

Introduction to Guide

This guide has been developed to assist local government State Recipients under the Community HOME Investment Program (CHIP) to administer a CHIP homeowner rehabilitation program. It is intended to provide guidance in the day-to-day management and implementation of a CHIP homeowner rehabilitation program.

This guide is divided into twenty-five sections that address each of the steps in administering a CHIP homeowner rehabilitation program. The guide also includes six (6) appendices:

- Appendix A, Sample Forms
- Appendix B, DCA Required Forms
- Appendix C, Technical Guide for Determining Income and Allowances for the HOME Program
- Appendix D, DCA Loan Documents
- Appendix E, Lead Based Paint Requirements
- Appendix F, Fair Housing and Equal Opportunity

CHIP Owner Occupied Rehabilitation Process

Under the CHIP program, a local government State Recipient that has been awarded CHIP funds for homeowner rehabilitation has already established the basic program design. The basic program design was set forth in the CHIP application and approved by DCA through the issuance of a Statement of Award with General and Special Conditions. Implementation of the program must be in keeping with the approved CHIP award and all general and special conditions; the HOME program regulations; DCA Recipients' Manual; and, all DCA CHIP policy memoranda.

The HOME program regulations are located at 24 CFR Part 92 and can be accessed at:

<http://www.hud.gov/offices/cpd/affordablehousing/lawsandregs/regs/index.cfm>

Local government State Recipients under the CHIP program assume a function as the "lender" and therefore have assumed all responsibilities that a conventional lender normally undertakes when processing a home rehabilitation loan application. The specific fair lending and credit laws that must be followed are covered in Step 10 of this guide.

After approval by DCA of the CHIP award, the steps in administering a CHIP homeowner rehabilitation program can be summarized as follows:

- | | |
|---------|---|
| Step 1: | Review the Statement of Award, HUD HOME Regulations for Homeowner Rehabilitation Projects, CHIP Recipients Manual and DCA CHIP Policy Memoranda |
| Step 2: | Hold Post Award Public Hearing |
| Step 3: | Develop Local Program Policies and Procedures |
| Step 4: | Review Environmental Requirements |
| Step 5: | Select Key Participants |
| Step 6: | Assemble/Develop Program Forms and Documents |
| Step 7: | Market the Rehab Program to Prospective Applicants and Contractors |

- Step 8: Develop a Pool of Eligible Contractors
- Step 9: Set-up Fair and Equitable Application In-take Process with
Logs/Letters/Forms
- Step 10: Pre-Qualify the Applicant
- Step 11: Initial Property Inspection
- Step 12: Final Qualification of the Applicant
- Step 13: Conduct Final Property Inspection, Develop Work Write-Up and Cost
Estimate (Using Property Standards and Property Inspection Form)
- Step 14: Owner Commitment and Owner Orientation
- Step 15: Prepare Bid Document and Send Invitation to Bid
- Step 16: Bid Opening/Negotiated Bids
- Step 17: Selecting and Notifying the Contractor
- Step 18: Prepare for Closing the CHIP Loan
- Step 19: Closing the CHIP Loan and Leverage Loan
- Step 20: Holding the Pre-Construction Conference, Executing the Construction
Contract and Issuing the Notice to Proceed
- Step 21: The Construction Process
- Step 22: Project Completion and Closing the File
- Step 23: Monitoring and Change of Ownership
- Step 24: Record Retention
- Step 25: Complaint Resolution

Step 1. Review the Statement of Award, HUD HOME Regulations, CHIP Recipients' Manual and DCA CHIP Policy Memoranda

As a first step, the State Recipient should review the Statement of Award including the General and Special Conditions, the basic HOME program rules as outlined in the CHIP Recipients' Manual and the HOME program regulations at 24 CFR Part 92. Additionally, the CHIP policy memoranda included as an appendix to the CHIP Recipients' Manual should be reviewed prior to implementing the CHIP homeowner rehabilitation program.

The State Recipient should also review all of the project and financial interface requirements with DCA as outlined in the CHIP Recipients' Manual in order to be prepared to set up projects, draw down funds, meet the DCA reporting requirements and meet the project completion reporting requirements.

Step 2. Hold Post Award Public Hearing

At least one public hearing must be held to discuss the approved activities within 60 days of the date of grant award. The hearing must include the estimated amount proposed to be used for the activities that will benefit low and very low income persons, the State Recipient's plans for minimizing the displacement of persons as a result of CHIP funded activities and for assisting persons actually displaced as a result of such activities. The public hearing must also solicit comments regarding historic preservation.

- Public Hearing Notice: Appendix A

Step 3. Develop Local Program Policies and Procedures

After approval of a CHIP award for homeowner rehabilitation, the CHIP administrator together with the local government officials develop a set of written policies and procedures to govern the program. This document must be approved by resolution by the local government body. The purpose of the local policies and procedures is to ensure that the requirements of the approved CHIP award are set forth in a set of written policies and procedures outlining the basic eligibility and program implementation requirements. The policies and procedures serve as a management tool to assist the local government and the citizens in understanding the program requirements. They also serve as a tool to assist the local government during disputes related to participant or contractor eligibility; scope of work undertaken; denial of CHIP loans; citizen complaints and other areas of dispute that may arise.

In structuring the policies and procedures the following elements are required to be addressed:

Introduction

This section should clearly describe the overall CHIP award including the source of funds and the basic program goals and objectives. This section should also clearly define any "target" area(s) limited by the award if the award is not based on a city-wide or county-wide program area.

Eligible Applicants or Borrowers

This section should clearly explain the requirements for a household to be able to participate in the CHIP homeowner rehabilitation program. This section should address income eligibility, property eligibility, ownership requirements and other requirements including paid property taxes, homeowner insurance and clear and acceptable forms of title.

Most CHIP homeowner rehabilitation loans are made in the form of deferred payment loans at zero percent interest and payable only in the event the household sells, transfers title or fails to occupy the property as their principal residence during the affordability period. Some State Recipient's require additional qualification criteria including underwriting the CHIP applicant's ability to service additional mortgage debt that may be required in obtaining a third party loan for the owner's portion of the total rehabilitation. Any other State Recipient qualification requirements as set forth in their approved award should be clearly addressed in this section.

In regard to applicant income eligibility, this section should set forth how information provided by the applicant will be verified. The policies should clearly state the maximum allowable income by including the effective HUD area low income limits published for the applicable county by household size. The requirement for third party verification of income and assets should also be clearly set forth as well as the requirement that income is projected for the coming twelve month period from time of verification. The HUD HOME regulation requirement that

income must be re-verified within six months of closing the CHIP loan should also be set forth.

The policies should also cover the requirements that property ownership, status of any current mortgage, taxes and insurance will be verified. Only the HUD HOME allowed forms of ownership (fee simple title or 99 year leasehold) should be listed in this section. The policies should clearly state that “life estates” or “contracts for deed” or “contracts for sale” are not a HUD HOME approved form of ownership. Please see Step 10, Pre-Qualifying the Applicant, for information regarding the requirement that HUD approval through DCA is required for any other form of ownership beyond fee simple title or a 99 year leasehold estate.

Eligible Property Types

This section of the policies and procedures should clearly explain that to be eligible for CHIP homeowner rehabilitation assistance, in addition to the property being occupied by an income-eligible homeowner as the owner’s principal residence, the eligible property types are:

1. Traditional single family housing that is owned in fee simple or for which the occupant has a 99 year leasehold interest (This housing may contain one to four dwelling units.);
2. A condominium unit;
3. A cooperative unit or unit in a mutual housing project; and,
4. A manufactured home.

Note: If CHIP funds are used to assist a homeowner in a two-to-four-unit property, the HOME rental requirements apply to the other units benefiting from the HOME funds including the provisions regarding tenant occupancy, initial rent levels and long term affordability.

Eligible Activities

This section should describe the eligible improvements that will be allowed in accordance with the local program’s property standards (codes). If the property is in a flood plain or Historic District or has been determined historically significant, a description of the requirements should be included. A listing of eligible improvements and ineligible improvements consistent with the rehabilitation property standards should be addressed.

Lead Hazard Reduction

The policies should include the steps involved in complying with the HUD lead hazard reduction requirements for homes built prior to January 1, 1978 including lead hazard assessments/inspections, required notifications, relocation, trained supervisors/workers, and clearance.

Marketing

This section should describe the marketing strategies as set forth in the approved award to ensure that all citizens, especially those least likely to apply, will hear about the program and have an opportunity to apply. This section should also set forth the State Recipient’s plan to

market and outreach to contractors including minority and women owned business contractors.

Application In-take Process

This section should clearly describe a fair and equitable application in-take process as set forth in the approved award. If a “first-come, first-served” method of application in-take was proposed, it should be fully described. Any other approved method of application in-take should be clearly described.

Loan Terms and Conditions/Minimum/Maximum Subsidy/After-Rehabilitation Value

The maximum CHIP funds allowed for homeowner rehabilitation and the minimum required “other” funds should be clearly set forth in this section. The finance plan as set forth in the approved award should also be included in this section. The minimum CHIP funds that must be invested per the HOME regulations of \$1,000 should also be set forth in this section.

HOME regulations required that the maximum HOME (CHIP) subsidy cannot exceed the applicable per unit limits set forth under Section 221(d) (3) for high-rise elevator-type structures. Please see the CHIP Recipients’ manual for the effective limits.

The after-rehabilitated maximum value per the HUD 203 (b) limit in effect should also be included.

This section should also clearly set forth the requirements for approval and/or denial of a CHIP homeowner rehabilitation loan.

Minimum Property Standards, Written Rehabilitation Standards and General Property Improvements

The HOME required property standards (codes) as well as the local government’s written rehabilitation standards should be addressed in this section. The local government’s written rehabilitation standards must be included as an exhibit to the policies and procedures. The local government’s permitted general property improvements as set forth in the approved award should also be included in this section.

Inspections, Work Write-Ups and Bidding Procedures

This section should include the local government’s process for completing initial, interim and final property inspections, work write-ups, cost estimates and the bidding procedures. The HUD HOME program requires States Recipients administering homeowner rehabilitation activity to use a Property Inspection Form and maintain the completed Property Inspection Form used to inspect the property in each project file. While the Property Inspection Form should definitely be used at final inspection and included in the project file, it is recommended that it also be used at the initial property inspection. The Property Inspection Form should be designed to meet the requirements of the State Recipient’s property standards (codes) and the State Recipient’s Written Rehabilitation Standards.

Contractor Qualifications and Contracting Procedures

This section should include all of the required contractor qualifications in order for a contractor to participate in the CHIP owner occupied rehabilitation program, including application requirements, insurance requirements, licensing/certification requirements for sub-contractors, references, and any other local government requirements. This section should describe the method that will be employed to reach out to and solicit contractors to apply to become eligible to participate in the program. This section should also include the local government's plan for outreach to women owned and minority businesses. This is also the section to describe how contracts between the homeowner and the rehabilitation contractor will work and the role of the local government and/or CHIP administrator in this process. The overall contracting process including acceptance of lowest responsible bid requirements, reasonableness of bid procedure, and consequences to the owner if they choose another bidder should be outlined in this section. Other construction management requirements regarding a time line for events to occur and the schedule for interim inspections, progress payments and required documentation, changes in scope of work through change orders, final inspection and contractor termination should be addressed in this section.

The procedure for resolving conflicts between the homeowner and the contractor should be clearly set forth in the policies.

Loan Approval, Documentation and Loan Closings

The local government's process for packaging and reviewing applications should be described in this section. The local government's policy for approval and denial of CHIP applications and a procedure for appeal should be also be clearly described. This section should also include the requirements for the construction contract between the homeowner and the contractor and the required CHIP loan documents and those that will be filed of record to enforce the affordability requirements. This section should also include the requirements for the closing of the loan for the "other" or "leveraged" funds necessary to complete the total rehabilitation. The HOME (CHIP) program required period of affordability and the principal residence requirements should be clearly defined in this section of the policies. The events that trigger a default under the CHIP loan document should also be explained in this section.

Progress Payments, Change Orders and Project Completion/Close-Out

This section should include the local government's plan for making progress inspections and progress payments, change orders and the final inspection and final construction payment. Also, the requirements for closing out the project at completion of the rehabilitation should be described in this section. The local government's requirements for the owner to sign satisfaction statements at each progress inspection including the final inspection should be clearly explained in this section. The local government's requirements for a final inspection and certification that the work completed met the HOME (CHIP) program required property standards (codes) should be addressed in this section.

Appeals and Complaints

The appeals and complaints procedure should be clearly enumerated in this section. A clear process for people to follow if they have concerns or complaints regarding decisions made, quality of work, contractor actions or other issues should be clearly defined in this section. If the State Recipient uses an arbitration committee to resolve disputes, the arbitration policy should be clearly explained in this section.

