

**POLICY AND PROCEDURES HANDBOOK
FOR THE
HOME IMPROVEMENT LOAN PROGRAM**

DAKOTA COUNTY, MINNESOTA

Administered by the Dakota County Community Development Agency

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TABLE OF CONTENTS

<u>Chapters</u>	<u>Page</u>
I. Purpose	3
II. Delegation of Authority	3
III. Definitions	4
IV. Funding Availability	7
V. Forms of Assistance	8
VI. Property Eligibility	8
VII. Applicant Eligibility	9
VIII. Loan Limits and Conditions	15
IX. Eligible Work Items and Conditions	17
X. Procedures for Processing Rehab Loans	20
XI. Homeowner's Responsibility	21
XII. Emergencies	22
XIII. Appeals	22
XIV. Statement of Affirmative Action	22
XV. Residential Mortgage Originator Licensing/Standards of Conduct	22
XVI. Modifications	23
XVII. Walk-Away Policy	23

Appendices

I. Subordination/Amendment/Satisfaction Policy	24
II. Delinquency, Default, and Foreclosure Policy	26
III. Approved Program Documents	29
IV. Policy and Procedures for Lead-based Paint Hazard Reduction	30
in the Dakota County Housing Rehabilitation Loan Program	
V. Property Rehabilitation Standards (CDBG)	32
VI. Property Rehabilitation Standards (HOME)	40

I. Purpose

The purpose of this Home Improvement Loan Program (the “Rehab Program”) is to provide to low- and moderate-income households the means to maintain the safety and integrity of existing homes, to remove architectural barriers in homes to allow independent living for the handicapped, and to reduce lead-based paint hazards.

- A. The purpose of this Policy and Procedures Handbook (the “Handbook”) is to set forth the policies and uniform procedures regarding the implementation of the Dakota County Rehab Program using Community Development Block Grant (“CDBG”) and HOME Investment Partnerships (“HOME”) funding of the Federal Department of Housing and Urban Development (HUD), and Dakota County HOPE Program (“HOPE”) funding sources.
- B. All areas within municipalities and townships that have entered into a Cooperation Agreement with Dakota County for participation in the CDBG and HOME Programs in Dakota County are eligible for rehabilitation funds. HOPE sources are available for homes within all municipalities and townships. However, more restrictive target areas may be designated for specific projects during different funding years.
- C. Copies of this Handbook shall be available for review at the office of the Dakota County Community Development Agency, 1228 Town Centre Drive, Eagan, MN; 651-675-4400.

II. Delegation of Authority

Dakota County has agreed to contract with the Dakota County Community Development Agency (the “CDA”) for the administration of the CDBG, HOPE, and HOME Programs. The Board of Commissioners of the CDA has been given the authority to set the guidelines for participation in the program and may amend this Handbook from time to time as it finds necessary, within the regulations established by U.S. Department of Housing and Urban Development (HUD). The CDA shall be responsible for ensuring that funds are provided only to eligible applicants and expended only for allowable costs. For CDBG and HOME funding, the County and CDA are bound by the terms agreed to by both parties within the Subgrantee Agreement. Section XVI of this Handbook describes the process necessary to make modifications to the Handbook.

The Board of Commissioners of the CDA has further delegated the authority to execute agreements necessary to implement the loan programs, including, but not limited to the Rehabilitation Loan Repayment Agreement and Mortgage, to the Executive Director and the Deputy Executive Director. Generally, the administration of the loan programs and the authority to make decisions necessary for the normal implementation of the programs, is delegated to the Director of Community and Economic Development. Approval of standard

forms and documents will be done by Community and Economic Development staff working with the housing rehabilitation programs.

III. Definitions

- A. Accessibility Improvements - include structural improvements, exterior improvements, bathroom improvements, kitchen improvements, and other improvements to one-, two- or three-unit dwellings which are necessary to enable a handicapped person to function independently in a residential setting.
- B. Allowable Costs - are those which meet federal, state, or local requirements and guidelines herein established and interpreted by staff of the administering agency.
- C. Applicant - is the person(s) who is /are currently applying for assistance, as well as their spouse, if the spouse resides in the property to be improved, and any other person(s) with an ownership interest in and who resides in the property to be improved. All Applicants (as well as all persons whose name appears on the Title to the property to be improved who are not Applicants) must execute the Repayment Agreement or Mortgage.
- D. Assets - means the gross value of all assets of the applicant excluding the following:
 - 1. The structure to be improved and up to 160 surrounding acres.
 - 2. Clothing and Household furnishings, appliances, and equipment.
 - 3. Private vehicles unless used exclusively for the purposes of operating a business, and excluding collector vehicles.
 - 4. Private retirement funds and accounts, including, but not necessarily limited to, 401K plans, IRAs, and employer sponsored retirement plans, where the assets are not liquid and there is a substantial penalty incurred upon early withdrawal.
- E. CDA - refers to the Dakota County Community Development Agency.
- F. CDBG - refers to the Community Development Block Grant program.
- G. Economically Feasible - means that the outstanding indebtedness on a property plus the cost of improvements to the property cannot exceed 110% of the current assessed market value of the property (or taxable value in the case of personal property), as determined by the Dakota County Assessor as adjusted by the Case-Shiller Home Price Index.
- H. Eligible Applicant - means an applicant who meets both income and property criteria established for this program.
- I. Gross Annual Income - is income from all sources, before the deduction of taxes and withholding, of all residents of a household who are over the age of 18 years, that is

anticipated to be received over the 12 months following the date eligibility is determined. The definition of annual income used by the Housing Choice Voucher program at 24 CFR 5.609 shall be used for determining the Applicant's eligibility, Gross Annual Income for an Applicant's household will be assumed to remain the same for a period not to exceed 120 days from the date of initial determination, during which the loan must be closed. If the loan closing takes place after 120 days from the time of income verification, the Rehab/Loan Specialist must update all outdated and irrelevant documentation. The Applicant is initially informed that it is his/her responsibility to notify the CDA of any household financial changes prior to loan closing.

- J. Handicapped Person - means a person residing in the unit to be improved who has a permanent physical condition which substantially reduces such person's ability to function independently in a residential setting, or which substantially limits such person's ability to become employed or to participate in the community. A person with a condition such as chronic emphysema, arthritis, heart disease, and other "invisible" conditions not requiring the use of devices to increase mobility shall not be deemed a handicapped person, unless a licensed physician verifies in writing that such person's condition does substantially limit his or her ability to function independently in a residential setting or to become employed or to participate in the community.
- K. HOME – refers to the HOME Investment Partnerships Program.
- L. Housing Quality Standards (HQS) - are those regulations set by the Department of Housing and Urban Development (HUD - 24 CFR 982.401) to establish minimum housing conditions that are "decent, safe, and sanitary".
- M. Income Eligible - means an applicant's Gross Annual Income is within the guidelines established for this program at the time the applicant is scheduled for assistance.
- N. Indebtedness - means the principal, interest, taxes, insurance, and utilities owned on a structure to be improved.
- O. Lead-based Paint - means paint or other surface coatings that contain lead equal to or exceeding 1.0 milligram per square centimeter or 0.5 percent by weight or 5,000 parts per million by weight.
- P. Lead-based Paint Hazard - means any condition that causes exposure to lead from dust-lead hazards, soil-lead hazards, or lead-based paint that is deteriorated or present in chewable surfaces, friction surfaces, or impact surfaces, and that would result in adverse human health effects.

