

**City of Rochester**

**Community Development Block Grant**

**Single Family 2%  
Rehabilitation Loan Program**

**Policy Guidelines**



Rochester-Olmsted Planning Department  
Housing Division  
2122 Campus Drive SE, Suite 100  
Rochester, MN 55904

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## Introduction

This program is funded by the United States Department of Housing and Urban Development (HUD) through the Community Development Block Grant (CDBG) program. The funds are provided to the City of Rochester (grantee) and are appropriated by the Rochester City Council for program use. The dollar amount of program funds is contingent upon the annual allocation.

This program is authorized by the City of Rochester utilizing Title I assistance under the Housing and Community Development Act of 1974, as amended.

Administration for the City of Rochester Single Family 2% Rehabilitation Loan Program is provided by the Rochester-Olmsted Planning Department through a Cooperative Services Agreement between the City of Rochester and Olmsted County.

To obtain additional information regarding this program, please contact:

Rochester-Olmsted Planning Department  
2122 Campus Drive SE, Suite 100  
Rochester, MN 55904  
Phone: 507-328-7150  
Fax: 507-328-7959

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## CHAPTER 1

### Definitions

The following are definitions of various terms as used with respect to the CDBG Single Family Rehabilitation Loan Program.

**Adult.** A person 18 years of age or older.

**City.** City of Rochester, Minnesota

**Dwelling Unit.** A dwelling unit is one or more rooms including a separate kitchen and bathroom facilities designed as a unit for occupancy by one family for the purpose of cooking, living and sleeping.

**Contractor-Homeowner Agreement.** Construction contract agreement between the contractor and the homeowner for the rehabilitation work to be completed.

**Emergency.** Emergency conditions are generally defined as property damage beyond the homeowner's control or that are necessitated by a system or structural failure that has caused or could cause the home to be uninhabitable.

**Family / Household.** Family / household includes the applicant and any other person or persons residing in the dwelling unit.

**Fee Owner.** One or more persons who hold legal title to the property to be rehabilitated.

**HUD.** United States Department of Housing and Urban Development.

**Housing Staff.** An employee of the Rochester-Olmsted County Planning Department assigned the duties of administering all aspects of rehabilitation, including inspections, cost estimating, specification writing, owner and contractor guidance, public information, construction compliance, eligibility determination, application processing and final disposition accounting.

**Housing Unit.** A property used for residential purposes containing no more than two (2) dwelling units, one of them being owner occupied.

**Investor-Owned Property.** A property used entirely for residential purposes that is either (1) not occupied by the owner, or (2) contains three or more dwelling units whether or not occupied by the owner.

**Monitoring.** Inspection by housing staff, employees of Olmsted County, employees of the City, or HUD staff, of the property, the rehabilitation work and all contracts, materials, equipment, payrolls and conditions of employment pertaining to the rehabilitation work.

**Owner-Occupied Property.** A property occupied by the owner that is used entirely for residential purposes and that contains one or two dwelling units.

**Records.** Maintained records required by the US Department of Housing and Urban Development (HUD) and the City of Rochester with respect to the rehabilitation work and fiscal management of the program.

**Recipient.** The approved loan applicant that has executed a Home Improvement Loan Repayment Agreement (Mortgage) through the City of Rochester Single Family 2% Rehabilitation Loan Program.

**Rehabilitation Costs.** The total cost of the repairs and improvements and other costs for rehabilitation to be incurred by the applicant that are included in a rehabilitation loan, whether or not financed in part with funds from the rehabilitation loan program or other sources.

**Rehabilitation Standards.** Requirements of the Housing Code Chapter 32.01, Rochester Code of Ordinances, adopted by the City of Rochester, State and Local Health requirements, Section 8 Housing Quality Standards and all rehabilitation specifications that are part of the bid.

## CHAPTER 2

### Eligible and Ineligible Costs

A rehabilitation loan may be made only to cover the cost of rehabilitation necessary to make the property conform to the Rehabilitation Standards. Staff will determine, with the owner, what improvements will be eliminated from the bids, if the costs exceed the amount of funds that are available.