Environmental Clearance and Historic Preservation

This section of the policies should outline the requirements that on an individual project by project basis, the HUD environmental requirements and the Programmatic Agreement with the State of Georgia Historic Preservation Office will be followed.

Fair Housing and Equal Opportunity and Affirmative Action

The policies and procedures should include a section clearly describing the local government's efforts to market the program to those least likely to apply so that they will have the opportunity to become aware of the program and to apply and participate. The policy to reach under served populations and to affirmatively market the program to owners and to contractors should be explained in this section. Specifically this section should state that the State Recipient will follow the Fair Housing Act which prohibits discrimination in housing sales or loans on the basis of race, religion, color, national origin, sex, familial status (having children under the age of 18), or handicap. This section should also state that the State Recipient will not discriminate in any aspect of a credit transaction on the basis or race, religion, age, color, national origin, receipt of public assistance, sex, marital status, or the exercise of any right under the Consumer Credit Protection Act.

Temporary Relocation

This section of the policies should describe the State Recipient's policy with regard to temporary relocation. Before proceeding with any project which has the potential to cause any temporary relocation, be sure to review the HOME regulations, the Uniform Relocation and Real Property Acquisitions Policies Act of 1970, as amended at 49 CFR Part 24 and HUD Handbook 1378, Tenant Assistance and Real Property Acquisition. A "Claim for Temporary Relocation Expenses" has been included in Appendix A of the Guide.

-
- Claim for Temporary Relocation Expenses: Appendix A

Step 4. Review Environmental Requirements

DCA, as the State Participating Jurisdiction, has published the appropriate notices regarding activities covered under NEPA for all HOME activities. In order to comply with NEPA and as a Special Condition under the CHIP program, each State Recipient must complete an **Environmental Statutory Checklist** at program start-up and submit it to DCA for approval prior to their first drawdown.

First, the Statutory Checklist must be completed with enough detailed information (e.g. names, addresses, and telephone numbers of responsible agencies for each of the statutory areas on the checklist) so that it is clear to DCA that you understand how to answer questions related to each of the statutory areas once a specific project site is identified.

Then, for each property selected for CHIP assistance, the SR must complete an **Environmental Screening Checklist** which reviews each of the items on the Statutory Checklist for applicability to the specific property proposed. Any items that are triggered by regulations listed on the Screening Checklist must be addressed in accordance with the appropriate statute. For example, if the property is 50 years of age or older, any activity must be reviewed for its possible affect under the National Historic Preservation Act.

DCA has entered into a Programmatic Agreement on Historic Preservation for purposes of compliance with the National Historic Preservation Act. This Agreement significantly increases local jurisdiction over historic preservation issues and provides for many new exempt activities. Each State Recipient has agreed to comply with the terms of the Programmatic Agreement as a General Condition of the Statement of Award.

-
- Environmental Screening Checklist: Appendix B
 - Programmatic Agreement on Historic Preservation: Appendix B

Step 5. Select Key Participants

Staffing

There are several manners in which State Recipients undertake the administration of CHIP homeowner rehabilitation programs including:

- Self-administered by the City or County Community Development or Housing Staff
- Administered by a for-profit consultant
- Administered by a Regional Development Corporation
- Administered by a non-profit sub-recipient

Key personnel required to administer and manage the day to day operations of a homeowner rehabilitation program typically include:

- Program Director or Administrator
- Rehabilitation Advisor or Specialist
- Clerical/Technical Support

Additionally, in order to implement the homeowner rehabilitation program, the State Recipient will need to identify and develop the following professional relationships:

- Appraiser
- Attorney
- Title Company
- Loan Review Committee (if used by the State Recipient's as set forth in their CHIP Program Policies and Procedures)

The responsibilities, functions and tasks vary from State Recipient to State Recipient based upon their overall administrative plan. Because of these variations, all references in the Guide to the individual steps and tasks in the homeowner rehabilitation process are made to the "State Recipient." While some functions may be the responsibility of the Program Director or Administrator, some responsibilities or tasks are undertaken by the Rehabilitation Advisor or Specialist, and some responsibilities and tasks are undertaken by the clerical/technical support person based on local program design.

Step 6. Assemble/Develop Program Forms and Documents

The State Recipient should assemble all required CHIP program forms and documents as well as the sample forms included in this guide as adapted for their individual program use.

The CHIP financial forms and other reporting forms used to interface with DCA are contained in the CHIP Recipients' Manual. These forms include the project set up form, draw down form, quarterly report, project completion report and other reporting documents such as the Contracts and Subcontracts Completed form.

The documents and forms contained in this guide are designed to assist a State Recipient manage the day to day operations of a homeowner rehabilitation program. This guide also provides the CHIP required loan documents for homeowner rehabilitation, other required DCA forms and many sample forms that the State Recipient should adapt for their use based on their local program design.

Included in the sample forms is a Checklist for Homeowner Rehabilitation. This form should be included in each project file. It is a critical form developed to track all aspects of the homeowner rehabilitation process including homeowner eligibility, property eligibility, construction requirements and project closing.

-
- Checklist for Homeowner Rehabilitation: Appendix A

Step 7. Market the Rehab Program to Prospective Applicants and to Contractors

This section of the manual will address both marketing to the CHIP applicant and marketing to potential rehabilitation contractors.

Marketing to the CHIP Applicant

In accordance with the approved CHIP award, the local government State Recipient should implement the marketing plan as described in the application. Each local government State Recipient set forth a marketing strategy in their approved award to outreach to potential low income homeowners. For some local governments the marketing strategy included assisting qualified applicants from an existing waiting list followed by a first come, first served application intake process. Other approved CHIP awards, where an existing waiting list was non-existent, designed a first come, first served application intake process.

In order to reach potential low income homeowners and to encourage them to participate in the CHIP homeowner rehabilitation program, the State Recipient is required to follow the marketing strategy set forth in the approved award. Some of the marketing strategies included distribution of brochures and flyers, public and non-public radio and television advertising, newspaper advertising, outreach to community organizations, and holding housing fairs.

The HUD HOME regulations and DCA policy regarding fair housing and equal opportunity must be followed to ensure that those least likely to apply will have the opportunity to become aware of the program and to apply and participate. In keeping with these requirements, all printed material and flyers/brochures must include the equal housing opportunity logo. DCA also requires that the fair housing poster and the equal employment opportunity posters be posted at locations where both applicants and contractors are likely to go for information on the program. The State Recipient is required to follow the Affirmative Fair Housing Marketing Plan as outlined in the approved Special Condition of the award.

The following methods of outreach and marketing have been deemed successful in targeting the low income homeowner: flyers and brochures listing the key facts and information about the program; posters; utility mailing inserts; public service announcements; new releases; feature articles; and, direct mail.

The HUD Fair Housing Poster must be displayed in the office locations where applicants are likely to go to apply for assistance.

Marketing and Outreach to Contractors

The local government State Recipient will also need to market and outreach to potential rehabilitation construction contractors. In keeping with the HUD regulations and DCA policy, the local government State Recipient must follow the outreach requirements as set forth in the approved special conditions of the CHIP award to outreach to minority and women owned contractors.

Some methods to ensure a pool of eligible rehabilitation contractors include:

- Newspaper advertisements
- Flyers at construction supply companies and hardware stores
- Flyers at lumber yards
- Mailings to the existing pool of local contractors and to chapters of construction related associations
- Notices to minority and women owned newspapers and radio stations
- Flyers in the local building permit office

The Equal Employment Opportunity Poster must be displayed in locations where contractors are likely to go for information about the program.

- Equal Housing Opportunity Logos: Appendix F
- HUD Fair Housing Brochure: Appendix F

Step 8. Develop a Pool of Eligible Contractors

Based on the contractor qualifications included in the State Recipient's CHIP program policies and procedures, the State Recipient already began soliciting potentially qualified contractors through its marketing efforts as outlined under Step 7, "Marketing the Program."

In order to qualify contractors from the pool of eligible contractors, State Recipients should review the contractor applications against their contractor requirements. These qualifications typically include but are not limited to:

- Property damage and liability insurance
- Credit standing
- Length of time in business
- References (Jobs Completed, Jobs in Progress, Suppliers, Financial, Banks, Insurance Companies, Warranty)
- Licenses/Certifications
- Areas of Expertise/Experience

In some of the smaller rural areas of Georgia, State Recipients may have difficulty in obtaining a large enough pool of eligible contractors for CHIP rehabilitation work. Recruiting from a larger geographic area may be required.

It is important to note that while a State Recipient can limit the pool of contractors from which an owner can choose and the State Recipient can set limits regarding acceptable bids, the responsibility of selecting a contractor from the eligible pool and checking out the contractor to their own satisfaction falls upon the owner.

Some State Recipients administering homeowner rehabilitation programs conduct an orientation with eligible contractors prior to putting out the projects to bid. The purpose of this orientation is to:

- provide information on the CHIP program and process that will be beneficial to the contractors
- familiarize the contractors with the program requirements
- provide information on the bidding process
- provide information on the inspection process
- provide information on the pay request process
- familiarize the contractors with the contract documents and forms that will be used
- familiarize the contractors with the HOME property standards that have been selected by the State Recipient for use in the CHIP homeowner rehabilitation program
- provide the contractors with the State Recipient's Written Rehabilitation Standards that describe the methods and materials that will be used to meet the selected property standards

Licensing and Certification Requirements for Construction and Trades in the State of Georgia

State Recipients administering homeowner rehabilitation programs should be well informed of the construction and trade industry licensing and certification requirements required by the State of Georgia.

All contractors or subcontractors engaged in the practice of electrical contracting or plumbing contracting or low-voltage contracting and conditioned air contracting (heating and cooling) or the installation, alteration and/or repair of plumbing, air conditioning, heating, electrical or low-voltage wiring systems are required to be licensed by the State of Georgia Construction Industry Licensing Board.

Contractors undertaking CHIP homeowner rehabilitation projects also must agree that anyone engaged in the practice of Lead Hazard Reduction or Abatement must be certified by the State of Georgia Department of Natural Resources, Environmental Protection Division.

-
- Contractor Qualification/Application Form: Appendix A
 - Contractor Orientation Agenda: Appendix A

Step 9. Set Up Fair and Equitable Application In-take Process System with Logs, Letters, Forms

Following the fair and equitable process outlined in the approved CHIP award, the local government State Recipient should develop an application in-take log to record each preliminary application received. Also, a telephone log should be set up to record information from interested applicants in order to follow-up with mailing a preliminary application to each caller pre-screened as eligible.

Some State Recipients develop a telephone pre-screening form to record more information up front to avoid the expense of mailing and processing applications from unqualified applications. If an applicant is clearly determined to not meet the program eligibility requirements for such reasons as over applicable income limits, does not hold fee simple title or a 99-year leasehold interest, non-occupancy as a principal residence, renter occupied, investor owned, or other clear and discernable ineligibility criteria, a record should be made of the resolution of the call.

Most State Recipients develop a transmittal letter to potential applicants that includes:

- Preliminary application
- Releases for verification of income, benefits and assets
- Release form for credit report
- General program guidelines and policies and procedures
- Fair Housing Brochure
- Protect Your Family from Lead in Your Home brochure
- Certification as to Income and Principal Residence form
- Certification as to Conflict of Interest form

The transmittal letter usually gives the potential applicant a deadline date within which to return the completed application form and all required notices and releases. The transmittal letter makes clear that if the preliminary application and all required enclosures are not received by the deadline date that their application will fall to the bottom of the application log.

The transmittal letter also requires that the prospective applicant return documentation to determine their preliminary eligibility including:

- Past 2 years of income tax returns (if self employed)
- Current pay stubs
- Current benefit (s) award letters
- Copy of court award for child support or alimony
- Proof of current paid property taxes
- Proof of current paid homeowner's insurance
- Proof of ownership and principal residency
- Type of ownership interest held in the property

Some forms of proof of principal residency could include copy of a driver's license with physical property address shown; social security or pension award letter showing the address; a property tax bill showing the address; and copies of utility bills showing the address.

Some forms of proof that the applicant is current on their property taxes could include a property tax statement receipt from the City and/or County; a cancelled check for property taxes; or a mortgage statement from the lender indicating property taxes were paid.

Proof of ownership can be shown through a copy of a Deed or Deed of Trust or a copy of a 99 year leasehold interest in the property.

The State Recipient should date and time stamp the receipt of each preliminary application.

- Application In-take Log: Appendix A
- Telephone Inquiry Log: Appendix A
- Preliminary Application Package Transmittal Letter: Appendix A
- Pre-Application Form: Appendix A
- HUD Fair Housing Brochure: Appendix F
- Protect Your Family from Lead in Your Home Brochure: Appendix E
- Certification as to Income and Principal Residence Form: Appendix B
- Certification as to Conflict of Interest Form: Appendix B
- Fair Housing Certification: Appendix B
- Lead Based Paint Statement: Appendix B and Appendix E

Step 10. Pre-Qualify the Applicant

Once the State Recipient receives a completed preliminary application, it can be reviewed for completeness and preliminary eligibility or ineligibility. A letter of transmittal should be developed to inform the applicant of their preliminary approval or denial. If denied, the process for appeals should be explained in the transmittal letter.

