

# **CITY OF MERCED**

## **CalHome OWNER-OCCUPIED ADU/JADU Program Guidelines**

**Serving the City of Merced**



Approved by CalHome on 9/5/2023  
Revised on ( date )

# **CITY OF MERCED**

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**CITY OF MERCED**  
**ADU/JADU PROGRAM GUIDELINES**

**1.0. GENERAL**

The above-named entity, hereinafter referred to as the “Sponsor”, has entered into a contractual relationship with the California Department of Housing and Community Development (“HCD”) to administer one or more HCD-funded ADU/JADU housing programs. The ADU/JADU Program described herein and hereinafter referred to as the “Program” is designed to aid eligible homeowners seeking to develop, or improve health and safety items, as well as code violations, of ADU/JADU’s located within the Program’s eligible area, as described in Section 3.0. The Program provides this assistance in the form of zero interest, deferred payment loans to finance the cost of construction, conversion, and/or structural modifications to existing ADU/JADU’s necessary to provide the homeowner with a healthy, safe, sanitary and code compliant ADU/JADU, referred to herein as “secondary housing unit”. The Program will be administered by Self-Help Enterprises, hereinafter referred to as the “Program Operator”.

**1.1. PROGRAM OUTREACH AND MARKETING**

All outreach efforts will be done in accordance with state and federal fair lending regulations to assure nondiscriminatory treatment, outreach, and access to the Program. No person shall, on the grounds of age, ancestry, color, creed, physical or mental disability or handicap, marital or familial status, medical condition, national origin, race, religion, gender or sexual orientation, be excluded, denied benefits or subjected to discrimination under the Program. The Sponsor will ensure that all persons, including those qualified individuals with handicaps have access to the Program.

A. The Fair Housing Lender logo and Accessibility logo will be placed on all outreach materials. Fair housing marketing actions will be based upon a characteristic analysis comparison (census data may be used) of the Program’s eligible area compared to the ethnicity of the population served by the Program (includes, separately, all applications given out and those receiving assistance) and an explanation of any underserved segments of the population. This information is used to show that protected classes (age, gender, ethnicity, race, and disability) are not being excluded from the Program. A Fair Housing Marketing Plan can be found as Attachment D. Flyers or other outreach materials, in English and any other language that is the primary language of a significant portion of the area residents, will be widely distributed in the Program-eligible area and will be provided to any local social service agencies. The Program may sponsor homeownership education classes to help educate homeowners about credit, budgeting, predatory lending, foreclosure prevention and home maintenance, as well as future responsibilities.

B. Section 504 of the Rehabilitation Act of 1973 prohibits the exclusion of an otherwise qualified

individual, solely by reason of disability, from participation under any Program receiving Federal funds. The Program Sponsor will take appropriate steps to ensure effective communication with disabled housing applicants, residents and members of the public.

## **1.2. APPLICATION PROCESS AND SELECTION**

### **A. Waiting List/Homeowner Contact**

The Sponsor will utilize a waiting list. In response to a homeowner's request, the homeowner is placed on the waiting list. Homeowners are offered the opportunity to qualify for assistance by waiting list priority (a first-come, first served basis). Assistance will be provided to eligible homeowners on a first-come, first served basis. Each applicant is encouraged to participate in Homeowner Coaching and Basic Home Maintenance Education (also known as post-purchase counseling and education) and receive a certificate of completion to be eligible for the Sponsor's ADU/JADU Program. Coaching sessions will include budget review and development, while the hands-on class will cover general homeowner pitfalls, homeowner/landlord responsibilities, and general maintenance.

The Program Operator will contact homeowners by mail and/or by telephone to advise them of funding availability. The homeowner has 30 days to complete and return the loan application and supporting documentation. Should a homeowner fail to respond to the initial contact for assistance or to provide any of the required documentation within the 30-day period, the homeowner's name will be removed from the waiting list. If the homeowner desires assistance later, he/she will be placed on the waiting list at that time.

Should the waiting list be exhausted, the Program will be marketed in accordance with the Sponsor's Marketing Plan. **See Attachment D.**

### **B. Application/Interview**

An application packet is provided to the homeowner for completion and submittal to the Program Operator, along with supporting documentation. An interview is scheduled with the applicant. The Program is fully explained; application forms and documentation are reviewed. Verifications are obtained for income, assets, employment, benefits, and mortgage. Household size is determined by the homeowner's application and verified via tax returns, ID's, school records, birth certificates, or other sources available that indicate the residence is the primary residence of a household member. Title report and property values are also obtained.

If the Program Operator encounters material discrepancies and/or misrepresentations, and/or there is income, asset, household composition, or other important questions that can't be resolved, the Sponsor reserves the right to deny assistance to the household. In this case, the applicant may re-apply after six months have elapsed from the time of written

assistance denial.

#### C. Household Selection

Households selected for participation in the Sponsor's ADU/JADU Program are those determined eligible upon completion of processes described in A. and B. above, an existing owner-occupant of property with an existing ADU/JADU or a lot adequate to support the development of an ADU/JADU and is in need of rehabilitation, including construction, repair, reconstruction, or rehabilitation of an ADU or a JADU.

#### D. Initial Inspection/Work Write-Up/Estimate

Prospective units are inspected by the Program Operator, a certified housing inspector, or a Sponsor representative to determine eligibility and acceptability of properties for participation in the Program.

Measurements and observations are noted about the property, including special conditions with potential cost consequences (dilapidated outbuildings, absence of curb and gutter when required by code, etc.). A floor plan and site plan, as needed, are drawn for the home and property, including all appurtenances.

Findings are noted on an inspection form, and later used by the Program Operator to prepare the work write-up. Estimated costs are determined by the Program Operator who has years of experience in the building industry, and in reviewing contractor bids and verifying cost with materials suppliers. The homeowner reviews the completed work write-up and cost estimate, and the approved write-up is incorporated into bid documents.

#### E. Bid Solicitation

A bid walk-through date and time are scheduled. The homeowner may choose to solicit his/her own bids or request that the Program Operator solicit bids on his/her behalf. In an effort to obtain three reasonable bids, invitations to bid are sent to eligible contractors located in the Sponsor's County and selected by the homeowner from the Active Contractor List provided by the Program Operator. Homeowners are required to select a minimum of six contractors from the Active Contractor List and may add to the list as long as the contractor meets the requirements outlined in the ADU/JADU\_Housing Rehabilitation/Reconstruction Program Contractor Guidelines and Information Sheet (see Attachment K). Contractors will be notified via telephone and/or in writing (email, fax, etc.) at least one week prior to each bid tour. Bid results will be provided to participating contractors.

Contractors must be licensed and bonded by the State of California Contractors Licensing Board. Contractors must also provide Program Operator with evidence of Workers' Compensation Insurance and Comprehensive General Liability and Property Damage

Insurance with Combined Single Limits of at least \$1,000,000.

Recruitment for eligible contractors is done on an ongoing basis, via local advertising, website notification, and program marketing. It is the goal of the Program Operator to maintain an Active Contractor List of eligible, interested contractors located in the Sponsor's County. Applications are available for those seeking to participate by calling the Program Operator or visiting the Program Operator's website. The Program Operator will send notices to contractors on the Active Contractor List annually, which will request each contractor contact the Program Operator to confirm his or her interest in remaining on the Active Contractor List. Contractors who do not respond will be moved to the Inactive Contractor List.

Cost reasonableness is determined by comparing the bids received with the cost estimate prepared by the Program Operator. Bids should be within 10% of the Program Operator's cost estimate, otherwise an explanation must be provided to the file for any bid selected exceeding 10% of the estimate. The homeowner is encouraged to accept the lowest reasonable bid.

The Program Operator determines eligibility of the contractor by contacting the State Contractors License Board and checking the Federal List of Debarred Contractors. The contractor is also required to provide a self-certification stating that he/she is not on the Federal debarred list. Once determined eligible, the contractor is then notified of provisional award of bid (pending loan approval). Notices of non-award are mailed to participating contractors.

#### F. Pre-Construction Conference

A pre-construction conference is scheduled with homeowner, contractor, and Program Operator. The Program Operator reviews the Owner-Contractor Construction Contract, including the work write-up, anticipated start date, pay schedule, and anticipated date of completion, with the homeowner and contractor.

#### G. Loan Request/Approval

A report and loan request are prepared on behalf of the homeowner by the Program Operator. The loan request includes the cost of construction, a contingency fund, and other project costs (listed in Section 6.3.). A Loan Review Committee meeting is scheduled to hear the loan request. Section 1.3. provides additional information on the loan approval process. Once approved, loan documents are executed, and the loan is funded.

#### H. Start-Up/Field Inspections

Following loan approval, the construction contract and Notice to Proceed are executed. The Program Operator monitors date of start-up and performs field inspections on a regular basis. The Program Operator will visit the project site regularly in order to check

the scope of work, inspect materials, and to confirm the project is on schedule and within budget. The Program Operator works with the Sponsor's Building Inspector to ensure the work meets building codes, while not exceeding funding limits.

The Program Operator reviews the work status with the homeowner and with the contractor in order to remedy any developing problems quickly and to ensure that both are satisfied with the construction process. At the completion of each phase, the Program Operator inspects the work, and the homeowner authorizes contractor payments.

The Program Operator will refer to original plans and specifications to verify the work was completed as contracted.

#### I. Change Orders

Written change orders are required when the homeowner requests any changes in the write-up, such as eliminating an item completely, eliminating one item and substituting another, or adding items. The change order will state the change and dollar value for the change. The change order must be signed by both the contractor and the homeowner and submitted to the Program Operator and Sponsor for signature approval. If the change order exceeds the approved financing, the homeowner will be asked to provide additional funds or a report and request for additional funds may be presented to the Sponsor's Loan Review Committee for approval prior to Program Operator signing-off on the change order.

#### J. Progress Payments

Ninety percent (90%) of the contract amount is distributed to the contractor in the form of progress payments during construction. The final ten percent (10%) of the contract amount is set aside as a retention payment. The contractor requests a progress payment from the homeowner and notifies the Program Operator that he/she has done so. Upon favorable inspection by the homeowner, Program Operator, and Sponsor or Sponsor's Building Inspector, the payment authorization is signed by the homeowner and submitted for payment.