- Q. Median Income - is the income determined by HUD to be the median for a household of four. Median income for other household sizes is derived by HUD required formulas.
- R. Manufactured Home - shall mean a structure, transportable in one or more sections, which is built on a permanent chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities, and includes the plumbing, heating, air conditioning and electrical system, contained therein, which is erected on a site that may be either owned, rented, or leased; except that this definition includes any structure which meets all the requirements and with respect to which the manufacturer voluntarily files a certification required by the secretary and complies with the standards established under Minnesota Statutes, chapter 327.
- S. Manufactured Home Building Code - for manufactured homes manufactured after July 1, 1972 and prior to June 15, 1976, the standards code promulgated by the American National Standards Institute and identified as ANSI A119.1, including all revisions thereof in effect on May 21, 1971, or the provisions of the National Fire Protection Association identified as NFPA 501B, and further revisions adopted by the commissioner.
- T. Overcrowding - shall be defined to be consistent with the Section 8 Rental Assistance program. The CDA will determine if a unit is overcrowded by applying the following criteria:
1. No more than two people shall be required to share a sleeping area.
 2. The age, sex, and relationship of the members of the family will be taken into consideration in determining appropriate unit sizes. In any case, minors six years or older will not be required to share a bedroom with a child of the opposite sex.
- U. Property Rehabilitation Standards (CDBG) - are the minimum rehabilitation standards ("Rehab Standards/CDBG") for family and manufactured homes funded with CDBG, as identified in Appendix V.
- V. Property Rehabilitation Standards (HOME) – are the minimum rehabilitation standards ("Rehab Standards/HOME") for single family and manufactured homes funded with HOME, as identified in Appendix VI.
- W. Rehabilitation Feasibility - A property is feasible to rehabilitate if the combined indebtedness secured by the property and the estimated cost of rehabilitation do not exceed 110% of the property's market value after rehabilitation and there are no physical, environmental, or regulatory conditions existing at the site that might

preclude its rehabilitation to meet the applicable standards as defined in X and Y of this Section. Market value is determined by using the most current estimated market value by the Dakota County Assessor as adjusted by the Case-Shiller Home Price Index.

- X. Rehab Loan – any form of assistance defined in Section V of this document.
- Y. Energy Standards – are the standards established in the State Energy Code, chapter 7672, as they apply to the remodeling of existing residential structures.

IV. Funding Availability

- A. The Rehab Program is dependent on availability of CDBG, HOME, and HOPE funds to Dakota County. To help maximize the availability of these funds and counter the cyclical nature of such federal funding, the Dakota County CDA has placed a strong emphasis on the need to recover expended funds through loan repayments. Such recovered funds are utilized in revolving accounts to provide additional rehabilitation loans to Dakota County residents. Repayment of rehabilitation loans by eligible borrowers is frequently triggered by sale of property. A borrower's ability to repay under such circumstances is enhanced by the appreciation in value of the improved property. To take advantage of this enhancement in the ability of borrowers to repay rehabilitation loans, the CDA's Rehab Program stresses making loans to owners of property that can reasonably be expected to appreciate due to the improvements made to the property. This emphasis is reflected in the following policies:
 - 1. Rehabilitation Feasibility - Properties to be rehabbed through this program must be feasible for rehabilitation, both economically and from a planning perspective (see definitions). Property may be deemed ineligible for rehabilitation if it is in an area where residential property is an inappropriate usage or the value of property for residential usage is generally declining.
 - 2. Manufactured Housing – Only Emergency Loans may be used in any Dakota County Manufactured Home, and only CDBG funds may be used for this type of loan.

V. Forms of Assistance

Based on the availability of funds and the eligibility of the applicant and property, the following forms of assistance shall be available for eligible work items:

- A. Rehabilitation Deferred Loan (hereafter referred to as "Deferred Loan")
- B. Emergency Loan (hereafter referred to as "Emergency Loans")

C. Accessibility Deferred Loan (hereafter referred to as “Accessibility Loan”)

In addition, residents of Dakota County may be eligible for other rehabilitation programs, such as the Minnesota Housing Finance Agency (“MHFA”) Rehabilitation Loan program, administered by the CDA for Dakota County. Residents should check with the CDA on the availability of and eligibility for any other funds.

VI. Property Eligibility

- A. Property must be in Dakota County and in need of repairs or improvements that are eligible.
- B. Manufactured Homes are eligible for assistance using CDBG funds for Emergency Loans only regardless of the age of the structure, provided they need eligible repairs or improvements and meet all other criteria for eligibility. Work to be financed on manufactured homes shall comply with the Manufactured Home Rules, Chapter 1350, promulgated by the Minnesota Department of Administration.
- C. Property must comply with applicable local zoning ordinances or other land use regulations.
- D. The property must be structurally sound and economically feasible to rehabilitate as determined by CDA staff. An exception may be made to allow rehabilitation of property that is determined not to be economically feasible in cases where threats to health and safety exist and no alternatives to the continued occupancy of the structure can be identified.
- E. For funding through the HOME Program, property must have an appraised after rehab value that is less than the FHA 203(b) mortgage limit in effect at the time assistance is provided.
- F. One-, two- or three-unit structures that are permanent in nature shall be eligible provided that the owner occupies one of the units and is the applicant. Work financed on structures containing rental units shall be limited to common systems or structural components and work directly on the owner-occupied portion of the structure.
- G. The maximum amounts secured by a single property at any given time shall be \$35,000 for Deferred Loans, \$15,000 for Accessibility Loans, and \$5,000 for Emergency Loans. Deferred and Accessibility Loans may not combine to exceed \$35,000.

- H. Mortgage payments and property taxes must be current on the property to be improved, whether taxed as real property or personal property.
- I. Property with reverse mortgages are not eligible unless deemed an emergency repair to eliminate imminent serious threats to health and safety.
- J. The most recent county estimated property value must not exceed 130% of the current median price for homes sold in Dakota County as determined by the Minneapolis Area Association of Realtors. This limit may be adjusted annually by the Executive Director to respond to changing markets. Exceptions to the limit may be made for properties where land values inflate prices of otherwise modest homes. The limit will not apply to emergencies or situations where accessibility work is involved.
- K. Properties must be at least 15 years old to qualify. This will not apply to emergencies or situations where accessibility work is involved.

VII. Applicant Eligibility

- A. The recipient of funds under this program must have at least one-third interest in one of the following types of ownership in the property to be improved:
 - 1. A fee title; or
 - 2. A life estate; or
 - 3. A fee title or life estate subject to mortgage, or other lien securing a debt; or
 - 4. A certificate of title for a manufactured home; or
 - 5. A mutually binding contract for the purchase of the property where the borrower is rightfully in possession and the purchase price is payable in installments.
 - 6. A property held in Trust, provided that at least one of the Applicants is a Trustee. The one-third ownership interest requirement does not apply.
- B. An applicant must have been a full-time resident of the unit to be improved for at least six months prior to the date assistance is to be provided. This requirement will be waived in cases where an immediate threat is present, or where architectural barriers to mobility or access have prevented an impaired person from occupying the property to be improved. The CDA's Executive Director may temporarily suspend this requirement to make loans available to persons purchasing a home during times of high foreclosure rates, but not including manufactured homes.

C. An applicant will be deemed income eligible if the applicant's gross income is within the current income limits annually published by HUD.

1. Income Qualifications for Deferred Loans:

- a. Applicants with gross incomes not greater than 80% of the median income will be deemed income eligible provided that written verification is received by the CDA.
- b. Owners of property must give evidence of acceptable credit risk and demonstrate adequate capacity to repay the loan.

2. Income Determination for Deferred Loans. The determination of income for this program shall generally be done in accordance with the provisions of 24 CFR 5.609 (a), (b) & (c):

- a. Gross annual income includes, but is not limited to the following: salary; commissions; bonuses; interest dividends; tips; gains or sales of securities; annuities; pension; farm rental; partnership, estate or trust income; child support payments; alimony; social security benefits; and miscellaneous income.
- b. Projected overtime may be determined by CDA staff through contacting an employer and/or reviewing year-to-date salary information on a pay stub or employment verification form. The amount may be based on prior years' figures or average amounts awarded to other employees with the same status.
- c. Projected bonus may be determined by CDA staff through contacting the employer. The amount may be based on previous years figures or average amounts awarded to other employees with the same status.
- d. Self-Employment. Gross annual income from self-employment is the net profit from said self-employment as declared by the Applicant in Schedule C; F; or E, Part III, as appropriate, of the United States Internal Revenue Service Form 1040, or any other schedule the IRS may promulgate. ALL DEPRECIATION is to be included as income. If it can be demonstrated that the depreciation being used is straight line depreciation, the amount of said depreciation can be used as a deduction.

If the business is an S-Corporation, LLC, or any type of business where taxes are filed separately from personal taxes, the following income calculation process should be used. Obtain copies of the

most recent year's personal and business federal tax forms. Establish who the officers are (form 1125-E attached to the 1120 S business tax form). Count the portion of the Compensation of Officers (line 7 of the business 1120 S tax form) attributable to the Applicant(s). Divide the profit (line 21 of the 1120 S) by the number of officers and count the portion of profit attributed to the Applicant(s). If the profit is less than zero, it should be counted as zero, and not used as a tool to reduce Compensation of Officers (or any other source of income). Depreciation may only be used as a deduction if it is straight-line depreciation. Form 4562 identifies the type of depreciation used.

