EXHIBIT I-C

COLORADO DIVISION OF HOUSING
REVOLVING LOAN FUND (RLF) POLICIES

I. POLICY PURPOSE

These policies incorporate and supersede the following guidelines -- Program Income Guidelines, SFOO Housing Rehabilitation Program Guidelines, SF Home Ownership Purchase Assistance, and DOH RLF Guidelines. These policies, as amended, were put into effective 7/13/99.

The following are the Colorado Division of Housing (DOH) guidelines for funds granted to agencies for use in providing loans for owner occupied affordable housing.

A significant portion of DOH grant resources are expended annually to fund regional agency efforts that address community housing needs. This broad document encompasses a variety of Revolving Loan Funds (RLF) including Single Family Owner Occupied (SFOO) Rehabilitation and Home Ownership Purchase Assistance (HOPA). The purpose of these policies is to provide definition to agencies regarding program design and implementation. These guidelines include the eligible uses for revolving loan funds and suggested policies and procedures for the creation, management and operation of these funds. It is the intent of DOH to provide a consistent and equitable approach to housing programs statewide.

In recent years there has been some question about how much longer federal grant sources will be available for affordable housing preservation. In light of the uncertainty of future funding, the intent in setting up revolving loan funds is to create self-sustaining programs which will survive without additional capitalization from these grant sources.

DOH gives strong consideration to the management capacity of an applicant in determining grant awards. Management capacity will be judged based on an analysis of an organization's demonstrated planning, performance and management of revolving loan funds relative to the following guidelines. Analysis of management capacity may require an annual review by DOH of your agency's operating budget, loan portfolio, business plan and staff allocation plan.

Successful funding of an RLF from DOH will largely depend on the structure and management of the program. Although closely following these guidelines will not automatically guarantee funding, it is unlikely that programs which do not follow the guidelines will be funded. Existing (SFOO) rehabilitation agencies in good standing may continue to be funded by going through an expedited application process. This will provide agencies and their subcontractors with a degree of stability that will allow for long-term planning and commitments.

II. PROGRAM OBJECTIVES

There are two primary objectives for the provision of strong financial support to community housing agencies.

> **To increase the availability of housing preservation and home ownership services to all eligible homeowners in Colorado.** Priority will be given to non entitlement communities. Eligible households must have incomes below 80% of area median income. For HOPA, the principal target for DOH program funds is 50% - 80% of AMI.

The primary purposes for providing service are to remediate health and safety hazards, to preserve deteriorating housing stock and to increase home ownership opportunities. The secondary purposes are enhancement of the home, the neighborhood and the community.

1. To provide long-term financial and management capacity to local housing service providers. The ultimate objective is the creation of a well managed, locally controlled revolving loan fund (RLF) that will empower regional providers to maintain a sustainable level of service without additional Federal funds.

III. ELIGIBLE USES

Revolved funds must be utilized to continue the activity for which initial funding was provided; i.e., SFOO RLF for rehabilitation. Grant funds from DOH will be used in accordance with the terms of the contract between DOH and the service provider.

Loans may be made from grant funds and the RLF for the following uses:

- Single family owner-occupied rehabilitation
- Rental rehabilitation
- Downpayment assistance
- Project pre-development costs
- Acquisition and rehabilitation
- Joint ventures with other development entities
- No revolved funds will be used for internal agency capital needs

Upon attaining adequate capitalization needed to maintain a program (rehab, down payment assistance), the funding level will be sustained by the agency to continue serving the demand for the program. The RLF can be used to address other community housing needs if it is determined that there is no longer demand for the activity that was originally funded. Such revisions require approval by the local board and governmental entities as appropriate.

IV. SERVICE AREA

The minimum service areas for housing programs are single-county, if jurisdiction includes a Metropolitan Statistical Area (MSA) or multi-county (two or more) for rural communities.

V. ADMINISTRATION

All programs will demonstrate competent administration. This includes balancing the needs of the community with the responsible management of financial resources. Local program guidelines must be established and implemented.

A. Board of Directors. The Board of Directors or the elected officials who are responsible for oversight of the DOH grantee will have ultimate responsibility for the management of the revolving loan fund. Responsibilities include:

- policy formulation, review and approval
- periodic review of program implementation
- grant compliance and reporting
- setting guidelines for pre-development loans: criteria, rate, term
- establishment and oversight of the loan committee
- establish policies on types of loans made from the fund
- review of grievances and complaints
- staff supervision

B. Loan Committee. A Loan Committee (LC) will be appointed by the Board of Directors or elected officials who govern the programs. This committee will be composed of qualified community representatives and will have oversight of the RLF. The members of the LC should represent the different communities within the service area. They should also represent diversified interests and expertise within the community such as lending, real estate and human services. LC responsibilities will include:

- review and approval of loan applications
- determination of loan terms
- approval of solutions for problem loans
- decisions regarding foreclosure

Some of the functions of the LC may be delegated to agency staff. At a minimum, the committee will review annually the staff decisions made regarding applicant selection, loan terms, problem loans and foreclosures.