#### K. Final Inspections/Notice of Completion/Final Payment

When the project is completed, the Program Operator inspects the work item by item with the homeowner, the contractor, and/or the Sponsor. The Sponsor's Building Inspector performs a final inspection. Any corrections or deficiencies are noted and corrected by the contractor. Upon favorable final inspections, a Notice of Completion is prepared, signed by the homeowner, and then recorded. The final ten percent (10%) retention payment is released 35 days after the recording of the Notice of Completion.

### 1.3. LOAN PROCESS



The Sponsor's Loan Review Committee must approve all loans and grants. The Loan Review Committee may approve assistance with CalHome cannot be more than 105 percent of the after-rehabilitation value. **See Attachment C for current limits.**

To obtain financing, applicants must meet all property and eligibility guidelines outlined in Section 2 at the time the application is considered. Homeowners will be provided written notification of approval or denial. Any reason for denial will be provided to the applicant in writing.

#### **1.4. CONFLICT OF INTEREST REQUIREMENTS**

The Sponsor's Program for CalHome funded Programs, must follow the applicable Conflict of Interest requirements of Public Contract Code sections 10410, 10411, and 10430 (e)

A contractor with a vested interest in the property cannot bid on a rehabilitation project. Such a contractor may act as owner/builder, subject to standard construction procedures. Owner/builders are reimbursed for materials purchased which are verified by invoice/receipt and used on the project. Reimbursement occurs after the installation is verified by the Program Operator to be part of the scope of work. Owner/builders are not reimbursed for labor.

#### **2.0. APPLICANT QUALIFICATIONS**

##### **2.1. INCOME LIMITS**

All homeowners must certify that they meet the household income eligibility requirements for the applicable HCD Program(s) and have their household income documented. The income limits in place at the time of loan approval will apply when determining applicant income eligibility. All applicants must have incomes at or below 80% of the County's area median income (AMI), adjusted for household size, as published by HCD each year. **See Attachment C.**

The link to the official HCD maintained income limits is: <http://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits.shtml> (for CalHome, choose "Official State Income Limits").

**Household:** means one or more persons who will occupy a housing unit. For CalHome, unborn children are not counted. Household size is determined by the homeowner's application and verified via tax returns, ID's, school records, birth certificates, or other sources available that indicate the residence is the primary residence of a household member. Title report and property values are also obtained.

**Annual Income:** Generally, the gross amount of income of all adult household members that is anticipated to be received during the coming 12-month period.

## 2.2. INCOME QUALIFICATION CRITERIA

Projected annual gross income of the applicant household will be used to determine whether they are above or below the published HCD income limits. Income will be verified by reviewing and documenting tax returns, copies of wage receipts, subsidy checks, bank statements and third-party verification of employment forms sent to employers. All documentation shall be dated within six months prior to loan closing, kept in the applicant file and held in strict confidence. ADU or JADU related income is exempt from the income calculation since this rental income will help low-income families achieve or maintain homeownership.

### A. HOUSEHOLD INCOME DEFINITION:

Household income is the annual gross income of all adult household members that is projected to be received during the coming 12-month period and will be used to determine Program eligibility. Refer to Income Inclusions and Exclusions for further guidance to the types of incomes to be included or excluded when calculating gross annual income. **(See Attachment A CalHome)** For those types of income counted, gross amounts (before any deductions have been taken) are used. Two types of income that are not considered would be income of minors or income of live-in aides. Certain other household members living apart from the household also require special consideration. The household's projected income must be used, rather than past earnings, when calculating income. ADU or JADU related income is exempt from the income calculation since this rental income will help low-income families achieve or maintain homeownership.

If the Borrower will occupy an ADU or a JADU, the residents of the primary unit shall not be considered as part of the Household receiving CalHome funding for purposes of this section.

**See Attachment A: CalHome Title 25 Section 6914 Annual Income inclusions and Exclusions (State)**

### B. ASSETS:

There is no asset limitation for participation in the Program. Income from assets is, however, recognized as part of annual income under the Part 5 definition. An asset is a cash or non-cash item that can be converted to cash. The value of necessary items such as furniture and automobiles are not included. *(Note: it is the income earned – e.g. interest on a savings account – not the asset value, which is counted in annual income.)*

An asset's cash value is the market value less reasonable expenses required to convert the asset to cash, including: Penalties or fees for converting financial holdings and costs for selling real property. For CalHome, the market value of an item is counted as an asset.

**See Attachment B: Part 5 Annual Income Net Family Asset Inclusions and Exclusions**

## **2.3. HOMEOWNER ELIGIBILITY AND RESIDENCY REQUIREMENTS**

The Sponsor's ADU/JADU Program allows for owner-occupied properties to participate in the Program. Owner-occupied units must be the owner's principal place of residence. A photocopy of a recent utility bill will verify proof of occupancy. No unit to be rehabilitated will receive financial assistance if it is currently occupied by an over-income household or does not meet the eligibility standards outlined in these guidelines. ADU/JADU may be rented but must maintain a minimum tenancy of 30 days and cannot be use as short-term rental.

- A. Continued residency is monitored annually, per Attachment F, for the term of the loan. Occupancy will be verified, reviewed, and certified by the submission of the following:
  - 1. Proof of occupancy in the form of a copy of a current utility bill; and
  - 2. Statement of unit's continued use as primary residence of the owner.
- B. If the Borrower will occupy the ADU or JADU, the residents of the primary unit shall not be considered as part of the Household receiving CalHome funding.
- C. If a homeowner sells, transfers title, or discontinues residence in the rehabilitated property for any reason, the loan becomes due and payable.
- D. If a homeowner converts the owners unit to a rental unit, or any commercial or non-residential use, the loan is due and payable.

## **3.0. PROPERTY ELIGIBILITY**

### **3.1. CONDITIONS**

- A. No unit will be eligible if a household's income exceeds the prescribed income limits listed in Attachment C.
- B. Units to be rehabilitated must be located within the city limits of the City of Merced.
- C. Property must contain a legal residential structure intended for continued residential occupancy by the owner.

### **3.2. SITE STANDARDS**

- A. Accessory buildings on a reverse corner lot shall be set back to the front yard depth on the lot to the rear.

- B. No accessory buildings or structures shall be located within a required front, side, or rear yard setback (exception: carports and garages only, are permitted within 10 feet of the rear).
- C. Accessory buildings may be considered a part of the main building if connected by a common wall of not less than five (5) feet in length, or if not more than twenty (20) feet from the main building and connected thereto by a roof of not less than five (5) feet in width.

### **3.3. DEVELOPMENT STANDARDS**

- A. Accessory Structures in residential land use districts shall be subject to the permit procedure described in 20.42.020 of the City Ordinance, are subject to Ministerial Review, and shall be compatible with the materials and architecture of the main dwelling on the property.
- B. Accessory structures may only be constructed on a lot containing a primary dwelling unit. Accessory structures may be built to the interior side and rear property lines provided that such structures are not closer than ten (10) feet to any other structure.
- C. Zoning Ordinance requirements may further restrict the distance to be maintained from property lines or other structures.
- D. The accessory structure may be a maximum of 50% of the main structure footprint and comply with the requirements set forth in the City's Zoning Ordinance <https://www.cityofmerced.org/home/showpublisheddocument/4274/637538340691800000>
- E. All Secondary Dwelling Units shall conform to all developmental standards of the underlying land use district.
- F. There shall be no more than one Secondary Dwelling Unit on any lot.
- G. The floor area of the Secondary Dwelling Unit shall not exceed 1,200 square feet or 50% of the primary dwelling unit.
- H. The Secondary Dwelling Unit shall not exceed one story in height, or the height of the main dwelling.
- I. The Secondary Dwelling Unit shall conform to all of the setback regulations outlined in the applicable land use district.
- J. A Secondary Dwelling Unit shall be used only by the occupants of the main dwelling, their non-paying guests, or domestic employees. The Secondary Dwelling shall not be rented, or as may be permitted by Section 65583, et. seq. of the Government Code.
- K. The City may require that the Secondary Dwelling Unit be metered separately from the main

dwelling unit for gas, electricity and water/sewer services with the approval of the City Engineer and Building Services.

- L. Prior to issuance of a Building Permit for the Secondary Dwelling Unit, a covenant of restriction to run with the land, shall be recorded which specifies that the use of the second dwelling unit as an independent dwelling may continue only as long as one unit on the property is owner-occupied.
- M. The Secondary Dwelling Unit is compatible with the design of the main dwelling unit and the surrounding neighborhood in terms of landscaping, scale, height, length, width, bulk, lot coverage and exterior treatment, and will not cause excessive noise, traffic or other disturbances to the existing neighborhood or result in significantly adverse impacts on public services and resources.
- N. The Secondary Dwelling Unit shall not cause a high concentration of such units sufficient to change the character of the surrounding residential neighborhood.
- O. One on-site parking space shall be provided for a Secondary Dwelling Unit in addition to the primary dwelling units parking requirement.

#### **4.0. THE PROGRAM LOAN**

##### **4.1. MAXIMUM AMOUNT OF PROGRAM ASSISTANCE**

An eligible homeowner may qualify for the full cost of rehabilitation/reconstruction work needed to comply with State and local codes and ordinances. Maximum assistance shall not exceed the maximum amount established by Administrative Notice No. 24-02 dated on May 30, 2024, currently listed at \$250,000 per unit to an eligible borrower for ADU/JADU construction. CalHome re-use funds are not subject to grant limits identified in the most recent NOFA.

##### **4.2. AFFORDABILITY PARAMETERS FOR HOMEOWNERS**

- A. Total indebtedness against property shall not exceed 105 percent of the after-rehabilitation value as determined by an appraisal. An estimate of After-Rehab Value will be made prior to making a commitment of funds using the method outlined in Section 4.4.
- B. Costs may be supplemented with personal financing, or with other loan or grant programs, which are sources of leverage for the Sponsor.
- C. Any bid within 10% of the Program Operator's estimate may be selected, otherwise an explanation must be provided to the file for a bid selected exceeding 10% of the estimate.
- D. Housing and/or debt ratios are not considered as the funding provided creates no

additional monthly financial obligation. If a homeowner has a mortgage, creditworthiness is verified by ensuring that all payments are current and that no late payments have been received in the past twelve months.

