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**The City of Vadnais Heights**  
800 East County Road E  
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## *Memorandum:*

TO: Mayor Krachmer and City Council Members

FROM: Nolan Wall, Planning/Community Development Director

DATE: February 7, 2023

SUBJECT: Home Improvement Loan Program Guidelines

### **Background**

NeighborWorks Home Partners has presented several times to past City Councils on developing a home improvement loan program and will attend the workshop. Upon identifying eligible pooled tax increment financing funds for such programs, staff began to formulate the attached guidelines for continued discussion.

Specifically, direction is needed on the following key requirements:

1. Loan terms (length/interest rate)
2. Loan amounts (minimum/maximum)
3. Eligible improvements
4. Eligible properties
5. Borrower eligibility

### **Action Requested**

Direct staff on revisions to the proposed program guidelines.

Attachments:

- DRAFT Program Guidelines



## City of Vadnais Heights

### Home Improvement Loan Program Guidelines

**Program Overview:** The City of Vadnais Heights is offering home repair loans to residents to encourage home renovation and increase home values within the city. Current available dollars for loans are based upon the fund balance for any given period.

**Loan Amount:** The maximum loan amount is \$25,000. The minimum loan amount is \$5,000.

**Interest Rate & Loan Term:** The interest rate will be set by the City of Vadnais Heights at a below market rate and the monthly payment will be fixed. Maximum loan term is 20 years. Loan is due upon sale, transfer of title, refinance or if the property ceases to be owner-occupied. Borrowers aged 65 or older or who are military veterans shall receive a discounted rate.

**Loan Security:** All loans will be secured by a mortgage in favor of the City of Vadnais Heights. The loan may be secured in a subordinate lien position behind other loans in accordance with the City's loan subordination policy.

#### **Borrower Eligibility:**

- **Credit:** Standard underwriting criteria apply including review of a credit report.
- **Debt to Income Limit:** Borrower's gross monthly debts cannot exceed 50% of gross monthly income.
- **Income Limit:** Income at or below 100% of the area median income for a family of two or less or 115% of the area median income for a family of three or more.

#### **Property Eligibility:**

- Single family (1-4 unit) detached and attached properties located within the City of Vadnais Heights.
- Must be owner-occupied.
- Condominiums & townhouses, however, only individual interior repairs are eligible.
- The borrower's combined mortgage debt including the Vadnais Heights Loan cannot exceed 100% of the property value, based on the taxable market value as determined by Ramsey County for the current year. 65% of the amount of the Vadnais Heights Home Repair Loan will be added to the current value in making this calculation. Applicants may also submit a third party appraisal or market analysis that has been completed within the last 12 months. Such appraisal or market analysis is to be obtained by the applicant at their expense.
- Borrower's existing first mortgage must be a prime/A-rated fixed rate mortgage loan.

- Properties that are governed by an active Homeowner's Association must receive written approval for planned exterior improvements in accordance with the guidelines of this loan program and association by-laws and/or covenants.
- Other possibilities to include – property value maximum, no properties in a flood plain

### **Eligible Improvements:**

- Improve the conditions of the exterior of the home including but not limited to roofs, siding, windows, driveways, structural retaining walls, existing fences and other components of the property;
- Improve handicap accessibility; and/or
- Improve energy efficiency (insulation, water heater, mechanical improvements, windows etc.)

**Ineligible Improvements :** Recreational/luxury improvements, working capital, debt service or refinancing of existing debts.

### **APPLICATION & LOAN DISBURSEMENT PROCESS**

**DO NOT SIGN ANY CONTRACTS OR START YOUR PROJECT UNTIL A CLOSING HAS TAKEN PLACE. ANY PROJECT BEGUN BEFORE A LOAN CLOSING HAS TAKEN PLACE WILL BE INELIGIBLE FOR PARTICIPATION IN THE PROGRAM.**

**Homeowner Association By-Laws & Covenants:** Loan applicants from single family attached or zero lot line detached homes with an active Homeowner's Association will be required to provide written approval from the Homeowner's Association certifying the exterior improvements to be funded through this loan program are permissible under governing by-laws and/or covenants of the association.

The City of Vadnais Heights and representative agencies associated with the administration of this program are not liable or responsible for any violations of association by-laws and/or covenants by the applicant for improvements undertaken through this loan program.

**Application Process:** Completed applications will be processed by NeighborWorks on first-come, first-served basis, as funds are available until all program funds are committed. After loan approval, you will be contacted regarding a closing to sign a Promissory Note, Mortgage and subordination disclosure.

**Loan Costs:** Borrowers will be charged a credit report fee at application. The title policy fee may be financed through the loan. The recording fees to Ramsey County will be paid by the borrower at closing.

**Contractors & Permits:** Contractors must be properly insured and licensed by the State of Minnesota when required. Permits must be obtained when required by city code. Two bids are required for work that exceeds \$5,000. Borrowers must attain required bids and can seek assistance from NeighborWorks in this process.

**Work by Owner:** Work can be performed on a sweat equity basis. Loan funds cannot be used to compensate for labor, only for materials. The NeighborWorks construction manager must determine that the owner has the

ability to complete the work according to industry standards and within the program time requirements. The cost of purchasing tools and equipment and the delivery of materials are ineligible expenditures. Materials must be purchased and installed prior to the disbursement of loan proceeds. When applicable, a signed building permit must be obtained by the borrower. Please contact NeighborWorks to receive a Sweat Equity packet along with the application.

**Total Project Cost:** It is the borrower's responsibility to obtain the amount of funds necessary to finance the entire cost of the work. If the final cost exceeds the loan amount, the borrower must obtain the additional funds. Borrower's contribution to project cost must be paid prior to release of loan funds.

**Work Completion:** Weather permitting, work must be completed within 120 days of loan closing.

**Disbursement Process:** Loan funds will remain in escrow with NeighborWorks until payment for completed work. The following items must be received before the funds can be released:

1. **Final Invoice** from each contractor showing all amounts paid and due.
2. **W-9** from each contractor prior to payment.
3. **Lien Waiver** signed by each contractor.
4. **Completion Certificate** signed by each contractor and the borrower.
5. **Permits Closed.** Have the inspector sign the permit card.
6. **Final Inspection.** Approval by NeighborWorks

Homeowners are required to attain and submit the above required documentation. It may take up to 10 business days after receipt of above items to prepare checks.

**Program Disclaimer:** The City of Vadnais Heights maintains the right to at any time to change or discontinue the Vadnais Heights Home Repair Loan Program. The potential changes may impact the maximum/minimum loan amount, loan term, interest rate, and/or qualifications for borrower, property and improvement eligibility