City of Saint Paul

Planning and Economic Development

CITY OF SAINT PAUL RENTAL REHABILITATION LOAN PROGRAM

PROGRAM POLICIES

1.0 PURPOSE

The City of Saint Paul Rental Rehabilitation Loan Program is designed to provide moderate rehabilitation assistance to eligible, responsible landlords of occupied single-family, duplex, triplex, or fourplex units 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 naturally occurring affordable housing and are an increasingly attractive option for affordable housing as public funding tightens. Because investment pressures are coming into play to upgrade these units into market rate units with the risk of displacing current residents, this Program would help preserve affordable rental housing options for City of Saint Paul low income residents. In addition, the program could result in the alleviation of the work load for the City of Saint Paul Department of Safety and Inspection (DSI) inspectors, thereby reducing annual inspection fees for landlords.

The program targets responsible landlords, that is:

- Landlords who can show a history of upgrading to and maintaining a higher category based on the DSI classification (For more information please visit https://www.stpaul.gov/sites/default/files/Media%20Root/Safety%20%26%20Inspections/2016%20C%20of%20O%20info%20sheet.pdf and https://www.stpaul.gov/sites/default/files/Media%20Root/Safety%20%26%20Inspections/Fire%20CofO%20Grading%20Handout.pdf)
- Landlords who have maintained units classified C or B by DSI at their current classification by conducting small maintenance improvements
- Landlords who can provide information regarding how long they have owned and maintained the property and provide evidence for requiring a loan in order to make the desired upgrades
- Landlords who show genuine desire to make upgrades to the property, but may not have been previously able, due to cost

Finally, the program will track demographics of recipients in order to insure an equitable distribution of the funds and possibly review and extend strategies.

2.0 CITY OF SAINT PAUL RENTAL REHABILITATION PROGRAM REQUIREMENTS

2.1 Designated areas Eligible for the Program funds

The Rental Rehabilitation Loan Program pilot phase will give first priority in the first six months to properties located in ACP50 areas as defined by the Metropolitan Council (See **Attachment A**: Rental Rehabilitation Loan Program: Map of the Pilot Phase). After the pilot phase, the Program will be made available citywide based on the availability of funds.

2.2 Priority Properties

For the first 6 months, first priority will be given to:

- Rental properties categorized as C or D by DSI
- Rental properties located in ACP 50 areas that are occupied by low-income persons
- Rehabilitation work focusing on health and life safety issues (may be combined with street appeal issues) that may result in a condemnation if not addressed
- Properties housing tenants with Section 8 Vouchers
- Properties targeting special need populations (i.e. people with physical/mental disability)
- Properties with 3 or more bedrooms
- Properties with rents at or below HUD Fair Market Rents

Other eligibility criteria include the following:

- Property is in need of repairs or improvements eligible under the program.
- Property is in compliance with applicable zoning ordinances, land use guidelines, and any applicable rental or housing maintenance codes
- Property has current property insurance including, if applicable, flood insurance
- Property taxes, assessments and other liens on the property are current
- Demonstrate the ability to improve the DSI classification and grade change within the program parameters
- No permanent displacement of existing tenants (except for just cause)
- Be willing to sign-up for the free Landlord Alert Program with the Saint Paul Police
- Be willing to restrict rents through the life of the 10 year term
- Property that has not previously received substantial rehabilitation through other City programs
- Give section 8 voucher holders equal consideration upon rent renewal

2.3 Eligible Uses of Program Funds

Eligible improvements must be permanent improvements. The City of Saint Paul Housing and Redevelopment Authority reserves the right to deny the use of certain fixtures or types of materials if it is determined that another suitable fixture is more cost effective. Working with a City of St Paul Rehabilitation Advisor, the owner and rehab advisor will adjust the proposed scope of work to upgrade their DSI property classification and meet health and life safety standards.

- The need to address any lead hazard exposure on the property will be initially determined during a visual assessment conducted by the Rehabilitation Advisor. 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
- Improvements made to comply with state, county or municipal health, housing, building, fire, Housing Quality Standards (HQS), Section 8 and housing maintenance codes
- Improvements made to increase the livability and/or the attractiveness and curb appeal of the property per the Program eligibility criteria
- Improvements made to enhance the handicapped accessibility and compliance with ADA regulations
- Landscaping work including ground cover which corrects poor grade around the foundation walls and trimming of tree branches interfering with the structure of the house are eligible
- Professional services related to the improvements that do not exceed five percent (5%) of the rehabilitation amount. Services may include architectural designs

2.4 Ineligible Uses of Program Funds

Improvements and elements that are not eligible include but are not limited to:

- Appliances, furniture, or other personal items
- New construction of decks, patios, sheds, or other outbuilding
- Fences
- Refinancing
- Hot tubs, whirlpool bath, or saunas
- Working Capital
- Cosmetic landscaping, such as trees, shrubs, and sod
- 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)

2.5 Maximum Award

- The maximum loan under the Rental Rehabilitation Program is $30,000 per property. However, the total allowable construction amount can exceed the $30,000 cap if the owner can supply additional funding for the rehabilitation. The owner will be required to pay for any additional cost if necessary to upgrade the DSI classification. The additional funds provided by the applicant are to be kept in an escrow account held by the HRA
- The maximum available assistance that can be used to complete the scope of work approved by the City of Saint Paul rehabilitation advisor in the form of a rental rehabilitation loan will be set at the lower of (1) the $30,000 Maximum Award amount mentioned above; and (2) the amount necessary to complete the Scope of Work as determined/approved by a City/HRA rehabilitation specialist
- If the cost to complete the Scope of Work exceeds the maximum assistance, 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

