

Rental Rehabilitation Program

Program Guidelines
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Purpose

The purpose of the Rental Rehabilitation Loan Program (the “Program”) is to provide moderate rehabilitation assistance to eligible, responsible property owners of affordable one-to-seven-unit properties desiring to make property improvements that provide safe, decent, and healthy rental units in the City of Saint Paul. The targeted properties are generally considered unsubsidized, or naturally occurring affordable housing (NOAH); properties acquired through a St. Paul NOAH acquisition program and/or participating in the 4d program are considered NOAH and are eligible.

Operation

- A. The City of Saint Paul (“City”) operates the Program. The Housing and Redevelopment Authority (“HRA”) of the City provides funding for the Program through HRA flexible funds.
- B. It is the intent of this Program that repayment of loan funds will be deposited into the Program account to be used again for future Program expenses including future loans.

General Policies

These guidelines are intended to be stated in a concise manner and to be consistent, to the degree practicable, with other rehabilitation loan programs.

Definitions

Area Median Income (“AMI”)

The Median Family Income as most recently established by U.S. Department of Housing and Urban Development for the Minneapolis/St. Paul standard metropolitan statistical area, as adjusted for family size.

Multifamily Tax Subsidy Projects (MTSP) maximum rents

The maximum rents allowed for Low-Income Housing Tax Credits (LIHTC), Tax-Exempt Bonds and the Low and Moderate Income Rental Program (LMIR) as published annually by Minnesota Housing for the Minneapolis/St. Paul standard metropolitan statistical area.

Applicant

One who makes application for rehabilitation assistance.

Borrower

One or more persons who apply for and receive rehabilitation assistance in conformance with the requirements of these guidelines.

Program Contact

The PED staff member who is responsible for the management of the Rental Rehabilitation Program.

Denial of Rehabilitation Assistance

Rehabilitation assistance may be denied for the following reasons:

- a. The Applicant or property does not meet these Program guidelines; or,
- b. The Program does not have sufficient funding; or
- c. The amount of rehabilitation to be done is not sufficient to make the property safe for habitation/the structure is beyond repair, according to current housing quality standards. The City of St. Paul Code of

Ordinances: Minimum Property Maintenance Standards, Chapter 34 should be used as the reference for meeting housing quality standards; or

- d. The HRA determines the project is not the best use of funds.

Fees

Fees may be collected from the Applicant or Borrower unless prohibited by a funding source. Applicable fees are outlined in Attachment B – Fee Schedule, which is subject to change. Only the Lead Based Paint Risk Assessment Fee and Lead Based Paint Risk Clearance Test Fees may be included in the loan.

Repeat Participation

Borrowers are permitted to receive a total of \$75,000 in Program assistance per property only once every 10 years.

Loan Security

A Loan Agreement and Mortgage Lien is required on all properties being improved. As part of the Mortgage Lien, an affordability covenant will be recorded.

Prepayment Penalty

There shall be no penalties or charges due to any prepayment of all or part of a loan, but prepayment shall not discharge the affordability requirements.

Eligibility Requirements

Eligible Properties

To be eligible for rehabilitation assistance, a property must:

- a. Be located in the City of Saint Paul;
- b. Contain no more than 7 residential units;
- c. At least 50% of units must be rented to tenants at or below 60% of Area Median Income (AMI) as set by the Department of Housing and Urban Development ("HUD") and as published by Minnesota Housing Finance Agency ("MFHA") Multifamily Tax Subsidy Project ("MTSP") as listed on the Minnesota Housing website;
- d. Possess a current certificate of occupancy ("C of O") except in the case of an owner occupied duplex;
- e. Have its own legal description.