- e. Income from rental properties shall be included in gross annual income. Expenses allocated to Rental Dwelling Units may be deducted from rental income received from these units. Expenses allowable for deduction include mortgage interest payments, utilities, taxes, insurance, and maintenance.
- f. Payments from contract-for-deed property sales are to be considered as income. This income will be reduced by regularly scheduled out-of-pocket expenses the contract vendor/applicant has in connection with the Property being sold, including mortgage or contract-for-deed principal and interest payments.
- g. Unemployment Compensation. Applications of those who are unemployed for an unknown time period shall not be considered until the unemployed household member has exhausted all eligibility for unemployment compensation and the employer indicates that a call-back date is unknown. This requirement may be exempt for individual Applicants during high county unemployment rates above six percent (6%) if home equity exceeds normal standards as stated in this Handbook. Unemployment standards as required by HUD for purposes of income verification shall still apply.

At that point, CDA staff shall determine that there will be a sufficient flow of income throughout the year for the purpose of making payment on the loan and for maintaining ownership of the home in the foreseeable future.

If unemployment is seasonal and recurs on a regular basis, gross annual income shall include the sum of wages and unemployment compensation minus any employee business expense, except depreciation, that may be reported on Federal Tax Form 2106. Generally gross annual income from seasonal employment/unemployment shall be calculated by averaging income and expenses from the most recent tax year. However, if the nature of

the seasonally employed household member's employment has changed considerably, CDA staff may utilize an employer's projection of wages, along with a projection of unemployment compensation. Employee business expenses may not be projected.

Temporary non-recurring reduction of income of known duration, such as that caused by lay-offs, maternity leave, sabbatical leave, etc. may not be considered when calculating gross annual income. Rather, income shall be calculated based on the normal annual income of the temporarily unemployed person.

- h. Retirement Accounts. When an Applicant is not retired and not receiving periodic payments (regular withdrawals) from a retirement account, imputed interest will be calculated on retirement accounts that the Applicant has access to. "Having access to" will be defined as being able to get funds from the account without having to terminate employment. Most retirement accounts are convertible to cash and an Applicant can borrow against them. The CDA will calculate imputed rather than actual income from the asset, using the most recent balance for the account. The asset balance may be reduced by the IRS rate of 30% (20% income tax withholding and a 10% penalty) when performing the calculation. No interest income will be imputed against an account that is not accessible. An example of account that is not accessible without terminating employment is a Public Employees Retirement Account (PERA).

In cases where the Applicant is taking regular withdrawals from a retirement account, such withdrawals are considered periodic payments and are counted as income. This income can be documented in several ways including a copy of the most recent year's 1099. When this type of income is counted, it is no longer necessary to impute income from the asset.

- h. In cases where the applicants' income is verified as being extremely low, verification of normal household expenses, including, but not limited to, principal and interest of mortgage payments, homeowners' insurance premiums, property tax payments, and an allowance for maintenance costs, may be done to determine whether the applicants' ownership of the property to be improved can reasonably be expected to continue.
- i. Income from children under 18 years of age will be counted as follows:
 - 1. Income from employment will not be counted.

2. Unearned income which lists both parent (or guardian) and child as payees, such as Social Security and trust accounts, shall be counted.
 3. Bank accounts in both parent (or guardian) and child's name shall be counted as assets, and interest earned from them shall be counted as income.
 - j. Earnings for each full-time student 18 years old or older who are not the head of household or spouse shall be excluded.
 - k. Housing allowances for clergy must be counted as income.
3. Income Verification:
- a. Current gross annual income is projected from the date of application. All sources of income must be disclosed by the applicant and included in the calculation of gross annual income.
 - b. Written verification of applicant income and assets is required for all assistance.
 - c. Verifications must be no greater than 120 days old at the time the applicant either executes a Work Agreement or closes on the loan for work to be performed with loan funds.
 - d. At the time of loan closing, income and assets are assumed to have remained the same since the determination of eligibility. If changes have occurred, it is the responsibility of the Applicant to inform the CDA staff of this fact. Reported changes must be verified and documented, and may affect the eligibility of the Applicant.
4. Asset Verification:
- a. Checking accounts shall be verified using consecutive copies of the three most recent bank statements. Emergency Loans will require the most recent bank statement
 - b. Savings accounts shall be verified using the most recent bank statement.
 - c. A single statement shall be sufficient to review other types of assets such as money market accounts, CDs, retirement accounts, etc.
5. CDA staff may reject an application if it is determined that additional, unreported residents and/or sources of income are present and are not

acknowledged by the Applicant. The CDA may further decide to submit the file to law enforcement for investigation.

D. Asset Limits:

1. Eligible applicants cannot have Assets greater than \$60,000.00.

E. Equity Requirements:

Except for Emergency and Accessibility Loans, Applicants must have sufficient equity in the property to be improved to meet a maximum debt-to-value ratio of 110 %, including the amount of the rehabilitation loan. The Assessor's Market Value of the property times the Case Schiller index, plus an estimated increase in value resulting from the rehab shall be used to determine the property's after-rehab value. To determining after-rehab value, the CDA concludes that \$0.50 of each Loan \$1.00 is a direct increase in the property's market value. The total outstanding debt secured by the property, including the rehab loan, will be used in making the equity determination.

F. Applicant Financial Evaluation:

The Applicant's status of mortgage and tax payments, and the Applicant's credit score is reviewed by the CDA to determine overall credit worthiness. This financial evaluation shall not be required for Emergency and Accessibility Loans.

An Applicant that is delinquent on any mortgage will be ineligible for a Rehab Loan. An Applicant with delinquent property or income taxes will be ineligible for a loan until evidence is provided showing that taxes have either been paid in full, or taxes will be paid as part of a payment plan, including at least three months of successful payments within the plan. An Applicant that has a FICO credit score less than 580 will be ineligible for a Rehab Loan. An Applicant whose house is owned free and clear of any debt will be exempt from the credit score standard.

G. Applicants will be considered on a first come, first-serve basis subject to available funds. Anyone who has received any type of loan on or before December 31, 2011 at the same property within the past five years (since the date the repayment agreement or loan note was executed) is ineligible unless an emergency exists (see Section XII on Emergencies). Applicants receiving Deferred or Accessibility Loans on or after January 1, 2012 will not be eligible to re-apply unless an emergency exists (see Section XII on Emergencies).

H. No Applicant may receive more than \$35,000 in loans that are secured by a single property (or \$5,000 for an Emergency Loan) at any given time.

- I. Applicants found to have outstanding debts to other departments of the CDA (such as Property Management or Housing Assistance) may be denied eligibility for the Rehab Program until such debts are fully satisfied.
- J. Applicants residing in Manufactured Homes located in Manufactured Home parks must be current on their lot rent at the time of loan closing.

VIII. Loan Limits and Conditions

A. Deferred Loans:

- 1. The maximum available is \$35,000 for all rehabilitation work on single family detached or properties with two or three living units where one unit is owner occupied. The minimum loan amount is \$15,000. The maximum loan amount may be reduced depending on program funding. Maximum loan amounts shall be determined at the start of the CDA's fiscal year and shall be communicated to all program participants.

Applicants with outstanding Deferred Loan balances will be allowed to borrow less than the minimum if they are within \$15,000 of the maximum allowable amount secured by the property. This only applies to Applicants with previous loans received before January 1, 2012. Applicants that received non-emergency loans after that date cannot apply again as per Section VII.G. of this manual. In no case will the new loan amount be less than \$5,000.

When a Deferred Loan is combined with an Accessibility Loan, the \$15,000 minimum applies to the total project rather than the Deferred Loan.

- 2. A Repayment Agreement for the terms and conditions explained below shall be signed by all applicants as well as all parties listed on the title/deed of the property to be improved. This agreement shall be recorded with the County and/or Public Safety Department. Copies of all recorded documents will be forwarded to the Applicant.
- 3. Deferred Loans must be paid back in their entirety when the property is sold, transferred, or no longer the principal residence of the original applicant. Deferred loans may be paid early by arrangement with the CDA. Deferred Loans may include a simple interest charge between 0% and 3% as determined by the CDA's Executive Director. The interest rate may be adjusted and set semi-annually, including on January 1 and July 1 of each year. Deferred Loan features shall include:
 - a. Payoff amounts will only change annually.