#### 1. Eligible Costs

- a. The rehabilitation or removal of elements of the dwelling structure, including basic equipment and/or other improvements to the property such as steps, walkways and driveways. The term “basic equipment” includes such items as furnace, air conditioning units, water heater, electrical and sanitary lines and fixtures.
- b. The provisions of sanitary or other facilities, such as a bedroom, including the provision, expansion and finishing of space necessary to accommodate those facilities.
- c. The provision of any improvements required by the Rehabilitation Standards.
- d. Grading, filling or landscaping of the grounds, if required by the Rehabilitation Standards.
- e. Energy conservation measures such as doors, windows and insulation.
- f. Correction of all code deficiencies.
- g. Removal of lead-based paint hazards. All units built prior to 1978 are required to be tested for the presence of lead-based paint hazards through a lead-based paint risk assessment procedure, at the time of the initial rehabilitation inspection. A lead paint clearance report must be completed and the unit must pass the clearance test at the time of rehabilitation completion. Costs of the risk assessment and the first clearance shall be paid by the City of Rochester on behalf of the applicant. If the first clearance test does not pass, the contractor must bear the cost of all additional clearance tests.
- h. A rehabilitation loan may be utilized to modify, alter or replace components of a structure that in their present state or by their absence impede physically limited occupants from enjoying the full benefits or comfort and livability normally experienced by non-handicapped dwellers. The construction contract shall specify as applicable, ramps, wider doorways, height of plumbing fixtures or light switches, installation of secondary toilet rooms, baths and/or laundry facilities and other items specific to a given structure and its occupancy. The staff shall exercise prudent judgment in selecting construction options to provide ready access at moderate cost.

## **2. Ineligible Costs**

- a. New construction, additions or expansions not required by the Rehabilitation Standards. This does not limit remodeling or improvements to assist handicapped or physically impaired family members.
- b. Materials, fixtures, equipment or landscaping of a type or quality which exceeds those customarily used in the locality or written in the work specifications.
- c. Appliances not required by the Rehabilitation Standards.
- d. Acquisition of land.
- e. Detached Structures.

## CHAPTER 3

### Property and Applicant Income Eligibility (Terms and Conditions)

This chapter describes the eligibility requirements in regard to the property and the applicant for a rehabilitation loan. Rehabilitation Loans are available only for properties located within the **TARGET AREAS (Chapter 10)**, as designated by the City of Rochester. Emergency cases outside the target area will be considered with staff approval. All eligible applicants will be processed on a first-come-first serve basis.

#### 1. Property Eligibility

- a. The applicant must own or have a life estate in the property being improved, and it must be the applicant's principle place of residence. The applicant must possess a fee simple deed registered in the applicant's name for the property to be improved. Properties being purchased under a Contract for Deed are ineligible.
- b. The property must be used for residential purposes and must contain no more than two dwelling units, one of them being owner occupied.
- c. The property must be classified as homesteaded by the Olmsted County Assessor's Office.
- d. The fee owner must have title to the property for a minimum of six (6) months prior to the date of application.
- e. Eligible properties in the 100 year flood plain zone must carry flood insurance that will cover the cost of the improvements that are made to the property through the rehabilitation loan program for the remaining economic life of the improvements.

#### 2. Applicant Income Eligibility

- a. **Assets.** Cannot exceed \$25,000 per housing unit (excluding the property being rehabilitated and personal property (i.e. furnishings, appliances and one vehicle).
- b. **Annual Income Requirements.** Annual income cannot exceed the Low income limits (80% of Median Income), as determined by the Department of Housing and Urban Development (HUD), Section 8 Program. The low income limits are determined by the number of persons in the housing unit. To be eligible for CDBG assistance, the gross annual income of the total housing unit(s) must be occupied by a low income household. The low income limits are determined by the total number of persons in each housing unit.



**c. Annual Income Verification.** Gross annual income data including, but not limited to the following:

- All income earned by head of household, spouse, and other family member's age 18 years of age or older who reside at the residence and income earned by the occupants of a rental unit, if the residence is a duplex.
- Any other income source (interest, child support, etc.)
- Income from Social Security, Pensions, Annuities, general relief, unemployment, MFIP (Minnesota Families Investment Program).
- Average net income for self-employed applicants being the average annual income from the previous two years, excluding depreciation, as reported in the tax return.
- Income contributed or paid to the applicant on a regular basis by a person not living in the housing unit.
- Portion of Income derived from Rental Unit: If the rehabilitated property contains one rental unit, that portion of the applicant's income that is derived from the property shall be reported on the application as a net figure determined as follows:

The net income from a rental unit in the owner-occupied property is the gross rental income, less expenditures allowable to the rental unit. These allowable expenditures includes mortgage payments, average of two years or more mortgage insurance premiums, hazard insurance, real estate taxes and special assessments and cash expenditures for the property such as advertising vacancies. If the applicant has not owned the property for two or more years, the staff shall estimate the income and expenditures on the available information.

The allocation of expenditures to the rental unit may be established by dividing total monthly expenditures for the entire property by the number of units (2) in the property. The result is the shared expenditures allowable to the owner-occupied dwelling unit, which when subtracted from the expenditures for the entire property produces the monthly expenditures allowable to the rental unit (i.e. often units are rented with heat and water but under separate electrical meters, in these cases, the heat and water are shared expenses but the electrical cost to the tenants is not part of the building expense.)

d. Income not to be included with the application:

- Income of family members under 18 years of age.
- Income of family members who are full-time students, subject to the HUD income determination requirements.

