

Village of Oak Park
Community Services Department
Single-Family Rehabilitation Loan Program
Oak Park, Illinois

POLICY GUIDELINES

A. ELIGIBLE PROPERTY OWNERS

1. Benefit to Very Low- and Low- Income Owner-Occupants.

The program must benefit very low- and low-income households. Very low-income households are defined as households with income below 50% of the Area Median Income for the Chicago Metropolitan Statistical Area including Cook County as defined by HUD. Low-income households are defined as households with income below 80% of the Area Median Income for the Chicago Metropolitan Statistical Area including Cook County. The income of all adult (18 years and older) occupants shall be included on the application.

2. Income and Asset Eligibility

Income eligibility will be determined using the annual income definition of 24 C.F.R. Part 5, according to the requirements of 24 C.F.R. Part 570.3 and 24 C.F.R. Part 570.208(A). Rehabilitation costs must exceed 50% of the applicant's liquid assets. If the cost of rehabilitation is 50% or less of assets the applicant is ineligible. (For example, if the liquid assets total \$20,000, the rehabilitation costs must exceed \$10,000). Liquid assets may include but are not limited to any asset such as; stocks, bonds, savings accounts, or checking accounts.

3. Program priority is upgrading of housing/poor credit risk loans

A program priority is the upgrading of Oak Park's housing stock. Therefore, in cases where homeowners are poor credit risks, loans may still be made, at the discretion of staff, since the loans are secured by the property, and any arrearages in repayments can be collected at the time of property transfer.

4. Eligibility of Village employees

Eligibility of Village employees for this program will be determined by the Conflict of Interest and Ethics Ordinance. 1993-0-24, adopted 4/4/93 in addition to all other program requirements, including including CDBG conflict of interest requirements of 24 C.F.R. Part 570.611

5. Unfeasible rehabilitation projects

Rehabilitation projects will be considered unfeasible if:

- the dwelling is substandard,
- there are severe debts,
- back taxes or mechanics liens are owed,
- there are other financial threats to the household affecting retention of title, or
- there is little hope of making the project viable based on previous project budgets.

A substandard dwelling is one where the maximum loan amount available will not be enough money to do the amount of work to improve the property so that the value will be sustained over time to allow repayment of the loan, or the severity of the code deficiencies is too severe to be corrected by the maximum amount of the loan available.

6. Eligibility for subsequent loans

Past loan recipients will be eligible for second or additional loans after five years from the date of Board approval of the previous loan if the applicant meets all program criteria. Emergency loans (as defined in these guidelines) will be available regardless of other SFR Program loans. Owners who have previously received a payback loan must have demonstrated satisfactory performance on their loan before the Village will make any subsequent loans.

B. ELIGIBLE PROPERTY TYPES

1. Owner-occupied dwelling in Oak Park

The property must be a single family one dwelling unit in Oak Park. The property must be owner-occupied. A condo unit is defined as a single family dwelling. For condominium units, the improvements can only be made for those areas, within a unit, which the owner of the unit has authority to change, alter or improve, as defined by the condominium declaration, by-laws, and/or other rules and regulations as issued and adopted by the condominium association or board.

Improvements to common elements and limited common elements are not within the scope of this program.

2. Clear title

The owner must have clear title to the property without any cloud on the title which shall not include any prior recorded consensual liens. The applicants must be the sole title holders of the dwelling which will undergo project rehabilitation, unless a release is obtained from any person on the title agreeing to the additional encumbrance.

3. Contract sales

The Village will not make SFR Program loans to properties undergoing a contract sale unless both the seller with legal title to the property and the buyer with equitable title enter into the loan transaction.

4. Equity ratio

There must be 10% post-rehab equity in the property. If there is a question about post-rehab equity during the initial screening process, staff will inspect the property, develop a probable scope of work and cost estimate for the project, and order a short form post-rehab appraisal from a qualified appraiser. The cost of the appraisal shall be covered by the loan proceeds if the loan is approved, or by the Village if the loan is denied. No appraisal is necessary if the owner can provide the Village with an appraisal that is less than two years old and the staff considers it to be valid. (Guideline amendment approved by Oak Park Village President and Board of Trustees February 20, 2001.)

5. Hazard Insurance

Before a project can begin, hazard insurance on the dwelling must be at least 80 percent of the property and dwelling's approximate current market value.

6. Poor property maintenance

In cases of poor property maintenance, staff may delay taking an application until the homeowner has done exterior and interior clean-up, and correction of minor code violations where possible.

7. Water and Property Tax Bills

Water and property tax bills must be current. No portion of the loan shall be used by the owner to pay either water or property tax bills.

C. SCOPE OF WORK

1. Loans will be prioritized to address the following work items:

Category A: Code violations and residential rehabilitation standards

These items are included in the Village of Oak Park's housing code, building code and rehabilitation standards.