C. Conflict of Interest. No member of the Board of Directors, the LC or the staff will participate in any decisions that may result in direct personal or financial benefit or interest either for themselves or for those with whom they have family or business ties. Exceptions must be approved in writing by DOH. An exception may be considered upon full disclosure of the nature of the conflict and if it is determined to further the purposes of the program.

D. Funding of Administration. Within the following parameters, the local governing board of the RLF will establish the extent to which revolved funds can be used to support administrative functions for the program. For RLFs capitalized with DOH funds, the same requirements apply to the RLF in Section IX of this document. Loan payoffs in a lump sum will be treated the same way as the requirements in Section IX.

To the extent feasible, the operating costs of the programs will be minimized to increase the amount of funds that go toward the preservation and development of affordable housing opportunities. The funding from all sources (new awards, program income) allocated to administration will not exceed the actual agency cost to administer the programs.

HOPA

The following may be expended toward program administration: the lesser of a) 20% of funds received from DOH or b) $300 per loan. These limitations on program administration also apply to program income.

VI. DETERMINATION OF FUNDING ALLOCATION

SFOO REHAB

The maximum amount of annual funding allocated to each agency will be determined according to a combination of two factors: the base funding allocation and the formula funding allocation.

A. BASE FUNDING ALLOCATION. The base funding allocation may be awarded to agencies that provide services to an inclusive geographic region of the state. Agencies are strongly encouraged to assist in making services available to all non-entitlement areas in the state. Where applicable, agencies will work in collaboration with entitlement communities within the service area. The base funding allocation will be awarded to those agencies that fulfill these objectives as determined by DOH.

B. FORMULA FUNDING ALLOCATION. The formula funding allocation is based upon three factors:

- The number of households below 80% of AMI in the non-entitlement portions of the service area

- The number of houses that were constructed prior to 1959 in the non-entitlement portions of the service area
- The number of square miles included in the service area

Prior to contract renewal, agencies will submit service provision goals which need to be approved by DOH. Such goals will include projections of the following: the budget for administration; the number of homes to be rehabilitated; the number of homes to be demolished and replaced; the number of homes to receive emergency repairs and the anticipated revenue during the coming year from loan payments and payoffs. If local service providers choose to prioritize households to be served (e.g. elderly, disabled, very low income), these priorities will be provided and also approved by DOH.

HOPA

Local agencies must submit a funding application to DOH for home ownership purchase assistance programs. Applications will be reviewed by the DOH staff and the State Housing Board. The amount of funding allocated to an agency will be determined according to a variety of factors:

- The estimated demand for home ownership purchase assistance, documentation should include:

  1. Information from lenders and real estate brokers that quantifies the extent to which the down payment and/or closing costs are an impediment to home ownership.

  2. The number of renter households in the service area between 50% - 80% of AMI.

- The estimated inventory of housing that will be affordable to the target population. The primary sources for this information are local Boards of Realtors®. Inventory is considered affordable if the required mortgage could be serviced by the target population if prevailing loan ratios are applied.
- An agency's ability to originate and service loans.
- An agency's ability to leverage other funding sources.
- An agency's commitment to include DOH approved home ownership counseling as part of the program. This component is to be funded by resources other than DOH.
- The availability of DOH funding for this activity.

For all programs, funding may be suspended or adjusted subsequently to performance review and evaluation of regional need. As the level of program income increases and leveraging opportunities are expanded, it is expected that: a) the need for annual funding from DOH will decrease and/or b) production will increase.

VII. LOCAL PROGRAM CAPITALIZATION

Continued capitalization is contingent upon the availability of funding to DOH and the quality of program implementation by the local agencies. All income from loan payments and loan payoffs will revolve back into the RLF. This income will be the foundation for self-sufficiency. Agencies are strongly encouraged to augment capital resources through the leveraging of additional local, state, federal and private funds.

SFOO REHAB

The capitalization target for all existing programs will be seven times the 1995 agency allocation. The capitalization target for new programs will be seven times the first year's allocation. If an agency increases its service area to include a geographic area that has not been served previously, the agency capitalization target will be increased by seven times the formula allocation for the new area. Agencies found to be in substantial compliance will continue to be funded until the capitalization target is reached unless there is a significant reduction in federal funds available to DOH.

All funds awarded by DOH after 1990 for SFOO rehabilitation, demolition/replacement and emergency repairs will count toward the capitalization target.

