document details the work that will be competitively bid by the owner. The "Work Description" is a detailed list of specific activities and an estimate of the cost of each activity to be completed. The Work Description's items are prioritized in order, with code items first and lesser priority improvements listed thereafter. Prior to the owner's contractor procurement, the Work Description must be approved by the Loan Review Committee (LRC) in its function as the screening committee. Following approval, bid packages shall be provided to the homeowner with detailed instructions on how to conduct the procurement.

9. Lead-Based Paint Evaluation and Requirements For Pre-1978 Units

   As part of the program application, owners are provided with information about the dangers of lead-based paint. Evidence of receipt of this information is maintained in the project file. The lead-based paint requirements can have a significant impact on the final scope of work. If the housing unit in question was built prior to January 1, 1978, the lead-based paint requirements apply. Based on the amount of financial assistance provided to the project, different levels of action are required on the part of the City, as shown in the following table:

	<$5,000	**$5,000-$25,000**	**>$25,000**
Approach to Lead Hazard Evaluation and Reduction	Do no harm	Identify and control lead hazards	Identify and abate lead hazards
Notification	Yes	Yes	Yes
Lead Hazard Evaluation	Paint testing of surfaces to be disturbed by rehabilitation	Paint testing of surfaces to be disturbed by rehabilitation AND Risk assessment	Paint testing of surfaces to be disturbed by rehabilitation AND Risk assessment
Lead Hazard Reduction	Repair surfaces disturbed during rehabilitation, use lead-safe work practices, clearance test of work site upon completion.	Interim controls, lead-safe work practices, clearance test of unit upon completion	Complete abatement, lead-safe work practices, clearance test of unit upon completion

Any required lead-based paint inspections (initial and clearance) will be performed by the City's contracted lead-based paint testing firm. In the event that an initial clearance test fails, it will be the contractor's responsibility to pay for supplemental clearance tests. The contractor engaged to encapsulate and/or stabilize lead-based paint will not be paid until evidence of a lead-based paint clearance is presented to the City. Lead-based paint inspection reports and risk assessments (as applicable) will be provided to the owner and made available to contractors as an appendix to the Work Description and Bid Proposal Form.

10. Cost Estimating

The Work Description is the basis for estimating the cost of each work item. In many cases, a work item is derived from a standard specification. Using a tabulation of recent bids as a guideline, staff shall prepare the internal cost estimate for each repair item and the entire project prior to issuing Work Description and Bid Proposal Forms to the owner. The estimate shall be internal to the City and shall not be shared with the owner or any potential bidder.

A typical rehabilitation loan project will follow this process:

Review Application
-Verify property eligibility. Review Grant Deed and utility bills.

Approve Application
-Start Project File using Application Review and Underwriting Checklist
-Run property I.D. report
-Schedule initial property inspection

Deny Application
Issue Termination Letter with explanation of why the application was not accepted. Place copy of application in termination file; return original application to applicant.

Initial Property Inspection
-Complete inspection checklist
-Print and file inspection photographs
-Draft Work Description and Bid Proposal Form
-Prepare internal cost estimate

Environmental Review
-Complete lead-based paint determination
-Order Lead-Based Paint and/or Asbestos test and report (as applicable)

Loan Underwriting & LRC
-Order Policy of Insurance of Record Title (PIRT) Policy
-Prepare LRC Agenda & Determination Form
-Schedule and conduct LRC

Loan Approved
-Send LRC Approval Notification and Request for Approval of Work Description Letter

Initiate Owner Procurement Process
-Upon receipt of signed Work Description, transmit bid packages including tips for securing bids, four (4) work descriptions with instructions to bidders.

(Continued on next page)

Bid Evaluation
-Owner submittal of one (1) to three (3) responsive bids to City
-City evaluation of submitted bids and internal cost estimate
-City evaluation of low bid contractor eligibility (CSLB, EPLS, City Business License, Worker's Compensation, additionally insured General Liability Insurance and W-9 form)
-Schedule pre-construction meeting 1 week following loan document execution.
Once a grant or loan is awarded, projects must proceed within 90 days, with one 30-day extension upon request

Loan Document Execution
-At City office, Owner executes:
  -Promissory Note
  -Deed of Trust [Notary]
  -Truth In Lending
  -Itemization of Amount Financed
  -Notice of Right to Cancel
  - Improvement Agreement
-Housing Manager Executes:
  -Request for Notice [Notary]
  -Improvement Agreement
-Prepare construction contract
-Prepare escrow account control instructions
-Fund escrow account
  -Submit Deed of Trust and Request for Notice to Title company for recordation following the three (3)-business day cancellation period.

Pre-Construction Conference & Construction Contract Signing
-At project site, review the Work Description and Bid Proposal Form
-Review contract documents, payment provisions, time of performance, and the General Conditions
-Execute contract documents (providing copies to Owner and contractor)
-Complete pre-construction conference Sign-In Sheet and Minutes

Notice to Proceed
-Following the three (3) business day cancellation period, issue the Notice to Proceed.