- b. Accessibility Loans shall be exempt from interest.
 - c. Interest rates shall be locked in at the time the Applicant is approved. Exceptions may be made if rates drop at any time between the time the borrower is approved and the time the Applicant closes on a loan.
4. All necessary work shall be completed with a single application unless the approval is to address an Emergency.

B. Accessibility Loans:

A loan for accessibility improvements may be funded for up to \$15,000 for one-, two-, or three-unit structures, \$5,000 for manufactured homes, for the accessibility items only. The Accessibility Loan terms shall be the same as those for a Deferred Loan except that the Accessibility Loan shall not charge interest and shall not be required to be repaid if the applicant resides in the improved property for 10 years after the date of the Accessibility Loan Repayment Agreement. An applicant for these funds must meet the definition of "handicapped person" as defined in Section III. G., and the Applicant must be Income Eligible. The maximum loan limits as established in Section VIII will apply to the combined Accessibility Loan or Deferred Loan received by an applicant.

Eligible improvements for financing through an Accessibility Loan shall be those improvements necessary to remove physical barriers to mobility or access or to allow normal functional use of the property to be improved by an impaired applicant or a permanent member of their household. Improvements that do not remove physical barriers shall only be eligible if they can be proven to be effective in correcting or eliminating the condition which is interfering with the Applicants' normal functional use of the property. The responsibility for providing such proof shall lie with the Applicant.

- C. The CDA shall ensure that the work items funded constitute the highest priority for health, safety, and/or energy efficiency and structural improvements.
- D. Once the CDA has approved the eligibility of an Applicant, a loan file is issued for the Applicant's address. If a loan closing or fund reservation is not scheduled within 90 days of the date of issuing the file, that file will be fully terminated unless a hardship can be shown by the Applicant.
- E. The amount of funds committed by the CDA to a property owner shall be reserved by the CDA from available funds. Upon satisfactory completion of the rehabilitation work, payment from the reserved funds will be made to the contractor(s). The Applicant's approval is required prior to payment.

- F. Fund reservations may be maintained on the Applicant's behalf for a maximum time of 180 days. All work must be completed and funds disbursed within this time period. Extensions will be granted only when necessary due to conditions beyond the Applicant's control. Failure to complete construction within this time period will result in the loss or reduction of funding.
- G. Self-help work is not permitted under this Rehab Program.
- H. Loan recipients must demonstrate that they have a current enforceable homeowners' insurance policy in place for the full insurable value of the property. Insurance must be maintained on the property until such time as the Deferred Loan is paid off. A clause identifying the CDA as a mortgagee must be added to the policy for all Deferred Loans.

IX. Eligible Work Items and Conditions

- A. Deferred Loans:
 - 1. High Priority Items:
 - a. Improvements that remove and repair various health, safety, or other related deficiencies to comply with the Rehab-Standards/CDBG in Appendix V.
 - b. Improvements that remove and repair various health, safety, or other related deficiencies to comply with Rehab Standards/HOME in Appendix VI.
 - c. Improvements necessary to comply with the State Energy Code.
 - d. Improvements that will add to the structural soundness of the home.
 - e. Modifications or improvements to the housing unit to make it accessible for a handicapped or disabled member of the household.
 - f. Improvements necessary to eliminate or reduce lead-based paint hazards, and controls necessary to eliminate or reduce significant mold problems.
 - g. Improvements necessary to ensure compliance with local housing regulations.
 - 2. Medium Priority Items:

Note: Medium Priority Items are those not specifically listed as either High or Low Priority Items (A.1 and A.3 of this Section) or Improvements Not Eligible (A.4 of this Section).

3. Low Priority Items:

Note: Low Priority Items shall only be included in the loan if they and all the High and Medium Priority items can be accomplished within the loan limit. Low priority items are generally improvements which add to a property's value or livability, and include:

- a. Cosmetic improvements.
- b. Finishing existing unfinished space within the structure (when the improvements clearly add to the market value of the property).
- c. New garages, attached or detached (unless replacing an existing hazardous building condition).

4. Improvements Not Eligible (except as necessary to remove health and safety deficiencies, to comply with approved Property Rehabilitation Standards as detailed in Appendix V and Appendix VI, or address health-related requirements):

- a. Free-standing or built-in appliances (except; to replace built-ins that are deteriorated and hazardous; to install permanent over-the-range microwave ovens; and to comply with approved Property Rehabilitation Standards as detailed in Appendix V and Appendix VI;).
 1. In cases where a refrigerator is not present, not functional, or not safe, consideration may be given to repair or replace.
 2. In cases where a stove or range is not present, not functional, or not safe, consideration may be given to repair or replace.
 3. When replacing refrigerators or stoves/ranges, the new unit must be Energy Star rated, of a basic style, with a minimal number of features. The Rehab Advisor should establish an appropriate material allowance to achieve this. Unlike other material allowances, this cannot be pooled with other allowances to purchase a better model.
- b. Landscaping, sidewalks, and driveways that are not incidental to other rehabilitation of the property. "Incidental" shall mean less than fifty percent (50%) of the total rehabilitation project cost. Such improvements may exceed this percentage cap if corrective action was ordered by a local code official or if the improvements are

deemed an emergency by the Director of Community and Economic Development.

- c. Work begun or completed before the date of the Proceed to Work Order, or reimbursement of an Applicant's personal labor.
 - d. New construction of sheds, outbuildings, or fences (except fences that are necessary for security and/or screening purposes as determined by the CDA).
 - e. Additions (except to prevent overcrowding or to address verified medical conditions).
 - f. Fireplaces (except repairs to existing fireplaces necessary to correct safety hazards or increase energy efficiency).
 - g. Construction alterations on manufactured homes, as defined in the Manufactured Home Rules, Chapter 1350.3800, of the Minnesota Department of Administration.
 - h. Intercom and central vacuum systems, unless required for accessibility purposes though security systems are allowable. Greenhouses, kennels, swimming pools, hot tubs, spas, whirlpools, outdoor fireplaces, basketball/tennis courts, and other luxury items as determined by the CDA.
 - i. Purchase, installation, or repair of furnishings. Furnishings are considered items not permanently affixed to the property.
 - j. Replacement of new or like-new items, unless the Rehab Specialist determines that replacement is necessary for reasons other than cosmetic.
- B. The program shall allow for the use of good quality items and materials, not luxury items. Good quality items and materials shall include those determined to be most cost-effective over the anticipated useful life of the product, not necessarily those with the lowest prices. CDA staff will regularly monitor prices, products and quality of available materials and will be the final arbiters of materials that meet with the purpose of the program. All construction or work performed under contract shall comply with an approved CDA warranty covering workmanship and materials.
- C. Deferred Loans shall not be used for refinancing any existing mortgage or debt, except in cases where the outstanding indebtedness secured by the property to be improved plus the cost of necessary rehabilitation equal an amount that is within the

established rehab loan limits, the CDA would have a first mortgage position after refinancing, and the refinancing is determined to be necessary and appropriate to achieve the Authority's community development objectives. Such determination shall be made by the Director of Community and Economic Development.

- D. All work or construction completed with Rehab Loan CDBG funds must comply with the Rehab Standards/CDBG in Appendix V. All work or construction completed with Rehab Loan HOME funds must comply with the Rehab Standards/HOME in Appendix VI. HOME funds may be denied to homeowners with properties which cannot feasibly be brought up to these standards or to the other codes or standards that may apply in specific circumstances. Unless combined with HOME funds, the use of HOPE funds must comply with Appendix V.

X. Procedures for Processing Loans

- A. In most cases the homeowner makes the first contact. The Community and Economic Development Department in turn briefly describes the program, and the homeowner may submit an application. All applications are handled in the order they were received. It is the Applicant's responsibility to submit verification information on income, assets, and ownership interest in the property in a timely manner. Eligible Applicants will be placed on a waiting list and served in turn.
- B. CDA staff or its representative visits the home to identify eligible work items. The Applicant is also invited to provide input on their housing improvement needs. The Applicant is made fully aware that he/she is not obligated to submit to the proposed work.
- C. Following the inspection, CDA staff or its representative prepares a cost estimate of the proposed improvements which is discussed with the Applicant. A detailed work write-up is then prepared which outlines the proposed work and materials to be used. This document is returned to the Applicant who is responsible for obtaining the necessary bids.
- D. A minimum of two (2) bids are required per job. Exceptions may be made where obtaining multiple bids is impractical or extremely difficult. CDA staff or its representative must provide a written explanation if an exception is made.