Eligible Applicants

The Program targets responsible property owners, defined as property owners who meet the following requirements:

- Property owners who can show a history of upgrading and maintaining their property at a C classification or higher according to the Department of Safety and Inspections rating system (For more information please visit: <https://www.stpaul.gov/departments/safety-inspections/rent-buy-sell-property/maintaining-your-property/multi-family-residential>); and/or property owners who show genuine desire to make upgrades to the property, but may not have been previously able, due to cost;
- Property owners who can show a feasible financial plan to maintain their property moving forward;
- Be willing to restrict rents and tenant incomes at or below 60% AMI on at least 50% of the property units through the life of the 10-year loan term;
- Not permanently displace existing tenants (except for just cause as defined in the Rent Stabilization Ordinance);
- Not discriminate based on source of rent;
- If property is rated a D under C of O classification, property owners must demonstrate the ability to improve the

classification to at least a C using Program funds and within the Program parameters;

- Ensure that proper City zoning approvals and/or permits are secured, as applicable, related to any changes or modifications to the property;
- Possess current property insurance, including, if applicable, flood insurance.
- Are not delinquent or in default on any public debts, such as tax liens, federally insured student loans, child support payments, or judgments AND for any debts that have been in default in the past 7 years can provide at least a 6-month payment history on an established repayment plan that has been approved by the creditor;
- Have not filed a Chapter 13 bankruptcy AND 1) if not discharged, have received approval from the bankruptcy court to take on additional debt, or 2) if discharged, can apply one year after the date of discharge;
- Have not filed a Chapter 7 bankruptcy that has is open or has been discharged within the past year;
- Cannot be on the City adverse lending list;
- Are not suspended or debarred with the State of Minnesota or the federal government;
- Are not delinquent on property taxes, trash, water or sewer bills, or do not have any outstanding or delinquent accounts on any property of which they are a principal owner within the City of Saint Paul;
- Have a record of compliance with the City of Saint Paul's codes, ordinances, and policies and any other local, state, or federal rules and regulations that apply. Isolated violations will not be considered as a failure if addressed in a cooperative manner;
- Can provide information regarding the length of time they have owned the property.

Eligible Improvements

Eligible improvements must be permanent improvements. The HRA reserves the right to deny the use of certain fixtures or types of materials if it is determined that they are substandard, or that another suitable fixture is more cost effective.

The following are Eligible Uses of Program Funds:

- Lead hazard abatement. If there appears to be lead-based paint exposure in the units, it must be addressed to EPA standards. Applicants may appeal the determination and pay to have a scientific risk assessment done. If the presence of lead is confirmed by the risk assessment, this must be addressed to EPA standards. A clearance assessment test will be conducted once the lead hazard reduction work is completed;
- Any improvements made to comply with state, county or municipal health, housing, building, fire, Housing Quality Standards (HQS), Section 8 and housing maintenance codes;
- Improvements that improve energy efficiency or reduce carbon emissions at the property, as long as improvements are not deemed ineligible per other criteria in this document;
- Improvements made to increase the livability and/or the attractiveness and curb appeal of the property;
- Improvements made to enhance accessibility and/or comply with ADA regulations;
- Landscaping work, but limited to ground cover which corrects poor grade around the foundation walls and trimming of tree branches interfering with the structure of the house;
- Trees and shrubs as part of a larger scope of work;
- Professional services related to the improvements that do not exceed five percent (5%) of the total rehabilitation amount. Services may include architectural designs;
- Appliances as part of a larger scope of work;

Ineligible Improvements

Improvements and elements that are not Eligible Uses include, but are not limited to:

- Furniture, or other personal items

- New construction of decks, patios, sheds, or other outbuilding
- Fences
- Refinancing of existing debt
- Hot tubs, whirlpool bath, or saunas or other recreation or entertainment facilities
- Working capital
- Payment to a contractor that was hired by the owner prior to the approval and closing of the Rental Rehabilitation Loan
- Sweat equity payment for the owner's own labor and performance for rehabilitation as well as any equipment or tools purchased by the owner to complete construction
- Project improvements commenced prior to the receipt of a signed funding agreement from the City (except architectural design)