Monitoring Construction: Progress Payments & Contract Change Orders
-Upon contractor submittal of partial invoice for 100% completed contract line items to the City, City reviews invoice and supporting documentation and prepares the payment request package, including:
  -Progress Inspection Report
  -Payment Release Authorization Form
  -Contractor Invoice
  -Conditional Lien Release
  -Signed-off City/State Permits for invoiced line items requiring permits
-City conducts progress inspection with Owner and obtains required approval
-City processes payment request through the Neighborhood Services Administrator to Escrow
-City receives, reviews, and processes contract Change Orders as necessary

Final Payment & Notice of Completion
-Upon contractor submittal of final invoice for 100% completed contract line items (not previously paid) to the City, City reviews invoice and supporting documentation and prepares the payment request package, including:
  -Final Inspection Report
  -Payment Release Authorization Form
  -Contractor Invoice
  -Conditional Lien Release
  -Signed-off City/State Permits for invoiced line items requiring permits
  -Notice of Completion form
-City conducts final inspection with Owner and obtains required approval signatures, including the execution of a Notice of Completion. City confirms that Owner has not received any 20-day Preliminary Notices of Lien.
-City takes pictures of final work product to match up with initial inspection photographs
-City processes final payment request through the Neighborhood Services Administrator to Escrow

Retention Release
-Thirty-five (35) calendar days following the recordation of the Notice of Completion, the City obtains the following documents from the Owner: Retention Payment Release, Authorization, Program Survey, Acknowledgement of Receipt of Final Project Statement

IV. REHABILITATION STANDARDS

A. BASIC REHABILITATION STANDARDS

The HILP uses the building, health and safety codes adopted by the City of Irvine. All program work shall meet the City of Irvine's adopted building, plumbing, electrical, and health and safety codes unless another standard's appropriateness prevails as determined by program staff in consultation with the City's Building Department.

1. Life Threatening or Safety Repairs

This standard is used to define the most urgent health and safety repairs such as unsafe plumbing or electrical wiring. All immediate life-threatening hazards, all health and safety hazards, and, to the extent feasible, all building code violations shall be corrected. Such hazards include, but are not limited to:

- Sagging structural parts of a house (e.g., porch, roof, floors, stairways), which are likely to collapse in the immediate future if not supported;
- Electrical conditions which are likely to result in a fire or threaten human life in the immediate future, including overloaded circuits, hazardous fixtures, switches, outlets or wiring;
- Plumbing repairs, which involve exposed sewage, leaking supply or waste lines, and inoperable water heaters;
- Mechanical system failures such as the leakage of gas or fumes from appliances that can lead to fire and cause serious injury; and
- Other conditions which pose life-threatening danger to the occupants of the dwelling.

2. Health and Safety Hazards

Health and safety hazards are deteriorated or inadequate features of the structure. Such inadequacies include, but are not limited to:

- Defects in electrical and plumbing fixtures;
- Unsafe entrance and exit facilities;
- Lack of smoke detectors or similar devices;
- Deteriorating or inadequate structural conditions, including crumbling foundations, dry rot, and termite damage; and
- Other code deficiencies.

3. Energy Efficiency

Energy efficient and green building standards will be used to the greatest extent feasible. All rehabilitation shall meet the California Title 24 energy efficiency requirements.

B. EXAMPLES OF ELIGIBLE COSTS

Costs associated with the rehabilitation of existing structures and sustainability upgrades are generally eligible under this program. The initial construction of room additions or luxury items (i.e. patios, bar-b-ques, pools, etc.) and the purchase, installation or repairs of personal property (furnishings) are not eligible for assistance. All rehabilitation items and costs are subject to the review and approval of staff and the LRC. Some examples of eligible rehabilitation costs include (**Note:** Italicized costs in the list are paid by the City outside of the homeowner's maximum $25,000 loan):

- *Preliminary Title Report and Title Insurance*
- *Recording and filing fees*
- *Lead-Based Paint/Asbestos inspection and clearance reports*
- Construction contract for the implementation of rehabilitation work as specified in the

approved Work Description and Bid Proposal Form, which includes but may not be limited to items such as:

- Driveway repair
- Electric clothes dryer (heat pump or condensing)
- Electric vehicle charging station outlet only – Level 1 (120V) or Level 2 (240V)
- Electric vehicle charging station – Level 2 (240V)
- Exterior paint
- Repair/replacement of stucco / siding
- Front fence repair
- Front yard landscaping
- Induction cooktop stove
- Repair/Replacement of windows
- Installation of new insulation
- Repair/Replacement of water heaters (including heat pump water heater);
- Heat pump space heating/cooling
- Solar photovoltaic system
- Home battery electric storage system
- Electric service panel upgrade
- Repair/Replacement of roofing
- Home Energy Rating System (HERS) inspection – performed by qualified inspector
- Correction of code violations
- Correction of incipient violations of the uniform building code
- Removal of lead-based paint/asbestos hazards
- Removal of barriers to accessibility;
- Repair/Replacement of plumbing
- Repair/Replacement of screens
- Installation of new smoke alarms
- Repair/Replacement of electrical
- Installation new dead bolt locks (to replace unsafe double-cylinder deadbolts);
-
- Building and other permit fees (as applicable)
- Architectural, design, and engineering services (if necessary)
- Geologic reports (if necessary)
- Any other items requested by the homeowner determined necessary and eligible by the LRC
- The elimination of specific conditions detrimental to public health and safety, which have been identified by program staff

