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Guidelines for Home & Property Improvement Programs

Sterling Heights Housing
Commission

Introduction

Under the provisions of the Housing and Community Development Act of 1974, funding provided to participating cities may be used for housing rehabilitation purposes, including financing of home and property improvements of privately owned properties. The City of Sterling Heights has implemented a program to prevent blight, slums, and the deterioration of the City's housing stock.

The objective of this program is to assist owner-occupants of single-family residences (excluding mobile homes) in the City to maintain their residences or to bring substandard homes into conformance with code and ordinance provisions and housing quality standards,

DEFINITIONS

- a) Code Violations - Any violation of State building code and/or City Code of Ordinances relating to housing and the land on which the housing is located.
- b) Handicapped - A medically recognized physical, mental, or emotional impairment or a chronic condition that limits work activities.
- c) Household Income - The earnings of the applicant and any other member of the family or person related by operation of law who share the same dwelling. If ownership of the property rests in more than one person, the applicant is the owner-occupant provided other persons on the title could prove that they live at a different address.
- d) Housing Quality Standards - Interior and exterior standards designed to maintain the health and safety of inhabitants, as well as appearances to correct blighting influences on the neighborhood. Examples: flooring, painting, windows, siding, and roofing.
- e) Incipient Violation - A defect, which if not corrected, will become an actual violation within a short period.
- f) Substantial Reconstruction - Improvement costs to any residential property exceeding eighty percent of the calculated equity in the property.
- g) Supplementary Improvements - Lateral damage relating to an essential item. For example, if an applicant has a roof leak in a bedroom, it would be justifiable to replace the whole roof, as well as repairs to the bedroom drywall, etc.
- h) Market Value – Current assessed value of the property times two.

The guidelines contained in this document shall supersede all former Community Development Rehabilitation Project documents and all amendments made thereto.

PROGRAM MANAGEMENT

The Housing Commission, in its authority to determine guidelines and review and take action on the Home & Property Improvement Program, has adopted the guidelines contained in this document as the vehicle for carrying out the stated objectives of the program.

The Housing Commission will receive a biannual status report that summarizes the number of residents served, amount invested, and the work completed and costs. The Housing Commission will review contractor proposals and decide on contracts involving Substantial Reconstruction. A representative from staff (and the applicant upon request) will attend meetings whenever home improvement projects appear on the Agenda.

The HUD Program Coordinator will administer the Home & Property Improvement Program. The HUD Program Coordinator will be responsible for applicant recruitment, selection, and all work and coordination relating to homeowner meetings, scheduling property inspections, work specifications, work progress, preparation of mortgages, recording of mortgages, contractor payments, checklist requirements, ensuring compliance with all environmental review procedures, and the U.S. Department of Housing & Urban Development (HUD) regulations relating to housing rehabilitation.

Note: The Community Development Department has the ability to change, modify or amend the Program Guidelines at any time to facilitate the administration of the program and to implement HUD notices and monitoring findings.

Conflict of Interest

It is the policy of the Program to avoid the occurrence of conflicts of interest, whether real or perceived. Governance is found at 24 CFR 570.611, in State law and in City Ordinance. The following requirements therefore apply:

1. Applicants for rehabilitation assistance who work for the City of Sterling Heights or are related to such employees, officers, or elected officials of the City of Sterling Heights, shall declare that relationship in their application.
2. Contractors (including suppliers) shall disclose any relationship to City employees, officers, or elected officials in their application for admission as approved rehabilitation contractors.

The Program will follow the procedures outlined in the Federal regulations whenever a possible conflict of interest, as described in items a) and b) above, occur. This requires the following:

1. Disclosure of the situation to Program staff who, in turn, will notify the City Development Director
2. Preparation of a written disclosure statement which fully describes the perceived conflict of interest.
3. If applicable, submission of the disclosure statement for review by the Housing Commission for compliance with State and local law. That determination, once received, is incorporated into the appropriate contractor or homeowner/applicant file.
4. If applicable, submission of a Request for Exception to HUD, including documentation of public disclosure (Public Notice and Public Hearing comments), Housing Commission

determination of applicability under State and local law, and a full description of the situation at hand and why an exception to the rule should be made.