Funding Terms and Requirements

Award Details

- The maximum loan under the Rental Rehabilitation Program is \$75,000 per property. The minimum loan is \$5,000. However, the total allowable construction amount can exceed the \$75,000 cap if the owner can supply additional funding for the rehabilitation. The owner will be required to pay for any additional cost in excess of the \$75,000 if necessary to upgrade the DSI classification from a D rating. The additional funds provided by the Applicant are to be kept in an escrow account held by the HRA unless certain third party funds are secured, in which case the escrow requirement may be waived.
- The maximum available assistance that can be used to complete the scope of work in the form of a rental rehabilitation loan will be set at the lower of (1) the \$75,000 maximum loan amount mentioned above; and (2) the amount necessary to complete the Scope of Work as determined/approved by the Program Contact.
- If the cost to complete the Scope of Work exceeds the maximum loan amount, then the owner will be provided the opportunity to demonstrate that they have adequate additional equity to complete the Scope of Work. Equity must be in cash form that can be deposited in an escrow account for the duration of the project period.

Loan Terms

- The loan principal will be paid quarterly over 10 years with 0% interest
- If the property has an A, B or C fire inspection grade at the time of the loan closing, the property must be enrolled in the Saint Paul 4d program and the 4d covenants relating to rent and income restrictions must be recorded against the property at the closing of the rental rehab loan. If the property has a grade below C (e.g. fire inspection grade D), then a 4d declaration will be recorded on the property after the completion of the rehab work, and after a fire certificate of occupancy inspection is completed at the property with at least a C grade.
- Properties must preserve at least 50% of units for tenants at or below 60% AMI, and must also meet or exceed rent and income restrictions as specified within the Saint Paul 4d program guidelines (available at <https://www.stpaul.gov/4d>)
- After a 4d program is recorded on the property, properties must comply with all Saint Paul 4d program guidelines. If the 4d guidelines conflict with the rental rehab guidelines the 4d guidelines govern.
- Income qualification of tenants is determined upon initial occupancy only. Thereafter, increased incomes of tenants in affordable units will not violate the Program requirements
- Rent for Rental Rehab units may not be raised by more than 3% during the 12 month 4d annual compliance period, unless the unit is turning over to a new tenant and the previous lease ended with a voluntary move out, or a just cause lease termination. Property owners are not required to seek permission to raise rents at the time of unit turnover, and certification of just cause increases will be self-reported by property owners as a part of the annual compliance process for the 4d program.
- A DSI downgrade to a D rating at any time during the loan term will be considered a condition of default; property owners will have 120 days from receipt of written default notice to cure the condition of default and bring the

property above a D rating

- Once the scope of work is complete, all properties in the Rental Rehab Program will become subject to a streamlined 4d and Rental Rehab compliance process. Properties that maintain compliance with the 4d program will be considered in compliance with the Rental Rehab Program.

Application Process, Underwriting, Loan Approval, Loan Closing and Compliance

Application Process

A property owner interested in participating in the City's Rental Rehabilitation Program must complete an application and submit all required application materials along with a check for a non-refundable fee of \$50 to:

Department of Planning and Economic Development (PED), City of Saint Paul
Attn: Rental Rehab Program
25 W 4th Street, Suite 1100
Saint Paul, MN 55102

The Program will have an open application period based on funding availability. Loan applications are processed on a first come, first serve basis.

If you have questions specific to the Program, reach out to the Program Contact at the bottom of the Program website (<https://www.stpaul.gov/departments/planning-and-economic-development/housing/rental-rehab-loan-program>) or call the general housing division line at 651-266-6655.

Underwriting

All loans will be underwritten by the City's Planning and Economic Development Department ("PED") staff. The financial strength of the Applicant and the anticipated success of the project will be assessed based on the ability to repay the loan and continue to maintain the property.

Loan Approval

The Program Contact for the Rental Rehab Program will review each application and will make a recommendation for final approval or denial to the Residential Finance Manager or Housing Director within PED. A commitment letter of funding will be provided to the Applicant after approval.

Loan Closing

A loan closing will be scheduled with the Applicant. The Applicant will be required to sign a note, mortgage loan agreement and other documents with the City prior to commencing improvements. Other than for architectural designs, project expenditures made prior to the execution of a loan agreement are not eligible for reimbursement.