The preliminary application form will provide the State Recipient information on the number of persons in the household, the form of ownership or title held to the property, whether or not the property is used as the household's principal residence and the income, benefits and debts of the members of the household 18 years of age and older. In other words, enough information should be gathered to determine that you do or do not have a potentially eligible applicant.

The State Recipient can begin ordering verifications of income, benefits and assets for each member of the household who is 18 years of age or older. The State Recipient can also order a preliminary title opinion to determine that the applicant does in fact own the property in fee simple title or hold a 99-year leasehold interest in the property.

A State Recipient must be careful to follow current credit reporting law. The local credit bureau can tell you what information can and cannot be shared and with whom, and what releases you must obtain to share information with a loan committee or participating lender.

Some State Recipients become members of a local credit service through which credit reports can be ordered. The cost of the credit report is an allowed project soft cost. Some State Recipients charge a nominal application fee that covers the cost of the credit report. However, any State Recipient that charges an application fee must first obtain DCA approval.

Basically, at the end of the preliminary application stage, the State Recipient wants to make sure the applicant meets the following tests:

- **General Eligibility** – The application should be reviewed to determine that the applicant meets the general eligibility criteria including low income eligibility, ownership eligibility including residing in an eligible single family property as their principal residence, and appears to have the capacity to incur and service additional debt for their portion of the total rehabilitation.
- **Credit review** – The applicant's credit file should be reviewed to determine the applicant's overall credit history including timely payments, outstanding debt, and general patterns of credit use. This review may alert the program administrator to serious financial problems that could put the applicant's ownership of the property in jeopardy. The reviewer can also determine if the applicant should be referred for credit counseling.
- **Type of Ownership Interest** – A homeowner applicant must own the property and occupy the property as his or her principal residence. The applicant is considered the owner if he or she: 1) possesses a fee simple title to the property or maintains a 99-year leasehold interest on the property. Other forms of ownership such as a life estate

to the property or a contract for deed or contracts for sale are not acceptable forms of ownership. Any exceptions to the fee simple title or 99 year leasehold interest must be approved by HUD through DCA prior to notifying the applicant of their pre-approval for the CHIP program.

In reviewing the title, the ownership interest must be subject only to the mortgages, deeds of trust or other liens or instruments securing debt on the property. No restriction or encumbrance that impairs the good and marketable nature of the title to the ownership interest in the property is allowed.

The most important aspect of reviewing the title is for the State Recipient to be assured that the applicant owns the property and is legally able to make modifications to it and to encumber the property with debt.

Please be aware that there may be some cost involved in obtaining a preliminary title opinion and that if the project is not completed the cost cannot be reimbursed by the CHIP program unless paid for out of administrative funds. If the project is completed as a CHIP project, the cost can be included as a project soft cost. For this reason, the State Recipient may want to review the County records to ascertain the preliminary condition of title.

It is important to note that State Recipients take on all aspects of being a lender including ensuring that the fair and equal credit laws are followed. Whenever the State Recipient, administrative agent, or Sub-recipient operates a loan program on behalf of homeowners, all federal Fair Housing and Equal Credit Opportunity laws are in effect. In addition, the following lending regulations apply to the CHIP program:

- **The Truth in Lending Act (Regulation Z):** Title I of the Consumer Credit Protection Act, 15 U.S.C.A. 1601. This federal law requires lenders (including State Recipients) to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate and other charges. A Truth in Lending Statement must be conveyed to the borrower within three (3) business days after the lender's (including State Recipients) receipt of a written application. This is considered "early disclosure." A final disclosure statement is provided at the time of loan closing. These statements must provide an accurate statement of the terms of the loan, especially the amount of interest paid over the life of the loan. Owners have a right under Regulation Z to cancel a transaction without cost that will result in a lien on their home. The State Recipient must issue a "Notice to Cancel" in accordance with Regulation Z. More information is included on the requirements in Step 19 of this Guide.
- **Equal Credit Opportunity Act:** Regulation B was issued by the Board of Governors of the Federal Reserve System to implement the provision of the Equal Credit Opportunity Act (ECOA). The law was enacted in 1974 to make it unlawful for creditors to discriminate in any aspect of a credit transaction on the basis of sex or marital status. In 1976, through amendments to the Act, it became unlawful to also discriminate on the basis of race, color, religion, national origin, age, receipt of public assistance and the good faith exercise of rights under the Consumer Credit Protection Act.

The primary purpose of the ECOA is to prevent discrimination in the granting of credit by requiring banks and other creditors to make extensions of credit equally available to all creditworthy applicants with fairness, impartially and without discrimination on any prohibited basis. The regulation applies to consumers and other types of credit transactions.

- **Real Estate Settlement Procedures Act (RESPA):** RESPA requires the use of the HUD-1 Settlement Statement, and requires lenders to give borrowers advance notice of closing costs. This act requires the State Recipient to give the owner the settlement statement one day before the settlement if requested by the owner.

The Truth in Lending Notice and the Three Day Right of Rescission Notice are covered more fully in Step 19 of this Guide.

- Denial Letter: Appendix A
- Preliminary Approval Letter: Appendix A
- Technical Guide for Determining Income and Allowances for the HOME Program: Appendix C
- Truth in Lending Statement: Appendix A
- Right of Rescission Notice: Appendix A
- Notice to Cancel: Appendix A
- HUD-1 Settlement Statement: Appendix A

Step 11. Initial Property Inspection

Once the State Recipient has deemed an applicant as preliminarily approved and notified the applicant of pre-approval by letter, an appointment should be made with the property owner to conduct a preliminary property inspection. During this time the State Recipient can send out verification forms to document the information provided in the preliminary application, if this process has not already begun.

Most State Recipients inspect the property prior to undertaking the final qualification of the applicant in order to determine the amount of "other" or "leveraged" funds that the owner will be required to obtain from a third-party lender or to invest from their own funds.

The purpose of the preliminary inspection of the property is to determine if the property is feasible for rehabilitation or if re-construction is required, and to estimate the total cost of regular (non-lead) rehabilitation or the cost of reconstruction.

The total cost of the regular rehabilitation or reconstruction is needed in order to advise the applicant of the funds, either from their own funds or from a third party lender, that will be required to complete the total rehabilitation or reconstruction. This information is obviously needed in order to fully and finally qualify the applicant for the CHIP owner occupied rehabilitation program.

In inspecting the property, the State Recipient should use their Property Inspection Form in order to record the work required to meet the State Recipient's selected property standards (codes) for the CHIP rehabilitation program. Please note that per HUD policy, a Property Inspection Form that records the work required to meet the State Recipient's selected property standard (code) must be used.

It is an appropriate time during the preliminary inspection to have the owner sign a permission statement for taking pictures of the property. Taking exterior and interior pictures of the property may be needed for historic preservation review. Before and after pictures are also often helpful to both the State Recipient and DCA in reviewing requests for reconstruction. The State Recipient and DCA also need permission to use before and after pictures of the property for use in program outreach, publicity and training. A permission statement is included on both the initial and full application forms.

Reconstruction

CHIP funds may be used to "reconstruct" housing that is **owned and occupied** by low and very low-income households and that will be located on the same property as the original structure. Reconstruction means the rebuilding, on the same lot, of a housing unit eligible for CHIP assistance that is not economically or structurally feasible to rehabilitate. Rooms may be added outside the foundation or footprint of the housing being reconstructed, but the reconstructed housing must be substantially similar to the original housing. During reconstruction, the number of rooms per unit may change, but the number of units may not change.

If an existing structure is converted to affordable housing, or if a structure is moved to a new foundation that is constructed with CHIP funds, these projects are also considered

reconstruction. Reconstruction also includes replacing an existing dilapidated unit of manufactured housing with a new or standard unit of manufactured housing.

After conducting the initial property inspection, the State Recipient may determine that the house is not structurally or economically feasible to rehabilitate. With DCA approval, the project may be approved for set-up as a reconstruction if all of the following conditions are met:

- Unit is "unsuitable for rehabilitation" both structurally and economically as indicated on the Rehabilitation Feasibility Test Form.
- The estimated cost of reconstruction (constructing a comparable replacement house on the same property) will be substantially less than the estimated cost to purchase a comparable house (including land) that would be newly constructed in a comparable neighborhood within the community's jurisdiction.
- The estimated cost of reconstruction will be less than the fair market value of the property (dwelling and land) after reconstruction. This is determined by obtaining an appraisal prior to reconstruction on the projected value of the property including the reconstructed house and land. The Rehabilitation Feasibility Test Form included in Appendix B must be submitted to DCA for prior approval of each unit.

If the State Recipient determines that reconstruction would be appropriate based on the above criteria, DCA approval is required on a project by project basis in advance of project set-up.

-
- Preliminary Approval Letter: Appendix A
 - Property Inspection Form: Appendix A
 - Rehabilitation Feasibility Test Form: Appendix B

Step 12. Final Qualification of Applicant

Once a preliminary inspection has been completed and an estimate of the amount of other funds that the owner will be required to provide to complete the total rehabilitation has been determined, the State Recipient can proceed with full application processing.

The steps in the full qualification process include taking a completed full application from the homeowner; verifying the income and assets using third party verification; and verifying property ownership.

These steps in the final qualification of the application can be summarized as:

- take a full application on the applicant
- consolidate and track all verifications ordered on income, benefits and assets
- review preliminary title opinion to determine if the applicant owns the property in fee simple title or holds a 99-year leasehold interest on the property
- review any liens or other encumbrances to the title that would prohibit the city or county from being able to secure their CHIP interest in the property
- confirm proof of ownership by reviewing the deed or other ownership documents
- obtain proof that the applicant has paid all property taxes through the current time
- obtain proof that the applicant has up to date and current paid homeowner's insurance

- confirm any other requirements of your local CHIP program. Some State Recipients require additional qualification criteria including underwriting the CHIP applicant's ability to service additional mortgage debt that may be required in obtaining a third party loan for the owner's portion of the total rehabilitation.

DCA requires the use of the Section 8 method also known as the Part 5 method (24 CFR Part 5) of determining income for the HOME (CHIP) program. Please refer to Appendix C for all of the HUD required instructions and forms for calculating and verifying annual gross household income under the Section 8 method.

Once the State Recipient reviews all of the verifications, a thorough analysis of the information against the local program's eligibility and underwriting standards should be conducted. This review will enable the State Recipient to determine the maximum amount of CHIP funds and the required owner or "other" or "leveraged" funds that the owner will need to contribute.

After determining that an applicant is eligible for CHIP assistance, the State Recipient should send the applicant a letter notifying them of their approval for the CHIP loan, subject to their obtaining a commitment for the owner's required other funds. The letter should notify the applicant of the time and place for the "owner orientation" meeting. The letter should also notify the owner of their responsibility to make an appointment with the State Recipient to conduct the final inspection.

The State Recipient should assist the owner in obtaining the leveraged loan needed to complete the estimated total rehabilitation. The owner may need assistance in completing the USDA loan application or other lender application. It is the responsibility of the owner to

diligently apply for and receive a commitment from a third party lender if the owner does not have the required other funds. The owner should seek funding in the maximum amount that they could borrow in the event that the final estimate or cost is greater than the preliminary estimate.

Again, the State Recipient often needs to monitor the status of the owner's efforts to obtain the required other funds and assist the owner in the third party loan application process.

- Full Application: Appendix A
- Notice of CHIP Loan Approval Subject to Commitment of Other Funds: Appendix A

Step 13. Conduct Final Property Inspection, Develop Work Write-Up and Cost Estimate

When the State Recipient has determined that the applicant appears qualified for the assistance, the State Recipient must determine if the total cost of the regular rehabilitation is within the amount for which the applicant can actually qualify taking into consideration the maximum CHIP assistance and the required “other” funds. Each CHIP applicant may not receive the maximum CHIP amount but rather an amount they are qualified to receive based on the State Recipient’s approved finance plan. In other words, is the cost estimate equal to or less than the CHIP assistance plus the maximum amount the applicant can borrow from a third party (or the amount of funds on hand)?

At the preliminary property inspection, an estimate of the probable cost of the total regular rehabilitation was determined. Now it is time for the State Recipient to conduct a final, detailed property inspection and complete a full work write-up and cost estimate. The results of the cost estimate will allow the State Recipient to apply the award’s specific financial plan requirements to the estimated total cost of the regular rehabilitation. This analysis will determine whether or not the applicant can actually participate in the program.

During the preliminary inspection, the State Recipient conducted a general site inspection of the work required to bring the property up to the property standards selected by the State Recipient in accordance with the HOME program requirements. The property standards are the standards against which the actual physical condition of a property is judged in the inspection process.