C. PROPERTY STANDARDS

1. Minimum Standards

All housing must be improved to an acceptable level of appearance and desirability. The following general standards have been adopted and must be adhered to prior to or as part of the rehabilitation. As necessary, staff will coordinate with Code Enforcement, the Orange County Fire Authority and Building and Safety to implement the following standards:

- Repair or replacement of inadequate or broken structural, plumbing, electrical, roofing, heating and cooling systems.
- Repair or replacement of broken or energy inefficient windows and screens.
- Removal of all debris, unusable lumber, and other construction equipment, unserviceable water heaters, refrigerators, appliances, etc.
- Removal or trimming of obstructing or hazardous trees and shrubbery.
- Removal of dilapidated fences and accessory structures.
- Repair or replacement of deteriorated steps, walks, and driveways.
- Correction of improper grading which causes standing water or drainage toward a

dwelling unit.

2. Incipient Deficiencies

In order to bring the dwelling up to local standards, incipient deficiencies should be identified and corrected. An incipient deficiency exists if, at the time of inspection, it appears that the physical condition of an element in the structure may fail or deteriorate into an actual deficiency in the near future (within 1-2 years). Examples of incipient deficiencies include but are not limited to the following:

- A roof has one (1) or more small leaks that can be patched at a low cost, but the roof probably will continue to develop leaks. The entire roof should be replaced.
- A heat exchanger in a furnace may be expected soon to become inoperative or hazardous because of its age, condition, or use. A new heater should be installed.

D. CONTRACTOR QUALIFICATIONS

Prior to any contract award, staff must verify that contractors are properly licensed through the California Contractors State License Board (CSLB) and that the contractor's company and its personnel are not listed on the Federal Excluded Parties Listing Service (EPLS). Contractors must maintain and furnish proof of General Liability Insurance ($1,000,000 aggregate minimum) and appropriate Worker's Compensation Insurance. Contractors must maintain a current City of Irvine Business License. The City of Irvine reserves the right to exclude contractors with poor performance records from the list and to deny such contractors from participation in the HILP.

V. PRE-CONSTRUCTION PHASE

A. LOAN UNDERWRITING

Prior to drafting the Work Description and Bid Proposal Form, staff must determine if the applicant qualifies for deferred loan assistance. The following steps shall be taken prior to determining the scope of work:

1. Staff will ascertain the value of the property through comparable sales or another approved method.
2. Staff will use the preliminary title report to determine that the property has clear title and the current amount of debt (if any) secured against the property. Properties with reverse mortgages shall be ineligible for assistance.
3. Staff will determine the maximum recommended loan amount within the $25,000 program limit to recommend to the LRC while ensuring that the total secured indebtedness inclusive of the proposed loan does not exceed 95% of the estimated post rehabilitation value.

B. WORK DESCRIPTION AND BID PROPOSAL FORM

After the homeowner's eligibility is established, the feasibility of rehabilitating the property must be established. The Work Description and Bid Proposal Form is a detailed list of specific activities to be undertaken in the course of the rehabilitation project.

1. Initial Inspection by staff

Staff shall make an appointment to visit and inspect the subject property. Staff must:

- Review the applicant's requested repairs in person while photographing and inspecting all accessible areas of the property (interior and exterior);
- Review all items of concern identified in the inspection as a "preview" of the forthcoming Work Description and Bid Proposal Form;
- Provide the owner with an opportunity to provide any additional pertinent information;

- Take "before" pictures and note repair locations; and
- Develop the Work Description and Bid Proposal Form within 10 calendar days of the inspection.

2. Rehabilitation Feasibility

   The inspector shall determine the feasibility of rehabilitating the property with the following factors taken into account:
   - Location of structure
   - Rehabilitation costs
   - Type of improvements
   - Type of structure
   - Condition of structure
   - Homeowner's needs

   In situations where a property's condition is not suitable for occupancy, staff may consult with the Building Department to determine whether or not the maximum amount of assistance would be sufficient to make the property habitable.

3. Work Description Objectives

   The Work Description is the central management document for each project. All fundamental program goals are embodied in the Work Description. Among its specific objectives are:
   - To assign a priority of code deficiencies (especially life threatening and health and safety deficiencies) over general property improvement.
   - To document the eligibility of all proposed improvements.
   - To ensure mutual understanding regarding work to be performed between all parties involved in the project.
   - To serve as a basis for obtaining reliable and comparable bids from contractors.
   - To serve staff as a tool and basis for estimating itemized costs of individual proposed work items.
   - To serve as a basis for the contract between homeowner and contractor, and to relate that contract to the program's goals.
   - To serve as a checklist in reviewing work performed.
   - To honor claims for materials and performance.
   - To serve as a dispute resolution instrument.

   The integrity, accuracy and specificity of the Work Description are essential to the success of each project. Development of the Work Description requires: a) detailed knowledge of construction materials, methods and terminology, b) sound understanding of Building Code requirements; and c) the ability to write technical documents.