## CHAPTER 4

### Type of Assistance and Conditions

Applicants whose income and assets are in accordance with the established guidelines may qualify for the following:

- 1. Loan Amount.** The amount of the loan shall not exceed the lesser of:
  - a. The actual and approved cost of the repairs necessary to make the property conform to all rehabilitation standards.
  - b. \$24,999
- 2. Terms.** The Deferred Loan is a two percent (2%) simple interest loan which is due and payable to the City of Rochester within thirty (30) days according to the following terms:
  - a. If the property is sold, transferred, or otherwise conveyed (whether by deed, contract for deed, or otherwise); and whether voluntary or involuntary, either while the applicant(s) is/are living or by reason of death of the applicant(s), excluding the transfer of said property by operation of law or devised to a surviving applicant, joint tenant or former tenant-in-common, for so long as said surviving applicant, joint tenant, devise or owner occupies said property as his/her principle place of residence; or
  - b. If the rehabilitated property ceases for any reason to be the applicant's principal place of residence.
  - c. At the end of the 30 year loan term.
- 3. Delinquency.** If the Loan is not paid within 30 calendar days of the terms stated above, the applicant(s) will be charged an interest rate of 15% per calendar year on the amount past due and remaining unpaid, until such time as the rehabilitation loan is paid in full. The City of Rochester also retains the right of foreclosure on the property to ensure payment.
- 4. Payment.** The Applicant(s) may only repay the amount due in full. No periodic payments will be accepted. Payment is to be made to the City of Rochester and paid at the City Finance, City Hall, 201 Fourth Street SE, Rochester, MN 55904.
- 5. Mortgage.** The Deferred Loan shall be secured by a Home Improvement Loan Repayment Agreement (Mortgage). (See Chapter 12 – Forms.)

6. **Subordination.** The City of Rochester is willing to subordinate the position of the CDBG Home Improvement Loan Repayment Agreement (Mortgage) upon request by the owner.
  
7. **Emergency Cases within the Target Area.** The use of program funds for emergency cases within the target areas will be considered for improvements that need immediate correction (i.e. furnace or roof replacement, medical necessity). Program funds will be used for the emergency improvement(s) only, and will be determined by staff on a case-by-case basis and the availability of funding. Applications for emergency cases will remain on the program waiting list for any additional improvements the property may need. All emergency case applicants will need to meet all program eligibility guidelines for program participation.
  
8. **Emergency Cases Outside the Target Area.** The use of program funds for emergency cases outside the target area will be considered by staff, with the City of Rochester approval, on a case-by-case basis and the availability of funding.

## CHAPTER 5

### Processing and Submission for Program Assistance

This chapter describes the functions to be performed by the staff in connection with rehabilitation assistance, and sets forth the policies and procedures to be followed by the staff in preparing, processing and approving an application for a rehabilitation loan and in canceling an approved rehabilitation loan.

#### 1. Outline of Staff Functions:

- a. Interview and advise the applicant on the rehabilitation objectives and standards.
- b. Advise the applicant on the availability and eligibility of the possible rehabilitation assistance and other programs that may be available.
- c. Assist the applicant with completing the application.
- d. Verify applicants income, assets, housing expenses, ownership of the property and necessary insurance requirements with all supporting documentation being retained in the applicant's file. If verifications are dated more than 180 days before determining program eligibility, new verification forms shall be completed.
- e. Verify property eligibility, applicant's income and asset eligibility and establish amount of program funds applicant may receive.
- f. Inspect the property to determine existing conditions.
- g. Prepare a work write-up describing, in detail, the improvements to be completed.
- h. Obtain lead-based paint risk assessment for subject property.
- i. Prepare bid specification documents and have applicant obtain contractors proposals for the rehabilitation work and review proposals received.
- j. Assign application number and enter on the application, and all related documents.
- k. Execute Home Improvement Loan Repayment Agreement (Mortgage).
- l. Assist applicant with execution of Contractor-Homeowner Agreement which serves as the construction contract.
- m. Notify and witness the Contractor-Homeowner Agreement with contractor.

- n. Inspects rehabilitation work as it progresses.
- o. Process partial payment requests, verifying work is completed as specified and the appropriate lien waivers have been received and the required homeowner and contractor's signatures are obtained on the completion certificate.
- p. Make final inspection of completed rehabilitation work and obtain homeowner and contractor's signatures on completion certificate.
- q. Obtain lead-based paint hazard clearance test for subject property.
- r. Obtain from general contractor all guarantees of work, manufacturer and suppliers warranties and release of lien from general contractor and subcontractors.
- s. Prepare voucher for disposition of funds.
- t. Close out rehabilitation file.