#### 4.3. RATES AND TERMS

Homeowners are eligible for Deferred Payment Loans (DPL), at zero interest, evidenced by a Promissory Note and secured by a Deed of Trust, with no payback required for 30 years unless the Borrower sells or transfers title or discontinues residence in the dwelling. Payments may be made voluntarily on a DPL, without penalty. **Note: If it is determined by the Sponsor that repayment of a CalHome Program loan at the maturity date causes a hardship to the homeowner, the Sponsor may opt the following:**

- Amend the note and deed of trust to defer repayment of the amount due at maturity, that is balance of the original principal plus the accrued interest, for up to an additional 30 years (at 0% additional interest). This may be offered one time; or,
  - Convert the debt at loan maturity; that is the balance of the original principal plus any accrued interest, to an amortized loan, repayable in 15 years at 0% additional interest.
- A. If a homeowner sells, transfers title, or discontinues residence in the rehabilitated property for any reason, the loan shall become all due and payable.
- B. CalHome loans are not assumable.
- C. If a homeowner fails to maintain residence on the property, converts the property to a commercial or non-residential use, the loan becomes all due and payable.
- D. As specified in the Loan Agreement, all applicants who participate in the Program must maintain the property at post-construction conditions for the term of the loan. Should the property not be maintained accordingly, the loan shall be considered in default and becomes all due and payable, and if necessary, foreclosure proceedings will be initiated. A method of inspection will be established by the Sponsor.
- E. CalHome, loans are not assumable. The following transfers of interest shall not require the repayment of the CalHome Program loan:
1. transfer to a surviving joint tenant by devise, descent, or operation of law on the death of a joint tenant; or
  2. a transfer in which the transferee is a person who occupies or will occupy the property, which is:
    - (i) a transfer where the spouse becomes an owner of the property; or

- (ii) a transfer resulting from a decree of dissolution of marriage, legal separation agreement, or from an incidental property settlement agreement by which the spouse becomes an owner of the property; or
- (iii) a transfer into an inter vivos trust in which the Borrower is and remains the beneficiary and occupant of the property.

#### **4.4. APPRAISAL**

- A. The Value for existing properties projects is determined using the “Estimate of Value” method. The Sponsor or Program Operator determines estimates of value based on the sale prices of at least three (3) comparable properties, sold within the last six months (within one year of the assistance date, which is the date the promissory note is signed), and if possible located within one mile of the subject property. The participants’ file will include the estimate of value and document the basis for the value estimates. The purpose of the “Estimate of Value” method is to determine that the value of the housing unit will not exceed the applicable CalHome Program regulations (**See Attachment C**), and that the combined loans will not exceed the maximum combined loan-to-value limit, as described in Section 4.2.A above. If three comparable properties cannot be found, or if there is any question regarding the value, the ARV must be determined by a licensed appraiser, as described in Section 4.4.B. below.
- B. The value for reconstruction/new construction projects is determined by a licensed appraiser. The value for reconstruction projects is determined by an appraisal based on the building plans and specifications for the new unit. The cost of the appraisal will be included in the Borrower’s loan. The purpose of the appraisal is to determine that the value of the housing unit will not exceed the applicable CalHome Value Limit per CalHome Guidelines (**See Attachment C**), and that the combined loans will not exceed the maximum combined loan-to-value limit, as described in Section 4.2.A above.

#### **4.5 INSURANCE**

##### **4.5.1 FIRE INSURANCE**

The homeowner shall maintain fire insurance on the property for the duration of the Program loan(s). This insurance must be an amount adequate to cover all encumbrances on the property. The insurer must identify the Sponsor as Loss Payee for the amount of the Program loan(s). Evidence of this shall be provided to the Sponsor. CalHome funds cannot be used to pay insurance at any time.

##### **4.5.2 FLOOD INSURANCE**

For homes in a 100-year flood zone, the owner is required to maintain flood insurance in an amount adequate to secure the Program loan and all other encumbrances. This policy must

designate the Sponsor as Loss Payee and a binder shall be provided to the Sponsor and maintained in the Borrower's file. CalHome funds cannot be used to pay insurance at any time.

#### **4.5.3 TITLE INSURANCE**

The homeowner must obtain title insurance in the amount of the CalHome program loan at close of escrow.

#### **4.5.4 PROPERTY INSURANCE**

As part of keeping the loan from going into default, Borrower must maintain property insurance coverage naming the Sponsor as loss payee. If Borrower fails to maintain the necessary insurance, the Sponsor may use non-grant funds to take out force placed insurance to cover the property while the Borrower puts a new insurance policy in place. All costs for installing the necessary insurance will be added to the loan balance at time of installation of Borrower's new insurance.

#### **4.6 LOAN SECURITY**

- A. Loan security for all ADU/JADU's will be secured by the real property and improvements, and will also include a Deed of Trust, Promissory Note and Loan Agreement in favor of the Sponsor.
- B. Entering a subordinate lien is acceptable. However, the Sponsor will not subordinate a first lien position once established.

#### **5.0. PROGRAM LOAN SERVICING AND MAINTENANCE**

##### **5.1. PAYMENTS ARE VOLUNTARY**

Borrowers may begin making voluntary payments at any time, without penalty.

##### **5.2. RECEIVING LOAN REPAYMENTS**

- A. Program loan payments will be made to: City of Merced  
678 W. 18<sup>th</sup> Street  
Merced, CA 95340
- B. The Sponsor will be the receiver of loan payments or recapture funds and will maintain a financial record-keeping system to record payments and file statements on payment status. Payments shall be deposited and accounted for in the Sponsor's appropriate Program Income Account, as required by all three HCD Programs. The Program Sponsor will accept loan payments from Borrowers prepaying deferred loans, from Borrowers making payments in full upon sale or transfer of the property, and homeowners of tenant occupied units. All loan payments are payable to the Sponsor. The Sponsor may at its discretion, enter into an agreement with a third party to collect and distribute payments



and/or complete all loan servicing aspects of the Program.

### **5.3. LOAN SERVICING POLICIES AND PROCEDURES**

See **Attachment F** for local loan servicing policies and procedures. While the attached policy outlines a system that can accommodate a crisis that restricts Borrower repayment ability, it should in no way be misunderstood: The loan must be repaid. All legal means to ensure the repayment of a delinquent loan as outlined in the Loan Servicing Policies and Procedures will be pursued.

### **5.4. LOAN MONITORING PROCEDURES**

Homeowners will be required to submit each of the following to the Sponsor, annually, for the term of the loan, which will be reviewed and certified by the Sponsor or its designated Loan Servicing Agent at the time of annual occupancy verification per Attachment F:

- Proof of occupancy in the form of a copy of a current utility bill;
- Statement of unit's continued use as a residence;
- Declaration that other title holders do not reside on the premises;
- Verification that Property Taxes are current; and
- Verification of current required insurance policies.

### **5.5. DEFAULT AND FORECLOSURE**

If an owner defaults on a loan, and foreclosure procedures are instituted, they shall be carried out according to the Program Foreclosure Policy adopted by the Sponsor, and attached to these guidelines as **Attachment G**.

### **5.6. SUBORDINATIONS**

The Sponsor may approve a request to subordinate a loan, in order for the owner to refinance the property, under the following conditions:

- A. The lien position of the Sponsor loan will remain the same or be advanced.
- B. The new primary loan is no greater than the balance of the loan being refinanced, except the costs of refinancing the loan may be added to the principal balance.
- C. The purpose of the new primary loan is to reduce the interest rate being paid and/or reduce the owner's payment.
- D. The refinanced loan must have an impound account for taxes and insurances.
- E. The refinancing terms must be acceptable to the Sponsor.

- F. Only CDBG allows refinancing with CDBG funds in conjunction with rehabilitation of the unit

## **6.0. CONSTRUCTION**

### **6.1. STANDARDS**

- A. All repair work will meet Local Building Code standards. At a minimum, health and safety hazards must be eliminated. The priority will be the elimination of health and safety hazards and elimination of code deficiencies. The property must meet all applicable current codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion. However, if certain components of the house are sound and were built to code prescribed at the time of installation, no repair or alteration will be made to those components.

#### **B. Contracting Process**

1. Contracting will be done on a competitive basis.
2. The homeowner will be the responsible agent, but the Sponsor and/or its Program Operator will prepare the work write-up, prepare and advertise the bid package, and assist the owner in negotiating the construction contract.
3. The Sponsor does not warrant any construction work, or provide insurance coverage.

#### **C. Approved Contractors**

1. Contractors are required to be licensed with the State of California, and be active and in good standing with the Contractors' License Board.
2. Contractors will be checked against HUD's list of federally debarred contractors. No award will be granted to a contractor on this list.
3. Contractors must have public liability and property damage insurance, and worker's compensation, unemployment and disability insurance, to the extent required by State law.
4. Contractor must agree to comply with all federal and state regulations.

### **6.2. ELIGIBLE CONSTRUCTION COSTS**

“Rehabilitation” means, in addition to the definition in Section 50096 of the Health and Safety Code, repairs and improvements to a manufactured home necessary to correct any condition causing the home to be substandard pursuant to Section 1704 of Title 25, California Code of Regulations. Rehabilitation also includes room additions to alleviate overcrowding. Rehabilitation also means repairs and improvements where necessary to meet any locally-adopted standards used in local rehabilitation programs. Rehabilitation does not include replacement of personal property.

Rehabilitation includes reconstruction.

Additionally, the Sponsor must determine that the project’s value after reconstruction (housing and land combined) is less than the Maximum After-Rehabilitation Value for the Sponsor (see Attachment C, One-Family).

Allowable rehabilitation\reconstruction costs include:

- A. Cost of building permits and other related government fees.
- B. Cost of architectural, engineering, and other consultant services which are directly related to the rehabilitation of the property.
- C. Rehabilitation or Replacement of a manufactured home not on a permanent foundation. Rehabilitation of a manufactured home may include the replacement of the unit with a used manufactured home and the cost to repair it, as long as the unit has been occupied and not used as a demonstration model. Should the unit meet the criteria for reconstruction a new manufactured home can be used for replacement and all cost associated with the purchase and transportation can be added to the loan.
- D. Owner-occupied rehabilitation activity delivery fees, pursuant to Section 7733(f), as reimbursement to the Sponsor for the actual costs of services rendered to the homeowner that are incidentally but directly related to the rehabilitation work (e.g. planning, engineering, construction management, including inspections and work write-ups).
- E. Rehabilitation will address the following issues in the order listed. Eligible costs are included for each item.