Now it is time to develop a detailed work write-up in a format that will be used later for the bid package specifications. HUD policy requires the State Recipient to use a Property Inspection Form designed to capture the work necessary to meet the State Recipient’s selected property standards. Therefore, the State Recipient’s property standards (codes) should be reviewed and used in developing the final work write-up. Using the property standards (codes) as a baseline, a housing inspector determines the scope of the rehabilitation necessary to address the physical deficiencies of the property.

Working from the Property Inspection Form, the State Recipient now develops a detailed work write-up to determine the estimated cost of each item on the work write up and the corresponding total estimated cost.

Some State Recipients utilize rehabilitation advisors who are experienced estimators and are very current on material and labor prices and who are therefore capable of estimating costs from personal knowledge. Due to the volatility of prices, some State Recipients utilize an estimating manual such as “Means Cost Estimating Data” as a basis for estimations with modifications for local market factors. There are a number of estimating software packages available that are being used by some State Recipients administering homeowner rehabilitation programs.

In the final analysis the State Recipient wants to ensure that the cost estimate is a professionally derived estimate of reasonable bid.

The work write-up and cost estimate need to be reviewed with the homeowner. Owners need to understand the relationship between deficiencies they have identified and deficiencies that the program can correct with CHIP funding.

Owners need to know how much the total estimated cost will be for the regular rehabilitation so they have an understanding of how much other funding they will need to obtain. With this knowledge, the owner can prepare for obtaining their other funds from a third party lender, if they do not have the funds. The State Recipient needs to know if the project is feasible given the program's requirements, and the State Recipient, DCA and HUD want to ensure that the costs charged to the CHIP program are reasonable.

The owner should be reminded of the local program's rules and policies on allowable work at the outset of the development of the work write-up and cost estimate. If the total cost estimate is over the allowed amount of CHIP assistance per the State Recipient's approved finance plan plus the amount the owner can contribute or borrow, only items that are not required to bring the home up to the State Recipient's selected HOME property standards can be deleted. If after applying this rule, the homeowner cannot afford to provide the required "other" funds, the project is deemed "not eligible" for the CHIP program and the project cannot go forward. If the homeowner can afford to provide the required "other" funds, non-code items that can be eliminated can be separated into an addendum which can later be added if the basic bid comes in low enough to accommodate these items and provided the cost meets the threshold on General Property Improvements per DCA policy or any more restrictive policy adopted by the State Recipient. (See next paragraph.)

The State Recipient is reminded to review with the owner their local government's policies and procedures with regard to the owner's minimum required other funds, maximum CHIP amount, and overall CHIP and owner participation requirements as set forth in the approved award's finance plan. The State Recipient should also review with the owner their local program policy with regard to general property improvements. DCA policy requires that general property improvements cannot be made with CHIP funds and that no more than forty (40) percent of the "other" funds can be used toward general property improvements. Some State Recipients have set forth a more restrictive policy in regard to general property improvements.

Once the State Recipient and the owner have agreed on the final work write-up, the State Recipient should make a copy of the work write-up which does not include cost estimates. The work write-up should be signed by the owner and the State Recipient. This new version (without the line item cost estimates) will be used as the work specifications when the project goes out to bid.

Incorporating Written Rehabilitation Standards into Work Write-Ups

There are two methods for incorporating the Written Rehabilitation Standards or specifications into work write-ups.

The first method incorporates the specifications directly into the work write-up. This method also serves as the Property Inspection Report. A sample of this type of work write-up entitled

“Work Write-Up Incorporating Written Rehabilitation Standards and Property Inspection Report” is included in Appendix A. This sample work write-up lists the following:

- **each property standard**
- **inspection report**
- **work write-up and cost estimate for each item**
- **technical specifications**

The second method has a number of good features and is included in Appendix A as “Work Write-Up for Bidding Contractors.” This type of work write-up:

- identifies each page number clearly
- separates the cost of labor and materials
- has a place for the owner and contractor to sign on each page

Under this method, the State Recipient has entered the Written Rehabilitation Standards for individual work items on a word processor; the State Recipient maintains an index of each work item identified by the property standard (code) number; the property standard or code number is entered directly onto the work write-up; and, bidding contractors are provided a booklet listing the Written Rehabilitation Standards or specifications identified by number so the work write-up references the specification number. This method proves to be less lengthy than the first method listed above.

Once the owner has signed off on the work write up, the project processing can proceed.

Incorporating Historic Preservation Results in Final Work Write Up

In 1997, the State Historic Preservation Office (SHPO), DCA, and the Advisory Council on Historic Preservation, signed a Programmatic Agreement (PA) affecting all housing programs funded by DCA under both the Community Development Block Grant Program and the CHIP program. Whenever State Recipients are planning to rehabilitate potentially historic housing (any housing 50 years old or older), the terms of the PA will permit local decision making about the manner in which such housing will be treated. All State Recipients are required to follow the terms of the PA and to consult with local preservation professionals whenever planned rehabilitation activities exceed the thresholds for Exempt Activities listed in the PA. A copy of the PA is included at Appendix B.

Incorporating Lead Based Paint Requirements in Separate Work Write Up

If the dwelling was constructed prior to January 1, 1978, a lead-based paint inspection is required for all CHIP rehabilitation projects under all CHIP awards made to communities after September 15, 2000 unless the property is otherwise exempt (see Types of Housing Not Covered Below). If applicable, the inspection for lead-based paint should occur at this time and a separate lead based paint work write-up prepared. If lead-based paint is detected, a risk assessment should be performed at the time of the inspection (if mandated by the level of federal assistance). Please reference the chart on page thirty (30) of this Guide. The State Recipient should use the risk assessment report as a guide in determining how to best reduce the hazards found in the dwelling. If the federal assistance for the unit falls between \$5,000 and \$25,000 interim controls are a design option for lead hazard

control. Above \$25,000, abatement is mandatory. It is imperative that the State Recipient has a thorough understanding of the issues and procedures involved in this process to achieve maximum effectiveness in the goal of creating lead-safe housing. In all cases where lead-based paint is detected, clearance requirements must be met. Technical assistance is available through DCA on this subject.

Types of Housing Covered

- Federally-owned housing being sold
- Housing receiving a federal subsidy that is associated with the property, rather than with the occupants (project-based assistance)
- Public housing
- Housing occupied by a family (with a young child) receiving tenant-based subsidy (such as a voucher or certificate)
- Multifamily housing for which mortgage insurance is being sought
- Housing receiving federal assistance for rehabilitation, reducing homelessness, and other special needs

Types of Housing Not Covered

- Housing built since January 1, 1978, when lead paint was banned for residential use
- Housing exclusively for the elderly or people with disabilities, unless a child under age 6 is expected to reside there
- Zero-bedroom dwellings, including efficiency apartments, single-room occupancy housing, dormitories, or military barracks
- Property that has been found to be free of lead-based paint by a certified lead-based paint inspector
- Property where all lead-based paint has been removed
- Unoccupied housing that will remain vacant until it is demolished
- Non-residential property
- Any rehabilitation of housing improvement that does not disturb a painted surface

The approach to lead hazard reduction evaluation is based on the amount of federal assistance as shown in the chart on the next page.

REHABILITATION Subpart J			
Amount of Federal Assistance	<\$5000	\$5000-\$25,000	>\$25,000
Approach to Lead Hazard Evaluation and Reduction	DO NO HARM	Identify and Control Lead Hazards	Identify and Abate Lead Hazards
Notification	YES	YES	YES
Lead Hazard Evaluation	Paint Testing (on surfaces to be disturbed only)	Paint Testing and Risk Assessment	Paint Testing and Risk Assessment
Lead Hazard Reduction	Repair Surfaces Disturbed During Rehabilitation	Interim Controls	Abatement (Interim controls on Exterior Surfaces not Disturbed by Rehabilitation)
Clearance Requirement	Clearance of work Site	Clearance of Unit	Clearance of Unit

Clearance Standards for Federally assisted projects:

Floors	40µg/SF
Interior window sill (stool)	250µg/SF
Window trough	400µg/SF
Exterior Concrete Surfaces	800µg/SF
Soil	1200ug/SF
Soil in child play area	400ug/SF

***Applies only to risk assessment**

Due to the complex nature of lead based paint requirements, a separate appendix has been included that sets forth the requirements for each level of assistance as noted in the above chart. Please see Appendix E.

The lead based paint work write-up and cost estimate should be included with the regular work write up and cost estimate as a separate part of the overall work write-up in preparation for bidding.

The State Recipient should be careful to avoid including duplicative work items on both the regular rehabilitation work write-up and the lead based paint work write up such as replacing deteriorated windows found to contain lead based paint.

Understanding the HUD HOME Requirements for Flood Plain Management

HUD has issued regulations (24CFR Part 55) intended to minimize flood plain development. As part of the overall environmental review process, CHIP State Recipients will have to document compliance with this regulation. Any special construction requirements required for a property in a FEMA mapped flood plain imposed by FEMA or local ordinance should be reviewed with the Georgia Department of Natural Resources prior to the start of construction. Any such special requirements should be incorporated into the work write up.

Understanding the HUD HOME Requirements for Property Standards

Property Standards are the housing quality standards used to determine whether a housing unit is decent, safe and sanitary. They are the standards against which the actual physical conditions of a property are judged in the inspection process. Using the property standard as a baseline, a housing inspector determines the scope of the rehabilitation necessary to address the physical deficiencies of the property.

The property standards are intended for use in the inspection and evaluation of conditions for residential properties being considered for rehabilitation. The property standard is used to determine whether rehabilitation is feasible for individual properties and they serve as a minimum standard for improvement when rehabilitation will take place.

The State Recipient must comply with the property standard requirements in 24 CFR Part 92.251 with regard to homeowner rehabilitation and the HUD guidance provided in the January 2001 HOMEfires, Volume 3, No. 1.

Specifically, in the absence of local codes for rehabilitation, CHIP homeowner rehabilitation projects must meet the **articles on property or sanitary standards** in one of three model codes:

- Uniform Building Code (ICBO)
 - National Building Code (BOCA)
 - Standard (Southern) Building Code (SBCCI)
 - Council of American Building Officials (CABO) one or two family code
- OR
- the Minimum Property Standards (MPS) in 24 CFR 200.926.

Since the first four codes listed above, i.e. the ICBO, BOCA, SBCCI and the CABO have all now been merged into the International Residential Code, State Recipients have a choice to either rehabilitate a single family CHIP-assisted home up to:

the International Residential Code (Appendix J, Existing Buildings);

or

the FHA Minimum Property Standards at 24 CFR 200.926 (See note below);

or

State of Georgia **locally adopted** “permissive codes,” which include the International Property Maintenance Code or International Existing Building Code.

Note: Not only have the four model codes referenced above merged into the International Residential Codes, the FHA Minimum Property Standards (MPS) in 24 CFR 200.926 are no longer maintained by HUD as separate Minimum Property Standards. Instead HUD has accepted the model building codes, including over 250 referenced standards and local building codes in lieu of separate and prescriptive HUD standards, with additional durability requirements.

The State Recipient must identify which of the allowable property standards that CHIP assisted homeowner rehabilitation projects will meet upon completion of the rehabilitation work. The property standards selected must be identified in the State Recipient’s Local CHIP Program Policies and Procedures. If the State Recipient administering the CHIP award has adopted either one of the Georgia permissive codes (International Property Maintenance Code or International Existing Building Code) then the CHIP Program Policies and Procedures can set forth the **locally adopted** permissive code.

The Section 8 Housing Quality Standards or HQS at 24CFR 982.401 are not a HUD HOME allowed property standard or code for CHIP assisted homeowner rehabilitation projects. The Section 8 Housing Quality Standards can only be used in the event there are no applicable State and local housing quality standards and code requirements for CHIP down payment or second mortgage assistance on acquisition only projects per 24 CFR 92.251.

Understanding the HUD HOME Requirements for Written Rehabilitation Standards

Additionally, the HOME final rule at 24 CFR 92.251 requires each State Recipient to adopt Written Rehabilitation Standards for rehabilitation work assisted with HOME funds.

Written Rehabilitation Standards establish the specifications for the actual rehabilitation work that will bring substandard housing into compliance with the property standard or code(s). The Written Rehabilitation Standards prescribe the method and materials to be used in the rehabilitation of the property. The Written Rehabilitation Standards are sometimes referred to as “specs” or specifications, and include details such as the grade of lumber to be used, the number of nails per square foot, the type of material that can or cannot be used for doors serving as fire exits, the distribution pattern and material of roofing tiles, etc.