4. Developing the Work Description

   Staff shall develop the Work Description. The steps of the process are:
   - Checking the dwelling for structural and other housing code deficiencies.
   - Obtaining homeowner input.
   - Assigning priority/phasing the work.
   - Drafting the specifications.
   - Completing the Work Description.
   - Homeowner review and approval.

5. Inspecting the Dwelling

Staff must physically walk through the dwelling, identifying every substandard feature and noting all improvements necessary to bring the dwelling up to Code.

Note: Staff may consult Building and Safety and Development Services on any issues that require interpretation of the Building Code or Municipal Code and related issues as necessary.

6. Obtaining Homeowner Input

   Consultation with the homeowner should focus on three (3) items:
   - Informing the homeowner of deficiencies identified;
   - Obtaining homeowner preferences regarding options for correcting these deficiencies; and,
   - Obtaining a list of general property improvements desired by the homeowner.

   The Work Description will not contain details which have no significant effect on cost, such as color, style or pattern. The work descriptions shall indicate that these items are to be selected by the property owner from contractor-provided samples.

7. Work Priority/Phasing
   Staff shall organize the list of work activities in a descending order of priority; with code deficiencies first.

8. Drafting the Specifications
   Drafting the specifications involves re-writing the notes taken at the inspection into specific instructions covering: a) the quality of materials to be used, b) the procedures to be followed, c) the exact areas and fixtures to be painted, replaced or improved. The specifications must be precise and characterized in technical terminology.

9. Completing the Work Description
   The process of completing the Work Description involves transferring the detailed, priority specifications to the Work Description form. Each specification should be separated clearly from the others, so that contractors can make itemized bids legibly.

10. Review by the Homeowner
    The homeowner should review the contents of the Work Description and sign the form indicating that they have reviewed and agree with the list. Within the constraints of these HILP Guidelines, homeowner preferences should be accommodated, including revising the Work Description if appropriate.

    Once a final Work Description has been completed, the foundation for a successful project has been established.

C. OWNER PROCUREMENT

Following the owner's approval of the Work Description, the City prepares and sends bid packages to facilitate the owner's obtaining of one (1) or more bid(s) from contractors of their choosing. The bid package includes the following:

- Instructions to Bidders;
- Work Description and Bid Proposal Form;
- Owner-provided Structural Pest (Termite) Report (as applicable);
- Lead-Based Paint Survey and/or Asbestos Survey Reports (as applicable); and
- Engineering Report (as applicable).

Generally, owners are required to submit bid(s) from B-licensed General Contractors unless the Work Description only contains a single-trade item such as roofing only, electrical only, or plumbing only.

D. DETERMINING COST REASONABLENESS

Staff must always prepare their own cost estimate for the work. The internal cost estimate shall be printed on a copy of the approved Work Description and Bid Proposal Form and/or the Bid Evaluation Form, and placed in the project file. These cost estimates shall be derived from market cost data available to staff based on competitive bid prices supplied for projects within the last 12 months. The internal cost estimate shall not be provided to the owner or contractors. A reasonable bid will be within 10 to 15 percent of the City's internal cost estimate. If the difference exceeds 15 percent, further negotiation with the lowest responsible, responsive bidder should be attempted to ensure cost reasonableness.

Upon receipt of the owner's one (1) to three (3) responsive, responsible bids on the City's Work Description and Bid Proposal Form, staff will prepare the Bid Evaluation form to compare line item prices and to accurately determine the lowest responsive bid.

E. LOAN REVIEW COMMITTEE (LRC)

The LRC voting members shall consist of a Housing Analyst and the Neighborhood Services Administrator of the City of Irvine Community Development Department. Prior to convening an LRC meeting, staff will prepare the LRC Report describing the proposed work to be completed along with the applicant's eligibility criteria. Staff will review the complete application package with the LRC members, who will approve or disapprove the loan in accordance with these HILP Guidelines and the loan underwriter's recommendations.

F. VERIFICATION OF CONTRACTOR ELIGIBILITY

Staff will investigate each contractor prior to contract execution. The City will verify that the selected contractor is appropriately licensed (www.cslb.ca.gov), insured ($1 million aggregate General Liability Insurance and statutory Worker's Compensation Insurance), and possesses a current City of Irvine Business License.

Following the verification of contractor eligibility, the City and homeowner may proceed with the execution of all program legal documents.

The owner may request that the contractor secure a performance bond for the proposed rehabilitation. The contractor, who will obtain the bond through a bonding company, must honor such request. The cost of the bond shall be included as part of contractor's overhead costs and shall be added to the overall rehabilitation bid price.

G. IMPROVEMENT AGREEMENT

The "Improvement Agreement" is an agreement between the City and the homeowner that links the loan and grant documents to the construction contract agreement. It is a contract between the City of Irvine and the applicant setting forth the terms and conditions of the loan of money, specifically:

- Applicable funding source requirements.
- Conditions of program eligibility.
- Amount borrowed.
- Applicable interest rate (currently zero percent).
- Applicable term of repayment.
- Amounts for lender services.
- Property against which loan is secured.
- Basic use of the funds.