1. Health and Safety Issues

Eligible costs include, but are not limited to, energy-related improvements, lead-based paint hazard evaluation and reduction activities, improvements for handicapped accessibility, and repair or replacement of major housing systems.

Upon project completion, each of the major systems must have a remaining useful life for a minimum of five (5) years, so these systems must be rehabilitated or replaced as part of the rehabilitation work in order to achieve this requirement.

A driveway may be considered part of rehabilitation if it is determined to be a health and safety issue.

## 2. Code and Regulation Compliance

Eligible costs include, but are not limited to, additional work required to rehabilitate and modernize a home to bring it into compliance with current building codes and regulations. Painting and weatherization are included.

## 3. Demolition

Eligible costs include, but are not limited to, the tear down and disposal of dilapidated structures when they are a part of the reconstruction of an affordable housing unit. If a garage or carport is detached, it may not be rehabilitated but may be demolished, if it is determined to be a health and safety issue.

## 4. General Property Improvements

Eligible costs include, but are not limited to: addition or replacement of an oven, stove, dishwasher, or fixture; replacing floor coverings; painting; and repair or installation of fencing.

All improvements must be physically attached to the property and permanent in nature. Non-code general property improvements (including fencing, landscaping, driveway, etc.) will be *limited to 15 percent* of the rehabilitation loan amount. Any cash contribution by the property owner will be considered a general property improvement and be included in this percentage. Luxury items are not permitted. Items such as stoves and dishwashers that are not built-in may be replaced due only to incipient failure or documented medical condition of the homeowner and must be of moderate quality.

## 6.3. ELIGIBLE PROJECT COSTS

Examples of eligible project costs for all administrative expenses related to the paperwork for processing and insuring a loan application are listed below.

- Appraisal
- Property Report/Title Insurance
- Building Plan
- Termite Report

- Land Survey
- Grading Plan
- Recording Fees
- Fire/Course of Construction Insurance

Costs are based on charges currently incurred by the Sponsor, or its Program Operator, for these products and/or services. Any cost increases charged to the Sponsor/Program Operator for these products and/or services will be passed on to the homeowner and included in the loan. All fees are subject to change and are driven by the market.

#### **6.4. REPAIR CALLBACKS**

Contractors will comply with State law regarding all labor and material warranties. All labor and material shall meet FHA minimum specifications.

### **7.0. EXCEPTIONS AND SPECIAL CIRCUMSTANCES**

#### **7.1. AMENDMENTS**

The Sponsor may make amendments to these Participant Guidelines. Any changes made shall be in accordance with state regulations, shall be approved by the Sponsor's Loan Committee and/or local governing body and submitted to HCD for approval.

#### **7.2. EXCEPTIONS**

Any case to which a standard policy or procedure, as stated in the guidelines, does not apply or an applicant treated differently from others of the same class would be an exception.

##### **7.2.1 PROCEDURES FOR EXCEPTIONAL CIRCUMSTANCES**

- A. The Sponsor or its Program Operator may initiate consideration of an exception and prepare a report. This report shall contain a narrative, including the Sponsor's/Program Operator's recommended course of action and any written or verbal information supplied by the applicant.
- B. The Sponsor shall make a determination of the exception based on the recommendation of the Program Operator. The request can be presented to the Sponsor's loan committee and/or governing body for decision.

### **8.0. DISPUTE RESOLUTION AND APPEALS PROCEDURES**

#### **8.1. PROGRAM COMPLAINT AND APPEAL PROCEDURE**

Complaints concerning the Sponsor's Rehabilitation Program should be made to the Program Operator first. If unresolved in this manner, the complaint or appeal shall be made in writing

and filed with the Sponsor. The Sponsor will then schedule a meeting with the Sponsor's Loan Review Committee. Their written response will be made within thirty (30) working days. If the applicant is not satisfied with the committee's decision, a request for an appeal may be filed with the local governing body. Final appeal may be filed in writing with HCD within one year after denial or the filing of the Project Notice of Completion.

## **8.2. GRIEVANCES BETWEEN PARTICIPANTS AND CONSTRUCTION CONTRACTOR**

Contracts signed by the contractor and the participant include the following clause, which provides a procedure for resolution of grievances:

Any controversy arising out of or relating to this Contract, or the breach thereof, shall be submitted to binding arbitration in accordance with the provisions of the California Arbitration Law, Code of Civil Procedure 1280 et seq., and the Rules of the American Arbitration Association. The arbitrator shall have the final authority to order work performed, to order the payment from one party to another, and to order who shall bear the costs of arbitration. Costs to initiate arbitration shall be paid by the party seeking arbitration. Notwithstanding, the party prevailing in any arbitration proceeding shall be entitled to recover from the other all attorney's fees and costs of arbitration.

## **ATTACHMENT A**

### **Title 25 Section 6914 Gross Income Inclusions – For CalHome activities**

“Gross income” shall mean the anticipated income of a person or family for the twelve-month period following the date of determination of income.

“Income” shall consist of the following:

- (a) Except as provided in subdivision (b), “Exclusions”, all payments from all sources received by the family head (even if temporarily absent) and each additional member of the family household who is not a minor shall be included in the annual income of a family. Income shall include, but not be limited to:
  - (1) The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses;
  - (2) The net income from operation of a business or profession or from rental or real or personal property (for this purpose, expenditures for business expansion or amortization of capital indebtedness shall not be deducted to determine the net income from a business);
  - (3) Interest and dividends;
  - (4) The full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts;
  - (5) Payments in lieu of earnings, such as unemployment and disability compensation, worker’s compensation and severance pay;
  - (6) Public Assistance. If the public assistance payment includes any amount specifically designated for shelter and utilities which is subject to adjustment by the public assistance agency in accordance with the actual cost of shelter and utilities, the amount of public assistance income to be included as income shall consist of:
    - (A) The amount of the allowance or grant exclusive of the amount specifically designated for shelter and utilities, plus
    - (B) The maximum amount which the public assistance agency could in fact allow for the family for shelter and utilities,
  - (7) Periodic and determinable allowances such as alimony and child support payments, and regular contributions or gifts from persons not residing in the dwelling;

All regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is head of the family or spouse.

## **Title 25 Section 6914 Gross Income Exclusions**

(b) The following items shall not be considered as income:

- (1) Casual, sporadic or irregular gift items;
- (2) Amounts which are specifically for or in reimbursement of the cost of medical expenses;
- (3) Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses;
- (4) Amounts of educational scholarships paid directly to the student or to the educational institution, and amounts paid by the government to a veteran for use in meeting the costs of tuition, fees, books and equipment. Any amounts of such scholarships, or payments to veterans, not used for the above purposes of which are available for subsistence are to be included in income;
- (5) The special pay to a serviceman head of a family away from home and exposed to hostile fire;
- (6) Relocation payments made pursuant to federal, state, or local relocation law;
- (7) Foster child care payments;
- (8) The value of coupon allotments for the purchase of food pursuant to the Food Stamp Act of 1964 which is in excess of the amount actually charged the eligible household;
- (9) Payments received pursuant to participation of the following volunteer programs under the ACTION Agency:
  - (A) National Volunteer Antipoverty Programs which include VISTA, Service Learning Programs and Special Volunteer Programs.
  - (B) National Older American Volunteer Program for persons aged 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, older American Community Services Program, and National Volunteer Program to Assist Small Business Experience, Service Corps of Retired Executive (SCORE) and Active Corps of Executives (ACE).



## **ATTACHMENT B**

### **PART 5 ANNUAL INCOME NET FAMILY ASSET INCLUSIONS AND EXCLUSIONS**

This table presents the Part 5 asset inclusions and exclusions as stated in the HUD Technical Guide for Determining Income and Allowances for HOME Program (Third Edition; January 2005).

Statements from 24 CFR Part 5 – Last Modified: January 2005

#### **Inclusions**

1. Cash held in savings accounts, checking accounts, safe deposit boxes, homes, etc. For savings accounts, use the current balance. For checking accounts, use the average 6-month balance. Assets held in foreign countries are considered assets.
2. Cash value of revocable trusts available to the applicant.
3. Equity in rental property or other capital investments. Equity is the estimated current market value of the asset less the unpaid balance on all loans secured by the asset and all reasonable costs (e.g., broker fees) that would be incurred in selling the asset. Under HOME, equity in the family's primary residence is not considered in the calculation of assets for owner-occupied rehabilitation projects.
4. Cash value of stocks, bonds, Treasury bills, certificates of deposit and money market accounts.
5. Individual retirement, 401(K), and Keogh accounts (even though withdrawal would result in a penalty).
6. Retirement and pension funds.
7. Cash value of life insurance policies available to the individual before death (e.g., surrender value of a whole life or universal life policy).
8. Personal property held as an investment such as gems, jewelry, coin collections, antique cars, etc.
9. Lump sum or one-time receipts, such as inheritances, capital gains, lottery winnings, victim's restitution, insurance settlements and other amounts not intended as periodic payments.
10. Mortgages or deeds of trust held by an applicant.

#### **Exclusions**

1. Necessary personal property, except as noted in number 8 of Inclusions, such as clothing, furniture, cars and vehicles specially equipped for persons with disabilities.
2. Interest in Indian trust lands.
3. Assets not effectively owned by the applicant. That is, when assets are held in an individual's name, but the assets and any income they earn accrue to the benefit of someone else who is not a member of the household and that other person is responsible for income taxes incurred on income generated by the asset.
4. Equity in cooperatives in which the family lives.
5. Assets not accessible to and that provide no income for the applicant.
6. Term life insurance policies (i.e., where there is no cash value).
7. Assets that are part of an active business. "Business" does not include rental of properties that are held as an investment and not a main occupation.

