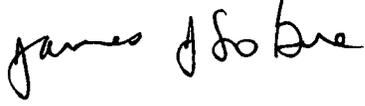


# CEO/COMMUNITY DEVELOPMENT GRANTS AND LOANS

## MEMORANDUM

**TO:** Honorable Members of the Board of Supervisors  
**FROM:** Thomas M. Miller, County Executive Officer  
James LoBue, Deputy Director Redevelopment   
**DATE:** June 7, 2011  
**SUBJECT:** Community Development Block Grant Neighborhood Stabilization Program: (a) Amendments to and Extension of Professional Services Contract with MHC NSP LLC; and (b) Amendment to Neighborhood Stabilization Program Loan Guidelines Loan Reduction Criteria

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### ACTION REQUESTED

Adopt resolutions authorizing changes to the Community Development Block Grant Neighborhood Stabilization Program as follows:

- (a) Amend the professional services contract with MHC NSP LLC to authorize assignments, extend the term to July 30, 2013, and authorize the Purchasing Manager to sign the contract amendment.
- (b) Amend the Neighborhood Stabilization Program loan reduction criteria.

### INTRODUCTION

Over the past two years, your Board has authorized several actions to implement and amend the Community Development Block Grant (CDBG) Neighborhood Stabilization Program (NSP). NSP's main activity has been to loan federal funds to a non-profit organization to acquire and rehabilitate bank-owned homes for resale to low- and moderate-income households. Based on the experiences with the program to date and changes proposed by the program's primary consultant/partner, MHC NSP LLC (MHC) the Agency is proposing to amend MHC's professional services contract. Additionally, reductions in Redevelopment Agency staffing, where NSP is administered, result in a need to increase the tasks done by MHC and its sub-consultants. As MHC's current consultant services contract (Contract) expires June, 30 2011, an extension is requested. The balance of this previously authorized Contract amount is approximately \$120,000, and is not proposed to change. Due to declining real estate values and difficulties encountered by MHC in selling the homes for the loan value, changes are also proposed in the program guidelines to allow for a certain percentage of reduction in the loan amount if the house has been marketed for a certain period of time with no resulting purchase offer.

### BACKGROUND

In 2009, the State of California Department of Housing and Community Development (HCD) awarded Placer County \$2,046,469 in NSP funds and required the County to include the Cities of Rocklin and Lincoln and administer the program for all three jurisdictions. A request for proposals was circulated and MHC, a wholly owned non-profit subsidiary of Mercy Housing California, also a non-profit, was selected to assist the County with implementation of NSP funds. Loans to MHC for acquisition and rehabilitation have resulted in seven completed houses meeting loan and program requirements. One loan was made directly to a homebuyer. All funds covered by the State Grant Agreement with HCD have been spent in accordance with the grant. After a completed home is resold to a low or moderate income household, the loan proceeds from that home are returned to the County's NSP program income account to re-loan for new

NSP eligible activities. The NSP is in effect until July 2013. MHC has, to date, completed five homes that have been resold to eligible households and currently has two homes rehabilitated and on the market. Two new loans were recently made to MHC for acquisition and rehabilitation of one house in Sheridan and one in Kings Beach.

The NSP houses were acquired for rehabilitation with loans to MHC that range from \$205,000 to \$299,900. The loans have paid for acquisition, rehabilitation, maintenance, disposition, and holding costs. Costs of sale are subtracted from the loan proceeds. MHC makes no profit from the sales but earns a fee from the Contract. This fee reimburses MHC for their costs to acquire the homes, develop budgets, prepare bid specifications, select and administer construction contractors, inspect the work, and oversee sale of the houses.