The applicant may select any acceptable bid. An acceptable bid must meet the following conditions: (i) the contractor submitting the proposal is licensed (if applicable) and insured; (ii) the price is within 15% of the cost estimate for the work being completed OR the price is the lowest price received; (iii) all the required work relating to the contractor in question has been identified in the proposal; and (iv) the contractor can complete the job within an acceptable time frame.

If contractor supplied prices are too high and the applicant does not want to use the lowest bidder, CDA staff or its representative and applicant should consider the following: (i) a revised scope of work which will help to lower the project cost while still meeting program requirements; (ii) revising the in-house cost estimate based on the new and/or additional information that may be provided by the contractor; (iii) a change in materials/techniques to be used to accomplish a task which reduce costs without compromising quality or program requirements; and/or (iv) obtaining proposals from other contractors. Any deviation from this format must be documented in writing and approved by the Director of Community and Economic Development.

- E. After an acceptable bid is received, reviewed, and approved by the CDA and the Applicant, a loan closing is scheduled. At the closing, the appropriate documents are executed as required for the CDA to secure the loan (see Appendix IV for copies of documents). A Work Agreement is executed by the Applicant and contractor and approved by the CDA. This agreement outlines the contractual conditions that both parties are required to follow. Work will be authorized to begin by the CDA after all documents are signed and the loan is secured by being recorded with Dakota County Recorder's Office.
- F. During construction, CDA staff or its representative monitors the work. When work is completed, the property and work is inspected and a Completion Certificate is executed between the Applicant, contractor and the CDA. Payments from the loan account are made directly to the contractor by the CDA after Lien Waivers are obtained from the general contractor and all subcontractors and suppliers.

XI. Homeowner's Responsibility

It is the Applicant's responsibility to obtain contractor bids, to submit verification information on personal income, assets, and interest in the property to be rehabilitated. This must be done in a timely manner. Contracts for work to be performed must be signed by the 150-day verification deadline. If the Applicant does not comply, the project may be terminated, and the owner would have to reapply for assistance.

XII. Emergencies

In this Rehab Program, emergency situations are identified as inoperable furnaces that must be replaced to provide heat within the home or Manufactured Home. On a case-by-case basis, the Director of Community and Economic Development may approve other emergencies related to clear and imminent life/safety conditions causing the home to be uninhabitable. These types of other emergencies do **not** include situations including, but not limited to, roof leaks, water in basements, non-functioning water heaters, rotted/leaking windows, mold, ice dams, non-functioning air conditioners and storm damage. The \$5,000

loan limit may increase to \$15,000 for emergencies that are deemed to be a valid non-furnace emergency, if determined necessary to address that condition.

XIII. Appeals

Each person making application for financial assistance under the program shall have the right to appeal any determination of the CDA staff to the Director of Community and Economic Development of the agency. Appeals should be made in writing within 30 days of the event causing the appeal.

XIV. Statement of Affirmative Action

The CDA shall ensure that every person be given full and equal opportunities for employment in the Rehab Program undertaken by the CDA. It shall be the policy of the CDA that no individual shall be discriminated against with respect to compensation, terms, conditions, or other privileges of employment, because of race, color, religion, creed, sex, national origin, disability, marital status, age, or status with respect to public assistance. The CDA as the administrator of the Dakota County Rehab Program shall do what is necessary to guarantee that minority and women-owned contractors and subcontractors are provided equal opportunity to perform rehabilitation work.

XV. Residential Mortgage Originator Licensing/Standards of Conduct

The CDA has received an exemption from the licensing requirements for Residential Mortgage Originators found in Minnesota Statutes Chapter 58. The Standards of Conduct found in Section 58.13 of the statute will apply to the CDA and the agency employees administering the Home Improvement Loan Program.

XVI. Modifications

The Executive Director of the CDA has the authority to make modifications to this document as deemed necessary for the continued implementation of same, including but not limited to: (1) policy revisions necessary due to a change in design of the Rehab Program; and (2) policy revisions necessary due to changes in the rules and regulations of the CDBG Program, HOME Investment Partnership Program, and/or the Dakota County HOPE Program. The Executive Director has the right to amend this policy and/or discontinue the Rehab Program at any time.

XVII. Walk-Away Policy

The Dakota County CDA reserves the right to deny eligibility to applicants for the following reasons:

1. If the condition of the property to be rehabilitated affects (or might affect) the health or safety of CDA staff or contractors.
2. If any person or animal at or around the property act in a manner that is threatening to the health or safety of CDA staff or contractors.
3. If the local municipality determines that the property is uninhabitable. The determination must be documented in writing.

In cases where CDA staff encounters hoarding behaviors that represent a serious and immediate hazard**, the staff member will not move forward with the project until a duly appointed official from the city in which the property is located inspects and declares the property to be habitable. The Applicant shall be informed of this action. If the Applicant chooses not to allow the city to inspect the property, the file shall be immediately closed and no further work will proceed. If the Applicant allows the city to inspect the property, the CDA may move forward with the loan provided that the city declares the home habitable or identifies deficiencies which can be corrected through the loan program. These deficiencies must be incorporated into the scope of work. If the Applicant decides not to move forward with the project, and if vulnerable adults or children are present and subject to maltreatment, the CDA shall report those instances to the local welfare agency or the police. If children or vulnerable adults are not present in the home, the CDA does not have an obligation to report instances of hoarding unless otherwise provided by city ordinance. However, in extreme cases the CDA may choose to report households to the appropriate authority. These hoarding standards do not apply to Emergency Loans.

** Serious and immediate hazards include the storage or accumulation of objects or substances of a nature or quantity reasonably likely to create a hazard to the safety or health of an occupant, or that will impede the project. This pertains to objects or substances stored inside the home as well as anywhere on the property.

APPENDIX I

SUBORDINATION / AMENDMENT / SATISFACTION POLICY

1. Subordinations:

- A. Requests for subordination of the interest of the Dakota County CDA in real property shall be considered after the lender has submitted a Subordination Request Form. The completed form shall contain the following information:
1. The reason for the requested subordination.
 2. The amount of the loan the CDA is requested to subordinate.
 3. The full name of the lending institution as it will appear on the subordination.
 4. The current principal balance of any other superior lien secured by the property.
 5. The value of the property. The lender shall attach a copy of the current appraisal or other evidence of market value of the property that is acceptable to the CDA.
 6. An attached copy of any current title work that has been prepared.
 7. Estimated closing costs/settlement statement.
- B. The Dakota County CDA will subordinate its mortgage interest to a “rate and term” refinance if the closing costs are reasonable, and if the CDA believes that the refinance will improve the financial situation of the borrower.
1. Closing costs for the new superior mortgage must be deemed to be reasonable by the CDA. Generally, this shall mean that the sum of all discount points, origination fees, and lender ancillary fees generally shall not exceed 3% of the new first mortgage amount.
 2. Property taxes, if not escrowed by the superior mortgage holder, must be current.
 3. In most cases, interest-only loans or loans with interest-only options will not be allowed unless the Director of Community and Economic

Development determines that an acceptable reason warrants this type of loan.

4. The CDA will not subordinate its mortgage interest to a Reverse Mortgage.

The Director of Community and Economic Development may approve other subordination requests on a case-by-case basis that are clearly in the best interests of the CDA, and the security of the CDA loan remains acceptable, and denial of the request will cause or contribute to a documented hardship on the part of the borrower.

- C. Subordination requests will be processed by Community and Economic Development Department staff, who will submit the request, with a recommendation for action, to the Director of Community and Economic Development. The Director shall approve or disapprove all requests for subordination. Requests for subordination should be submitted a minimum of ten (10) working days prior to the date the agreement to subordinate is needed.

D. Fees:

1. Subordination requests, if approved, will be subject to a processing fee as established annually by the CDA, which must be paid prior to the CDA providing the Subordination Agreement. Fees are not refundable.

2. Amendments:

- A. Amendments of the terms of existing loans may be authorized by the Director of Community and Economic Development upon the recommendation of Community and Economic Development Department staff. Such amendments shall be limited to increases in the remaining term of a loan to lower the monthly payment amount to accommodate a financial hardship of the borrower that has been documented by Department staff. Any other changes in the terms for repayment of a loan are subject to approval by the CDA's Board of Commissioners.