## ATTACHMENT C

### CALHOME MAXIMUM VALUE LIMIT

CalHome Program maximum value of a home shall be set at 100% of the current median sales price of a single-family home in the County in which the CalHome Program is located. The source of the data for the maximum sales price/value limits that will be used will be the California Association of Realtors, <https://www.car.org/en/marketdata/data/countysalesactivity>

### CURRENT CALHOME INCOME LIMITS FOR THE AREA

#### HCD State Income Limits (5/13/2022)

<i>Number of Persons in Household</i>								
	1	2	3	4	5	6	7	8
<b>80% of AMI</b>	\$43,650	\$49,850	\$56,100	\$62,300	\$67,300	\$72,300	\$77,300	\$82,250

\*Sponsor will insert the limits for the county in which the Program is located and will update the income limits annually as HCD provides new information. The link to the official, HCD- maintained, income limits is: <https://www.hcd.ca.gov/grants-and-funding/income-limits/state-and-federal-income-rent-and-loan-value-limits>, choose Official State Income Limits.

## **ATTACHMENT D**

### **ADU/JADU HOUSING REHABILITATION MARKETING PLAN**

The Sponsor will continue its efforts to market the ADU/JADU Housing Rehabilitation Program in a manner that will reach all community members.

All marketing related to the ADU/JADU Housing Rehabilitation Program is publicized in English, Spanish and Hmong. All marketing materials include information identifying the Sponsor's commitment to fair housing laws and affirmative marketing policy, and are widely distributed. Equal opportunity is emphasized in written materials and oral presentations. A record is maintained by the Sponsor identifying what marketing materials are used, and when and where they are distributed.

Forms of marketing may include fliers, brochures, newspaper ads, articles and public service announcements. Fliers and brochures are distributed at local government buildings, other public buildings and through the mail, as well as to businesses that assist those not likely to apply without special outreach. Advertisements and articles are published in newspapers that are widely circulated within the community.

Established working relationships with local lending agencies also aid in informing the public by facilitating the distribution of informational fliers to households seeking financial assistance for repairs that are unable to obtain conventional financing.

Informational meetings are offered to potential participants to explain Program requirements. Often, minimal formal outreach efforts are required as the need for assistance generally exceeds funds available. However, marketing measures are actively performed in order to maintain a healthy interest list.

Characteristics on all applicants and participants are collected and compared with the Sponsor's demographics. Should the Sponsor find that there are underserved segments of the population, a plan to better serve them will be developed and implemented.

### **MARKETING FORMS**

Fliers Brochures

Newspaper Ads and Articles Public Service Announcements Public Informational Meetings

### **MARKETING VENUES**

Local Government Buildings, Local Public Services Buildings, Private Businesses,

Lending Agencies, Real Estate Offices, Newspaper,

Radio, and Mail.

## ATTACHMENT E

### LOAN SERVICING POLICIES AND PROCEDURES FOR THE CITY OF MERCED

The City of Merced, hereafter called “Sponsor,” has adopted these policies and procedures in order to preserve its financial interest in properties whose “Borrowers” have been assisted with public funds. The Sponsor will, to the greatest extent possible, follow these policies and procedures, but each loan will be evaluated and handled on a case-by-case basis. The Sponsor has formulated this document to comply with state and federal regulations regarding the use of these public funds and any property restrictions that are associated with them.

The Sponsor may, at its discretion, enter into an agreement with a third party to collect and distribute payments and/or complete all loan servicing aspects of the Program. For CalHome, the Sponsor must obtain prior approval from HCD and must provide HCD a copy of the contract.

The policies and procedures are broken down into the following areas: 1) making required monthly payments or voluntary payments on a loan’s principal and interest; 2) required payment of property taxes and insurance; 3) required Request for Notice of Default on all second mortgages; 4) loans with annual occupancy restrictions and certifications 5) required noticing and limitations on any changes in title or use of property; 6) required noticing and process for requesting a subordination during a refinance; 7) processing of foreclosure in case of default on the loan; 8) the Sponsor as Senior Lienholder; and 9) processing of demands and payoffs.

#### 1. Loan Repayments:

The Sponsor must accept voluntary payments on the loan; however, loans are deferred and no payment is due until the end of the term identified in the Promissory Note. Loan payments will be credited to principal. The Borrower may repay the loan balance at any time with no penalty.

At time of completion, the funds expended on a housing unit will be compared to the Note amount. Any funds not expended at completion will be considered a “principal reduction” and will be applied to the principal loan balance thereby lowering the amount owed by the Borrower. Borrowers will receive a closeout letter after the 30-day retention period indicating the amount of their Note, the credit, and the ending balance on their loan. A copy of this credit along with the final cost break-down will be retained in the Borrower’s file.

There is no affordability period in the Sponsor’s ADU/JADU Housing Rehabilitation Program; therefore, all payments and payoffs received are Program Income.

Program Income does not have to be expended on the same type of activity as that from which

the funds were generated, but they are required to be expended on other CalHome eligible activities.

## 2. Payment of Property Taxes and Insurance:

As part of keeping the loan from going into default, Borrower must maintain property insurance coverage naming the Sponsor as loss payee. If Borrower fails to maintain the necessary insurance, the Sponsor may use non-grant funds to take out force placed insurance to cover the property while the Borrower puts a new insurance policy in place. All costs for installing the necessary insurance will be added to the loan balance at time of installation of Borrower's new insurance.

Sponsor is listed a loss payee on all insurance policies and notified when Insurance renews or expires. Sponsor maintains loan servicing software to tracks insurance expirations dates, which is updated daily, the system alerts Loan Servicing Staff of policies about to expire and reports are pulled monthly to identify those not yet renewed or with a lap in coverage. Insurance carriers and Borrowers are contracted regarding expiring or laps policies.

When a property is in a 100-year flood plain, the Borrower will be required to carry the necessary flood insurance. A certificate of insurance for flood and for standard property insurance naming the Sponsor as loss payee will be required at close of escrow. The Sponsor must verify the insurance on an annual basis.

Property taxes must be kept current during the term of the loan. If the Borrower fails to maintain payment of property taxes, the Sponsor may pay the taxes current and add the balance of the tax payment plus any penalties to the balance of the loan. Wherever possible, the Sponsor encourages Borrower to have impound accounts set up with their first mortgagee wherein they pay their taxes and insurance as part of their monthly mortgage payment. Verification of property tax payment is gathered annual at the time of the Annual Occupancy Verification, by verifying receipts for payment or accessing County records to determine if payment was received.

## 3. Required Request for Notice of Default:

When the Borrower's loan is in second position behind an existing first mortgage, it is the Sponsor's policy to prepare and record a "Request for Notice of Default" for each senior lien in front of Sponsor's loan. This document requires any senior lienholder listed in the notice to notify the Sponsor of initiation of a foreclosure action. The Sponsor will then have time to contact the Borrower and assist them in bringing the first loan current, if possible. The Sponsor can also monitor the foreclosure process and go through the necessary analysis to determine if the loan can be made whole or preserved. When the Sponsor is in a third position and receives notification of foreclosure from only one senior lienholder, it is in their best interest to contact any other senior lienholders regarding the status of their loans.

#### 4. Annual Occupancy Verification:

ADU/JADU loans require that the property owner maintain their residency, the Sponsor requires that Borrowers submit utility bills and/or other documentation annually to prove occupancy during the term of the loan.

Occupancy will be verified, reviewed, and certified by the submission of the following:

- Proof of occupancy in the form of a copy of a current utility bill; and
- Statement of unit's continued use as primary residence of the owner.
- Declaration that other title holders do not reside on the premises;
- Verification that Property Taxes are current; and
- Verification of current required insurance policies.

#### 5. Required Noticing and Restrictions on Any Changes of Title or Occupancy:

In all cases where there is a change in title or occupancy or use, the Borrower must notify the Sponsor in writing of any change. Sponsor, or its designated Loan Servicing Agent, and Borrower will work together to ensure the property is kept in compliance with the original Program terms and conditions such that it remains available as an affordable home for low-income families.

Change from owner-occupant to owner-occupant occurs at a sale. When a new owner-occupant is not low-income, the loan is not assumable, and the loan balance is immediately due and payable. If the new owner-occupant qualifies as low-income, the purchaser may either pay the loan in full or assume all loan repayment obligations of the original owner-occupant, subject to the approval of the Sponsor's Loan Committee (depends on the HCD Program).  
Note – CalHome loans are not assumable

Conversion to use other than residential use is not allowable where the full use of the property is changed from residential to commercial or other. In some cases, Borrowers may request that the Sponsor allow for a partial conversion where some of the residence is used for a business but the household still resides in the property. Partial conversions can be allowed if it is reviewed and approved by any and all agencies required by local statute. If the use of the property is converted to a fully non-residential use, the loan balance is due and payable.

For CalHome, the following transfers of interest shall not require the repayment of the CalHome Program loan:

- A. transfer to a surviving joint tenant by devise, descent, or operation of law on the death of a joint tenant;

B. a transfer, in which the transferee is a person who occupies or will occupy the property, which is:

- 1) a transfer where the spouse becomes an owner of the property;
- 2) a transfer resulting from a decree of dissolution of marriage, legal separation agreement, or from an incidental property settlement agreement by which the spouse becomes an owner of the property; or
- 3) a transfer into an inter vivos trust in which the Borrower is and remains the beneficiary and occupant of the property.

#### 6. Requests for Subordinations:

When a Borrower wishes to refinance their existing first mortgage, they must submit a subordination request to the Sponsor. The Sponsor will subordinate their loan only when there is no “cash out” as part of the refinance. No cash out means there are no additional charges on the transaction above loan and escrow closing fees. There can be no third-party debt payoffs or additional encumbrances on the property above traditional refinance transaction costs. The refinance should lower the existing housing cost of the household. The total indebtedness on the property should not exceed the current market value except when the Borrower is obtaining a HARP II or other similar federally approved refinance loan. If the HARP II or other similar financing is approved and meets all other requirements, combined Loan-To-Value will not be considered when reviewing the subordination request.

Also, the loan must:

- A. be fully amortized and have a fixed interest rate that does not exceed the current market rate, as established by an index identified in the most recent NOFA;
- B. not have a temporary interest rate buy-down;
- C. have a term “all due and payable” that matures prior to or concurrently with the maturity date of the Promissory Note. Therefore, the maturity date of the existing Promissory Note should be modified to coincide with the maturity date of the new first mortgage; and,
- D. not have a balloon payment due before the maturity date of the Program loan.

Upon receiving the proper documentation from the refinance lender, the request will be considered by the loan committee for review and approval. Upon approval, the escrow company will provide the proper subordination document for execution and recordation by the Sponsor.