## **2. Processing and approval of application.**

- a. The staff shall prepare the application, based on information furnished by the applicant and obtained from other sources, as documented in the file. Entries of money amounts, shall be made rounded to the nearest dollar. If no money is involved from an entry for a particular application, the entry shall be "0".
- b. Staff shall notify the applicant and contractors who submitted bids and proceed with the remainder of the functions for which it is responsible in order to complete the rehabilitation work.
- c. If the staff determines that an application cannot be approved, a written statement of the reasons for determination shall be mailed to the applicant with a copy retained in the application file. The applicant has the option of appealing the denial before the Rochester City Council at a scheduled meeting. An application number shall be assigned and the case filed.

## **3. Loan Cancellation**

- a. An approved rehabilitation loan may be cancelled if the applicant has requested cancellation or is unwilling or unable to proceed with the rehabilitation work.
- b. To cancel an approved rehabilitation loan, staff shall prepare a letter of cancellation and mail the original to the applicant and retain one copy in the applicant's file.

## CHAPTER 6

### Inspections, Specifications and Cost Estimates

This chapter sets forth the responsibilities of the assigned staff for determining the rehabilitation work necessary to bring a property into conformance with the Rehabilitation Standards.

- 1. Property Inspection.** The staff shall inspect the property and prepare an inspection report that identifies each deficiency with respect to the Rehabilitation Standards and other deficiencies which may be corrected with rehabilitation funds. An inspection report prepared in this manner will later serve as the basis for preparing a work write-up and cost estimate.
- 2. Consultation with Prospective Applicant and Cost Estimates.** As soon as possible after inspection of the property, the staff shall consult with the prospective applicant on the preliminary work write-up and cost estimate. The applicant shall be advised which items of work are required to meet the Rehabilitation Standards and which are not required, but may be financed with a rehabilitation loan. The staff should be prepared to eliminate or modify any items in the preliminary work write that are not specifically required by Rehabilitation Standards. The final work write-up shall be the basis for the property owner to solicit bids and proposals from contractors.
- 3. Bid Specifications in Construction Contract Documents.** Each specification in a construction contract document shall be written so that it provides a clear understanding of the nature and scope of the work to be done, and a basis for carefully determining bids and proposals from contractors. Each specification shall show the nature and location of the work and the type of materials required. The specification may refer to manufacturer's brand names or to association standards to identify the quality of materials and equipment required, and shall make provision for acceptable substitutes.

Specifications, based on the work write-up and illustrative sketches, if any, covering the specific rehabilitation work for each property shall be prepared by the staff. Drawings shall be prepared only when essential to show the scope of the work involved so that a fair bid for the work can be obtained, and to avoid misunderstandings. The specifications and drawings shall be based on the work write-up resulting from the inspection of the property and consultation with the applicant.

## CHAPTER 7

### Contracting for Rehabilitation Work

This chapter sets forth requirements and procedures with respect to construction contracts for rehabilitation financed through the rehabilitation loan program. This work shall be undertaken only through a written contract between the contractor and the applicant.

#### 1. Invitation to Contractors for Bid and Proposal

- a. Contractor Selection.** The applicant shall secure, at a minimum, two contractors to submit bids on the rehabilitation of their property. If the applicant does not know two contractors or any contractors, the staff shall provide a list of approved contractors maintained by the staff. Separate subcontractor bids shall not be sought or accepted.
- b. Bid Review.** Upon receipt of the bid proposal from all bidding contractors, staff shall review the bids for completeness and accuracy making special note to assure that the specifications have been adhered to.
- c. Maintenance of the Contractor List.** The staff shall be responsible for maintaining a list of all contractors who have expressed an interest in bidding on rehabilitation construction with the list open for public review.
- d. Acceptable Contractors.** A selected contractor shall be of good reputation and qualified to do the required work. If the improvements to be completed include the removal of lead-based paint hazards, the contractor must be trained, certified and licensed according to the Department of Housing and Urban Development Lead Safe Housing Regulation and the requirements of the Environmental Protection Agency. Contractor firm shall be licensed as a Lead Based Paint Abatement Firm by the Minnesota Department of Health. Staff shall frequently monitor its list of contractors to assure that they continue to be licensed according to all applicable Federal, State, and local requirements. Contractors subject to Federal, State, local or administrative disbarment shall be removed from the list, based on confirmed cases of noncompliance of contractual obligations.

#### 2. General Conditions.

The staff shall prepare provisions of general conditions for general use in all construction contracts for the rehabilitation of the property.

- a. Form of Contract.** The construction contract will consist of a document, prepared by staff, signed by the contractor and the applicant following approval of the applicant by the staff. It shall contain a bid and proposal, the general conditions, the specifications for the work to be performed, and the lead based paint risk assessment, if applicable.