At all times throughout the application and pre-construction phases, it is critical that staff emphasize to owners both verbally and in any written correspondences that absolutely no program funds have been committed or approved by the City until the Housing Manager signs the Improvement Agreement. Only after this occurs can funds be encumbered.

H. LOAN DOCUMENTS

A complete set of Loan Documents should include the:

- Promissory Note;
- Deed of Trust for real property;
- “Notice of 3-Day Right to Cancel” form;
- Financing Disclosure Statement (Fair Lending Notice); and
- Request for Notice.

The Loan Agreement shall be a legal contract that precisely and formally delineates the reciprocal obligations of both the borrower (the homeowner) and the lender (the City). Staff will meet with the homeowner to obtain the homeowner's signature on the Loan Documents and have the Deed of Trust notarized.

I. RECORDATION OF THE DEED OF TRUST & REQUEST FOR NOTICE

Loan closing is a routine process whereby staff provides the loan documents to the borrower for review and signature in the presence of a Notary Public. At the borrower’s request, the loan documents may be prepared and forwarded by mail or e-mail in advance of the loan-signing meeting for their review or for review by their counsel at their own cost.

Staff will observe the mandatory three (3) business day waiting period prior to sending the original Deed of Trust (real property) to the title company for recordation with the County. A copy of all documents shall remain in the project file for reference.

After the Deed of Trust is recorded, staff shall prepare the Request for Notice and obtain the Housing Manager’s notarized signature. This task cannot be accomplished prior to receiving the recorded Deed of Trust back from the County because the Request for Notice references the recordation number on the Deed of Trust. Once properly executed, staff will then forward the Request for Notice to the title company for recordation.

J. PRE-CONSTRUCTION MEETING

The objectives of the pre-construction meeting are to: (i) inform all parties of their roles and responsibilities throughout the construction phase; (ii) inform the owner and contractor about their rights under the contract agreement; (iii) review the work scope and address any concerns prior to the execution of the contract; (iv) answer owner questions regarding construction methodology; (v) facilitate the selection of finish materials, colors, etc.; (vi) prevent unauthorized change orders; and (vii) inform the contractors about the payment process. This is accomplished by meeting with the owner and contractor and discussing the following items:

- Review Work Description and Bid Proposal Form, making sure both the homeowner and contractor understand that only items in the Work Description and Bid Proposal Form will be accepted and paid for under the loan, unless there is a City-approved "change order."
- Review the performance and payment schedule.
- Review payment procedures - emphasize City and homeowner approvals, and the time factors for issuing checks.
- Review change-order procedures - emphasize that no extra work may be performed without a City-approved change order.
- Provide and discuss lien release forms.
- Emphasize contractor responsibility for permits and inspections. The contractor and

homeowner must be informed that progress payment reviews by staff are not building inspections.
- Confer with the contractor and homeowner to establish construction "start date" and "completion date".
- Explain that the owner, contractor, and City must jointly sign a "Notice to Proceed." The Notice to Proceed specifies the agreed upon "start date" and gives an agreed upon number of calendar days thereafter for completion of the job. Explain to the homeowner and contractor that work performed prior to the "start date" is not reimbursable under the HILP.
- Execute the Construction Contract.
- Inform contractor that rehabilitation of the dwelling shall be completed within either 30 or 60 days, depending on the agreed upon time period with the owner.

K. CONSTRUCTION CONTRACT

During the pre-construction conference, the City shall present a construction contract to the homeowner and the selected contractor. The construction contract shall contain the following items:
- The Contract Agreement;
- The Work Description and Bid Proposal Form;
- General Conditions;
- Three-day Notice of Right to Cancel;
- Schedule of Progress Payments; and
- Mechanic's Lien Warning.

L. RECORDS

Staff must place a copy of all documents, fully signed, in the project file. Appropriate copies shall be provided to the owner and contractor.

VI. CONSTRUCTION MANAGEMENT

A. ISSUANCE OF THE NOTICE TO PROCEED

The contractor may not begin work until the contract with the homeowner has been signed and the City has issued a "Notice to Proceed." The contractor shall obtain building permits before commencing any work. Rehabilitation work is to commence within ten (10) calendar days of the issuance of the "Notice to Proceed".

B. FINANCIAL MANAGEMENT

Financial management is the activity of planning, organizing and controlling the flow of HILP funds. The objectives of the financial management process are to:
- Maintain accurate records;
- Accurately monitor the rate of expenditure in relation to plan; and
- Facilitate prompt payment to contractors and homeowners.

C. PROGRESS REVIEWS AND RELEASE OF FUNDS

The Progress Review/Release of Funds process is the means by which loan funds are paid out of the escrow account maintained by the City's contracted escrow provider. The primary objectives of the Progress Review/Release of Funds process are to:
- Release funds only for work performed in accordance with the Work Description or an approved change order; and
- Document all releases of funds for audit purposes.

D. PERFORMANCE SCHEDULE

Included in each Construction Contract is a performance and payment schedule. Typically, a performance and payment schedule will provide for one (1) to three (3) phases in the construction process. In each phase, certain work will be performed, invoiced and paid.