5. All documentation pertaining to the potential conflict of interest shall be incorporated into the contractor's or homeowner/applicant's file.

Nothing with respect to the Contractor's or Homeowner's application may proceed until and unless the matter is fully reviewed by the City of Sterling Heights and found either not to be a conflict of interest, or HUD grants an exception to the regulations. Should a negative determination occur, the application is denied and the file is closed, with documentation incorporated into the project file

DENIAL OF SERVICE POLICY

If an applicant falsifies or provides misleading information in an application, the applicant may be permanently disqualified from participation in the Program and will be required to repay any Program assistance already expended. Examples of this may include failure to report income from employment, or failing to report an accurate account of residents in the household.

In some circumstances, assistance may be denied due to the magnitude of health and safety issues and associated costs. It is the policy of the City of Sterling Heights and HUD to correct code violations during the rehabilitation of the unit. Refusal by the homeowner to correct code violations or to abide by any other applicable program policy may result in denial of assistance.

City staff and contractors must be able to perform rehab measures without threats to their health or safety and in a non-hostile work environment. Work will not be performed in homes that are structurally unsound and should be condemned, substantially infested with vermin, or homes with electrical or plumbing hazards that cannot be resolved prior to or during the rehab. The dwelling must be free of animal feces, excessive garbage, and illegal controlled substances during the period of rehabilitation.

In all cases of denial, the applicant will be informed in writing when services are denied or withdrawn. The denial notice will include instructions for appeal of the denial or steps that can be taken to allow for rehabilitation services to proceed, if applicable. The homeowner shall have the right to appeal the decision to the Sterling Heights Housing Commission.

Home and Property Improvement Program

NO INTEREST DEFERRED LOAN

Applicants who have been selected and agree to enter into this Home & Property Improvement Program will subject themselves to an Agreement known as the "No Interest Deferred Loan"

Mortgage and Mortgage Note for the amount invested in the homeowner(s) property. All mortgages made by the homeowner will be recorded at the Macomb County Register of Deeds Office. Financial eligibility requires that the household income not exceed fifty percent of the median household income in the Detroit Metropolitan area as defined by HUD. If there are no applicants within the fifty-percent median income, applicants that meet the eighty-percent median income will be selected.

The term "No Interest Deferred Loan" means that the homeowner (s) pays no interest unless and until default occurs, and that the total loan amount is deferred until the title of the property is transferred (except by operation of law upon the death of a joint tenant of the borrower of the property), sold, or upon death of the surviving borrower.

In order to assist as many applicants as possible, qualified applicants will be allowed only one home improvement loan under this program.

In an effort to reduce the amount of expenses incurred by the Program for homeowners that choose to withdraw their application or rescind the contract, the following procedures will be followed:

If a homeowner withdraws their application at any point prior to the contract signing (i.e., selection of contractor, mortgage note, mortgage document) there will be a twelve-month waiting period from the withdraw date before the homeowner may again apply to the program. Any expenses incurred by the Program to process the first application will be added to the mortgage note and mortgage for the second application. If a homeowner rescinds the signed contracts, then they shall forfeit the privilege to apply again to the Program.

EQUITY TO DEBT LIMIT

The total amount invested in the property may not exceed eighty percent of the equity in the property.

- a) Equity Determination: The equity in the property is determined by the market value minus any liens and other court judgements having a financial bearing on the property.

Example	
Current Market Value of Property	\$87,500
Home Mortgage Owed	(41,200)
Court Judgement for Ex-Spouse	(20,000)
Equity	\$26,300

The equity to debt limit requirement will not apply to essential repairs under \$15,000 such as roof, furnace, and water heater replacement.