**b. Change Orders.** Change orders to the contract during work being performed are permitted with the completion of a Change Order form, provided by staff and approved by staff, the applicant and the contractor. If the amount of the loan changes, the owner must enter into a Modification of Home Improvement Loan Repayment Agreement (Mortgage) to correctly reflect total loan amount secured by the Home Improvement Loan Repayment Agreement (Mortgage)

**3. Award of Construction Contract.** The contract shall be awarded by having the applicant and the contractor properly execute the contract. The Contract shall be awarded to the bidder that provides the greatest value to the homeowner. Upon award of the contract, the staff shall notify the successful bidder that they have been awarded the contract.

**a. Supplemental Loans.** In a case involving a supplemental loan, the contract award shall be made only after the staff has received a firm commitment from the local lender stating that the loan has been approved.

**b. Award within 90 days of Cutoff Date.** In order for the bid and proposal to be binding, the award shall be made within a period of 90 days from the bid submitted deadline established for the receipt of the bid and proposal, unless a later date is agreed upon in writing by the contractor.

**c. Contract Award.** In the award of a construction contract for rehabilitation, the contractor and owner shall execute three original contract documents. Staff shall distribute the executed contract documents as follows:

- One executed copy to the contractor
- One executed copy to the applicant/owner
- One executed copy retained in the applicant's file

## CHAPTER 8

### Payment of Rehabilitation Work & Fiscal Management

This chapter sets forth the requirements for the inspection of rehabilitation work financed in whole or in part through this program.

- 1. Responsibility for Making Inspections.** Staff shall make on-site inspections of all construction work in cases involving assistance through this program. To accomplish this, staff shall make:
  - a. Partial payment inspections, as requested, to assure that construction work is completed in accordance with the construction contract.
  - b. A final inspection to determine that the construction work has been completed in accordance with the construction contract.
- 2. Partial Payment.** An inspection of the rehabilitation work shall be made before the staff makes a partial payment on the contractor's invoice or request for partial payment.
  - a. **Inspection by Staff.** Staff shall prepare a Completion Certificate for the work items that the contractor has submitted and identified on their invoice or request for payment. Staff shall make an inspection to determine if the work has been satisfactorily completed.
  - b. **Submissions required by contractor.** Staff shall obtain from the contractor a release of liens, an executed sworn construction statement and a copy of each warranty due the applicant for work. After receipt of a release of liens, including releases from all subcontractors and a copy of each warranty, the staff shall process a partial payment in accordance with contract requirements.
  - c. **Payment of Satisfactory Work.** If the work completed is satisfactory and the Completion Certificate has been executed for approval by the applicant, contractor and staff, a partial payment check payable to the contractor shall be submitted for processing.
  - d. **Obtaining Corrective Action.** If the work completed is not in accordance with the construction contract for a partial payment, the staff shall advise the owner of any noncompliance in the construction work, or of an incorrect invoice submitted by the contractor. Staff shall obtain appropriate corrective action from the contractor. No payment shall be made on a construction contract until the contractor has satisfactorily completed the necessary corrective action.

- 3. Final Inspection.** Upon completion of the rehabilitation work and receipt of the contractor's final invoice or request for payment, staff shall arrange for inspection of the work completed.
- 4. Final Payment.** An inspection of the rehabilitation work shall be made before the staff makes a final payment on the contractor's invoice or request for final payment.

  - a. Inspection by Staff.** Staff shall prepare a Completion Certificate for the work items that the contractor has submitted and identified on their invoice or request for payment. Staff shall make an inspection to determine if the work has been satisfactorily completed.
  - b. Submissions required by contractor.** Staff shall obtain from the contractor a release of liens, an executed sworn construction statement and a copy of each warranty due the applicant for the work. After receipt of a release of liens, including releases from all subcontractors and a copy of each warranty, the staff shall process and make final payment in accordance with contract requirements. The contractor shall provide a copy of the final inspection approval from the building official, when applicable.
  - c. Lead-based Paint Requirements.** Prior to issuing final payment, any unit completing rehabilitation improvements for the removal of lead-based paint requires an approved lead-based paint clearance test.
  - d. Payment of Satisfactory Work.** If the work completed is satisfactory and the Completion Certificate has been executed for approval by the applicant, contractor and staff a final payment check payable to the contractor shall be submitted for processing.
  - e. Obtaining Corrective Action.** If the work completed is not in accordance with the construction contract for a final payment, the staff shall advise the owner of any noncompliance in the construction work, or of an incorrect invoice submitted by the contractor. Staff shall obtain appropriate corrective action from the contractor. No payment shall be made on a construction contract until the contractor has satisfactorily completed the necessary corrective action.
- 5. Supplemental Inspection.** In some cases, defects and inadequacies in the construction work, not apparent at the time of final inspection, may show up after final payment for the work is made. Most of these are minor, such as doors and windows that stick after painting. However, others are serious, such as roof leaks not ascertainable until after a rain, defects in heating systems installed during the non-heating season that were not revealed in the limited tests after installation, or plumbing leaks that did not show up in the final inspection.