Staff will periodically (generally every 7 to 10 days) review progress on all projects under construction for compliance with the established performance and payment schedules. In the event of delays, the following steps should be taken by staff:

- Telephone contacts with homeowner and contractor.
- Site visits.
- Written notification to contractor.

These and other action steps will be pursued in a systematic and consistent manner by staff and documented in detail, either through copies or on the correspondence sheet. When the work in a given phase is complete, and all required HILP and City inspections have been performed, and approved by homeowner, the City can process a “Request for Payment.”

E. DISBURSEMENT OF FUNDS

The City’s contracted escrow firm will disburse funds in accordance with the following procedures:

1. Upon receipt of a contractor’s invoice, staff and the homeowner shall inspect the property to ensure that the invoiced work items are 100% complete in accordance with the Work Description. The homeowner shall sign the Progress Inspection Report and Payment Authorization forms. If the work is not satisfactorily completed, the homeowner and/or staff may notify the contractor in writing so that corrective actions are made.

2. Progress payments shall equal 90% of the cost of such work items completed, as determined by the bid breakdown. Retention equal to 10% of each progress payment shall be withheld until the project has been completed, and the 35-day period following the recordation of the Notice of Completion has elapsed. The recordation of the Notice of Completion within 10 days of the project’s completion initiates a 35-day period of time where liens may not be recorded against the property; thus, allowing sufficient time for contractors, subcontractors, and suppliers to receive payment following the City’s 90% disbursement(s). Progress payments due the contractor shall be paid after City approval of receipt and verification of contractor's invoice(s) and satisfactory Release of Liens, or claims for Liens, by contractor, subcontractors, laborers and material suppliers for work completed and materials installed.

3. After the homeowner and staff have verified that payment should be made, staff shall process a request for disbursement from the project escrow account to the Neighborhood Services Administrator for review and approval. Upon the Neighborhood Services Administrator’s approval, the request for disbursement may be processed by escrow.

F. CHANGE ORDERS, DELAYS AND DISPUTES

Change Orders, delays, and disputes are all issues that can arise in construction. All three (3) can interfere with program goals, unless they are minimized and handled expeditiously.

A “Change Order” is a written modification to the Work Description. In order to be valid, the homeowner, contractor and the City must approve a Change Order. Work other than that described in the Work Description and approved Change Order, including work performed before the Change Order is fully approved will not be paid with HILP funds. It is staff's responsibility, through the progress review process to strictly and consistently enforce this rule. Change Orders relating to unforeseen difficulties encountered during the course of construction may receive verbal approval from the staff so as not to interrupt or stem the flow of work. Such approval is to be followed immediately with appropriate paperwork. The Change Order Process is as follows:

1. The homeowner or contractor initiates change orders. In cases where the homeowner contacts staff for a Change Order, staff should remind the homeowner and the contractor that no change in the Work Description is approved until all parties have signed the Change Order and that any work performed prior to approval of the Change Order will not be paid for with HILP funds.

2. Staff shall promptly visit the home and determine the following:
   - Is all work performed by the contractor at the site authorized by the contract agreement?
   - Is the change appropriate?
   - Does the proposed change conform to these HILP Guidelines?
   - Is sufficient funding available to cover the additional costs (if applicable) associated with the proposed change order?

     If the Change Order is denied based on staff's review, staff shall promptly inform the owner in writing of the decision and document the decision and the reasons for the denial in the project file. Staff should remind the homeowner that the homeowner is responsible for paying for any unauthorized work.

If the Change Order is approved, staff should prepare the Change Order for signature first by the homeowner and contractor and then by the City. The original signed Change Order should be placed in the project file, and two (2) copies should be transmitted to the homeowner. At this point, the work described in the Change Order may commence.

G. DELAYS

A delay is a failure to meet the timetable provided in the section of the agreement entitled "Performance and Payment Schedule". Staff will monitor projects for delays and, when necessary, devise corrective action for delinquencies.

H. DISPUTES

A dispute is a disagreement between the homeowner and the contractor, typically concerning satisfactory work completion, timeliness, or payment amounts, which can interfere with the progress of the project.

The first responsibility of staff in relation to any dispute is to avoid involvement. Staff should remind the homeowner and the contractor that the City is not a party to the construction contract. The homeowner and contractor should therefore endeavor to resolve their dispute without outside involvement. It is helpful to refer the two (2) parties back to the General Conditions of the contractor agreement, which sets forth a formal process for dispute resolution via correspondence.

Some disputes require mediation for resolution. To mediate the dispute, staff should complete the following:

- Schedule a meeting with the contractor and the homeowner at the Community Development Department office.
- At the meeting, staff should remind the parties of the program goals.
- The contractor and owner should explain the problem from their respective points of view.