LOAN LIMIT

The total dollar amount invested in the property shall not exceed \$40,000. This includes rehabilitation costs, inspections fees, document recording, lead based paint inspection fees, and title search fees. Management approval is required for any improvement over \$40,000.

ELIGIBILITY REQUIREMENTS

Income

Applicants who best satisfy income limits and selection criteria will be provided assistance on the bases of fund availability and scheduling.

Income determinations for purposes of the Home & Property Improvement Program will be from the federal, state, and homestead tax exemption form. Income distributed to handicapped minors and full-time students will not be included as household income. For the purposes of the Home & Property Improvement Program, income eligible applicants will be those low-income households at fifty percent or below the median household income of the area. In the event that there are no applicants that meet the fifty percent median income, applicants that meet eighty percent of the median income will be selected.

The grantee will use Adjusted Gross Income (IRS 1040), defined as gross income minus adjustments to income, for calculating applicants annual income.

Types of Income include:

- Wages, salaries, tips
- Alimony
- Business income
- Taxable amount of IRA distributions
- Taxable amount of pensions and annuities
- Unemployment compensation
- Taxable amount of Social Security Benefits
- Capital gain or (loss)
- Rental real estate, royalties, partnerships, etc.

Deductions to from adjusted gross income include:

- IRA distributions
- Medical savings account deductions
- Moving expenses
- One-half of self-employment taxes
- KEOGH and self-employed SEP and SIMPLE plans
- Penalties on early withdrawal of savings
- Paid alimony

Types of Income from Assets include:

- Taxable interest

- Dividends
- Prizes, awards
- Gambling, lottery, raffle winnings

Note: CDBG allows tax returns as proof of income and documentation for CDBG income qualification can be up to 12 months old.

Selection Criteria

The applicant selection criteria will be based on a system which gives highest priority to those persons having the greatest need. Most needy includes consideration for properties with the most threatening safety hazards, those having the highest blighting influences on the neighborhood, and those persons at the fifty-percent level of median household income, or if no qualified applicants are found at the fifty-percent level, those applicants that meet the eighty-percent income guidelines will be selected. The homeowner must meet the following criteria:

- a) Any owner-occupant of a single-family residence in conformance to Zoning Ordinance 278 of the City of Sterling Heights is eligible to apply.
- b) The applicant must be in occupancy of the premises for one year prior to awarding assistance.
- c) All property taxes must be current.
- d) A hazard insurance policy must be in effect for the property.
- e) Applicants that have filed a bankruptcy within the past seven years will be denied. Applicants that have been denied due to bankruptcy may appeal to the Housing Commission if mitigating circumstances contributed to the bankruptcy filing such as a death or documented medical emergency.

From the initial inspection utilizing the Office of Building Services, a list of all necessary work will be compiled. This list is used to help determine if the home is worth rehabilitating.

Waiting-list

The City will prioritize applications which request essential/time-sensitive repairs (such as failed furnaces, failing electrical systems). All work completed must comply with Michigan State Building Code and meet federal Housing Quality Standards ("HQS"). The HUD Program Coordinator will determine priority work, and may not be able to assist all eligible applicants in a program year. Eligible applicants may be placed on a waitlist for later funding if they wish. Intake of waitlisted clients will be handled as follows: 1) applicants seeking essential/time sensitive repairs; 2) Lowest Median Household Income; then 3) date of application received. If and when new Program funding is received in the next fiscal year, homeowners on the waitlist (if one exists) will be prioritized over new applicants.

CONTRACTORS FOR HIRE

Contractors eligible for placing bids and proposals will be of good reputation, financially sound, and have adequate financial resources to carry out his proposal. Contractors who are brokers and sell construction contracts will not be accepted. Adverse information by the Michigan Attorney General, the City Office of Building Services, Department of Consumer and Industry Services Bureau of Occupational and Profession Regulation Commercial Enforcement Division, or the Better Business Bureau about contractors will be a reason to disqualify the contractor.