- a. Two-Year Guarantee on Work by Contractors.** All work performed by the contract is covered by a two-year guarantee but applicants are not always aware that for a period of two years they may require the contractor to correct insignificant defects and inadequacies in the work performed under this contract. For this reason, the staff shall inform the applicant of the guarantee requirements upon completion of the rehabilitation requirements.
- b. Disputes.** Any controversy or claim that cannot be settled by staff, arising out of or relating to the contracted improvements, or any breach of contract, shall be settled through the arbitration process. All parties agree that either party hereto and staff shall have the right to submit such claim to arbitration, provided that nothing herein shall result in any imposition of liability on the City of Rochester or Olmsted County. The applicant, contractor and staff shall agree to which arbitrator will be used. In addition, the applicant and contractor will share all costs of arbitration equally. No payments to the contractor shall be made until the dispute has been settled to the satisfaction of all parties.

## **6. Fiscal Management**

- a.** The Finance Department for the City of Rochester shall establish and maintain a separate record for each applicant who has received a rehabilitation loan.
- b.** Disbursements from the rehabilitation escrow account shall be by check made payable to the contractor or by an Electronic Fund Transfer (EFT) for the following purposes, as may be appropriate.
- Make partial and final payments for rehabilitation work completed.
  - Close out the rehabilitation escrow account by appropriately disbursing any unutilized funds remaining in the rehabilitation escrow account.

## CHAPTER 9

### Miscellaneous Provisions

- 1. Outreach.** As necessary, the Policy Guidelines for the Single Family 2% Rehabilitation Loan Program will be forwarded to all social service agencies that serve low income or minority persons and other agencies and financial institutions which provide home improvement programs. Additionally, should any changes be made to the Policy Guidelines, those changes will be forwarded to the agencies and organizations previously listed.

## CHAPTER 10

### Numbering Loan Applications

This chapter sets forth the requirements and procedure for assigning numbers for rehabilitation loans.

- 1. Number to be Assigned Every Application.** Staff shall assign a number to every application for an approved rehabilitation loan in accordance with the requirements of this chapter. Staff shall enter the assigned number in the space provided on the application and documents related to the rehabilitation file.
  
- 2. Numbering of Applications.** The number assigned by the staff to every approved loan application and related documents shall consist of the following two parts, with each part separated by a slash (/).
  - a. Last two digits of calendar year.
  
  - b. Number assigned consecutively in sequence for each use.
  
- 3. Reuse of Application Numbers not Permitted.** An application number once assigned by staff shall not be reused or reassigned. If a previous case to which the staff has assigned an application number is not approved and is resubmitted at a later date, the staff shall assign the resubmitted case a new application number with the sequence number applicable at that time.

## **CHAPTER 11**

### **Target Area**

Eligible properties must be located within the corporate city limits of Rochester, Minnesota.

## CHAPTER 12

### Forms

## Home Improvement Loan Repayment Agreement (Mortgage)

THIS AGREEMENT is made as of the \_\_\_ day of \_\_\_\_\_, 20\_\_\_ by and between \_\_\_\_\_, **a single person / husband and wife**, and the CITY OF ROCHESTER, 201 Fourth Street SE, Rochester, Minnesota 55904, a body politic and corporate of the State of Minnesota.

### Preliminary Statement of Facts

Recipient is the owner and occupant of the property located at \_\_\_\_\_, **Rochester, Minnesota** (*Property Address*), the City of Rochester, Minnesota, legally described as follows, and all buildings, structures, improvements, fixtures, annexations, access rights, easements, rights of way or use, servitudes, licenses, tenements, hereditaments, appurtenances, minerals, mineral rights, water and water rights, now or hereafter belonging or pertaining to the real property (the Property):

### Legal Description of Property

On \_\_\_\_\_, 20\_\_\_ (the Loan Date), the City of Rochester loaned to the Recipient the sum of \_\_\_\_\_ Dollars (\$\_\_\_\_\_.00), the **PRINCIPAL BALANCE SECURED BY THIS AGREEMENT** (the Loan), which Loan is to be used specifically and exclusively for the following purposes (the Permitted Purposes):

### Rehabilitation of the buildings located on said property

The parties wish to agree upon the conditions upon which the Loan is to be repaid to the City of Rochester by the Recipient, and to create a mortgage lien encumbering the Property to secure repayment of the Loan.