The DOH objective is to assist agencies in achieving a reasonable level of self-sufficiency. Agencies with loan portfolios in excess of the capitalization target and with adequate income to rehab 12 homes per year are regarded as achieving a base level of self-sufficiency.
On a case-by-case basis, the level of capitalization may be adjusted. Upon realizing the capitalization target, agencies may apply for additional SFOO funding. Such requests will require substantive justification (i.e., demand for and ability to rehab more than 12 units per year) in order to be funded. Those applications will also be weighed competitively with other regional housing priorities.

HOPA

It is the intent of DOH to assist in the capitalization of agencies in order to support the realization of self-sufficient HOPA programs.

VIII. LENDING GUIDELINES

Equal Opportunity Lender. The grantee will operate as an equal opportunity lender. The grantee will not discriminate against anyone in its lending practices or in any other of its decision making processes because of race, color, religion, gender, handicap, family status or national origin.

All DOH grant funds awarded for SFOO rehabilitation, emergency repairs, replacement housing and home ownership assistance will be provided as loans to eligible households. The following lending guidelines will be followed:

- All loans must be secured by a promissory note and deed of trust.
- Grantees may not charge borrowers an origination fee. They may, however, charge a reasonable fee for the credit report and title work and/or home ownership counseling.
- Grantees may charge borrowers reasonable late fees and, in the event of delinquency or foreclosure, reasonable legal fees.
- Loan service fee: market rate if using an outside provider; up to $10/loan/month if service is provided by the agency. The amount paid to the agency for loan servicing cannot exceed actual agency costs for providing this service. The service fees can be taken out of payments to the RLF.
- It is recommended that loans be designed to allow for future adjustment in response to changes in the financial capability of the household. A periodic review (e.g. once every three years) is recommended.

SFOO REHAB

- All loans are non-forgivable and will be 1) amortized or 2) deferred and due upon sale/transfer of the property or upon death of the borrower. No more than 25% of the loans originated in a given year can be deferred. The agency board or the LC will establish guidelines regarding the granting of deferred loans, using criteria such as elderly or very low income households.
- Up to one half the funds on a given project may be <u>granted</u> to cover the expense of rehab

workmanship that does not meet client satisfaction if it is determined that such a grant will enable the agency to satisfy the client and avoid litigation.

HOPA

- Maximum per unit subsidy: 4½% of the maximum FHA Mortgage Limit (as published by HUD) for the average downpayment subsidy per county.
- Minimum down payment to be provided by the buyer: the greater of 1% of purchase price or $1,000.
- All assistance using funds awarded by DOH will be provided as subordinated loans. In general, all loans are to be amortized. Exceptions: loans less than $2,000 (in which case loans can be deferred and due upon sale or transfer) or cases where deferral for a limited time (up to 5 years) can be justified to the LC. Limited time deferral should include no more than 25% of loans originated annually. Any deferrals more than 25% must be approved in writing by DOH.

Exceptions to these loan guidelines may be approved by DOH for programs that include a significant level of sweat equity by homebuyers or other innovative approaches to increasing home ownership.

IX. PROGRAM INCOME

All revenues (with the exception of loan servicing fees) received by a grantee or sub-grantee which result directly from a DOH subsidized activity will be considered program income. Program income includes, but is not limited to:

- Principal and interest payments
- Proceeds from the sale of acquired assets

The grantee may not retain more than $5,000 in program income before requesting additional grant funds. The agency will ensure that fund use is maximized and that balances do not lie dormant. The program income amount must be tracked on the quarterly reports. The grantees are required to submit two (2) copies of quarterly reports.

Upon attaining adequate capitalization needed to maintain a program (rehab, down payment assistance), the funding level will be sustained in order to continue serving the demand for the program. The RLF can be used to address other community housing needs if it is determined that there are resources in excess of current rehab demand. Such revisions require approval by the local board and governmental bodies as appropriate.

HOME

A maximum of twenty percent (20%) of the program income earned can be applied toward administration of the program. This percentage is inclusive of all expenses including loan payment processing. For HOME funds, the program income must be divided in the following way:

- Up to ten percent (10%) of the program income funds can be applied to **general** administrative program costs.
- Up to ten percent (10% of the program income funds can be applied to **direct** administrative program costs. Direct administrative cost is funding applied to the salary and travel of the rehabilitation specialist.
- **All** revenues generated as HOME program income must be used in conjunction with the HOME federal regulations.

CDBG

A maximum of twenty percent (20%) of the program income earned can be applied toward general and/or direct administrative cost of the CDBG activity:

- A minimum of eighty percent (80%) of the program income will be expended on CDBG eligible housing activities.
- Unlike the HOME program, once the CDBG grant funds are expended by a nonprofit organization, the program income **is not** subject to federal CDBG requirements. However, the program income **is** subject to the DOH requirements specified in this document. Any deviation requires DOH approval.
- Refer to the contract scope of services for more detail.