#### 7. Process for Loan Foreclosure:

Upon any condition of loan default: 1) non-payment; 2) lack of insurance or property tax payment; 3) change in title or use without approval; or 4) default on senior loans; the Sponsor, or its designated Loan Servicing Agent, will send out a letter to the Borrower notifying them of the default situation. If the default situation continues, the Sponsor may start a formal process of foreclosure.

When a senior lienholder starts a foreclosure process, and the Sponsor is notified via a Request



for Notice of Default, the Sponsor, who is the junior lienholder, may cancel the foreclosure proceedings by "reinstating" the senior lienholder. The reinstatement amount or payoff amount must be obtained by contacting the senior lienholder. This amount will include all delinquent payments, late charges and fees to date. Sponsor must confer with Borrower to determine if, upon paying the senior lienholder current, the Borrower can provide future payments. If this is the case, then the Sponsor may cure the foreclosure and add the costs to the balance of the loan with a Notice of Additional Advance on the existing note.

If the Sponsor determines, based on information on the reinstatement amount and status of Borrower, that bringing the loan current will not preserve the loan, then staff must determine if it is cost effective to protect their position by paying off the senior lienholder in total and restructure the debt such that the unit is made affordable to the Borrower. If the Sponsor does not have sufficient funds to pay the senior lienholder in full, then they may choose to cure the senior lienholder and foreclose on the property themselves. As long as there is sufficient value in the property, the Sponsor can afford to pay for the foreclosure process and pay off the senior lienholder and retain some or all of their investment.

If the Sponsor decides to reinstate, the senior lienholder will accept the amount to reinstate the loan up until five (5) days prior to the set "foreclosure sale date." This "foreclosure sale date" usually occurs about four (4) to six (6) months from the date of recording of the "Notice of Default." If the Sponsor fails to reinstate the senior lienholder before five (5) days prior to the foreclosure sale date, the senior lienholder would then require a full pay off of the balance, plus costs, to cancel foreclosure. If the Sponsor determines the reinstatement and maintenance of the property not to be cost effective and allows the senior lienholder to complete foreclosure, the Sponsor's lien may be eliminated due to insufficient sales proceeds.

#### 8. Sponsor as Senior Lienholder

When the Sponsor is first position as a senior lienholder, active collection efforts will begin on any loan that is 31 or more days in arrears. Attempts will be made to assist the homeowner in bringing and keeping the loan current. These attempts will be conveyed in an increasingly urgent manner until loan payments have reached 90 days in arrears, at which time the Sponsor may consider foreclosure. Sponsor's staff will consider the following factors before initiating foreclosure:

- A. Can the loan be cured and can the rates and terms be adjusted to allow for affordable payments such that foreclosure is not necessary?
- B. Can the Borrower refinance with a private lender and pay off the Sponsor?
- C. Can the Borrower sell the property and pay off the Sponsor?
- D. Does the balance warrant foreclosure? (If the balance is under \$5,000, the expense to foreclose may not be worth pursuing.)
- E. Will the sales price of home "as is" cover the principal balance owing, necessary advances, (maintain fire insurance, maintain or bring current delinquent property taxes, monthly yard maintenance, periodic inspections of property to prevent vandalism, etc.) foreclosure, and



marketing costs?

If the balance is substantial and all of the above factors have been considered, the Sponsor may opt to initiate foreclosure. The Borrower must receive, by certified mail, a thirty-day notification of foreclosure initiation. This notification must include the exact amount of funds to be remitted to the Sponsor to prevent foreclosure (such as, funds to bring a delinquent BMIR current or pay off a DPL).

At the end of thirty days, the Sponsor should contact a reputable foreclosure service or local title company to prepare and record foreclosure documents and make all necessary notifications to the owner and junior lienholders. The service will advise the Sponsor of all required documentation to initiate foreclosure (Note and Deed of Trust usually) and funds required from the owner to cancel foreclosure proceedings. The service will keep the Sponsor informed of the progress of the foreclosure proceedings.

When the process is completed, and the property has "reverted to the beneficiary" at the foreclosure sale, the Sponsor could sell the home themselves under a homebuyer Program or use it for an affordable rental property managed by a local housing authority or use it for transitional housing facility or other eligible use. The Sponsor could contract with a local real estate broker to list and sell the home and use those funds for Program income-eligible uses.

#### 9. Process Demands and Payoffs:

Requests for demands and payoffs will be processed within the time frame allowed by law. Sponsor or its designated Loan Servicing Agent is proficient in performing the related calculations. Reconveyance and lien releases would be prepared for processing by a qualified Title Company.

Loan Servicing Agent will pull a copy of the recorded documents along with the closeout letter, and account records before calculating the rate to ensure any credits or payments have been applied and confirm with the Sponsor that no current payments have been received, prior to providing a 30-day demand within 48-hours of request.

Upon receipt of the payoff check, the recorded documents are pulled and a Substitution of Trustee, Deed of Reconveyance and Release of Lien are drafted. All documents are reviewed and approved by the Sponsor prior to being sent to escrow or the County Recorder's Office for recording.

## ATTACHMENT G

### CITY OF MERCED'S FORECLOSURE POLICY

#### Sponsor As Junior Lienholder

It is the City of Merced's (Sponsor's) policy to prepare and record a "Request for Notice" on all junior liens (any lien after the first position) placed on properties financed by a loan.

This document requires any senior lienholder to notify the Sponsor of initiation (recording of a "Notice of Default") of a foreclosure only. This is to alert the junior lienholder that they are to monitor the foreclosure with the senior lienholder. When the Sponsor is in a third position and receives notification of foreclosure from only one senior lienholder, it would be in their best interest to contact both senior lienholders regarding the status of their loans.

The junior lienholder may cancel the foreclosure proceedings by "reinstating" the senior lienholder. The reinstatement amount must be obtained by contacting the senior lienholder. This amount will include all delinquent payments, late charges, advances (fire insurance premiums, property taxes, property protection costs, etc.), and foreclosure costs (fees for legal counsel, recordings, certified mail, etc.)

Once the Sponsor has the information on the reinstatement amount, staff must then determine if it is cost effective to protect their position by reinstating the senior lienholder, keeping them current by submitting a monthly payment thereafter, foreclosing on the property possibly resulting in owning the property at the end of foreclosure, protecting the property against vandalism, and paying marketing costs (readying the home for marketing, paying for yard maintenance, paying a real estate broker a sales commission).

If the Sponsor decides to reinstate, the senior lienholder will accept the amount to reinstate the loan up until five (5) days prior to the set "foreclosure sale date." This "foreclosure sale date" usually occurs about four (4) to six (6) months from the date of recording of the "Notice of Default." If the Sponsor fails to reinstate the senior lienholder before five (5) days prior to the foreclosure sale date, the senior lienholder would then require a full pay off of the balance, plus costs, to cancel foreclosure. If the Sponsor determines the reinstatement and maintenance of the property not to be cost effective and allows the senior lienholder to complete foreclosure, the Sponsor's lien may be eliminated due to insufficient sales proceeds.

#### Sponsor As Senior Lienholder

When the Sponsor is in a first position, or the senior lienholder, active collection efforts will begin on any loan that is 31 or more days in arrears. Attempts will be made to assist the homeowner in bringing and keeping the loan current. These attempts will be conveyed in an increasingly urgent manner until loan payments have reached 90 days in arrears, at which time the Sponsor may consider foreclosure. Sponsor staff will consider the following factors before

initiating foreclosure:

- Can the loan be cured (brought current or paid off) by the owner without foreclosure?
- Can the owner refinance with a commercial lender and pay off the Sponsor?
- Can the owner sell the property and pay off the Sponsor?
- Does the balance warrant foreclosure? (If the balance is under \$5,000, the expense to foreclose may not be worth pursuing.)
- Will the sales price of home "as is" cover the principal balance owing, necessary advances, (maintain fire insurance, maintain or bring current delinquent property taxes, monthly yard maintenance, periodic inspections of property to prevent vandalism, etc.) foreclosure, and marketing costs?

If the balance is substantial and all of the above factors have been considered, the Sponsor may opt to initiate foreclosure. The owner must receive, by certified mail, a thirty-day notification of foreclosure initiation. This notification must include the exact amount of funds to be remitted to the Sponsor to prevent foreclosure (such as, funds to bring a delinquent BMIR current or pay off a DPL).

At the end of thirty days, the Sponsor should contact a reputable foreclosure service or local title company to prepare and record foreclosure documents and make all necessary notifications to the owner and junior lienholders. The service will advise the Sponsor of all required documentation to initiate foreclosure (Note and Deed of Trust usually) and funds required from the owner to cancel foreclosure proceedings. The service will keep the Sponsor informed of the progress of the foreclosure proceedings. When the process is completed, and the property has "reverted to the beneficiary" at the foreclosure sale, the Sponsor would then contact a real estate broker to market the home.

**ATTACHMENT H**

**CERTIFICATION OF OCCUPANCY CITY OF MERCED**

I/We \_\_\_\_\_ declare as follows:  
(Please Print Occupant/Borrower's Name(s))

That I/we am/are currently occupying as my/our principal place of residence the real property commonly known as:

\_\_\_\_\_  
(Address)

\_\_\_\_\_  
(City, State, Zip code)

Daytime Phone Number: \_\_\_\_\_

Executed on \_\_\_\_\_, 20\_\_\_\_, at \_\_\_\_\_, CA (Date)  
(City)

I/We declare under penalty of perjury that the foregoing is true and correct. Signature(s) of  
all occupants:

Occupant: \_\_\_\_\_

Occupant: \_\_\_\_\_

Occupant: \_\_\_\_\_

Occupant: \_\_\_\_\_

Occupant: \_\_\_\_\_

Occupant: \_\_\_\_\_

## ATTACHMENT I

### HOUSING REHABILITATION/RECONSTRUCTION PROGRAM CONTRACTOR GUIDELINES AND INFORMATION SHEET



#### SELF-HELP ENTERPRISES

#### Housing Rehabilitation/Reconstruction Program Contractor Guidelines and Information Sheet

##### Introduction

The mission of Self-Help Enterprises (SHE) is to work together with low-income families to build and sustain healthy homes and communities.