NOW, THEREFORE, in consideration of the Loan, the parties agree as follows:

1. **Loan.** The obligation to repay the Loan and accrued interest and other charges according to the terms of this Agreement is the personal obligation of the Recipient, and their respective heirs, successors, administrators and assigns. To secure the repayment of all amounts owing hereunder, the Recipient does hereby MORTGAGE, GRANT, BARGAIN, SELL AND CONVEY unto the Agency, its successors and assigns forever, and A SECURITY INTEREST AND MORTGAGE to the City of Rochester, its successors and assigns, in the Property. The recipient covenants with the mortgage the following statutory covenants; 1) to warrant the title to the premises, 2) to pay the indebtedness as herein provided, 3) To pay all Taxes, 4) To keep the building insured against fire and other hazards for the protection of the mortgagee, 5) That the premises shall be kept in repair and no waste shall be committed, and 6) That the whole of the principal sum shall become due after default, in the payment of any installment of principal or interest, or of any tax, or in the performance of any other covenant, at the option of the mortgagee.



2. **Interest.** Interest shall accrue on the unpaid balance of the Loan from the date of the Loan until the Loan is repaid in full or until \_\_\_\_\_, **20**\_\_\_\_ (*the Thirtieth Anniversary Date*), whichever occurs first, at the rate of two percent (2%) per annum. No interest shall accrue on the unpaid balance of the Loan after the Thirtieth Anniversary Date.
3. **Multiple Disbursements.** At the request of the Recipient, the City of Rochester may make multiple disbursements hereunder up to the full amount of the Loan, for any Permitted Purpose, directly to contractors hired by the Recipient upon Recipient's approval of work completed by such contractors and the City of Rochester's inspection of such work and receipt of required lien waivers and other additional documentation reasonably required by the City of Rochester. In any event, interest shall accrue on the full amount of the Loan from the date of Loan closing.
4. **Loan Repayment and Loan Subordination.** The entire unpaid principal balance of the Loan and all unpaid interest thereon shall be due and payable in full on the earlier date of a) the date when the property is sold, transferred or conveyed; b) the property is no longer used as your principal residence; or c) thirty (30) years from the Loan Date. The repayment obligation will be triggered if the Recipient sells, transfers, leases or otherwise conveys all or any part of the Recipient's interest in all or any part of the Property. The Recipient may repay the full amount of the Loan at any time without penalty. In the event that the Recipient asks the City of Rochester to subordinate its lien and security interest to the lien of a new mortgage or security interest, the City of Rochester may, at its discretion, effect such subordination either by refinancing the Loan and entering into a new Home Improvement Loan Repayment Agreement that will have an original principal balance equal to the unpaid principal balance of this Loan plus accrued interest, or by entering into a subordination agreement with the first mortgage lender. The Recipient will be required to pay the City of Rochester its fees and administrative costs in connection, such as, refinance or subordination. Those fees and costs will be disclosed to the Recipient prior to the refinancing or subordination of this Loan.

All payments received by the Agency pursuant to this Agreement shall be applied first to interest accrued and then to the unpaid principal balance of the Loan.

5. **Events of Default.** The Recipient shall be required to pay the entire unpaid balance of the Loan plus all accrued interest to the City of Rochester upon the occurrence of any one or more of the following events (Events of Default):
  - a. The Property is sold at a mortgage foreclosure sale; or
  - b. There is a default under any other loans or mortgages secured by the Property; or
  - c. The Recipient enters into a mortgage, security agreement, or other agreement pursuant to which all or any part of the Property is encumbered or pledged or subjected to a lien as security for any debt, which agreement has not first been approved in writing by the City of Rochester, including without limitation any refinance, modification, restatement, amendment, extension, or other change to any such mortgage, security agreement, or other agreement; or
  - d. The Recipient causes or permits any lien for materials or labor to encumber the Property; or
  - e. The Recipient files a petition in a bankruptcy proceeding or is adjudicated bankrupt in an involuntary proceeding; or

f. The Recipient uses the Loan for a purpose that is not one of the Permitted Purposes;

provided, however, that transfers pursuant to subparagraphs b, c, or d of this Section 5 shall not be deemed Events of Default hereunder to the extent that exercise of the City of Rochester's rights of enforcement will violate the restrictions on exercise of due on sale clauses set forth at 12 CFR 591.5(b) or similar restrictions that may be applicable under state or federal law from time to time.