Compliance

The Borrower shall comply with all applicable local, State, and Federal environmental laws and regulations, and will obtain and maintain compliance under any and all necessary environmental permits, licenses, approvals or reviews.

Funding available to the City for grants and loans may come from various sources including local, federal, or state sources, which means there are some restrictions or requirements that must be met. Additionally local ordinances may apply. City staff will determine restrictions that will apply to every loan based on the funding sources.

Eligible Contractors

General Requirements

Contractors are eligible to enter into a rental rehab contract if they meet the following requirements:

- Have an identified Lead Supervisor, certified by the Minnesota Department of Health, if projects disturb painted surfaces above HUD's de minimis levels or involving lead based paint hazard reduction or abatement when Federal funds are the funding source; ²
- Have the appropriate contractor license from the Minnesota Department of Labor & Industry; and,
- Have demonstrated their ability to meet the minimum insurance requirements required by the City for commercial general liability insurance and worker's compensation insurance.

Business Certification

The Central Certification (CERT) Program certifies small businesses, including small Minority-Owned Business Enterprises (MBE), small Women-Owned Business Enterprises (WBE), Small Business Enterprises (SBE), or other similar certification program offered by the City of Saint Paul's Human Rights & Equal Economic Opportunity office. Contractors that are in the CERT program are encouraged and will be identified as such on the Contractor list.

Contractor List

Staff from PED – Housing Division may maintain a Contractor List of the names of contractors who meet the General Requirements outlined above. Staff should never:

- Refer a contractor to an Applicant or Borrower; or,
- Select a contractor for an Applicant or Borrower.

Staff can provide an Applicant or Borrower with the Contractor List. If the Contractor List is provided, the Applicant or Borrower must sign a liability disclaimer.

² Applies only to Eligible Properties built before January 1, 1978.

General Requirements and CERT status for each contractor are to be reviewed and updated at least annually.

Scope of Work

The Applicant will develop a detailed scope of work to be submitted to the City after initial application approval. The scope of work may include the designs, description and cost of the proposed improvement. PED staff may adjust the initial scope of work at any time based on the DSI work order, health and safety requirements, and the historic and environmental review provided by the City.

Bidding

The Applicant must select at least two (2) contractors to bid on the Scope of Work.

Construction Escrow Set Up and Disbursements

A construction escrow account will be setup and administered by the City's Accounting department. Disbursement requests are made by contractors to the Program Contact on a reimbursement basis as work is completed. The Program Contact will work with other PED staff to verify disbursement requests before processing a payment request to Accounting.

Staff will review the Scope of Work items for which a contractor payment is being requested. Items found to be incomplete or deficient shall not be included in the payment request. Staff may withhold a final payment to the contractor until the project is completed, lead paint final clearance has been made, etc.

Lien waivers must accompany each payment request. A full and final lien waiver from all contractors and subcontractors and a successful Lead Clearance Test is required for final payment.

If an Applicant is utilizing another source of loan or grant funds, the escrow requirement may be waived if evidence of an approval for those funds is provided.

⁴ Exceptions are allowed for larger projects.

⁵ A closed permit is verification the Eligible Improvements were done according to applicable codes

Program Subject to Alteration, Suspension and Discontinuation

The City reserves the right to alter these Guidelines and to suspend or discontinue the Program at any time.

Income and rent limits will be updated annually to reflect HUD and MHFA income and rent limits. These updates do not require City Council Action. Other changes to the terms of these guidelines that may be changed administratively and without City Council approval include:

- Procedural changes that update, improve or streamline the application process
- Procedural changes that update, improve or streamline the loan servicing process
- Other non-substantive changes that do not increase or decrease award maximums, income limits, loan terms, or other financial policies

Changes to this document that do require City Council approval include but are not limited to:

- Changes to award maximums
- Changes to eligibility criteria for the Program, with the exception of updating HUD income limits.