### **Amendment to Professional Services Contract**

#### **Scope of Services and Eligible Expenditures**

As discussed above, the current Contract budget allows payment to MHC for their services supporting the acquisition, rehabilitation, and resale of bank-owned homes. Funds loaned to MHC for the purchase and rehabilitation of houses are not part of the Contract, but are loaned separately on each parcel and secured by a deed of trust. Expenditures for maintenance and holding costs for prior NSP homes were calculated into the loan amount. Staff now proposes to add these as eligible Contract costs so loans can be closed more efficiently at the time of sale. The amount of time it takes to do substantial rehabilitation and the time to sell the houses varies with each house, making the total amount of maintenance and holding costs difficult to predict and account for at the time the loan is made for the initial purchase of the home. With the proposed Contract amendment, MHC and their sub-consultants will now take over the maintenance and holding costs and submit invoices for reimbursement of the same through the Contract. MHC and their sub-consultants will also take over some tasks on buyer qualification and preparing loan documents previously done by Agency staff. Two Agency staff who worked on parts of NSP announced retirement recently. The changes are reflected Exhibit A and B to the attached Contract Amendment #6.

#### **Assignment**

MHC is an experienced, non-profit affordable housing developer that has successfully run both single-family and multi-family programs. Recently they decided to focus on multi-family housing and have subcontracted with NeighborWorks Sacramento for more of the NSP tasks. MHC has notified the County that they intend to eventually assign all their NSP consulting contracts to NeighborWorks, subject to County approval. HCD has authorized this assignment. County staff has conducted due-diligence on NeighborWorks. Consultation with several local jurisdictions produced favorable recommendations. Staff has discussed the time frame for this assignment with MHC and the current proposal is to have MHC remain the primary party to the Contract until it sells the two homes that are already rehabilitated and on the market. Staff does not oppose the transfer of the loans for the most recently acquired homes to NeighborWorks and the execution between MHC and NeighborWorks of a subcontract to allow NeighborWorks to transition into this County's NSP program. To accomplish these goals, staff proposes to amend the Services Contract to extend the term until the end of the NSP program and to clarify when an assignment can be made from MHC to NeighborWorks. The first attached resolution and contract amendment #6 authorizes staff to sign an extension with the changes discussed above. When all MHC obligations on existing houses owned by MHC are complete, the resolution's authorization will allow staff to approve the assignment to NeighborWorks.

**Loan Guidelines Criteria for Loan Reductions**

The first bank-owned house acquired and rehabilitated by MHC was resold to a low-income homebuyer for a price that recovered the amount of the loan. Since then, after-rehabilitation appraisals have valued the homes below the amounts of the loans. In January 2010, your Board adopted changes to NSP program guidelines that allowed a portion of the loan balances to be reduced based on certain marketing criteria and after-rehabilitation appraisals. Since that time MHC has had difficulty selling the homes even at the reduced after-rehabilitation appraisal value. As the purpose of the NSP is to sell the homes and reinvest the grant proceeds into rehabilitating and selling additional homes to qualified buyers, it would be counterproductive to allow these homes to sit on the market for long periods of time. As a result, staff proposes to allow, based on strict criteria, loan program modifications to a further 10% reduction when the house has seen no market activity for 30 days after the appraisal-based price reduction. A second resolution with the proposed loan guidelines modifications is attached for the Board's consideration.

**FISCAL IMPACT**

The contract amendment and loan guideline amendments have no impact on the County General fund. Contract costs will be covered by the County's CDBG NSP Program Income. Funds are included in the FY 2010-11 and 2011-12 fund 104 budgets.

**ENVIRONMENTAL IMPACT**

This administrative action is exempt from both the California Environmental Quality Act per Guidelines Section 15061(b) (3) and the National Environmental Policy Act per 24 CFR 58.35(a) and 24 CFR 58.6.

Attachments: Resolution with Contract Amendment  
Resolution with revised program guidelines.

cc: Karin Schwab, Deputy County Counsel

**Before the Placer County  
Board of Supervisors  
County of Placer, State of California**

In the matter of:

**Amendments to the Neighborhood Stabilization Program Professional Services Contract with MHC NSP, LLC to authorize assignment, extend the term to July 30, 2013, and authorize the Purchasing Manager to sign the contract amendment and extend the contract to July 30, 2013**

Resol. No:.....