3. Satisfactions:

- A. When a loan made by the CDA is paid in full, a document satisfying the lien will be prepared by the CDA and delivered to the borrower for recording.

APPENDIX II

DELINQUENCY, DEFAULT, AND FORECLOSURE POLICY

The Dakota County CDA shall generally require all borrowers through its Home Improvement Loan Program to conform to the terms and conditions contained in the loan documents. If a borrower defaults on these terms and conditions, or is delinquent in making payments on an installment loan, the CDA retains its right to correct the default through all available legal means. However, within reasonable limits and at the CDA's full discretion, the CDA will attempt to negotiate a correction of the default or delinquency with the borrower. General guidelines for protection of the CDA's interests against default or delinquency shall be as follows:

1. Installment Loans:

- A. Delinquency in making payments on installment loans shall be handled first through action within prescribed legal limits by the CDA's contract Loan Servicer. Such action shall include negotiations with the Borrower to establish a modified payment schedule designed to cure the delinquency within as short a time span as possible. These negotiations should consider any unforeseen changes in the borrower's income. If such changes appear to be of a long duration or permanent in nature, the Servicer may recommend a modification in the terms of the CDA's Security Agreement with the borrower (see Appendix II regarding Amendments).
- B. Delinquency in making payments for four (4) months or more may result in the CDA's filing of a claim with the Minnesota Department of Revenue under the Revenue Recapture Program. The claim shall be for the full amount that the borrower is in arrears, including principal, accrued interest, and penalties. The claim shall be released upon the borrower regaining current status in regard to loan payments.
- C. Delinquency for six (6) months or more, combined with the borrower's failure to cooperate with the Loan Servicer in establishing a repayment plan or in providing information that might justify a modification in the terms of the loan, may result in the CDA initiating a foreclosure action. Such action shall be subject to the recommendations of the Loan Servicer and/or the CDA's legal counsel. If so advised, the CDA may seek legal remedies other than foreclosure to collect the amounts owed.
- D. Foreclosure by a superior mortgage holder shall be considered a default on the Dakota County CDA's Installment Loan and may result in the CDA taking any legal action to cure this default. The CDA shall protect its security interest by retaining its rights of redemption under State law and may redeem these interests if the value of the property justifies this action, and funding is available to acquire the property

through redemption. Purchase of a property through redemption of the CDA's security interests shall take place only upon approval by the Executive Director with recommendations made by the Director of Community and Economic Development.

2. Deferred and Accessibility Loans:

- A. Foreclosure by Superior Mortgage. If a borrower who has received a Deferred or Accessibility Loan from Dakota County CDA defaults on the terms of a superior loan, resulting in foreclosure action by the superior lien holder, the Deferred or Accessibility Loan shall be considered in default as well. In these cases, the CDA will not agree to subordinate its interest to a new or renegotiated superior mortgage, unless failure to do so would result in loss of its security. However, the CDA will cooperate with the borrower in any effort to retain their homeownership, providing that the CDA's security can be fully protected. If the foreclosure of the superior mortgage results in sale of the property, the CDA will protect its security by retaining its redemption rights in the property, and may redeem those rights if the value of the property justifies this action, and funding is available to acquire the property through redemption. Purchase of a property through redemption of the CDA's security interests shall take place only upon approval by the Executive Director with recommendations made by the Director of Community and Economic Development.

- B. Sale of Property. If a Deferred or Accessibility Loan borrower is working with a lender to sell the property during a foreclosure (a "Short Sale"), the CDA may negotiate a pay-off less than the full pay-off value of the CDA loan. The CDA will attempt to get as much repaid as possible in order for the sale to proceed based on a review including, but not limited to: (1) a history of the property's time on the market and asking prices, if applicable; (2) a CDA staff review of recent home sale prices in the surrounding neighborhood; and (3) a CDA staff analysis of the potential gain vs. loss of its rehab loan funds due to a partial pay-off in comparison to a pending foreclosure. All partial payoffs must be approved by the Director of Community and Economic Development. If a partial pay-off is approved, then no further action will be taken by the CDA to collect the remaining portion of the rehab loan balance (i.e., filing a Revenue Recapture Claim). Other situations may include the borrower needing to sell his/her property due to circumstances including, but not limited to, employment change, overcrowding, medical condition or health/safety conditions of the home. Equity in this property may not be enough to pay off the CDA loan in whole or in part. Therefore, the Director of Community and Economic Development may evaluate and approve other options including, but not limited to, a promissory note to pay the loan balance secured by other collateral, or a new repayment agreement secured by new property acquired by the borrower. A Revenue Recapture Lien may also be filed by the CDA.

- C. Revenue Recapture Program. Except as provided for in Section 2.B of Appendix II, if a Deferred or Accessibility Loan borrower loses title to the property provided as

security through foreclosure of a superior mortgage, abandonment, or other default, and this results in the loss of all or part of the CDA's security amount, the CDA shall file a Revenue Recapture Claim for the balance of the original loan amount. Such claim will be released only upon full satisfaction of the amount of the claim. The CDA shall also file a Revenue Recapture Claim for the full amount of the loan if the Borrower defaults on the Deferred Loan through its ceasing to be the borrower's principal place of residence, as defined in this Handbook. The CDA may also file a Revenue Recapture Claim for Forgivable Loans based on the balance of the amount due within the graduated forgiveness time period. Any Revenue Recapture Claim filed by the CDA must be allowable under State law.

D. The CDA reserves its right to take any other legal means to collect funds owed by borrowers who have defaulted on the terms and conditions of a Deferred or Accessibility Loan.

3. Loan Write Offs:

A. Loans will be written off as accounts receivable after a Sheriff's Sale (or auction) takes place or upon the acceptance of a reduced payoff. A loan may be written off if it is in default, no maturity date is identified in the loan documents, and over fifteen years have elapsed since the loan was made. Other cases may be considered on a case-by-case basis if the loan is in default and CDA staff determines the likelihood of repayment is minimal. All write offs must be approved by the Director of Community and Economic Development and the Executive Director.

APPENDIX III

APPROVED PROGRAM DOCUMENTS

1. Community Development Rehabilitation Loan Repayment Agreement and Mortgage.
2. Work Agreement.

APPENDIX IV

POLICY AND PROCEDURES FOR THE LEAD-BASED PAINT HAZARD REDUCTION IN THE DAKOTA COUNTY HOUSING REHABILITATION LOAN PROGRAM

1. Purpose:

The purpose of this Policy is to establish policies and procedures for the implementation of the requirements of 24 CFR Part 35, the Requirements for Notification, Evaluation and Reduction of Lead-Based Paint in Federally Owned Residential Property and Housing Receiving Federal Assistance, in the Dakota County Home Improvement Loan Program (the “Rehab Program”). The Rehab Program is funded through the federal Community Development Block Grant (CDBG) Program; thus, the requirements of Part 35 apply to housing assisted through the Program. This Program is administered by the Dakota County Community Development Agency (the “CDA”).

2. Definitions:

All terms used in this Policy shall have the meaning given in 24 CFR Part 35.110.

3. Applicability:

The policies outlined here apply to Rehab Program assistance provided to any residential property constructed prior to 1978.

4. Procedures:

The procedures to be followed in administration of the Rehab Program shall include the following:

- A. Lead-based Paint Hazard Evaluation: For all properties assisted through the Program that were constructed prior to 1978, a Risk Assessment shall be performed, the total cost to be paid directly by the CDA. The Risk Assessment will be performed by a qualified independent contractor, and will be conducted in accordance with the requirements of Part 35, Chapter 5 of the Guidelines for the Evaluation and Control of Lead-Based Paint in Housing published by the U.S. Department of Housing and Urban Development, and of State laws and regulations. The Risk Assessment will consider the planned rehabilitation work, and will include testing of any deteriorated paint, or paint to be disturbed by the rehabilitation. A copy of the Risk Assessment will be provided to the homeowner once it has been submitted to the CDA.
- B. Lead-based Paint Hazard Reduction: The results and recommendations of the Risk Assessment will be incorporated into the planned rehabilitation of affected properties.