Talking through the problem from each point of view can sometimes help the parties identify ways to address the problem to each person's satisfaction. In the event mediation fails to resolve the dispute, staff should again remind the two (2) parties that the City is not a party to the agreement. However, staff may be able to make certain recommendations to the contractor and the homeowner in order to facilitate the completion of the rehabilitation work to the satisfaction of the owner. In the event that either party suggests or threatens litigation or is unwilling to fulfill their contractual obligations, the City shall advise the parties to exercise their rights as established within the General Conditions to the construction contract. When appropriate, staff may need to consult the City Attorney for advice on how and when to release contract funds depending on how each of the parties exercises their rights to terminate the contract agreement.

VII. COMPLETION AND FINAL PAYMENT

The project completion and final payment process is intended to:

- Document completion of the work.
- Protect the homeowner from liens and title clouds.
- Assure prompt payment to the contractor.

When the contractor completes all work on the project, the contractor should submit an itemized invoice for all previously unpaid line items contained within the construction contract. Staff will inspect all completed work together with the homeowner. The staff inspector will note any incomplete or unacceptable items on a punch list form and give a signed copy to both the owner and the contractor for correction.

The contractor is responsible for:

- Obtaining building permits and inspections from the Building Department;
- Obtaining lien releases from sub-contractors and material suppliers;
- Submission of invoices to staff; and
- Providing the owner with a written one-year warranty certificate covering the materials and workmanship of all contracted items.

The homeowner is responsible for:

- Monitoring the contractor’s work throughout the project;
- Co-approval of payment requests from the contractor; and
- Repayment of loan funds when due.

Staff is responsible for:

- Conducting progress payment inspections to ensure that the quality of the work is acceptable;
- Ensuring that the project file documents all work requiring permits with a copy of the City o permit signed off by the City Building Inspector;
- Maintaining the project accounting in the project file;
- Placing Lien Releases and Final Request for Payment in the project file;
- Answering questions from owners and contractors regarding these HILP Guidelines and documents;
- Preparing Management Reports; and
- Preparing a “Final Statement” for the homeowner upon the conclusion of the project.

Thirty-five (35) days after completion of the project, staff will follow-up with the homeowner and, if appropriate, make the final payment to the contractor of the 10% retention.

Staff should check with the homeowner for any construction deficiencies the owner believes should be corrected under the contract. If appropriate, staff should direct the contractor to make necessary corrections, which must be signed off by the homeowner. Staff should then release the 10% retention to the contractor.

VIII. POST CONSTRUCTION

The post construction phase concentrates on maintaining accurate records, safeguarding records, and servicing existing loans.

A. REQUIRED RECORDKEEPING AND FILES

Files will be maintained to document the significant history of HILP activities for all projects. The City must maintain these files for a period not less than five (5) years following the repayment of loan funds. Project files shall include, at a minimum:

- Section 1: The application and all supporting documentation related to owner-occupancy, and property information reports.
- Section 2: Official correspondence~~.~~
- Section 3: Inspection reports, lead-based paint reports, before and after photographs, work descriptions, internal estimate, bid evaluation, contractor clearances, contractor insurance, contractor business license, contractor W-9, recorded Notice of Completion.
- Section 4: Grant Acceptance Agreement, construction contract agreement, all loan/grant disbursement information including invoices, payment releases, lien releases, warranties, and copies of payment checks.
- Section 5: Loan underwriting materials including the appraisal, title report, credit report, LRC report, LRC determination, and all executed loan documents.
- Section 6: Documentation on requests for demand, reconveyances, subordinations, and defaults.

The City will keep copies of all solicitations for bids, contracts, women- and minority-owned business lists, solicitation lists, documentation of affirmative actions taken, and copies of any forms submitted by the contractor pursuant to the reporting requirements for a period of five (5) years.

Original loan documents (i.e. Note and Deed of Trust) are to be maintained in a secure and fire resistant location in the City Clerk’s Office. The City maintains and grants access to its borrower information only in accordance with its internal security standards which restricts access to program personnel, or in response to a required official audit. When a loan is paid in full or is about to be paid in full, these documents will be released to a licensed escrow company, or in certain circumstances, they will be reconveyed directly to the borrower by the City.

B. PROJECT MATRIX

Staff will maintain an active project matrix containing the name, address, telephone number, racial/ethnic data, household size, Loan Review Committee Approval Date, loan funds awarded, notice to proceed date, final inspection date, recordation of Notice of Completion date, and project phase (i.e. pre-construction, construction, complete).

C. LOAN DATABASE

In order to effectively manage the City’s revolving loan account and to maintain an accurate record of all loan activity, an on-going loan database will be established to track loan funds from when they are first secured to when they are repaid (or charged off—in the event of default). The database will include, at a minimum, the borrower’s name, address, telephone number, Assessor’s Parcel Number, loan amount, interest rate, date of recordation of Deed of Trust, recordation number, date of recordation of Request for Notice, recordation number, and information pertaining to the following outcomes:

- Request(s) for Demand of Payoff;
- Reconveyances;
- Subordinations; and
- Default.

D. LOAN PAYOFFS

The City will receive a request for payoff amount when repayment occurs as part of a property sale, transfer or upon an event of acceleration as defined in the Promissory Note. The request will usually come in the form of a Request for Beneficiary's Demand from an escrow company, title insurance company, or financial institution. Due to potential errors and misunderstandings when discussing payoffs verbally, the City will provide a payoff demand only upon receipt of a written request. The City will communicate a payoff demand to the requestor only in writing.