When sufficient public and/or private funds are available, all Category A items shall be completed. If there are not sufficient resources to complete all the items in Category A, then the work shall be subject to the following priorities:

- Life threatening conditions
- Health and safety items
- Structural, electrical, mechanical, plumbing, fire prevention code items.
- Other violations.

Category B: Incipient Code Violations

These items include those elements of the structure which are not in violation of the housing code, but appear to be in a condition that will deteriorate into a code violation if left uncorrected.

Should sufficient resources be available to complete all items in category A, then category B items shall be undertaken.

In addition, any item which can alleviate a physical hardship for disabled applicants shall be considered. These items include egress ramps, plumbing modifications, and accessories, grab rails, etc.

Category C: Energy Conservation

These items are directly related to the conservation of energy by upgrading the dwelling's thermal protection, such as insulation, water saving fixtures, furnances and window replacement. Items in this category will be completed if sufficient

funds remain after completion of items in categories A & B. These items are to conform to the Department of Housing and Urban Development “Initiative on Energy Efficiency in Housing.”

Category D: General Property Improvements

These work items constitute improvements which can be made to the property. Examples include landscaping, sump pumps, etc. Luxury items such as room additions, air conditioning, decks etc. will not be considered.

2. Garage repair

Garage repair to address a code violation is allowable, but must not be the only or the major item of the project. Garage work must be limited to minor or moderate rehabilitation; new construction or major rehabilitation is not allowed. Consideration will be given to whether the garage is used for the homeowner’s auto, or for rental, storage or another secondary purpose. In situations where a garage is dilapidated beyond repair, the project may include demolition of an existing garage and construction of a new slab only if the project will address all code violations for the dwelling itself.

D. LEVELS OF ASSISTANCE AND TYPES OF LOANS

1. Minimum and maximum project budget

The minimum project budget is \$2,500 and the maximum will be up to \$25,000 inclusive of contingency. If required, appropriate lead hazard reduction activities will be funded as a grant.

2. Emergency Loans

No-interest emergency loans of up to \$5,000 will be repaid in a lump sum upon the earlier of the following: in 5 years; or upon sale or other transfer of title. An emergency loan can include the correction of:

- emergencies and code violations of an emergency nature,
- other work related to the emergency, and
- minor other work in the same trade.

All work to be covered under an emergency loan must be disclosed. Staff in consultation with the owner determines all work to be included.

The minimum project budget for an emergency loan is \$500. The equity requirement is 10% of the post-rehab value of the property, as defined and determined in B. 4. above. (Guideline amendment approved by Oak Park Village President and Board of Trustees October 5, 1998 and June 16, 2008.)

3. Deferred Title Transfer Loan

Loans will be made at no interest for terms up to 20 years to very low- and low-income owners as defined by HUD. The maximum loan is up to \$25,000 per unit. Loans will be repaid in a lump sum upon the earlier of the following: in 20 years; or upon sale or transfer of title.

4. Contingency

Project budgets shall include a contingency of up to \$5,000. The contingency is intended to pay for work related to the scope of work that was not anticipated at the time the scope of work was prepared. Staff shall determine the contingency amount based on the nature of the proposed work, but in no event can the contingency exceed \$5,000 or be less than 10% of the project budget. If the contingency amount is not used, the staff and owner(s) shall mutually decide whether to reduce the loan amount or to spend the amount on other eligible work. The project budget including the contingency amount may not exceed \$24,999.

E. APPROVAL PROCEDURES

1. Confidentiality of Owner's Names and Addresses

Property owner's names and address will not be mentioned during the Village Board meetings, but will be recorded in official Village files and be available upon appropriate request.

2. Priorities for applications

Applications will be qualified based on income and asset eligibility and type of work identified. Applications will be handled based on the date of qualification. A priority system (other than date of qualification) may be needed if a waiting list develops. Criteria may include severity of need (emergency).

3. Application Fee

An application/service fee of 1% of the total rehabilitation costs will be charged for all loans, and due upon approval of the application by the Board of Trustees.

An application/service fee of \$75 will be charged for all emergency loans and paid in advance.

4. Approval Process

Staff will receive applications, verify income and assets, order title searches, request appraisals, obtain credit reports and other necessary verifications. Upon receipt of all necessary documentation, a decision will be made as to the financial eligibility of the applicant(s) and the program category for which they primarily qualify. Staff will then inspect property and prepare a work list and preliminary cost estimate to verify that the work is within the program cost limits. Staff will review the work list and preliminary cost estimate with the homeowner. Homeowner must agree with the work list and the preliminary cost estimate before the project is bid.

Upon receipt of bids, staff will review the bids and detailed cost estimate with the homeowner to assist the homeowner in the contractor selection process per policy guideline number F1. The homeowner will select contractor and staff will prepare a loan recommendation packet to present to the Housing Programs Advisory Commission "HPAC." HPAC will review the loan recommendation for eligibility and will make a recommendation to the Board of Trustees. The Board will make the final decision. The applicant will be notified, in writing, of the Board's decision.