Though known as a top agricultural production region, the San Joaquin Valley has among the highest poverty rates in the State of California with many rural, unincorporated communities lacking adequate housing, water and sewer services. In particular, the people who provide the source of labor for the agricultural fields can find little except substandard housing in existing stock, and have insufficient income to qualify for standard new home loans. Similarly, the low income, elderly, and handicapped often find themselves trapped in substandard housing. Through our programs, staff works with cities, counties and residents to help meet the needs of our participants and the communities they call home.

SHE appreciates your interest in improving the housing conditions of low-income families in the San Joaquin Valley. It is our hope that together we can realize the dream of safe and decent housing for the less fortunate in our community.

##### A. General Program Information

The aim of the ADU/JADU Housing Rehabilitation/Reconstruction Program is to repair or replace houses making life-safety and sanitary upgrades under the standards of the California Building Code (CBC) and the requirements of the State and/or Federal funding sources.

To accomplish this, Self-Help Enterprises (SHE):

1. Assists the jurisdiction to apply for funds providing low-interest financing to eligible Owners so that they can afford to rehabilitate or reconstruct their home or rental unit;
2. Contracts with the jurisdiction to provide technical assistance for the financial and construction aspects of the program; and
3. Keeps projects on schedule, running smoothly, and when problems arise, works with all parties to swiftly resolve those problems.

## **B. Work Standards**

The work must meet all applicable building codes and be done in a competent manner. We expect professional quality. Everything must be functional, visually acceptable, and be built to California Building Performance Guidelines for Residential Construction Standards.

## **C. Contractor Eligibility**

1. Contractors must be licensed in the State of California as a Class B General Contractor and their license must be in good standing with the Contractors' State Licensing Board;
2. California law requires Contractors have a minimum of \$1,000,000.00 liability insurance, worker's compensation, and a valid Contractor Bond. ***Evidence of these must be provided prior to entering into a Construction Contract and insurance must be in force throughout the term of the Contract;***
3. Contractors will be checked against the Federal System for Award Management (SAM.gov) for debarred status. Contractors listed on the Excluded Parties List System (EPLS) are ineligible;
4. Contractors must complete an application;
5. Contractors may be asked to participate in project orientation; and
6. Contractors will receive an evaluation after every project.

## **D. Contractor Suspension/Elimination from Bid List**

A Contractor will be moved to the Inactive Contractor List for the reasons identified below and/or if a performance evaluation results in a Below Standard rating. If not permanently eliminated, a Contractor can submit a request to be reinstated to Active status upon correction of the issue or following the time period found in parenthesis by each reason.

1. Contractor fails to return the annual request for confirmation of interest in remaining on the Active Contractor List (Upon Receipt of Confirmation of Interest)
2. Contractor's license is no longer valid (Upon Proof of Correction)
3. Inability to acquire insurance (Upon Proof of Correction)
4. Failure to finish one or more projects in the time specified in the Contract (One Year)
5. Failure to prove the knowledge and/or ability to perform the work required of any given Contract per the California Building Code (One Year AND Upon Proof of Correction)
6. Quality of work does not meet specifications in the Contract (One Year)
7. Failure to resolve legitimate complaints about the workmanship and/or materials (Permanent Elimination)
8. Evidence of financial problems (One Year AND Proof of Positive Credit/Credit Report)
9. Withdrawal of bids and/or failure to attend bid tours (Six Months)
10. Pressuring Owners to choose a specific Contractor; promising rebates, kickbacks, or additional work not included in the bid documents, or otherwise trying to circumvent the bid process in an unethical or illegal manner (Permanent Elimination)
11. Failure to disclose that the Contractor, or an employee of the Contractor, is the Owner of, or has a financial interest in, the property the Contractor is rehabilitating (Permanent Elimination)
12. Failure to comply with established jurisdiction guidelines and/or standards (Permanent Elimination)

### **E. Federal/State Requirements**

The paperwork required (contracts, bid procedures, payment requisition, etc.) is designed to protect the Contractor's and Owner's interests, and it is far less complicated than the typical federally-funded project.

Three requirements to take note of are:

1. Equal opportunity laws govern the program. Discriminatory practices in the employment of individuals based on race, creed, color, gender, age, religion, or national origin are unacceptable;
2. No jurisdiction or SHE employee can have any direct or indirect financial interest in the work to be performed and cannot have any financial dealings with Contractors or Owners involved in the program; and
3. Neither a Contractor, nor their employee(s) can be the Owner of or have a financial interest in the property, except as an Owner-Builder.

### **F. Scope of Work**

The Owner, working with SHE staff and jurisdiction inspectors, decides on the work. This is specified in the bid documents and any drawings needed.

### **G. Bid/Contractor Selection**

When a home comes up for bid in the area(s) you requested, your name/company will be submitted with other contractors to the family for consideration. If the family selects your name, you will be contacted by a SHE Rehabilitation Specialist to attend a bid tour. Owners have the right to exclude Contractors from the list without justification, and they may request that other qualified Contractors be added. Contractors will be notified via telephone and/or in writing (email, fax, etc.) at least one week prior to each bid tour.

1. Contractors must develop a proven performance record to be awarded multiple contracts. A Contractor develops a proven performance record upon completion of the following steps:
  - a. All new Contractors who have been awarded their first contract under the Housing Rehabilitation Programs operated by SHE are not eligible to receive additional contracts until the awarded contract is completed and project performance is evaluated by the jurisdiction's building official or building inspector and SHE's Rehabilitation Construction Manager or Rehab Specialist (see attached Contractor Project Performance Evaluation).
  - b. After completion and positive evaluation of the first contract, a Contractor may be awarded two contracts but will not be eligible to receive additional contracts until one or both of the two awarded contracts are completed and evaluated.
  - c. Following the completion of three, positively evaluated contracts, a Contractor is considered to have established a proven performance record. Once a Contractor establishes a proven performance record, that Contractor is eligible to bid and receive multiple contracts.
2. Contractors cannot submit a bid on any property in which they have a vested interest. Such a Contractor may act as an Owner-Builder, subject to standard construction procedures. (Owner- Builders are reimbursed for purchased materials which are verified

- by invoice/receipt and used on the project, but they are not reimbursed for labor. Reimbursement occurs after the work is completed, inspected by the Building Department as required/applicable, and verified by a SHE Rehabilitation Specialist).
3. Homeowners are encouraged to accept the lowest reasonable bid. Reasonableness is determined by comparing the bids received with the cost estimate prepared by the SHE Rehab Specialist. Bids should be within 10% of SHE's cost estimate.
  4. The total bid amount is **non-confidential** and available for everyone to see. However, the itemized amounts for each part of the work required with the bid are **confidential**.
  5. Construction Contract is between the Owner and Contractor. Neither the jurisdiction nor SHE is a party to the Contract. The Owner pays for all work specified in the Contract from the loan which he or she has received.

#### **H. Change Orders**

All changes in the scope of work must be in writing and approved by the Owner, Contractor, SHE Rehab Specialist, and the jurisdiction. No changes to the scope of work should be handled without a written change order. It is not a sound business practice. The Contractor has no guarantee of payment without an approved, written change order.

#### **I. Loan Funds**

Loan funds are safe. A construction account is established with SHE for each project. Before the project starts, the loan funds are on deposit. Since no money can be withdrawn without authorization by the Owner and review by SHE, you can be assured that funds are available to cover the amount of the Contract.

#### **J. Payment**

Contractor submits an invoice for a progress payment based on work completed. The invoice must be inspected and approved by the Owner and SHE's Rehab Specialist prior to payment of the invoice. Generally a contractor will receive payment by mail within two (2) to three (3) weeks after submitting an invoice.

Ten Percent (10%) of each invoice will be withheld and paid to the Contractor thirty-five days after the Notice of Completion has been recorded and all paperwork has been submitted and pick up/punch list work completed.

We look forward to talking to you more about this opportunity. Please feel free to call the office if you would like more information.

Melissa Valdez  
Assistant Director of Strategic Partnerships 559-802-162



## CONTRACTOR PROJECT PERFORMANCE EVALUATION INSTRUCTIONS

### I. Introduction

Contractor performance is defined as how a contractor carries out the obligations of the contract. This includes all requirements stated in the contract scope of work, provisions, and SHE's General Specifications, adherence to the budget or price, and the provision of customer service. The purpose of this document is to establish a standardized process for Self-Help Enterprises (SHE) to identify, document, and communicate performance with contractors and other program, SHE, and City staff. The process used provides staff the ability to identify performance issues, if any, as they arise. The performance evaluation and rating process provides feedback to contractors with below standard, standard, and above standard performance.

Performance evaluations will occur at the end of the life of the contract, no later than 30 calendar days following the final walk-through, clearance of any punch list items, or submission of the contractor's final invoice, whichever occurs later. SHE will email or mail a copy of the results of the evaluation to the contractor for review and comment. The evaluation process is NOT a collaborative process between the contractor and staff. Contractors do not participate in the evaluation and rating process. The purpose for sharing the evaluations with the contractor is to provide feedback to the contractor on performance.

All evaluation results will be recorded by SHE to determine eligibility, and Active or Inactive status, of the contractor for future contracting.

### II. General Instructions

#### A. Contractor Notification

Contractor should be made aware of the evaluation process prior to receiving the results of the evaluation. Contractors attending a bid tour will receive a copy of this document to explain the purpose of the evaluation, process, and rating system. Contractors requesting additional information about the evaluation process will be instructed to contact SHE directly.

#### B. Evaluation Timeline

Performance evaluations must be completed no later than 30 calendar days after the final walk-through, clearance of any punch list items, or submission of the contractor's final invoice, whichever occurs later. During the 30 calendar days, the evaluation is conducted, the results are sent to the contractor and the contractor is provided 14 calendar days to review the results and submit comments to SHE. There is some flexibility of this time line for unforeseen or unusual circumstances (e.g., a death in the family).

### III. Evaluation Process

The staff member(s) conducting the evaluation must be familiar with the contract and the contractor's performance. Unless otherwise stated in writing, the jurisdiction's building official or building inspector and SHE's Rehabilitation Construction Manager or Rehab

Specialist will perform the performance evaluation. These individuals are referred to as the “Evaluators” in performance evaluation related materials.

#### IV. Below Standard Ratings & Disputes

Performance evaluations may result in a Below Standard rating. If this occurs, the Evaluators will move the contractor from the Active Contractor List to the Inactive Contractor List with reasons noted and send the contractor a letter of explanation along with the copy of his or her evaluation results.