Lead-based paint hazard reduction will be performed, as required by Part 35. The homeowner will be informed, in writing, of the lead-based paint hazard reduction work required to be performed on their housing unit. Only qualified, licensed, and certified contractors will be utilized to perform lead-based paint hazard reduction activities, or any rehabilitation work that is determined to be likely to create a lead-based paint hazard by disturbing lead-based paint on painted surfaces or building components. All such work will be done according to the Lead Safe Work Practices as outlined in Part 35.

- C. Clearance Testing: Prior to payment of contractors performing lead-based paint hazard reduction work, or any work disturbing lead-based paint on surfaces or building components, a clearance test for the presence of lead in dust will be performed, the total cost to be paid directly by the CDA. Contractor payment will not be authorized, nor will a rehabilitation project be considered complete, until a successful clearance test has been obtained. The homeowner will be provided the results of all clearance testing done in their housing unit.

5. Relocation:

- A. For Lead-based Paint Hazard Reduction to be safely accomplished, it is necessary that the impacted areas in a residence be vacated by the occupants until the area has been determined to be safe for use through a clearance test. When the impacted areas include the sole means of entry or all entries to the dwelling, the kitchen or food preparation areas, or the sole bathroom or all bathrooms, or the entire dwelling area, the occupants must completely vacate the unit until the lead-based hazard reduction work shall be completed and successful clearance tests obtained. The occupants' personal property must also be either removed from the unit or protected from exposure to lead dust.
- B. Relocation from the affected areas of the unit or the entire unit shall be done on a voluntary basis by the homeowner. The homeowner shall sign a waiver form acknowledging that they are relocating voluntarily, and that the CDA shall not be responsible for any costs associated with this relocation, other than a stipend payment specified in Section 5(C) of this Policy.
- C. The CDA shall compensate any homeowner required to completely vacate their dwelling unit for a period exceeding a continuous time of 24 hours (or one full day and one full night) during the lead-based paint hazard reduction work on their unit a stipend amount of five hundred dollars (\$500.00).

APPENDIX V

PROPERTY REHABILITATION STANDARDS (CDBG) Dakota County Home Improvement Loan Program

Purpose: The Dakota County Community Development Agency (the “CDA”) administers an owner-occupied housing rehabilitation program (“Rehab Program”) using federal Community Development Block Grant (“CDBG”) funds. These standards provide a basis for assuring that a rehabilitated house meets minimum health, safety, and quality conditions. Deficiencies identified in the property inspection must be prioritized and cured as funding allows. The CDA will be responsible for insuring that CDBG funds are provided to eligible homeowners and expended for allowable costs as defined in the CDA’s Policy and Procedures Handbook for the Rehab Program. The following minimum housing standards are hereby accepted for implementation in the Rehab Program (using CDBG funds) throughout Dakota County.

A. SITE. The home site shall be reasonably free from hazards to the health, safety, and general welfare of the occupants.

ACCEPTABILITY CRITERIA - The site should not be subject to serious adverse environmental conditions, natural or manmade, such as:

1. Steps and Walks. Concrete steps and walks that are, cracking, crumbling, or heaving should be repaired and replaced as necessary. Dangerous walks and steps where serious hazards are present such as missing or broken stair treads, rotten stringers and dangerous cracks shall be repaired or replaced.
2. Flooding, Poor drainage, or Mudslides. The subject lot should have positive drainage away from the dwelling to prevent standing water at the foundation.
3. Trash Accumulation. Excessive accumulations of trash or any materials which accumulate on a property should be removed, or screened and arranged in a manner which does not detract from the general appearance of the neighborhood.
4. Fire Hazards. The subject site should be free from fire hazards, such as the storage of highly flammable materials, etc.

B. ACCESS. The dwelling shall have adequate access for the occupants.

ACCEPTABILITY CRITERIA

1. The dwelling shall be usable and capable of being maintained without unauthorized use of other private properties. The property should be adjacent to an access street or road. Each unit shall have a separate entrance without passing through other units.
2. The building shall provide an alternative means of egress in case of fire (e.g., fire stairs or egress through windows).

C. STRUCTURE AND MATERIALS. The dwelling shall be structurally sound, free from threats to the health and safety of the occupants, and shall protect the occupants from the environment.

ACCEPTABILITY CRITERIA

1. Ceilings, walls (interior and exterior), floors, roofs, porches, etc., shall not have any serious defects such as severe bulging or leaning, large holes, loose surface materials, severe buckling or noticeable movement under walking stress, missing parts, or other serious damage. Where crawl spaces or basements exist, all first-floor structural wood members, including floor joists, plates, piers and pilings, should be inspected for cracked, broken, rotten or otherwise damaged conditions. Damaged members should be repaired or replaced as required. The exterior and interior walls should be weather tight in a manner that prevents, as much as possible, heat loss in the winter and cooling loss in the summer. This includes the repainting or installation of siding to protect the exterior surface from the elements. The interior walls should be repaired or replaced as required to facilitate this criterion.
2. The roof structure shall be firm, and the roof shall be weather-tight. All roof framing members should be free from cracks and rot. The roof sheathing should be solid and free from sagging, buckling, and heaving. If the roof appears to be well worn, it should be replaced. If possible, the roof should be stripped all the way down to the sheathing and replaced. If costs dictate, a second layer of roofing can be installed over the first layer. If there are already two or more layers of roofing materials, the roof should be stripped down to the sheathing, the sheathing replaced if necessary, and a new roof covering installed.
3. The foundation and exterior wall structure as well as the exterior and interior wall surfaces shall not have any serious defects such as serious leaning, buckling, sagging, large cracks or holes, large sections of loose materials, or other serious damage. Undermined footings, walls, posts, or slabs must be addressed. A chimney showing signs of serious leaning or significant deterioration or disintegration (such as many missing bricks) must be repaired or replaced.
4. The condition of interior steps, halls, walkways, and porches should be free of tripping hazards. Crumbling, cracked, broken, missing or uneven conditions should be repaired or

replaced as necessary. Handrails shall be properly installed on all stairways where required by code.

5. In the case of a mobile home, the home shall be securely anchored by a tie-down device which distributes and transfers loads imposed by the unit to appropriate ground anchors to resist wind, overturning, and sliding.
6. All detached garages should be repaired to a usable condition or removed from the property; other out-buildings may be removed and/or demolished based on hazardous conditions.
7. The general appearance of the outside of the structure and the lot, after rehabilitation, should make a positive contribution to the general appearance of the neighborhood.
8. Installation of gutters and downspouts is strongly recommended to divert water away from foundations.

D. LEAD-BASED PAINT. The dwelling shall comply with the HUD lead-based paint regulations.

ACCEPTABILITY CRITERIA

1. The dwelling shall comply with HUD lead based paint regulations (24 CFR Part 35), issued pursuant to the Lead-Based Paint Poisoning Prevention Act, 42 USC 4801, including the following actions:
 - a. Notification to all occupants that the property may contain lead-based paint if constructed prior to 1978, and the hazards, symptoms, and treatment of such poisoning, including information on testing for elevated blood levels (EBL) for children.
 - b. Inclusion of contract language prohibiting the use of lead-based paint.
 - c. Inspection for and elimination of "immediate hazards," which are defined as chipping, peeling, flaking, cracking, or other defects in previously painted surfaces.
2. If the property was constructed prior to 1978, any tenant or family shall be furnished a notice as required by the lead-based paint regulations. Such notice shall inform them of the procedures regarding the hazards of lead-based paint poisoning, the symptoms and treatment of lead poisoning, and the precautions to be taken against lead poisoning.
3. If the property was constructed prior to 1978 the property must have a Lead-Paint Risk Assessment if the rehab cost is to exceed \$5,000.00.

E. WATER SUPPLY. The water supply shall be free from contamination.

ACCEPTABLE CRITERIA

1. The dwelling shall be served by an approved public or private sanitary water supply. The dwelling shall have a water heater of sufficient capacity to serve present and anticipated future residents. Water heaters should not be allowed in bathrooms, bedrooms, sleeping rooms or closets unless contained in an enclosed area, with at least one hour rated fire walls and adequate fresh air intake. All water heaters must be free of leaks, have temperature / pressure relief valves, and a discharge line.
2. Hot and cold water shall be supplied to all kitchens, baths, and laundry facilities.
3. All water lines should be protected from freezing.

F. INTERIOR AIR QUALITY. The dwelling should be free of pollutants in the air at levels which threaten the health of the occupants.