2.6 Terms and Requirements

- The Loan principal will be paid quarterly over 10 years with 0% interest
- Properties assisted outside of ACP50 Census Tracts must house at least 50% tenants whose incomes are at or below 60% of AMI as adjusted for family size
- Rents and occupancy of the assisted units must not increase by more than 3% of the previous rent charged each year while remaining at or below the Fair Market Rents (FMR) for the entirety of the (minimum 10 year) period of affordability. Rent limits are adjusted annually (See **Attachment B**: HUD chart of tenants based on bedroom-sized and adjusted for utilities per the HUD Utility Allowance)
- Class D properties must be upgraded to Class C at a minimum and maintain the new grade through the 10 year term of the loan.
- A DSI downgrade at any time of the loan term will be considered a default
- Property owners will be required to file an annual self-certification that rents charged did not exceed FMR and income eligibility as noted above to be submitted to the City of Saint Paul (See **Attachment C**: Landlord self-certification form)
- Units and tenant documentation must be available for an annual inspection as required by City/HRA staff

Failure to meet the program requirements will result in the immediate reimbursement of the totality of the fund

3 APPLICATION PROCESS, UNDERWRITING, LOAN APPROVAL, SCOPE OF WORK AND LOAN CLOSING

3.1 Application

A property owner interested in participating in the City's Rental Rehabilitation Program must request an application and submit all required application materials, including a proposed scope of work, along with a check for a non-refundable fee of $250 to the Department of Planning and Economic Development (PED), City of Saint Paul, 25 W 4th Street, Suite 1100, Saint Paul, MN 55102

If you have questions specific to the program, you can contact Jules Atangana at jules.atangana@ci.stpaul.mn.us or 651-266-6552

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

3.2 Underwriting Criteria and Guidelines

All loans will be underwritten by PED staff. The financial strength of the borrower and the anticipated success of the project will be assessed based on the following eligibility guidelines:

- Individuals, for-profit or non-profit entities that own an eligible property
- Ability to repay the loan and continue to maintain the property
- For delinquencies or defaults on any public debts, such as tax liens, federally insured student loans, child support payments, or judgments, applicants must provide at least a 6-month payment history on an established repayment plan, approved by the creditor
- Applicants who have filed a Chapter 13 bankruptcy must receive approval from the bankruptcy court to take on additional debt if the bankruptcy has not been discharged or cannot apply for one year after the date of discharge of the Chapter 13 bankruptcy
- Applicants who have filed a Chapter 7 bankruptcy cannot apply for one year after the date of discharge and cannot have any payment problems since the date of discharge
- Applicant must not be on the City adverse lending list
- Applicant may not be delinquent on property taxes, trash, water or sewer bills, or have any outstanding or delinquent accounts on any property of which they are a principal owner within the City of Saint Paul
- Applicants must demonstrate 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

- Applicants with verified history of recurrent with code compliance or safety issues may have their application rejected
- Applicants must provide information regarding the length of time they have owned the property
- Applicants should demonstrate a history of property maintenance and/or improvement where possible. If the applicant has not been able to afford improvements, the applicant must be able demonstrate this need and the strong desire for property improvement

The file will be documented with the information provided by the applicant and collected through third parties, and reviewed by staff to determine whether or not the project is financially feasible and ready for approval.

3.3 Application Approval

PED staff will review each application and will make a recommendation for final approval or denial to the HRA Executive Director. Applicants will be notified within 30 days of receipt of their application. A commitment letter of funding will be provided to the applicant.

3.4 Scope of Work

Working with a contractor, the owner will develop a scope of work to be submitted to the City along with the application. The scope of work may include the designs, description and cost of the proposed improvement. The City of St Paul Rehabilitation Advisor may approve or adjust the scope of work after the initial inspection based on the DSI work order, health and safety requirements , and the historic and environmental review provided by the City.

The scope of work may cover the following improvements:

- Improvements made to comply with state, county, or municipal health, housing, building, fire, Housing Quality Standards (HQS), Section 8 and housing maintenance codes. Any peeling paint **must** be addressed in the scope of work. If windows with peeling lead-based paint are found, it is typically more cost effective to replace them. In such instances, the applicant will be referred to Ramsey County, which may have additional funding to assist in the installation of new windows.
- Improvements made to increase the attractiveness, curb appeal, and livability of the property per Program eligibility criteria; the eligibility of these improvements is subject to PED approval

- Improvements made to enhance the handicapped accessibility and compliance with ADA regulations
- Landscaping work including ground cover which corrects poor grade around the foundation walls and trimming of tree branches interfering with the structure of the house are eligible
- Professional services related to the improvements that do not exceed five percent (5%) of the rehabilitation amount. Services may include architectural designs

The rehab advisor will assist the applicant with contractor bids based on the written scope of work. The total allowable construction amount can exceed the $30,000 cap if the owner can supply additional funding for the rehabilitation. The additional funds provided by the applicant must be provided at the loan closing and held in an escrow account by the HRA and paid out to the contractor as work progresses.

3.5 Loan Closing

A 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.

4 COMPLIANCE AND RESPONSIBILITIES

4.1 Compliance with Environmental Requirements

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.

4.2 Federal, State and Local Requirements May Apply

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.