The Written Rehabilitation Standards provide a common basis for contractor bids. The State Recipient wants to ensure that all contractors are bidding work using identical methods and materials. This enables the State Recipient to make an accurate determination of the cost of reasonableness of bids. By holding all contractors to a single rehabilitation standard, consistent, high quality rehabilitation is assured. The Written Rehabilitation Standards or specifications represent an accepted standard of workmanship and materials. These are the specifications and details most important to contractors and will ultimately ensure that the rehabilitation is properly completed. The Written Rehabilitation Standards provide a means for the State Recipient to determine whether the bids are reasonable and give all bidders an equitable “apples to apples” list of work items to be bid.

Meeting the Georgia Construction Codes

The State of Georgia has adopted fourteen “state minimum standard codes.” Of the fourteen codes, there are eight (8) that are mandatory. Of the eight (8) mandatory codes, four (4) apply to all residential construction. These four codes are:

- National Electric Code
- CABO One-and-Two Family Dwelling Code (International Residential Code)
- Georgia State Energy Code for Buildings
- International Plumbing Code

In addition to the HUD HOME requirement that CHIP homeowner rehabilitation projects must meet the **articles on property or sanitary standards** in one of three model codes (Uniform Building Code (ICBO), National Building Code (BOCA), Standard (Southern) Building Code (SBCCI); or the Council of American Building Officials (CABO) one or two family code; or the Minimum Property Standards (MPS) in 24 CFR 200.926, all CHIP rehabilitation activity must meet the provisions of the four mandatory codes, as applicable.

-
- Programmatic Agreement on Historic Preservation: Appendix B
 - Written Rehabilitation Standards: Appendix A
 - Work Write-Up Incorporating Written Rehabilitation Standards and Property Inspection Report: Appendix A
 - Work Write-Up for Bidding Contractors: Appendix A
 - Owner’s Acceptance of Work Write Up: Appendix A
 - Lead Safe Housing Rule Applicability Form: Appendix E
 - Lead Safe Housing Rule Checklist for General Compliance Documentation: Appendix E
 - Lead Based Paint Statement Certifying Receipt of Protect Your Family From Lead in Your Home Brochure: Appendix E
 - Elderly Homeowner’s Informed Consent Notice: Appendix E
 - Summary Notice of Lead-Based Paint Inspection: Appendix E
 - Summary Notice of Lead-Based Paint Risk Assessment: Appendix E
 - Notice that Lead-Based Paint or Lead-Based Paint Hazards are Presumed to be Present: Appendix E
 - Threshold Determination for Training and Lead Hazard Reduction Work Requirements: Appendix E

- Relocation Screening Sheet for Occupant Protection from Lead Hazard Reduction Activities: Appendix E
- Post Construction Safe Work Practices Certification: Appendix E
- Summary Notice of Completion of Lead-Based Paint Hazard Reduction Activity: Appendix E
- Lead Based Paint Work Write Up: Appendix E
- Library of Model Specifications Lead Hazard Evaluation and Reduction: Appendix E
- International Residential Code, Appendix J, Existing Building and Structures: Appendix A

Step 14. Owner Commitment and Owner Orientation

After the final work write-up has been agreed to and signed by the homeowner and State Recipient and the final amount of other or leveraged funds has been determined the State Recipient needs to obtain proof of the owner's funding commitment for the "other" required leveraged funds.

In the event more than six (6) months have elapsed, the State Recipient may want to re-verify the household income at this time. Keep in mind that the HOME regulations at 24 CFR 92.203(d) (2) require that if more than six (6) months have elapsed since the State Recipient determined that the family was income eligible then the State Recipient must re-examine the family's income at the time the HOME assistance is provided.

Based on the amount of time that has elapsed between initial application and the actual closing date of the CHIP loan, it may be necessary to re-verify at a later date. Please refer to the Technical Guide for Determining Income and Allowances for the HOME program in Appendix C.

After determining the total cost of the regular rehabilitation and being provided a commitment for the owner's required other funds, it is time for the State Recipient to review again with the homeowner all of the information they need to know about the program. This review will allow the owner to make a final decision if they want to go forward with the project.

If the owner does want to proceed with the rehabilitation of their home under the CHIP program requirements, an owner orientation will provide information on what the owner can expect and what is expected of them going forward. A sample listing of the homeowner's responsibilities is included in Appendix A. A sample Owner's Orientation Agenda is also included in Appendix A.

Owners need to understand:

- the overall construction process and timing; the CHIP loan documents; the CHIP owner occupied rehabilitation grant agreement for the project delivery cost; the construction process and the legal documents related to construction; temporary relocation; and, what happens after the construction is completed
- the possibility of the lead based paint reduction process that may take place on their property
- the DCA policy regarding the Owner's Selection of Bidding Method
- the DCA policies in regard to manufactured homes
- the HOME and DCA requirements regarding any refinancing being considered in conjunction with the CHIP assisted homeowner rehabilitation

- their responsibility to maintain homeowner's insurance in an amount sufficient to cover the "after-rehabilitated" value of the property for the full affordability period. The policy must include the State Recipient as an additional insured holder of the policy.

Owner's Selection of Bidding Method and Contractor

While DCA prefers open and competitive bidding, under the CHIP program owners have a right to select one of two methods to secure the rehabilitation contractor for their property. The two methods are either open, free competitive bidding or negotiation. DCA requires the owner to select the method and sign the appropriate Owner's Selection of Bidding Method and Contractor-Rehabilitation, Reconstruction or Manufactured Home Dealer forms. These forms are included in Appendix B.

DCA Policies in Regard to Manufactured Homes

Manufactured homes can be rehabilitated with CHIP funds; however, the total cost of the rehabilitation cannot exceed \$5,000 including both the CHIP funds and the owner's funds. It is generally advised that manufactured housing requiring more than \$5,000 in order to bring the unit into compliance with the State Recipient's Property Standards (codes) should be considered for replacement. DCA approval is required to exceed this amount on a per project basis.

Replacement manufactured housing must be new or standard housing in conformance with the National Manufactured HOME Construction and Safety Standards Act of 1974 as amended. Manufactured housing must be permanently affixed in accordance with HUD's Handbook 4930.3, Permanent Foundations Guide for Manufactured Housing.

DCA has established that "used" manufactured housing can be no more than five (5) years old to receive CHIP reconstruction assistance.

DCA has also established a maximum of \$5,000 per unit in CHIP funding that can be used toward the reconstruction of a manufactured housing unit if a "used" manufactured housing unit is provided as the reconstructed unit.

DCA has also established a maximum of \$7,500 per unit in CHIP funding that can be provided per unit for reconstruction if a "new" manufactured housing unit is provided as the reconstructed unit.

HOME and CHIP Requirements Regarding Refinancing

CHIP funds may be used to refinance existing debt secured by single-family owner-occupied properties in connection with CHIP-funded rehabilitation. The refinancing must be necessary to reduce the owner's overall housing costs and make the housing more affordable. Refinancing for the purpose of taking out equity is not permitted.

Set-Up Project With DCA

The State Recipient should now set up the project with DCA using the HUD HOME Project Set-Up form (Homeowner Rehab Set Up and Completion Form) by following the project set-

up process outlined in the CHIP Recipients' Manual. Please remember to include the Environmental Screening Checklist with each project set-up as discussed in Step 4 of this Guide.

If a CHIP rehabilitation project was built before January 1, 1978 a Lead Based Paint Risk Assessment may be required. Please follow the project set-up process for properties requiring a risk assessment as outlined in the CHIP Recipients' Manual. In the event the project is exempt from the lead based paint risk assessment, please follow the project set up requirements as outlined in the CHIP Recipients' Manual.

Requests to Exceed Maximum CHIP Assistance

Oftentimes because of the cost of lead hazard reduction activity the State Recipient will need to request CHIP funds in an amount greater than the maximum CHIP allowed in their approved CHIP award. Please be careful to follow the project set-up requirements in the CHIP Recipients' Manual for any lead related requests to exceed maximum.

Any requests to exceed the maximum CHIP per a State Recipient's approved award must be mailed to DCA and will not be accepted by facsimile. Please refer to the CHIP Recipients' Manual.

Please note that all requests to exceed the maximum CHIP per a State Recipient's approved finance plan must be approved by DCA and not just those related to the reduction of lead based paint hazards.

-
- Listing of Homeowner's Responsibilities: Appendix A
 - Owner Orientation Agenda: Appendix A
 - Homeowner Rehab Set Up and Completion Form: Appendix B
 - Technical Guide for Determining Income and Allowances for the HOME Program: Appendix C
 - Request to Exceed Maximum CHIP Amount: Appendix E
 - Owner's Selection of Bidding Method and Contractor – Rehabilitation: Appendix B
 - Owner's Selection of Bidding Method and Contractor – Reconstruction: Appendix B
 - Owner's Selection of Bidding Method – Manufactured Home Dealer: Appendix B

Step 15. Prepare Bid Document Packages and Send Invitation to Bid

After the State Recipient has qualified applicants, selected one of the HUD approved property standards (codes), inspected the property, determined the scope of work and the specifications for the work have been developed based on the State Recipient's Written Rehabilitation Standards, and conducted the owner orientation, it is time to prepare the bid documents.

The State Recipient has already developed a list of eligible, qualified contractors.

The bid documents package consists of a cover letter of general instructions. The cover letter is often called an Invitation to Bid. It gives staff contact names for questions; instructions on how to obtain access to the property; identifies the date, time and place the bid is due; and includes the following enclosures:

- Regular rehabilitation work write-up (without cost estimates)
- Written Rehabilitation Standards/Specifications for regular rehabilitation
- Lead Based Paint work write-up (without cost estimates)
- Library of Model Specifications for Lead Hazard Evaluation and Reduction
- bid and proposal form (Make sure that the bid form makes it clear that all bids are to include permit fees and sales taxes. Additionally, some State Recipients combine the bid form with the actual final construction contract. This allows the contractor to see exactly the terms and conditions of the contract if he or she is awarded the contract. This method is a legally enforceable bid when signed by the contractor. It only becomes a binding contract obligating the contractor to perform the work and the owner to pay for the work when the owner signs the document.)
- arbitration agreement (if used by your local program as the mechanism to settle disputes).
(If a State Recipient utilizes this mechanism to settle disputes, a copy of the agreement should be a part of the bid package. The instructions should tell the contractor to sign the agreement, as by doing so he indicates his willingness to follow this required procedure. The document does not become binding until it is signed by the owner at the time the construction contract is signed.) An arbitration clause is included in the sample construction contract in Appendix A.
- sample construction contract that will be used when bid is accepted

Once the bid package is developed, copies should be made for every eligible contractor on the State Recipient's list of eligible contractors.

A bid package should then be mailed to each eligible contractor.

-
- Bid Package Cover Letter (Invitation to Bid): Appendix A
 - Construction Contract with Required Exhibits: Appendix A

- Library of Model Specifications for Lead Hazard Evaluation and Reduction: Appendix E
- Lead Based Paint Work Write-Up: Appendix E
- Bid and Proposal Form: Appendix A

Step 16. Bid Opening

All bids received should be sealed and due by a specific time to assure fairness. The bid opening should be conducted in a public manner and the results recorded on a bid control sheet. Usually only contactors who bid choose to attend. Every person in attendance should sign a Bid Opening Attendance Sheet.

The State Recipient should open and check each bid package to be sure all information is properly entered and complete. This review should include that all sales taxes, fees and permits are included and any required addendums are clearly included; specifications and related documents are correctly referenced; dates are correctly entered and that the bidder's signature is completed in ink. The review should make certain that any licensing requirements, tax numbers and supporting documents (such as the arbitration agreement, if used) are included.

The bids are reviewed for responsiveness, accuracy and reasonableness; recorded on the Bid Control Sheet; and, summarized on the Bid Summary. The Bid Summary should include a computation of the State Recipient's cost estimate plus or minus ten (10) percent in order to compare each bid to the State Recipient's cost estimate. This will allow the State Recipient to determine what percentage the low bid is to the State Recipient's cost estimate. The State Recipient's CHIP program Policies and Procedures should define the required threshold for a bid to be considered "reasonable." Most programs use a ten percent spread as a threshold.

The State Recipient should develop a set of minutes of the bid opening meeting.

Guidance on Determining Reasonableness of Bid

The reasonableness threshold, usually a ten percent spread (plus or minus of the State Recipient's cost estimate) is a generally accepted threshold to ascertain the "reasonableness" of the low bid. If the low bid is below the "reasonableness" margin, as indicated in the State Recipient's CHIP Program Policies and Procedures, the State Recipient should meet with the contractor immediately to determine how he/she arrived at the bid price. This meeting should determine if a miscalculation occurred on the part of the State Recipient or the contractor. The State Recipient should be assured that the acceptance of the bid will not cause the contractor to fail in completing the work for lack of funds. If the State Recipient gains this assurance, the State Recipient can make a recommendation for the owner's acceptance of the bid. If, however, the low bid is above the "reasonableness" margin, a close analysis should be taken of the State Recipient's cost estimate. In either case, both the owner and the program's interest should always be protected. While the owner reserves the right to reject any and all bids, the owner will oftentimes rely on the State Recipient for an opinion as to whether the bid is "reasonable." In the final analysis, the bid will be awarded to a responsible contractor whose proposal is most advantageous to the program with price and other factors considered, regardless of the method of bidding selected (competitive bidding or negotiated bid).