6. **Enforcement.** Upon the occurrence of an Event of Default hereunder, the City of Rochester may, immediately and without notice to the Recipient, declare the entire unpaid principal balance owing hereunder, together with all other unpaid interest and charges incurred by the City of Rochester, to be immediately due and payable and thereupon all such unpaid principal balance together with all accrued interest thereon and all other indebtedness secured hereby shall be and become immediately due and payable, and the Recipient hereby authorizes and fully empowers the City of Rochester to foreclose this Mortgage by judicial proceedings or by advertisement with full power and authority to sell the Property at public auction and convey the same to the purchaser in fee simple, all in accordance with and in the manner prescribed by law, and out of the proceeds arising from sale and foreclosure to retain the principal and interest due hereunder and the indebtedness secured hereby, together with all such sums of money as the City of Rochester shall have expended or advanced pursuant to this Mortgage or pursuant to statute, together with interest thereon as herein provided and all costs and expenses of such foreclosure, including lawful attorneys' fees, with the balance, if any, to be paid to the persons entitled thereto by law. In addition and cumulative to the rights afforded the City of Rochester hereunder, the City of Rochester may enforce the obligations of the Recipient herein by any and all available legal proceedings or remedies, including without limitation a personal action for a deficiency judgment in the manner permitted by applicable law. If the City of Rochester commences suit or foreclosure for collection of the Loan, the City of Rochester shall be entitled to recover from the Recipient all costs and expenses related to such actions that are permitted by applicable law, including reasonable attorneys' fees.
7. **Waiver of Demand Provisions.** The undersigned hereby waives presentment for payment, demand, protest, notice of protest, notice of dishonor, and notice of nonpayment of this Loan.

IN WITNESS WHEREOF, the Recipient has executed this Agreement as of the day and year above written.

**RECIPIENT:**

\_\_\_\_\_  
  
\_\_\_\_\_



## Modification of Home Improvement Loan Repayment Agreement (Mortgage)

**THIS AGREEMENT** is effective as of the \_\_\_ day of \_\_\_\_\_, 20\_\_\_, between \_\_\_\_\_  
("Maker"), and the City of Rochester, 201 Fourth Street SE, Rochester, Minnesota 55904.

### RECITALS

- A. Maker, as the owner in fee simple of the real property described in **Exhibit A** attached hereto and made a part hereof, previously applied for and received a mortgage loan from the City of Rochester, in the original principal amount of \$\_\_\_\_\_ (the "Loan").
- B. The Loan is secured by a Home Improvement Loan Repayment Agreement (Mortgage) executed by Maker in favor of the City of Rochester, dated \_\_\_\_\_, recorded \_\_\_\_\_, in the Office of the County Recorder for Olmsted County, Minnesota, as Document No. \_\_\_\_\_ (the "Mortgage").
- C. Maker has experienced unexpected events in the rehabilitation process and has requested a change in the amount of the Loan.
- E. Maker and the City of Rochester desire to enter into this Agreement in order to modify the Mortgage to reflect the new Loan amount.

### AGREEMENT

- 1. The terms and conditions of the Home Improvement Loan Repayment Agreement (Mortgage) are amended as follows:  
  
Any reference to the Loan of \$\_\_\_\_\_ is hereby changed to \$\_\_\_\_\_.
- 2. Except as provided above, the terms and provisions of the Home Improvement Loan Repayment Agreement (Mortgage) shall remain in full force and effect.
- 3. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which shall constitute one instrument.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement as of the date first above written.

**MAKER:**

\_\_\_\_\_  
\_\_\_\_\_

STATE OF MINNESOTA )

ss

COUNTY OF MOWER )

On this day and year first above written, before me, a Notary Public, within and for said County personally appeared \_\_\_\_\_, **a single person / husband and wife**, to me known to be the person(s) described in, and who executed the foregoing instrument, and acknowledge that she executed the same as her free act and deed.

\_\_\_\_\_  
Notary Public

STATE OF MINNESOTA )

ss

COUNTY OF MOWER )

On this day and year first above written, before me, a Notary Public, within and for said County personally appeared \_\_\_\_\_, **a single person / husband and wife**, to me known to be the person(s) described in, and who executed the foregoing instrument, and acknowledge that she executed the same as her free act and deed.

\_\_\_\_\_  
Notary Public

**The City Of Rochester**  
**201 Fourth Street SE**  
**Rochester, Minnesota 55904**

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**Ardell F. Brede, Mayor**

Attest:

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**Judy Scherr, City Clerk**

Prepared by:

Rochester/Olmsted Consolidated Planning Department  
2122 Campus Drive SE  
Rochester, Minnesota 55904

Reviewed by:

Rochester City Attorney's Office  
201 Fourth Street SE  
Rochester, Minnesota 55904

RESOLUTION

BE IT RESOLVED by the Common Council of the City of Rochester that the City approve amending the 2015 Action Plan for the Community Development Block Grant Program to expand the target area over the entire city corporate limits.

The Mayor and City Clerk are authorized to execute any documents needed to implement this resolution on behalf of the City.

PASSED AND ADOPTED BY THE COMMON COUNCIL OF THE CITY OF ROCHESTER, MINNESOTA, THIS 16th DAY OF May, 2016.

ATTEST: Aaron S. Reever  
CITY CLERK

Randy Staver  
PRESIDENT OF SAID COMMON COUNCIL

APPROVED THIS 31st DAY OF May, 2016.



Walter F. Bieda  
MAYOR OF SAID CITY

Res15\Approve\CDBG15Amd