ACCEPTABILITY CRITERIA

1. The dwelling shall be free from dangerous levels of air pollution from carbon monoxide, sewer gas, fuel gas, dust, and other harmful air pollutants. All gas or oil-fired appliances should have proper venting to the outside of the dwelling for combustion gases.
2. Air circulation shall be adequate throughout the dwelling. All windows designed to open shall open easily and have screens which are properly installed. They should be provided with the proper window hardware, and with storm windows if the windows are single glazed. All windows with easy access from the outside shall have locks.
3. Bathroom areas shall have at least one openable window or other adequate exhaust ventilation, vented to the outside. Kitchen areas should also have proper ventilation.

G. ILLUMINATION AND ELECTRICITY. Each room shall have adequate natural or artificial illumination to permit normal indoor activities and to support the health and safety of the occupants. Sufficient electrical sources shall be provided to permit use of essential electrical appliances while assuring safety from fire.

ACCEPTABILITY CRITERIA

1. Living and sleeping rooms shall include at least one window; if the sleeping room is in the basement, the window must meet egress requirements.

2. At least two electric outlets (or one outlet and one permanently installed wall or ceiling fixture) shall be present and operable in the living area, and each bedroom area. A kitchen must have at least one working outlet and one permanently installed wall or ceiling fixture. A bathroom must have a permanent light fixture in working condition. Outlets installed as a result of the rehabilitation work in a kitchen, bathroom, the exterior, or in the general location of water shall be protected by a ground fault interrupter. All outlets installed because of the rehabilitation work should be grounded.
3. If the existing service panel is unsafe, or if it is undersized relative to current demand, the unit should be provided with at least 100-amp service and enough circuits to service present/anticipated use of the dwelling. The new service should meet the following requirements:
 - a. There should be separate circuits for any air conditioners (window included), electric dryers, electric stoves, and other special appliances.
 - b. There should be a separate minimum 20-amp circuit for the heavy workload area in the kitchen. The furnace shall have a separate 20-amp circuit.
 - c. Apart from kitchens (see b. above), all other rooms should be assessed relative to their use of electricity and additional outlets and switches installed based on usage and safety factors.
4. Connection at the main service to the unit should be in an acceptable manner.
 - a. Placement of the connection should be out of the reach of children.
 - b. Proper anchoring should be used.
5. All exposed "knob & tube" wiring should be replaced if hazardous or when replacing the service panel.
6. All hazardous conditions such as broken switches and outlets, missing covers, bare wiring, fixtures not properly installed or anchored, shall be repaired or replaced in an acceptable manner. It is recommended that all "pendant" type fixtures be replaced with an appropriate ceiling or wall fixture.
7. Even though a room may meet acceptability criteria #3 above, if the inspection reveals the use of octopus plugs, adapters, extension/zip cords, or other unsafe practices, additional outlets should be installed.

H. THERMAL ENVIRONMENT. The dwelling unit shall have and be capable of maintaining a thermal environment healthy for the human body.

ACCEPTABILITY CRITERIA

1. The dwelling shall contain safe heating facilities which are in proper operating condition and provide adequate heat to each room in the dwelling appropriate for the climate to insure a healthy living environment. All parts of the venting system for central heating units should be in proper working condition. For example:
 - a. Vent pipes should be free of rust and be properly maintained by the homeowner.
 - b. Where vent pipes are connected to a masonry chimney, that chimney should be properly maintained by the homeowner so that all mortar joints are tightly sealed.
2. Unvented room heaters which burn gas, oil or kerosene are unacceptable.
3. The existing level of attic insulation should be R-20 or greater. If the level is less than R-20, more insulation should be added to bring the level up to a minimum rating of R-44 if possible. Cellulose bags should be labeled with acceptable ratings derived from flame-spread tests. Air sealing should accompany all efforts to add insulation to the attic.
4. Weather stripping should be applied as needed around all doors and windows.
5. Storm doors should be installed whenever possible.
6. Any inside walls that are on an exterior wall, if opened down to the studs during the rehabilitation, should be fully insulated with an acceptable insulating material.
7. All joints in the building envelope should be caulked and sealed. All brittle or loose caulking should be replaced.
8. Supply and return heating and air conditioning ducts should be insulated whenever they run through unheated spaces.
9. It is strongly recommended that whenever space heaters or floor furnaces are used, they be replaced with a properly installed, more efficient central heating and cooling system.

I. SANITARY FACILITIES. The dwelling shall include its own sanitary facilities which are in proper operating condition, can be used in privacy, and are adequate for personal cleanliness and the disposal of human waste.

ACCEPTABILITY CRITERIA

1. A flush toilet in a separate, private room, a fixed basin with hot and cold running water, and a bathtub or shower with hot and cold running water shall be present in the dwelling and shall be fully operational. The toilet, basin, and tub or shower should all be in the same room, if possible.
2. These facilities shall utilize an approved public or private sewage disposal system. Where a public sewage system is not available, a visual inspection is required by the rehabilitation specialist for any raw sewer seeping to the surface on the exterior and for any evidence of interior backup.

J. SPACE AND SECURITY. The dwelling shall afford the family adequate space and security.

ACCEPTABILITY CRITERIA

1. A living room, kitchen area, and bathroom shall all be present.
2. Exterior doors and windows accessible from outside the dwelling shall be lockable.
3. Each dwelling must have smoke and carbon monoxide detectors in accordance with local codes. It is recommended that all smoke and carbon monoxide detectors be U.L. approved and be hard wired. U.L. approved battery type or a combination electric/battery type may also be used. Older smoke and carbon monoxide detectors should be replaced at the discretion of CDA staff.

K. FOOD PREPARATION AND REFUSE DISPOSAL.

ACCEPTABILITY CRITERIA

1. The unit shall contain the following equipment in operating condition: (1) cooking equipment, (2) refrigerator of appropriate size for the dwelling, and (3) a kitchen sink. Stove, range, and microwave ovens are acceptable cooking equipment
2. The sink shall drain into an approved public or private sewer system.
3. Adequate space for the storage, preparation and serving of food shall be provided. Food storage space should be cabinets or pantry type storage. Food preparation space should be counters or other horizontal workspace.
4. There shall be adequate facilities and services for the sanitary disposal of food wastes and refuse, including facilities for temporary storage where necessary (e.g., garbage cans).

L. SANITARY CONDITION. The unit and its equipment shall be in sanitary condition.

ACCEPTABILITY CRITERIA

1. The dwelling unit and its equipment shall be free of serious vermin and rodent infestation.

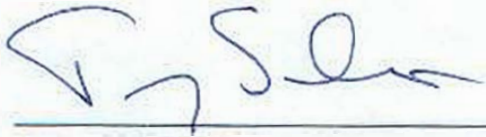
APPENDIX VI

PROPERTY REHABILITATION STANDARDS (HOME) Dakota County Housing Rehabilitation Loan Program

Purpose: The Dakota County Community Development Agency (the “CDA”) administers an owner-occupied housing rehabilitation program (“Rehab Program”) using federal HOME Investment Partnership (“HOME”) funds. These standards provide a basis for assuring that a rehabilitated house complies with applicable state and local building codes, standards and regulations. The CDA will be responsible for insuring that CDBG funds are provided to eligible homeowners and expended for allowable costs as defined in the CDA’s Policy and Procedures Handbook for the Rehab Program. The following minimum housing standards are hereby accepted for implementation in the Rehab Program (using HOME funds) throughout Dakota County.

- A. The completed rehabilitation project must meet the minimum standards established in Appendix V of this Handbook.
- B. The completed rehabilitation project must meet the current Minnesota State Building Code.
- C. For renovation and rehabilitation, some codes allow for pre-existent deficiencies to remain in place. The CDA relies on the opinion of the local building official to determine which deficiencies may remain or must be corrected. However, on review of the property, the CDA reserves the right to selectively mandate correction of certain code deficiencies that may be otherwise acceptable to the local building official. The final disbursement of HOME funds will be withheld until all code deficiencies cited for correction are complete, lead-based paint hazards are corrected, and the local building inspector has issued a Certificate of Occupancy (or signed the final inspection record).
- D. Manufactured homes must meet the Manufactured Home Building Code standards upon completion of rehabilitation.

Revisions to the *Policy and Procedures Handbook for the Home Improvement Loan Program*,
as approved by:



Tony Schertler
Executive Director
Dakota County Community Development Agency

2/15/22

Date