Emergency loans may be approved by the Housing Programs Manager, the Director of Building and Property Standards and the Village Manager. The Village Manager's office will provide information to the Board regarding each emergency loan, approved as stated above.

After approval by the Board, staff will verify continued eligibility of the applicant. The applicant shall sign a note and mortgage, immediately, after approval of the loan. The note and mortgage will reflect the approved loan amount.

If the applicant is deemed ineligible for any reason throughout the process, he/she will be notified, in writing, as to the reason(s) for his/her ineligibility.

F. REHABILITATION PROCEDURES

1. Contractor Selection and Payment

In recognition that the home being repaired is the property of the applicant, the applicant will be responsible for selecting the contractor that will work on the home. Except for emergency loans, the homeowner is required to obtain at least three (3) bids for the work. All bids must be sealed and addressed to the homeowner. The Village will receive the bids on behalf of the homeowner, and the homeowner will open the bids with the Village present. The selected contractor must meet the following requirements:

a. The general contractor and all subcontractors must be properly licensed to work in the jurisdiction where the work is being done and must submit evidence of program required insurances, licenses, bonding and other credentials.

b. The proposal from the contractor may not exceed 10% of the cost estimate prepared by the Housing Programs Division staff to perform the proposed repairs or be lower by more than 15%.

c. The homeowner may not perform the functions of the general contractor and/or subcontractors.

d. The general contractor and all subcontractors must not be debarred.

2. Contract

Once an agreement is reached between the homeowner and contractor, a pre-construction meeting between the above parties and staff shall be scheduled to review all related construction documents. If both parties are in agreement, contractor and homeowner shall sign and date the accepted bid, in order to verify that the items were reviewed, discussed and accepted by the parties. If changes are necessary, the contractor shall make the homeowner and staff aware of the situation accompanied by the proposed costs to cure. The changes, if any, shall be reviewed by staff and if deemed warranted, a change order shall be executed by all parties.

A separate benefit agreement between the homeowner and the Village of Oak Park shall be necessary to clarify and verify the obligations of the Village and the homeowner, as the Village is not a party to the homeowner/contractor agreement. The parties, including the Village, shall sign off on an alternative dispute resolution process for deciding all disputes related to the contract and warranties.

3. Inspections

During the construction process, staff shall conduct progress inspections along with Inspectors from the Building Department. Progress payments will be made pursuant to the contract terms and if the work has been completed satisfactorily including passing all inspections.

4. Interim Payments

Interim payments to the contractors shall be made pursuant to the contract and only after receipt of sworn statements, pay-out orders, inspection tickets,

contractor affidavit(s), and when necessary, paid invoices. If a dispute arises between the homeowner and contractor, the Village will make interim payments upon notification that the parties have completed the alternative dispute resolution process and an agreement has been reached. If necessary, a new note and mortgage shall be signed by the homeowner to reflect any changes in the final contract.

5. Completion

Upon completion of the work, the contractor, homeowner and staff shall inspect the work. If the work has been completed satisfactorily including passing all required inspections, the contractor shall submit a final pay-out order affidavit and all necessary releases of liens and warranties shall be collected for distribution to the homeowner. For work not satisfactorily completed, staff shall issue a “punch list” (statement of incorrect or incomplete items) to the contractor. The items shall have to be completed within a specified time period. Once the “punch list” is completed, the pay-out shall be processed. Staff shall officially close-out the case. If a dispute arises between the homeowner and the contractor, the Village will make final payout upon notification that the parties have completed the alternative dispute resolution process and an agreement has been reached.

6. Warranty

Should a dispute between the contractor and owner arise during the contractor’s one-year warranty period, the parties shall utilize the alternative dispute resolution process. There is no obligation or liability of the Village of Oak Park in such circumstances.

G. REFINANCING

Refinancing criteria

In cases where former loan recipients wish to refinance mortgage(s), other than the Village’s, and request that the Village maintain its subordinate position, the Village will agree to maintain its junior position if:

- a. There is adequate equity in the property to support the total proposed encumbrance, per policy guideline number B4. (if necessary, homeowner(s) will submit an appraisal as proof of equity);
- b. The cost of the refinance is the only allowable equity taken out of the property (see below); and

- c. There has been satisfactory performance over the previous 24 months on the existing loan.
- d. Staff may also recommend Village Board approval of subordinations: 1) in cases of extreme emergency, when home equity is the only source of funds (as approved by the Housing Programs Manager, and the Village Manager's office; and 2) in cases when equity is taken out, it is put back into the property in the form of home improvement. (Guideline amendment approved by Oak Park Village President and Board of Trustees February 20, 2001.)
- e. Staff shall review the financing terms for reasonableness to protect the Village's interest.

Approved by the Oak Park Village President and Board of Trustees March 17, 1997
Amendment (D. 3.) approved October 5, 1998
Amendments (B.4., D.1., and F.1.b.) approved February 20, 2001
Amendment (D.4.) approved March 21, 2005
Revisions approved February 4, 2008
Revisions approved June 16, 2008
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