X. REHABILITATION: WORKMANSHIP QUALITY AND COST-EFFECTIVENESS

All rehabilitation is expected to meet housing quality standards and/or appropriate building codes. All services are to be provided in a professional manner.

The primary criterions for rehab qualification is the extent to which work will remediate health and safety hazards and preserve deteriorating housing stock. Secondary measures include optional convenience items and cosmetic items that will enhance the home or neighborhood values. No more than 20% of rehabilitation costs can be spent on secondary measures.

The work write-up will be developed by a rehabilitation specialist in consultation with the homeowner. The rehabilitation specialist will be a person with strong residential construction experience, but not a contractor who may bid on the job. The work write-up must be mutually approved by the homeowner and the agency (administratively or by review committee).

XI. PROCEDURES

A. Accounting. Grantees must purchase or design a system to track the loans and payments in the RLF. This system may be automated or manual. At a minimum the following items should be available on the system:

- Name, address of borrower
- Principal amount
- Term, interest rate
- Date loan was closed
- First and last payment due date
- Amount of monthly payment
- Sources of funds used to make loans; broken into percentage if more than one source was used
- Default flags
- Ability to calculate payoff amounts

B. Documentation. A Loan Committee work/summary sheet should be developed to give the committee the information necessary to make a loan recommendation. Information given to the committee should be anonymous. Recommended information should include:

- Borrowers' income
- Work or activity to be undertaken
- Proposed term and interest rate, including payment amount (2 or 3 options would be

helpful)

- Ratio calculation to estimate ability to make payments within each of the options

Boilerplate award/denial letters should be approved by the committee. The committee should also determine who will sign these letters, and who should be the contact in the event of an appeal.

C. Loan Servicing. The grantee should utilize a system, whether manual or automated, that, at a minimum, can perform the following:

- Accepts and logs current payments

  1. Splits payment into principal and interest
  2. Splits payment into appropriate funding source(s)
  3. Splits payment into program and administration

- Ability to accept extra payments

  1. Recognizes loans in default, issues "a late letter"
  2. Prepares a year end statement for taxes
  3. Escrows for taxes and insurance (optional)

The grantee may charge a monthly loan servicing fees but must demonstrate and justify the cost of this fee. A written cost analysis for the fee charged must be kept on file at the grantee's office and made available upon request by DOH staff. In addition, a comparison of the private market servicing fee costs must be done and kept on file as well.

D. **Default/Foreclosure**. The grantee should define:

1. Stages of default (30 days late, 60 days late, etc.)
2. Steps taken at each stage
3. Work-out process for curing deficiency
4. Foreclosure process

E. Advertising/Marketing. Grantee should develop a business plan for marketing each of their loan programs. Policies and procedures should outline:

1. Marketing roles of each staff person
2. Training procedures for each staff person prior to marketing
3. Marketing strategies/tools to use
   a. Brochures
   b. Speakers
   c. TV/radio
   d. Realtors
   e. Senior programs
   f. Churches
   g. County department of social services
   h. Other

F. Goal Setting/Tracking. Grantee should set 6- and 12-month goals during contract period. Units completed, loans closed, etc., should be tracked to measure progress on each goal. Ultimately all of the various types of project activities should be scheduled so that there is no work stoppage due to weather, funding cycles, contract expirations, etc.

G. Grant Reporting. Grantee must complete the following reports for DOH:

1. Quarterly Financial Status (QFS), Quarterly Beneficiary Report(QBR) and Quarterly Performance Narrative (QPN) for the active grant contract
2. QFS, QBR, and QPN for each source of program income (CDBG or HOME). No reports are necessary for miscellaneous income.

H. Audits. Grantees are required to send an annual audit to the DOH.

I. Appeals. The agency will have an established appeal process as specified in the contract.

XII. TECHNICAL ASSISTANCE AND ANNUAL PERFORMANCE REVIEW

Technical assistance will be provided to agencies on an ongoing basis in order to facilitate regulatory compliance. Agencies will be monitored for compliance with these policies as well as federal requirements on an annual basis. This review will include evaluation of agency performance in meeting service provision goals and compliance with local lending guidelines. Grantees should be prepared to show the following information to the asset manager:

- How many total loans have been made from all programs and all sources of funds?
- How many amortized and how many deferred?
- How much is received monthly from regularly scheduled payments?
- How much money is earmarked for administration?
- How many loans were paid in full during the current contract period?
- How much money was received from loan payoffs?
- If you expect any large payments, when are they due and what is the projected use of the money?