Negotiated Bids

While open, competitive bidding is the preferred method of selecting a contractor, it is permissible to use the negotiated method in instances where a community cannot attract

multiple contractors to form a contractor pool or when a property owner has requested using a contractor of their choosing.

In all cases, the contractor must meet the program's contractor eligibility criteria as described in the State Recipient's CHIP Program Policies and Procedures. The bid submitted by the contractor must meet the criteria established for the program in determining the "reasonableness" of bids. If the bid does not meet the criteria, the State Recipient may negotiate the price in order to get the bid within a qualifying range. If the negotiation is not successful, the project should be re-bid or the owner may pay the difference between the contractor's price and the cost estimate. State Recipients should provide guidance to the owner in this regard.

Similarly should the owner choose to use a contractor not deemed "most advantageous to the program," by the State Recipient because of a high bid, the owner may pay the difference to the contractor of their choosing, providing the contractor has met the State Recipient's contractor qualification requirements. Again, State Recipients should provide guidance to the owner in this regard.

In all cases, the owner is required to participate financially at the level required by the program and the differences cited above would be in addition to that amount.

-
- Bid Control Sheet: Appendix A
 - Bid Summary Sheet: Appendix A
 - Bid Opening Attendance Sheet: Appendix A

17. Selecting and Notifying the Contractor

After the bids have been opened and recorded on the Bid Control Sheet and reviewed for accuracy and reasonableness, and the Bid Summary prepared, the contractor for the proposed work will be selected by the owner. The bid selected should reflect the lowest responsible bid complying with all program requirements provided such bid is reasonable and in the best interest of the owner. The program requirements have been predetermined and set forth in the State Recipient's CHIP Program Policies and Procedures.

The State Recipient will review all bids for compliance with program requirements. The owner and the State Recipient may reserve the right to reject any and all bids or any portion thereof and waive any and all irregularities per the State Recipient's CHIP Program Policies and Procedures.

Following this review, the owner selects the contractor and authorizes the State Recipient to send a Bid Award Notice to the selected contractor. The owner authorizes the selection by signing the Bid Award Notice. The Bid Award Notice advises the contractor that the owner has accepted his/her bid on the described property.

The Bid Award Notice to the successful bidder should notify the contractor of the date, time and location of the pre-construction conference; advise the contractor that he or she may only begin the project after attending the pre-construction conference with the State Recipient and the owner; and further notifies the contractor that work cannot begin until a Notice to Proceed has been issued.

The Bid Award Notice:

- requires that the contractor return an enclosed form listing all sub-contractors that will be used on the project
- advises the contractor that before any payments can be made, a program lien waiver must be signed and submitted by the general contractor and all sub-contractors and material suppliers
- advises the contractor that the construction contract is contingent upon the owner obtaining a firm commitment for the other (non-CHIP) funds
- advises the contractor that before a Notice to Proceed can be issued, an Arbitration Agreement must be signed, if required by the State Recipient's CHIP Program Policies and Procedures
- advises the contractor that prior to issuing a Notice to Proceed the contractor must furnish evidence of the required contractor liability insurance and all required permits and any documentation in support of any other State Recipient requirements

All bidders should be notified of the results of the bid by letter indicating whether the bid was accepted or not accepted. If a contractor's bid was not accepted, the letter should indicate

which bidder received the award. This letter should include a contact person for all questions regarding the bidding and contact award procedures.

Based on local program policy as set forth in the State Recipient's CHIP Program Policies and Procedures, contractors may have their bids rejected or may be declared ineligible to bid on future projects if past performance does not meet the standards of performance identified in the State Recipient's CHIP Program Policies and Procedures. Failure to comply with the instructions of bidding may be a basis for bid rejections per the State Recipient's CHIP Program Policies and Procedures. The State Recipient's CHIP Program Policies and Procedures should include a contact person for all questions regarding the bid award process. As noted above, no work will begin until the contractor receives a "Notice to Proceed" order executed by the owner and provided by the State Recipient to the contractor.

-
- Bid Award Notice: Appendix A
 - Sub-contractor List Form: Appendix A
 - Letter of Bid Results to Unsuccessful Bidder: Appendix A

Step 18. Prepare for Closing the CHIP Loan

It is now time to prepare for closing the CHIP loan.

The State Recipient should take sufficient time to review the project file using the Checklist for Homeowner Rehabilitation to determine completeness of the project file.

During the file completeness check, the State Recipient wants to make certain that all of the required paperwork is included and completed accurately. The file needs to clearly document that:

- the eligibility of the applicant given the CHIP program and local program guidelines
- the property is an eligible single family property
- the form of ownership is eligible
- the prescribed property standards and written rehabilitation standards are clearly defined and will be met and followed
- the verification of household income is current within six months of the estimated closing date. (If re-verifications are not current then the State Recipient must re-verify the household income with documentation supporting the income eligibility requirements)
- the file contains the State Recipient's "after-rehabilitation" value as determined by one of the three methods allowed under the HOME program. Such method must be used consistently for the local government's CHIP homeowner rehabilitation program and such method must be described in the State Recipient's CHIP Program Policies and Procedures. The three methods from which the State Recipient can choose to adopt for their homeowner rehabilitation program include:
 - i. Estimates of value by the State Recipient or Sub-recipient may be used. However, project files must contain the estimate of value and document the basis for the value estimates. One acceptable method used by State Recipients to estimate the value is to add one-half of the regular rehabilitation cost to the current tax assessment of the property if the assessment accurately reflects market value.
 - ii. Appraisals, whether prepared by a licensed fee appraiser or by a staff appraiser of the State Recipient, may be used.
 - iii. Tax assessments for a comparable property located in the same neighborhood may be used to establish the after-rehabilitation value if the assessment is current and accurately reflects market value after rehabilitation.

The State Recipient needs to confirm the evidence of commitment(s) that the required other funds are available.

In preparing for the closing the State Recipient will prepare the CHIP loan documents using local counsel and the State Recipient will prepare the construction contract and all addenda; the Truth in Lending Statement; and, the Right of Rescission Notice. The State Recipient will also order the final title commitment.

In summary, the file review and preparation for closing and final approval of the CHIP loan should include a review of the information collected from the borrower against the program eligibility and underwriting criteria. The title policy should be reviewed. A calculation of the CHIP funding and the other funding should be made to ensure there are adequate funds in place to cover construction, closing and any allowable contingency costs. Additionally, the file needs to include the HOME required subsidy layering review if more than one source of federal funds is being used on the project to ensure that no more subsidy is being used than is necessary to provide affordable housing.

-
- Subsidy Layering Review: Appendix A
 - Checklist for Homeowner Rehabilitation: Appendix A
 - DCA Loan Documents: Appendix D
 - Construction Contract and required exhibits: Appendix A

Step 19. Closing the CHIP Loan and Leverage Loan

The State Recipient has qualified the applicant as eligible, qualified the property as eligible, inspected the property and prepared bid specifications based on the Written Rehabilitation Standards and has assisted the homeowner in selecting an acceptable bid for the construction work. The State Recipient has completed a file review to make sure all documentation is in order. It is now time for the State Recipient to legally formalize the CHIP loan documents between the State Recipient and the owner. The State Recipient has also prepared the construction contract for execution between the owner and the contractor.

The State Recipient should make a final review of the application and verifications, using updated information as required and prepare and issue the Truth in Lending Statement.

Issue Truth in Lending Notice

The State Recipient also prepares and issues the Truth in Lending Statement as part of the closing process.

Disclosure Statement. The federal Truth in Lending Act requires that a lender disclose certain information about the loan to a borrower in a uniform and readable manner. The Federal Reserve Board publishes a model with guidelines for format which must be followed. This must be presented to the borrower before the documents are signed. If disclosure is not done properly, there can be serious consequences. Be sure to obtain up to date information on proper disclosure format and content, and file documentation requirements from a professional lender, a closing attorney or other reliable source. The sample form in Appendix A includes information which typically might be required for a deferred loan, but may not be in the approved format.

Confirming the State Recipient as Additional Insured

The State Recipient should obtain a copy of the homeowner's insurance policy to verify that the State Recipient has been added as an "additional insured" on the policy. The policy should be in the amount to cover the after-rehabilitated value of the property.

Execute and Record the CHIP Loan Documents/Other Funds Loan Document Execution

The owner and State Recipient will execute four documents in connection with the CHIP loan: a loan agreement, a promissory note, a security deed and the grant agreement for project delivery fees. Only the security deed is recorded after it is signed.

Typically, the closing on the owner's other funding is held simultaneously with the CHIP loan closing.

The State Recipient should record the CHIP Deed to Secure Debt in the Superior Court of the County in which the property is located immediately after closing or the next business day per

mortgage industry standards. The CHIP Deed to Secure Debt should be recorded after any security deed of another lender that is supposed to be prior in position of superiority to the CHIP security deed. If the CHIP loan closes simultaneously with the other loan on the property, the closing attorney for the other loan should record both the other loan documents and the CHIP Deed to Secure Debt at the same time.

Provide Three Day Right of Rescission Notice to Owner

Owners have a right under federal Truth in Lending Act, Regulation Z, to cancel a transaction, without cost, that will result in a lien on their home.

Right of Rescission Notice. In a credit transaction in which a security interest is or will be retained or acquired in a consumer's principal dwelling, each consumer whose ownership interest is or will be subject to the security interest has the right to rescind the transaction. Lenders are required to deliver two copies of the notice of the right to rescind and one copy of the disclosure statement to each consumer entitled to rescind. The notice must be on a separate document that identifies the rescission period on the transaction and must clearly and conspicuously disclose the retention or acquisition of a security interest in the consumer's principal dwelling; the consumer's right to rescind the transaction; and how the consumer may exercise the right to rescind with a form for that purpose, designating the address of the lender's place of business.

In order to exercise the right to rescind, the consumer must notify the creditor of the rescission by mail, telegram or other means of communication. Notice is considered given when mailed, filed for telegraphic transmission or sent by other means, when delivered to the Lender's designated place of business. The consumer may exercise the right to rescind until midnight of the third business day following consummation of the transaction; delivery of the notice of right to rescind; or delivery of all material disclosures, whichever occurs last. When more than one consumer in a transaction has the right to rescind, the exercise of the right by one consumer shall be effective for all consumers.

When the consumer rescinds a transaction, the security interest giving rise to the right of rescission becomes void and the consumer will no longer be liable for any amount, including any finance charge. Within twenty (20) calendar days after receipt of a notice of rescission, the lender is required to return any money or property that was given to anyone in connection with the transaction and must take any action necessary to reflect the termination of the security interest. If the lender has delivered any money or property, the consumer may retain possession until the lender has complied with the above.

State Recipients must become familiar with the requirements of this Act and implement these requirements with each CHIP loan closing.

Please note that the State Recipient is responsible for issuing its own Three Day Right of Rescission Notice which is in addition to and separate from the notice required to be issued by any third party lender.

Loan Documentation

Prior to submitting a project draw request to DCA, in addition to having an executed construction contract between the owner and contractor and having issued a Notice to Proceed to the contractor (See Step 21) the State Recipient file should document the closing by ensuring that:

- the following CHIP loan documents were provided to the homeowner at closing:

Promissory Note
Loan Agreement
Security Deed
HUD-1 Settlement Statement

- signed certified copies and originals of the CHIP documents as indicated below are maintained by the State Recipient before requesting a project draw from DCA:

ORIGINAL	Promissory Note
ORIGINAL	Loan Agreement
Certified Copy	HUD-1 Settlement Statement
Certified Copy	Security Deed

Within 60 – 90 days after loan closing, the State Recipient should receive a certified copy of the “recorded” security deed and maintain the recorded copy in the project file referencing the book and page number of the recordation.

Again, most State Recipients conduct the CHIP loan closing in conjunction with the closing of the leveraged loan.

-
- Truth in Lending Statement: Appendix A
 - DCA CHIP Loan Documents: Appendix D
 - Three Day Right of Rescission Disclosure Statement: Appendix A
 - Notice to Cancel: Appendix A

Step 20. Holding the Pre-Construction Conference, Executing the Construction Contract and Issuing the Notice to Proceed

As discussed in Step 17 the owner has accepted a successful bidder and the State Recipient has notified the contractor of his/her selection. The State Recipient has also prepared the construction contract as discussed in Step 18. The State Recipient has also formally closed the CHIP loan in accordance with Step 19. It is now time to hold the pre-construction conference with the selected contractor and the owner; execute the construction contract; and issue the Notice to Proceed.