Ord. No:.....

First Reading: .....

The following Resolution was duly passed by the Board of Supervisors of the County of Placer at a regular meeting held \_\_\_\_\_,

By the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

Attest:

\_\_\_\_\_  
Chair, Board of Supervisors

Clerk of said Board  
  
\_\_\_\_\_

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WHEREAS, by Resolution 2009-153 the Board of Supervisors authorized application for, and implementation of, the Community Development Block Grant Neighborhood Stabilization Program;

WHEREAS, the State of California Department of Housing and Community Development (HCD) awarded from the Community Development Block Grant (CDBG) Neighborhood Stabilization Program (NSP) the following fund allocations to Placer County; the City of Lincoln – \$667,582, the City of Rocklin – \$505,694, and the unincorporated areas of Placer County – \$872,923 for a total of \$2,046,469;

WHEREAS, on November 10, 2009, HCD signed a contract with the County for these funds and required the County to maintain and reuse loan repayments in a separate program income fund until July 2013;

WHEREAS, the County issued a Request for Proposals on June 30, 2009 for assistance in implementation of the NSP;

WHEREAS, Mercy Housing California, acting as its wholly owned subsidiary, MHC NSP, LLC, was selected as the most qualified consultant;

WHEREAS, by Resolution 2010-108 and Resolution 2010-296 the Board of Supervisors authorized amendments to a Professional Services Contract with MHC NSP, LLC to provide NSP services and increase the contract in a not to exceed amount from \$44,561 to \$120,000;

WHEREAS, experience with the program has identified changes needed to the Professional Services Contract and its scope of work;

WHEREAS, reductions in Redevelopment Agency staffing results in a need to increase the tasks done by MHC and its sub-consultants; and

WHEREAS, pursuant to California Environmental Quality Act Guidelines and National Environmental Policy Act regulations, the proposed action to amend a contract is exempt.

NOW, THEREFORE, BE IT RESOLVED that Contract Amendment No. 6 is hereby approved as set forth in the attached Exhibit A and the Purchasing Manager or his designee is hereby authorized to execute the amendment.

**Consultant** MHC NSP LLC  
**Project** Neighborhood Stabilization Program  
**Administering Agency:** Placer County Redevelopment Agency  
**Contract Number:** BP017432  
**Contract Description:** Acquisition, Rehabilitation, and Resale of Foreclosed Single Family Homes

**CONTRACT AMENDMENT NO. 6**

THIS AGREEMENT, originally made at Auburn, California, as of **February 11, 2010**, by and between the Placer County Redevelopment Agency ("Agency"), and **MHC NSP LLC** ("Contractor"), and last amended on November 2, 2010 (Amendment No. 5), is further amended as follows:

1. **Paragraph 5. Time for Performance.** Contract shall expire July 30, 2013.
2. **Paragraph 12. Assignment.** Consultant may assign its rights and obligations under this agreement only upon the prior written approval of County. Any such assignment shall be limited to a non-profit organization that has been approved by HCD and is, in the assessment of the County, capable of performing the tasks set forth in this agreement for the NSP program. Assignment approval shall be in the sole discretion of the County and subject to those conditions precedent to assignment that the County may require.
3. **Exhibit A. Scope of Services.** Revised per attached redlined exhibit.
4. **Exhibit B, Budget.** Revised per attached redlined exhibit.

All other terms and conditions of this Agreement shall remain in full force and affect. Loans funded with Program Income can be conducted in the unincorporated areas of Placer County and the Cities of Rocklin and Lincoln.