A general contractor will be utilized for all rehabilitation projects. If an emergency repair must be completed prior to the selection of a general contractor, the HUD Program Coordinator may obtain a qualified trade contractor to perform the work consistent with the emergency repair. The HUD Program Coordinator will follow the City's procurement policy utilizing the bid process. Bids will be sent to multiple general contractors with the bids being opened by program staff. The HUD Program Coordinator will contact the State of Michigan for information on the contractor's license and complaint history.

The funds loaned to the homeowner for construction work will be based on the lowest qualified bid or proposal that meets the specifications.

Contractors interested in doing business with the City may be asked to complete a Contractor Questionnaire requiring information to sufficiently examine the fitness of the company to do business with the City. This includes requiring all contracts to be active in SAM's and providing the City with their Unique Entity Identification (UEI) (24 CFR 570.609 and 2 CFR 200.214). All contractors must provide evidence of comprehensive public liability insurance coverage protecting the owner for not less than \$100,000 in the event of bodily injury including death, and \$50,000 in the event of property damage arising out of the work performed by the contractor, and evidence of insurance or other coverage required by local law governing workmen's compensation.

All other requirements for permits and licenses, guarantees, inspection and progress visits, etc. will be included in the written agreement between the homeowner and the contractor, or in the proceed to work order. The Program will maintain a list of approved contractors from which it will solicit bids on a rotating basis. This list may be updated, with new contractors being added to, and inactive or non-performing contractors being removed from it. Individual additions or deletions may also occur, as need dictates, to ensure proper management of the Program.

Contractor Dispute and Violation Procedure

The City of Sterling Heights may perform periodic site visits to ascertain that approved and contracted rehabilitation work is proceeding properly and satisfactorily. They will verify that the expenses are reasonable and will authorize the drawdown funds and disbursement to the contractors, when the owner signs the approval of work and work has been finalized by the City's Building Official. In the event of owner dissatisfaction with the work done by the contractor, both agree to abide by the decision of the City of Sterling Heights. The City of Sterling Heights

reserves the right to withhold payment, in the event that the completed work is not done properly. The HUD Program Coordinator may at its' discretion utilize Rehab funds to settle a dispute between a homeowner and contractor up to \$2,000.

All contract items must be completed satisfactorily while under construction, in accordance with the work specifications outlined by the City of Sterling Heights. Failure to do so is considered a material contract violation. If not corrected by the contractor in a timely manner, material violations are cause for contractor termination and replacement by another contractor. Program staff will work with the original contractor to correct the violation, or obtain a second contractor if the deficiency is not corrected. Homeowner concurrence in this process is required. The second contractor will be paid first, upon satisfactory completion of the work contracted for, and the original contractor is reimbursed from residual funds up to the amount in the original contract, but only for work completed in accordance with the rehabilitation contract.

Contractors may be suspended or removed for substantial non-performance, or for unethical or illegal actions, at any time based on the considered and documented decision of the Program staff.

Lead-based Paint Compliance

All contractors are required to comply with Lead-Based Paint (LBP) Regulations as outlined in 24 CFR 35. Additionally, the grantee and contractor will follow the EPA's Renovation, Repair, and Painting Rule (RRP). Under the rule, beginning in April 2010, contractors performing renovation, repair and painting projects that disturb lead-based paint in homes built before 1978 must be certified and must follow specific work practices to prevent lead contamination. Another part of this rule, is that it requires clearance exams. All contractors performing work on a LBP project, must be a certified Lead-Based Paint contractor. All rehabilitation projects requiring lead-abatement are required to complete clearance exams before the approval of work can be authorized.