Pre-Construction Conference

It is very beneficial to have this meeting prior to commencement of construction. The pre-construction conference provides an opportunity to review program rules and procedures for the construction phase; to reinforce quality and performance standards; to review the inspection and payment process; to discuss any special circumstances about the project; to discuss the change order process; and, to discuss special needs the owner may have regarding the contractor's access to and presence on the property. Holding this meeting at the property provides an opportunity for all of those involved to go over the work write-up item by item and to make sure all parties understand what work can and cannot be done with CHIP funds and the total funds per the construction contract. The conference should:

- Review the construction contract and all exhibits
- Review the HOME (CHIP) program code standards that have been selected by the State Recipient for use in the CHIP homeowner rehabilitation program
- Review the Georgia Construction Codes
- Review the State Recipient's Written Rehabilitation Standards
- Review the Notice to Proceed process
- Review the inspection process including interim and final inspections
- Review the pay request process
- Review the owner's responsibility in monitoring of construction
- Review the contractor's responsibility to advise the State Recipient regarding percentages of completion and to request the prescribed inspections
- Provide a supply of forms for the contractor to request payments
- Provide the required lien release forms
- Provide the required owner's satisfaction of work completed forms
- Review occupant protection and relocation issues with owners and contractors
- Review the lead hazard reduction work and occupancy protections
- Review the change order process
- Review the dispute resolution procedures
- Review the work schedule so all parties understand when the work will begin; how it will proceed; and when it is expected to be completed
- Review the close-out procedures and all of the required documentation/warranty

It is recommend that prior to executing the construction contract that a final review be conducted of the availability of access to the property and the importance of meeting project deadlines and a review of any penalties that will be imposed if the project is not completed on time.

Executing the Construction Contract

If both parties are in agreement to the construction contract, it is now time to execute the contract. Again, the construction contract is executed between the owner and the contractor. The State Recipient is not a party to the construction contract.

Request for Clearance of Prime Contractor

Prior to issuing a Notice to Proceed to any contractor, a State Recipient must obtain clearance from DCA that the contractor is not on the current HUD Debarment list. The Request for Clearance of Prime Contractor form is included in Appendix B.

Notice to Proceed

After all loan and construction documents have been property executed; the Deed to Secure Debt has been recorded; the contractor has been cleared through the HUD debarment process; and, the Three Day Right of Rescission period has expired, an authorization or Notice to Proceed can be issued.

Since the Notice to Proceed triggers the contract completion time frame, it is important to coordinate this fully with the owner and contractor to ensure that the work can begin on time and that the contractor is available to do the work. The State Recipient should make certain that the owner and contractor understand that no work can be incurred prior to the issuance of the Notice to Proceed.

The Notice to Proceed should be signed by the homeowner first as the owner is providing the authorization to the contractor to proceed with commencement of construction. The Notice is then signed by the contractor. See Appendix B. A fully executed copy must be maintained in the project file.

Owner Choices

As the owner has choices to make in selecting colors and finishes, some State Recipients use a formal tracking method that identifies all colors of paint (both exterior and interior), floor finishes, wood stains and cabinet stain or paint colors.

Some State Recipients have experienced disputes between the contractor and owner in regard to the colors or finishes in the rehabilitation work. A Color Selection Chart may help alleviate this problem. A Color Selection Chart has been included in Appendix A.

-
- Pre-Construction Conference Agenda: Appendix A

- Construction Contract and required Exhibits: Appendix A
- Notice to Proceed: Appendix B
- Color Selection Chart: Appendix A
- Request for Clearance of Prime Contractor: Appendix B

Step 21. The Construction Process

After holding the pre-construction conference, allowing the three day right of rescission period to expire, executing the construction contract, obtaining clearance of the contractor through the HUD debarment process, and issuing the Notice to Proceed, it is now time for the start of construction.

Georgia Lien Law

One of the most important requirements at the onset of construction is for the State Recipient to ensure that the requirements of the Georgia lien law are followed.

Georgia lien law provides contractors and materialmen with certain rights to place a lien on a property if they have not been paid. State Recipients should follow a rigid lien release procedure which protects both the owner's interest and the program's investment. This procedure requires the contractor to sign a lien release including information on the sub-contractors and suppliers when any partial or full payment is made. DCA also requires lien releases from sub-contractors and material suppliers.

Georgia lien law, O.C.G.A. §44-14-361.5, provides that not later than 15 days after the Contractor physically commences work on the Owner's property, the Owner or the Contractor must file a "Notice of Commencement" in the Superior Court in the county where the property is located. It is suggested that the State Recipient assume this responsibility. The notice must include (1) the legal description of the property; (2) the name and location of the project, and (3) the name and address of the following: a) the contractor, b) the true owner of the property or the person at whose instance their work is being furnished if not the true owner (e.g., a tenant), c) the surety (if any) and d) the construction lender (if any).

Once a Notice of Commencement is filed, a potential lien claimant that does not have a contract with the owner must provide a "Notice to Contractor" to the Owner and the contractor within 30 days from the day it first furnishes labor or materials, or from the day the Notice of Commencement was filed, whichever is later. If the Notice to Contractor is not given, the potential lien claimant loses its lien rights. The Notice to Contractor must include the name, address and telephone number of the person providing the labor or materials, the name and address and telephone number of the person providing the labor or materials were furnished, and a description of the labor or materials being provided. The Notice must also include the contract price or anticipated value of the labor or materials. The filing of a Notice of Commencement is **mandatory**. If a Notice of Commencement is not filed, potential lien claimants are relieved from having to serve a Notice to Contractor and they will retain their right to lien the property.

The Notice of Commencement is to be posted at the job site. The statute also allows a subcontractor or supplier to request a copy of the Notice of Commencement from the Contractor. If the Notice is not provided within 10 calendar days of the request, the lien claimant's failure to give a Notice to Contractor does not affect the claimant's lien rights.

The purpose of the Notice of Commencement is twofold. First, it enhances the ability of

lien claimants to file lien and bond claims, since the information necessary for filing such claims is provided in the Notice of Commencement. Second, the Notice provides the State Recipient with a mechanism for keeping track of lower-tier subcontractors and material suppliers. Armed with this knowledge, owners and contractors should be better able to make sure that everyone performing in the rehabilitation is paid in a timely manner, and to eliminate the filing of last-minute liens by previously unidentified subcontractors and suppliers.

Reconstruction

Sometimes, after a housing rehabilitation Construction Contract has been awarded and work has commenced, the Contractor and/or the Rehabilitation Advisor may discover additional work necessary to bring the property in compliance with the CHIP program Property Standards (Codes). Requirements such as replacing hidden rotten joists and sills or structural termite damage may require a rehabilitation feasibility test to be performed. If the estimated costs for the change order (when added to the current contract amount) will exceed the economic feasibility for (approved) replacement housing in accordance with the Rehabilitation Feasibility Test Form and the condition of the house does not meet the "structural" feasibility test the State Recipient may decide "reconstruction" would be the most cost effective action to undertake. At this point, issue a stop order to the contractor and **contact DCA for approval**. If approved, it is important to note that the current Construction Contract should stay in effect with the same contractor. Non-applicable items should be deleted from the existing Work Write-up and a new Work Write-up for reconstruction should be incorporated into a change order. A cost estimate should be prepared and each item negotiated to determine reasonable costs.

Construction File

The State Recipient should set up a construction file to track careful monitoring of the construction process and disbursement of funds. These records should be readily available for the appropriate staff of the State Recipient as they monitor progress, complete interim inspections, authorize progress payments, process change orders and make final inspections and payments. These records should also be readily available for DCA review during site monitoring visits.

The file should include:

- Executed construction contract and all exhibits
- Written Rehabilitation Standards/Specifications
- Change Orders
- Arbitration Agreement, if applicable
- List of Contacts:
Name and address of phone number of owner; contractor; sub-contractors; State Recipient staff and building official regularly involved in the construction process
- Project Set Up Form
- Disbursement ledger
- Invoices
- Draw Requests
- Copies of checks issued for payment(s)

- Inspection forms
- Building Inspector reports
- Owner satisfaction statements at each disbursement to contractor
- Lien Releases: general, sub-contractor, material suppliers
- Initial property inspection form
- Interim property inspection forms
- Final property inspection forms
- Project log: a log should be maintained to record any significant conversations or actions in order to have a record in the event the State Recipient needs to reconstruct events or reconcile disputes.

Interim Inspections and Progress Payments

Since construction has commenced, it is now time to conduct periodic or interim inspections. Depending upon the State Recipient's CHIP Program Policies and Procedures, a State Recipient may have required a payment schedule at certain percentages of completion. Regardless of the number of payments scheduled, the State Recipient must inspect the job prior to issuing any payment whether it is a partial or a final payment. The State Recipient is charged with the responsibility to ensure that the funds are used for eligible purposes and the work has been completed in accordance with the required standards. A State Recipient should not pay for work that is not done properly and should not pay for materials unless they are present on the site and installed. If work is not properly completed as billed, a State Recipient should reject the invoice or reduce the amount to pay only the acceptable portion.

Owner's Acceptance of Work Completed

DCA policy requires that the owner of the property sign a satisfaction statement certifying that they are satisfied with the rehabilitation work on their house and property. This signed statement must be obtained prior to each State Recipient's request to DCA for disbursement to a contractor including all interim disbursements and at final disbursement. By signing the satisfaction statement, the owner is requesting that the disbursement be made to the contractor. The statements are required to be witnessed and notarized.

It is recommended that inspections take place in the presence of the owner and contractor so that any problems can be identified, discussed and resolutions developed.

In addition to the signed satisfaction statement by the owner requesting a partial or full payment to the contractor, the releases of liens must be obtained from the general contractor and all sub-contractors and material suppliers prior to releasing any payments.

The DCA General Conditions Invoice, Release of Liens and Warranty/Affidavit is prepared by the contractor, signed by the contractor in the presence of a notary and notarized. If the State Recipient has also received the subcontractor and material supplier releases of lien, DCA Release and Waiver of Claim for Subcontractor or Material Supplier/Affidavit and the DCA Owner's Satisfaction statement, then a draw request can be submitted to DCA. These forms are located in Appendix B.

Other Inspections

If the job is complicated or problems arise with any of the parties involved, or if unforeseen conditions arise, the State Recipient may need to do additional inspections between formal inspections in order to resolve issues or prevent serious problems.

Retention

All progress payments should be contingent not only on the percentage of work completed but also upon the contractor making satisfactory progress. The practice of reserving a portion of the payment provides an incentive for the contractor to complete the work in a timely manner and correct problems promptly. This practice also provides a protective cushion to the program if a contractor fails to complete the work and the State Recipient has to engage another contractor to complete the work.

DCA recommends that the State Recipient retain at least ten (10) percent of every progress billing including the final billing until the entire project has passed the final inspection.

Change Orders

Each State Recipient has included in their CHIP Program Policies and Procedures their policy on changes in the scope of work. While every effort was made to include all required work in the original work write up, unforeseen conditions may arise that will require a change order. Some unforeseen conditions might include a collapsed wall, wood that appeared to be sound but was found to be rotten, materials became unavailable due to events beyond any reasonable person's control, or unforeseen termite damage. While it is sometimes impossible to detect every hidden code or property standard violation at the initial and final inspection completed prior to construction, simply failing to include an otherwise noticeable work item on the original scope of work is not generally allowed to be addressed after construction commences. Additionally, contractor error in estimating the project or doing the work is not typically allowed in a change order if the result is an increase in the cost of the job.

If additional unforeseen problems arise during the performance of the work, the solution is to prepare an Amendment to Contract describing the item(s) of work and the additional costs and the additional number of days that would be needed to complete the work. All of these items need to be added by amendment to the contract. This document is more commonly referred to as a "change order." The procedure for obtaining a reasonable amount to do the additional work is basically the same principle in securing a negotiated bid.

The change order process includes:

- The State Recipient prepares a list of the additional work on the Amendment to Contract/Change Order form describing it in detail as in the work write-up.
- The Contractor will price each item listed and submit the Amendment to Contract/Change Order Form to the State Recipient for review.
- The State Recipient will determine whether or not the cost and the additional time are reasonable and **document** justification by comparing the Contractor's proposal to local cost estimates.

- The State Recipient discloses the Amendment to Contract/Change Order Form with the figures to the homeowner for final approval.
- With the homeowner's concurrence, the Amendment to Contract/Change Order Form is prepared and executed. The Amendment must be signed by the Contractor, State Recipient AND owner, and becomes part of the contract.

NOTE: Change orders should also be executed to extend the contract expiration date when necessary to allow for “excusable delays” (see Sample Construction Contract language found in Appendix A). If the extension of time is overlooked, the “Liquidated Damages” clause could be “triggered” inappropriately.

Excusable delays are addressed in the sample construction contract included in Appendix A. Liquidated damages are addressed in Article 2 of the sample construction contract included in Exhibit A.