Regardless of the rating given, a contractor may disagree with the evaluation/rating. A contractor must dispute his or her evaluation by submitting comments to SHE within 14 days of receiving his or her copy of the evaluation results. Upon receipt of a dispute, the Evaluators will review the contractor’s comments and respond to the contractor by elaborating on the reasons for the rating given.

#### V. Evaluation Category Definitions and Factors

The seven categories listed below are used by SHE to assess each contractor’s performance during the contract period. Each evaluation category is described and examples of possible factors provided. Factors listed below that are not applicable can be removed from the list and replaced with applicable factors developed by the Evaluators. While factors can be customized, the descriptions CANNOT.

Each contract is unique and the Evaluators should utilize contract specific factors to evaluate performance under each category. This necessary flexibility may be confusing to contractors and will require thoughtful explanation. If the contractor requires clarification or additional information about the categories or evaluation process, they may contact SHE directly.

A. **Quality:** The contractor achieved desired outcomes with a minimum of avoidable errors and problems. Work met the requirements, expectations, or desired outcomes as set forth in the contract/scope of work. The work was accurate and complete. The work was done in an efficient and effective manner.

**Factors:**

- Overall compliance – the contractor complied with the terms and conditions (to include program and funding requirements) of the contract and showed an understanding of agency’s standards and expectations.
- Conformity to specifications – the product or service conformed to the specifications identified in the original solicitation and contractual agreement. The product performed and/or the services were provided as expected.
- Reliability – the rate of product failure was within reasonable limits or repairs and rework was acceptable.
- Durability – reasonable period of time lapses before replacement is necessary.
- Support – available from the contractor in a reasonable period of time and met the need for assistance.

- Warranty – reasonable length and provisions of warranty protection offered and problems resolved in a timely fashion.
- State-of-the-art product/service – The contractor offered products and/or services consistent with industry standards. The contractor consistently refreshes product life by adding enhancements.

B. Timeliness: The contractor performed work within the time frames identified or specified in the contract/scope of work and kept the project on schedule.

**Factors:**

- The contractor delivered product and/or services by date agreed to in the contract.
- The contractor met timelines for the submission of deliverables such as reports, plans, invoices, etc.
- The contractor responded/replied to requests for information or assistance in a reasonable period of time.
- The contractor's average delivery time was comparable to that of other contractors for similar products and/or services.

C. Price/Budget: The contractor effectively managed costs and the value of the product and/or services received supported the costs. The contractor adhered to budget as specified in the contract/scope of work.

**Factors:**

- Contractor's invoices were accurate with appropriate backup documentation.
- Estimates did not vary from the final invoice.
- There were a low number of variances from the initial agreed to prices and the costs stated on received invoices.
- The contractor was sensitive to costs and demonstrated respect for funding and the agency's needs.

D. Business Relations/Customer Service: The degree to which the contractor was professional and respectful in its business approach and interactions with the agency.

**Factors:**

- The contractor was courteous, cooperative, and had a professional approach in all forms of communication.
- The contractor handled complaints efficiently and effectively.
- The contractor was knowledgeable about the project and/or had the expertise to provide assistance as requested.
- The contractor managed change effectively.
- The contractor attempted to resolve problems in a timely manner and followed up with a status report.
- The contractor provided technical support for maintenance, repair, and installation situations. Technical instructions, documentation, and general information was also provided.
- The contractor provided training on the effective use of its products or services.

E. Deliverables/Requirements: The degree to which the contractor was compliant in meeting the

standards of contract requirements and deliverables.

**Factors:**

- All deliverables submitted were complete, accurate, and submitted within the required timeline using required forms or format, if applicable.
- Requirements were demonstrated and/or documented.

F. **Safety:** The degree to which the contractor mitigated and demonstrated freedom from risk of injury, danger, damage, or loss of life or property.

**Factors:**

- The contractor complied with all Federal, State, and local laws and regulations concerning the health and safety of workers, the general public, and personal property.
- Contractor's safety record for the project.

G. **Dependability:** The degree to which contractor demonstrated trustworthiness and reliability.

**Factors:**

- The contractor was fair, honest, and reasonable in interactions with the agency.
- The contractor demonstrated consistency in business operations.
- The contractor was sincere in efforts to deliver a quality product and/or services.
- The contractor followed through on agreements made with the program/agency.

## VI. Contractor Performance Rating Definitions and Factors

The following three ratings make up the evaluation rating structure. These rating definitions and factors CANNOT be customized.

A. **Below Standard:** Contractor performance has been less than standard or satisfactory. This rating encompasses contractors whose performance does not consistently meet expectations defined in the contract/scope of work.

**Factors:**

- Contractor performance does not consistently meet expectations defined in the contract.
- Close supervision of the contractor was required to progress the work.
- Work was unsatisfactory and consistently failed to meet expectations.
- Lack of cooperation.
- Most performance requirements were not met.
- Significant cost overruns.
- Many schedule slips with negative cost impact.
- Lack of user satisfaction.

B. **Standard:** Contractor has met all specifications and requirements. This rating includes a range of expected performance as stated in the contract/scope of work to support the project.

**Factors:**

- Contractor exhibits competency in the assignments and consistently meets the desired expectations of the project.
- Contractor meets standards and objectives and all performance requirements.

- Contractor sometimes exceeds expectations.
- Contractor met overall price.
- Contractor met expectations.
- Deliveries were on time.
- Project schedule was not impacted.
- Adequate user satisfaction.

**C. Above Standard:** Contractor performance exceeds standard or satisfactory. This rating represents consistent and exceptional performance or consistently superior achievement beyond regular assignments and expectations as stated in the contract/scope of work.

**Factors:**

- Meeting and exceeding performance requirements.
- Significant positive impact to the project.
- Reduced costs while meeting contract requirements.
- All deliveries on time with some arriving early.
- Significantly exceeded expectations.
- High user satisfaction.
- Highly responsive and proactive.

## VII. CONTRACTOR PERFORMANCE EVALUATION

### CONTRACTOR PROJECT PERFORMANCE EVALUATION

File #: \_\_\_\_\_ Contractor Name: \_\_\_\_\_ Project: \_\_\_\_\_  
License #: \_\_\_\_\_ Project Address: \_\_\_\_\_  
Project Address: City/State/Zip: \_\_\_\_\_ City/State/Zip: \_\_\_\_\_

	Below Standard	Standard	Above Standard
<b>Overall Rating:</b>			
1. Quality			
2. Timeliness			
Original Contract Completion Date:			
Actual Contract Completion Date:			
3. Price/Budget			
Original Contract Amount: \$ _____			
Final Contract Amount: \$ _____			
4. Business Relations/Customer Service			
5. Deliverables/Requirements			
6. Safety			
7. Dependability			

#### Evaluator Information:

Printed Name: \_\_\_\_\_ Organization: \_\_\_\_\_  
Title: \_\_\_\_\_ Address: \_\_\_\_\_  
City/State/Zip: \_\_\_\_\_  
Signature/Date: \_\_\_\_\_

#### Comments:

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### PERFORMANCE FACTORS

**1. Quality:** The contractor achieved desired outcomes with a minimum of avoidable errors and problems. Work met the requirements, expectations, or desired outcomes as set forth in the contract/scope of work. The work was accurate and complete. The work was done in an efficient and effective manner.

#### FACTORS:

Overall compliance – the contractor complied with the terms and conditions (to include program and funding requirements) of the contract and showed an understanding of agency's standards and expectations

Conformity to specifications – the product or service conformed to the specifications identified in the original solicitation and contractual agreement.

The product performed and/or the services were provided as expected

Reliability – the rate of product failure was within reasonable limits or repairs and rework was acceptable

Durability – reasonable period of time lapses before replacement is necessary

Support – available from the contractor in a reasonable period of time and met the need for assistance

Warranty – reasonable length and provisions of warranty protection offered and problems resolved in a timely fashion

State-of-the-art product/service – The contractor offered products and/or services consistent with industry standards. The contractor consistently refreshes product life by adding enhancements

**2. Timeliness:** The contractor performed work within the time frames identified or specified in the contract/scope of work and kept the project on schedule.

FACTORS:

The contractor delivered product and/or services by date agreed to in the contract

The contractor met timelines for the submission of deliverables such as reports, plans, invoices, etc.

The contractor responded/replied to requests for information or assistance in a reasonable period of time

The contractor's average delivery time was comparable to that of other contractors for similar products and/or services

**3. Price/Budget:** The contractor effectively managed costs and the value of the product and/or services received supported the costs. The contractor adhered to budget as specified in the contract/scope of work.

FACTORS:

Contractor's invoices were accurate with appropriate backup documentation

Estimates did not vary from the final invoice here were a low number of variances from the initial agreed to prices and the costs stated on received invoices

The contractor was sensitive to costs and demonstrated respect for funding and the agency's needs

**4. Business Relations/Customer Service:** The degree to which the contractor was professional and respectful in its business approach and interactions with the agency.

FACTORS:

The contractor was courteous, cooperative, and had a professional approach in all forms of communication

The contractor handled complaints efficiently and effectively

The contractor was knowledgeable about the project and/or had the expertise to provide assistance as requested

The contractor managed change effectively

The contractor attempted to resolve problems in a timely manner and followed up with a status report

The contractor provided technical support for maintenance, repair, and installation situations. Technical instructions, documentation, and general information was also provided

The contractor provided training on the effective use of its products or services

**5. Deliverables/Requirements:** The degree to which the contractor was compliant in meeting the standards of contract requirements and deliverables.

FACTORS:

All deliverables submitted were complete, accurate, and submitted within the required timeline using required forms or format, if applicable

Requirements were demonstrated and/or documented

**6. Safety:** The degree to which the contractor mitigated and demonstrated freedom from risk of injury, danger, damage, or loss of life or property.

FACTORS:

The contractor complied with all Federal, State, and local laws and regulations concerning the health and safety of workers, the general public, and personal property

Contractor's safety record for the project

**7. Dependability:** The degree to which contractor demonstrated trustworthiness and reliability.

FACTORS:

The contractor was fair, honest, and reasonable in interactions with the agency

The contractor demonstrated consistency in business operations

The contractor was sincere in efforts to deliver a quality product and/or services

The contractor followed through on agreements made with the program/agency