Units that were built before 1978 and are receiving rehabilitation assistance over \$5,000 will receive the following:

1. The pamphlet "Protect Your Family From Lead in Your Home"
2. Paint testing of surfaces to be disturbed or presumed LBP
3. Risk Assessment to determine the presence, type, and severity of lead-based paint hazards
4. Notice to Occupants of Lead-Based Paint
5. Interim of Controls/Abatement
6. Lead Clearance Test

Common exceptions to lead-based paint compliance during the rehabilitation process are those that follow:

- (1) A residential property for which construction was completed on or after January 1, 1978, or, in the case of jurisdictions which banned the sale or residential use of lead-containing paint prior to 1978, an earlier date as HUD may designate (see § 35.160).
- (2) Rehabilitation that does not disturb a painted surface.

Relocation

Work in owner-occupied housing does not trigger the Uniform Relocation Act (URA). However, the Lead Safe Housing Rule includes requirements for occupant protection during lead hazard reduction activities. These occupant protection measures often require that a resident leave the unit while work is being performed. Relocation to a temporary unit may be required if residents must be kept out of the work area during lead hazard reduction or if residents cannot enter important parts of their home (e.g. bathrooms, kitchens) for more than a day. HUD has advised that the relocation of elderly occupants is not typically required, so long as complete disclosure of the nature of the work is provided and informed consent of the elderly occupant(s) is obtained before commencement of the work.

PROCUREMENT

Grantees and sub grantees use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in 24 CFR 85.36(b)(1). Bids will be obtained from an adequate number of qualified sources. This will aid in the determination if contract costs are reasonable. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

REQUIRED IMPROVEMENTS

All improvement within the scope of the project must meet the minimum housing codes upon completion. *Special Housing Commission approval is required* for substantial reconstruction and construction or expansion projects affecting the size of the dwelling including dormer and attached or unattached garages, and the completion of unfinished spaces, such as an attic or basement may be presented to the commission when they address overcrowding conditions. Any change orders to the project must be approved by the HUD Program Coordinator and homeowner before repair is completed and the Rehabilitation Mortgage is amended.

LOAN REPAYMENT

Homeowners who have entered into a mortgage loan with the Housing Commission may choose to pre-pay their loans. Homeowners have the option of making payments directly to the City in increments of at least \$100.

SUBORDINATION AGREEMENTS

It is the policy of the Housing Commission to permit program staff to prepare and execute a subordination agreement to subordinate the mortgage made with the City and Housing Commission under the following guidelines:

1. Debt ratio from all liens against the property cannot exceed 80% of the market value of the home (including the City's Home Improvement Program Loan). No independent appraisals will be considered to determine market value.

Example	
Market Value (Assessed Value of \$80,000 x 2)	\$160,000
80% of Assessed Value	\$128,000
City Loan	\$20,000
New Mortgage Limit	\$102,000

2. A loan may be subordinated in the above-referenced situation provided:
 - a) A documented emergency situation (i.e., emergency medical bills)
 - b) The new mortgage will lower the existing mortgage interest rate or term. The new mortgage must be a 15 or 30 year fixed or 5 year or greater ARM.
 - c) The new mortgage will help with college tuition for a dependent
 - d) May subordinate to the existing indebtedness balance and reasonable closing costs only. No removal of equity from the property to achieve cash, home improvements, or bill consolidation. If the owner desires such an action, the program will either remain in its superior position or expect full repayment.
3. City mortgage will not drop lower than second position
4. Subordination requests will be considered no more often than once every five years.
5. The loan institution requesting the subordination must furnish the subordination agreement along with \$150.00 nonrefundable processing fee.

INELIGIBLE WORK

The purpose of the City's federally-funded rehabilitation activities is to correct housing code and/or health code violations, perform essential repairs, or other necessary activities that will make the property safe and livable. Funds will not be used for cosmetic or luxury improvements on the property, repairs to outbuildings, or garages unless connected to the property (and a source of code or safety concern), and improvements/installation of porches/decks that do not affect safe egress. Cosmetic improvements include, but are not limited to: landscaping work, additions, fireplaces, pools, hot tubs, area rugs, steam showers, skylights (unless to repair existing), and kitchen/bath cabinetry.