The process for change orders in the State Recipient’s CHIP Program Policies and Procedures should include a review process so they are not perceived as routine by the contractors.

Other records may be affected by change orders such as the contract and the CHIP loan documents which may need to be revised to reflect any increase in the amount of CHIP or terms of the CHIP loan, including either an increase or decrease in the required affordability period.

Conflict Resolution

During the course of the project a circumstance may arise where all parties in the project cannot come to terms. Most common are conflicts between the owner and the contractor. However, on occasion either the homeowner or the contractor may disagree with some aspect of the program.

Some State Recipients establish a Board or Committee of Arbitration to conduct hearings with the contractor, State Recipient and/or homeowner on any disputes that cannot be resolved. The Arbitration Board should be composed of neutral parties who make a binding decision. This board could consist of:

- Building material suppliers
- Social workers
- Outside construction contractors
- Attorney
- Local government official(s)
- Non-profit housing official(s)

Prior to resolving a conflict through the Arbitration Board, the State Recipient should arrange a meeting at the site with all concerned parties. Hopefully a decision can be reached and agreed to upon on the spot. However, if there are any doubts, no commitments should be made until the State Recipient has time to further investigate the matter. Above all, the State

Recipient should be sure that all disputes arising from the work are resolved before the case is ready for the final inspection. If the dispute cannot be resolved, the matter should be referred to the Arbitration Board. The terms of arbitration are set forth in the sample construction contract and these terms should be fully disclosed and understood by all parties to the contract before execution, if this is the method of dispute resolution as required by the State Recipient's CHIP Program Policies and Procedures.

Final Inspection and Final Payment

Once the project is totally completed, the contractor can then request that the State Recipient arrange for a final inspection.

It is critical that all inspections as set forth in the State Recipient's approved award application and CHIP Program Policies and Procedures are conducted. Some State Recipients set forth that the interim and final or at a minimum the final inspection would be conducted by an official of the local government's building or code department in addition to the program's rehabilitation advisor or administrator. Some State Recipients set forth special arrangements with outside building officials from neighboring communities to conduct inspections, both interim and final, or at least at final, in the absence of a building or codes official for the local government. Regardless of who was set forth in the approved award application, the designated inspector(s) must complete and sign off on the final inspection.

Final inspections should always be conducted at the request of the contractor and never conducted on the assumption that the work has been completed. Before the final inspection, the State Recipient must be assured that all of the required inspections, including required code inspections, have been completed and signed off by the appropriate authorities.

When the State Recipient makes the final inspection, the work write-up and all of the change orders should be used as a checklist to ensure compliance. Any work items that do not meet the State Recipient's Written Rehabilitation Standards should be listed and defined as to the nature of the discrepancy. This "punch" list should be given to the contractor with instruction to contact the State Recipient when the items have been completed.

Upon the satisfactory completion of the "punch" list items, the State Recipient should prepare the Certificate of Final Inspection. The State Recipient can process the final construction draw provided the contractor has remitted the final invoice and all required releases of liens, copies of warranties, and insulation certification, if applicable. The DCA Contracts and Sub-Contracts Completed Form must be included with the final project draw in order for DCA to meet its HUD reporting requirements.

As with the progress inspections, the general contractor and all sub-contractors and material suppliers must provide the releases of liens. As with the interim or progress payments, the general contractor signs the General Contractor's Invoice, Release of Liens and Warranty, serving as a final invoice, release of liens, and a guarantee or warranty of the work for a period of one year.

The State Recipient signs the Certificate of Final Completion included in Appendix A certifying that the work has been completed in accordance with the contract; that the property conforms to the requirements of the State Recipient's CHIP Program Policies and Procedures;

to the State Recipient's required property standards (codes); and the property conforms to the HUD Lead Based Paint regulations at 24 CFR Part 35.

Typically, State Recipients withhold a portion of the final payment until the Certificate of Final Inspection is signed; the State Recipient is satisfied all of the work is complete and up to program standards; and, all disputes are resolved.

After the final inspection has occurred and the releases of liens have been obtained and the Certificate of Final Inspection is executed, it is now time for the owner to authorize final disbursement of funds based on his/her satisfaction of the work completed.

The owner signs the satisfaction statement which is witnessed by a notary and notarized and the State Recipient can request the final project draw from DCA.

Temporary Relocation Payments

If not paid prior to final inspection, any funds due the homeowner for temporary relocation should be paid. See sample Claim for Temporary Relocation Expenses in Appendix A.

Drawing Down Project Funds from DCA

Once a project has received a set-up confirmation with a HUD project number; the CHIP loan closing has been held with proper execution and distribution of the CHIP loans documents; the construction contract has been executed; and the Notice to Proceed has been issued; and, construction has commenced, the State Recipient may begin to draw down funds for project construction costs and other project based soft costs. The DCA Request for Drawdown of CHIP Funds is included in Appendix B. Please follow the DCA draw down process as set forth in the DCA CHIP Recipients' Manual. All draws must be supported by detailed, itemized invoices that are maintained in the State Recipient's project file.

The State Recipient is required to submit the "Contracts and Sub-contracts Completed Form" with each final project draw request.

Installing Insulation

DCA also requires a Certification of Installation of Insulation for any project where insulation was installed. This certification is included in Appendix B and must be included in each project file.

-
- General Contractors Invoice, Release of Liens and Warranty/Affidavit: Appendix B
 - Release and Waiver of Claim for Subcontractor or Material Supplier/Affidavit: Appendix B
 - Owner's Satisfaction Statement: Appendix A
 - Amendment to Contract/Change Order Form: Appendix B

- Inspection Form: Appendix A
- Claim for Temporary Relocation Expenses: Appendix A
- Certificate of Final Inspection: Appendix A
- DCA Request for Drawdown of CHIP Funds Form: Appendix B
- Certification of Installation of Insulation: Appendix A
- Disposition of Funds Statement: Appendix A
- Rehabilitation Fiscal Tracking Spreadsheet: Appendix A
- Contracts and Sub-contracts for Projects Completed Form

Step 22. Project Completion and Closing the File

Warranty

The construction has been completed and the State Recipient obtained the notarized releases of liens; the notarized owner satisfaction statement and made the final disbursement for the construction. As part of the project completion process, the State Recipient should send a letter to the owner reminding them of the warranty. Contractors are required to warrant their work for a period of one year. The contract as well as the General Contractor's Invoice Release of Liens and Warranty clearly recite this requirement.

The letter to the owner should explicitly explain the beginning and ending period of the warranty and instructions on how to go about resolving a warranty issue. The letter should make it clear that warranty issues are to be resolved directly with the contractor. Both owners and contractors should be made aware of the State Recipient's limited capacity to intervene, although the State Recipient may be required to assist the low income homeowner in this regard.

All appliance and termite and systems warranties should be provided directly by the contractor to the owner with copies obtained for the project file.

Send Project Completion Report to DCA

As soon as possible after project completion but no later than sixty (60) days, the State Recipient is required to send the project completion report (Homeowner Rehab Set Up and Completion Form) to DCA.

Re-review Project File

The State Recipient should re-review the Homeowner Rehabilitation Checklist and make sure that all required documents are in the project file.

-
- Warranty Letter to Owner: Appendix A
 - Homeowner Rehab Set Up and Completion Form: Appendix B
 - Contracts and Sub-contracts for Projects Completed Form: Appendix B

Step 23. Monitoring and Change of Ownership

In accordance with the requirements set forth in the General Conditions of the CHIP award, the State Recipient has agreed to manage the day-to-day operations of the CHIP program and to monitor all activities to assure compliance with the HOME regulations, all requirements of the CHIP Recipients' Manual and all other applicable federal, state and local laws and regulations.

Also, in accordance with DCA policy memoranda dated August 20, 2005, under the CHIP program two major requirements apply to the compliance period including the recapture provisions and the principal residency provisions. In regard to the recapture provisions, these provisions should be self-enforcing due to DCA's requirement that the Deed of Trust is recorded. However, monitoring for continued occupancy in the event the CHIP assisted household moved away or rented the property is not so easily monitored.

CHIP assisted households certify that they will occupy the property as their principal residence for the entire affordability period, typically 5 or 10 years. While DCA understands that State Recipients cannot always conduct annual site visits to each household assisted under their CHIP program, DCA requires the State Recipient to keep a log of each CHIP assisted household with the beginning and ending dates of the required affordability period. The State Recipient is required to send on an annual basis a "DO NOT FORWARD" letter to each household on the anniversary date of the recorded loan documents to ensure that the original assisted CHIP household remains in the property as its principal residence. For any returned letters, the State Recipient will implement procedures to follow-up with the CHIP assisted household and take measures to recapture the CHIP assistance due the State Recipient.

Reimbursement to DCA if Default Under the Terms of the Loan Agreement

Recaptured funds are HOME funds which are recouped by the State Recipient when HOME (CHIP) assisted housing does not continue to be the principal residence of the assisted homebuyer for the full affordability period required by 24 CFR 92.254 (a) (4) for homebuyer projects and by DCA for rehabilitation projects. Recaptured funds are not considered "program income" but rather represent a return of the original HOME investment. Therefore, when the State Recipient receives recaptured funds, the funds must be remitted to DCA (to the attention of Angela Davis) for placement in the DCA HOME Investment Trust Fund local account. The remittance must be accompanied by a letter of explanation of the recaptured funds identifying the HUD project number, owner name and address.

Subordination Agreements

During the course of the CHIP loan a State Recipient may be asked to subordinate the CHIP loan to another loan which is being requested by the homeowner against the property. Most subordination requests are due to the owner attempting to improve their interest rate or payment schedule for an existing superior position loan; to obtain a new loan to consolidate exiting debt; or remove equity from the property for some other purpose. For technical assistance with these requests, please contact the DCA Office of Community Development.

- Annual “DO NOT FORWARD” Monitoring Letter: Appendix A

Step 24. Record Retention

This section provides a summary of the HOME program regulations at 24 CFR 92.508 regarding record retention.

The regulations require that homeownership rehabilitation project records must be retained for five years after the project completion date, except for documents imposing recapture/resale restrictions which must be retained for five years after the affordability period terminates.

Written agreement must be retained for five years after the agreement terminates.

Records covering displacements and acquisition must be retained for five years after the date by which all persons displaced from the property and all persons whose property is acquired for the project have received the final payment to which they are entitled in accordance with 24 CFR 92.353.

In the event there were any litigation, claim, negotiation, audit, monitoring, inspection or other action that had been started before the expiration of the required record retention period, records must be retained until completion of the action and resolution of all issues which arise from it, or until the end of the required period, whichever is later.

Step 25. Complaint Resolution

During the course of the project a circumstance may arise where all parties in the project cannot come to terms. Most common are conflicts between the owner and the contractor. However, on occasion either the homeowner or the contractor may disagree with some aspect of the program.

Some State Recipients establish a Board of Arbitration to conduct hearings with the contractor, State Recipient and/or homeowner on any disputes that cannot be resolved. The Arbitration Board should be composed of neutral parties who make a binding decision. This board could consist of:

- Homeowners from the community or target area
- Building material suppliers
- Social workers
- Outside construction contractors
- Attorney
- Local government official(s)
- Non-profit housing official

Prior to resolving a conflict through the Arbitration Board, the State Recipient should arrange a meeting at the site with all concerned parties. Hopefully a decision can be reached and agreed to upon on the spot. However, if there are any doubts, no commitments should be made until the State Recipient has time to further investigate the matter. Above all, the State Recipient should be sure that all disputes arising from the work are resolved before the case is ready for the final inspection. If the dispute cannot be resolved, the matter should be referred to the Arbitration Board.

The terms of arbitration are set forth in the sample construction contract and these terms should be fully disclosed and understood by all parties to the contract before execution.

When disputes arise, the State Recipient should go out to the property and meet with the Homeowner and the Contractor on the site where all concerned parties can see the problem. Hopefully, a workable solution can be agreed upon on the spot, but should there be any doubts, no commitments should be made until the State Recipient has investigated the matter. Above all, the State Recipient should be sure that all disputes arising from the work are resolved before the case is ready for final inspection. If the dispute cannot be resolved, the matter should be referred to the Arbitration Committee if that is the method of dispute resolution used by the State Recipient as required in the CHIP Program Policies and Procedures.

MONITORING THE CONTRACTORS

During the course of the project, difficulties may arise between a contractor and the staff. Some of the danger signals to watch for are:

- Failure of the contractor to respond to messages
- Lack of supervision at the job site

- Failure of the contractor to respond to "call backs" during the warranty period
- Financial problems (comments from creditors and suppliers)
- "Shortcutting" and using alternatives from the specifications
- Conflict with the Owner

All of these problems require prompt attention by the State Recipient. Contractors should be closely monitored, but by the same token, every contractor deserves to be treated fairly and with respect at all times.