E. RESPONDING TO A REQUEST FOR DEMAND

The following steps will be taken when the City has received a written request for a loan payoff demand:

- Upon receipt of the payoff demand, retrieve the loan file and review the loan agreement for repayment requirements. Check the comment section of the database for extenuating circumstances that may have been documented.
- Prepare a demand letter describing the principal balance, interest rate, date of loan, current date, calculation of interest to the current date, and a per day interest amount for the estimated payoff date.
- Attach a copy of the request for beneficiary's demand to the demand letter and send to the requesting party.
- Place a copy of the demand letter and the original request for beneficiary's demand in the loan file.

If the request for a demand is from a licensed escrow and/or title company, staff will respond by processing a Reconveyance for recordation in connection with a full payoff of a loan through escrow. If the request is from any other representative of the borrower, the City will hold the reconveyance until payment is received in full and the payment check has been cleared through the bank.

F. RECONVEYING THE TRUST DEED

After the City has received payment in full of "good" funds, the deed of trust will be released as a lien against the property. ("Good" means funds that are drawn on a title company, escrow company, or financial institution. Funds drawn on a personal account must be cleared through the bank before reconveying the deed of trust.) A reconveyance of a trust deed will be prepared by staff to be recorded (the document will note the borrower's name and current address). The document will be sent directly to the County Recorder or to the entity that provided the payoff funds, such as the title or escrow company for recordation. Upon receipt of the recorded reconveyance document, a copy of the recorded reconveyance will be maintained in the closed loan file and the original reconveyance will be sent to the borrower.

G. DEFAULTS

A borrower will be in default on the terms of the loan if they violate the conditions of the loan agreement. These default issues include the following:

- Failure to occupy the home as the borrower's primary residence;
- Selling or transferring the property by any means without prior approval of the City, except for the following exempt transfers:
  - (a) The transfer of the Property to the surviving joint tenant by devise, descent or operation of the law, on the death of a joint tenant; or
  - (b) A transfer of the Property to the child or children of the Borrower upon death of the Borrower; or
  - (c) A transfer of the Property where the spouse becomes an owner of the property; or
  - (d) A transfer of the Property resulting from a decree of dissolution of marriage, legal separation or from an incidental property settlement agreement by which the spouse becomes an owner of the Property; or
  - (e) A transfer to an intervivos trust in which the Borrower is and remains the beneficiary and occupant of the property.

- Allowing the rehabilitated building (interior and/or exterior) to fall into disrepair or be kept unclean, unsafe, or out of compliance with current City building codes;
- Non-payment of other mortgages, taxes, insurance;
- Any further encumbrance of the property without the express written consent of the Housing Manager; and
- Obtaining a reverse mortgage agreement.

Because of the time required to monitor these issues, the City will generally enforce only those defaults that come to the attention of staff through the ongoing management of the loan portfolio.

H. SUBORDINATION

Subordinations to new first trust deed loans are not generally permitted. In the event that a borrower determines that it would be in their best interest to refinance their existing first trust deed loan to lower the interest rate and monthly payments without increasing the secured indebtedness of the first trust deed, the LRC may consider recommending subordination to the Housing Manager, who must approve the request. The City may decline a request to subordinate at its sole discretion.

The LRC will consider subordination of loans under the following circumstances:

- Borrower will be refinancing their first mortgage at a reduced interest rate that results in lower monthly payments;
- Borrower will not be withdrawing or using any equity for any reason (Note: Fees associated with the refinance may be included in the new first mortgage, provided that an apparent savings will be accrued to the owner over the term of the new loan versus remaining in their current mortgage).

The LRC generally will not recommend the approval of a subordination that involves any of the following:

- Withdrawal of equity;
- Subordination to a loan involving negative amortization;
- Subordination to a variable rate mortgage loan or reverse mortgage loan;
- Change of ownership, including adding new owners or co-signer(s) onto the loan or title; or
- The combined total of the new first mortgage loan and the City's secured loan exceeds 80% of the appraised value of the borrower's property.

The City's loan will become immediately due and payable if the borrower at any time (1) takes out any other loan against the property in lieu of subordinating the City's loan, OR (2) uses refinance proceeds to repay revolving or other debt.

I. CHARGE OFFS

A loan is considered a charge-off if it has been deemed uncollectible. Staff, in consultation with the City Attorney's office, shall make every effort to pursue the City's interest in the event of foreclosure, bankruptcy, or any scenario that involves the sale or transfer of the dwelling or the cessation of the borrower's occupancy of the dwelling. In the event that a loan becomes uncollectible, the status and disposition of the case must be accounted for in the loan database such that the loan is not reflected in the outstanding loan balance figures.

J. CLOSING THE LOAN FILE

After a loan has been paid in full and the corresponding deed of trust has been reconveyed, the loan file will be closed. The loan database will be updated to reflect the status and disposition of the file. Additionally, staff should ensure that proceeds from the closed loan file's repayment are allocated to current project(s) as soon as possible and that revolving loan funds are expended. Closed files will be maintained for a period not less than five (5) years.