**PLACER COUNTY REDEVELOPMENT AGENCY**

By: \_\_\_\_\_  
Jim Boggan, Purchasing Manager

Date: \_\_\_\_\_

**MHC NSP LLC**

By: \_\_\_\_\_

Date: \_\_\_\_\_

Its: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

Its: Secretary

# EXHIBIT A

## SCOPE OF SERVICES

### I. Due Diligence for NSP Houses

#### 1. Housing Identification

- Consultant will secure list of foreclosed houses from National Community Stabilization Trust, CalHFA, Fannie Mae or other sources.
- Consultant and/or City or County staff will inspect properties and determine approximate rehabilitation need.
- Consultant will notify County of units in unincorporated area that do not need rehab.
- Consultant will secure Broker's opinion on property value and/or obtain appraisal meeting NSP standards.
- Recommend which properties should be offered for direct purchase by NSP eligible homebuyers, which should be considered for County acquisition and which should be considered for loan to a non-profit for acquisition rehabilitation.
- Obtain Preliminary Title Report
- Provide Proforma prior to or with loan application for acquisition and rehabilitation.

#### 2. Acquisition

- Identify and negotiate the purchase of homes.
- Submit a loan application package to the County that includes an estimate of acquisition cost, rehab scope of work, rehab cost estimate and estimate of resale value to the County for loan approval to secure a loan from the County.

#### 3. Consultant Housing Rehabilitation Analysis

- Order Lead Paint, Pest and Asbestos reports.
- Develop full Scope of Work and Write-up. Address code violations, energy efficiency.
- Preparation of bid package
- Order appraisal that complies with NSP regulations.
- Maintain database and tracking sheet for each NSP property and participant that is consistent with the data required for NSP reporting.
- Verify properties are not occupied.
- Provide construction management and oversight. Any changes in the rehab scope of work or cost must be submitted to the County for approval.
- Review construction invoices and submit to County in pre-approved format.

#### 4. Post Purchase Activities

- Secure property and administer carrying costs.
- Distribute Scope of Work to CDBG NSP qualified contractors.
- Review bids in consultation with the County.
- Select contractor, develop and administer construction contract in conformance with 09-NSP1-6261.
- Inspect construction work for conformance with construction contract.
- Verify contractor obtains all required permits.
- Provide County with a fair housing marketing plan for county review and approval.

#### 5. Marketing & Resale

- Market the home. List property for sale on the MLS.
- Review purchase offers in consultation with County.
- Property management if needed. Provide management services during rehabilitation and until the property is resold or paid off.
- Submit a loan package or non-profit's purchase and sales agreement to the County, appraisal of the property and proposed write-off if necessary.

6. Lending & Loan Servicing for Both Acquisition and Resale

- Loan processing, including loan intake, loan underwriting, and loan closing, including proper recording of property deed restrictions and any other property recordings.
- Prepare the Promissory Note, Deed of Trust, prepare escrow instructions and submit to County based on forms and samples pre-approved by the County.
- Verify that escrow instructions are followed and inform County when funds should be available for disbursement.
- Income qualify eligible homebuyer and prepare NSP income eligibility forms and documentation for County review and signature.
- Prepare and submit loan packages for homebuyer loans to County for approval
- Complete checklists provided by County to ensure clear delineation of tasks to be accomplished by consultant and tasks to be accomplished by county staff for loan approval and loan funding.

7. Administrative Tasks

- Provide monthly status reports regarding the number of homes acquired, the status of homes undergoing rehabilitation, demographic information on homebuyers, and loan balance cash flow.
- Coordinate with county staff to ensure the timely submittal of all information for quarterly reports to HCD and cash requests associated with the program.
- After termination of the contract, ensure orderly transition of program files, including status of follow-up items.

8. County Tasks

- ~~Prepare loan documents.~~
- ~~Qualify buyers for purchase of house upon completion of rehabilitation.~~
- Complete NEPA/CEQA environmental clearance where necessary.
- Prepare and submit required draw requests and quarterly reports to HCD
- Account for Program income and NSP loan portfolio.

## EXHIBIT B

### PAYMENT FOR SERVICES RENDERED

|                   |            |
|-------------------|------------|
|                   |            |
| ACTIVITY DELIVERY | \$ 271,000 |
|                   |            |
| TOTAL BUDGET      | \$ 271,000 |

Payment is based on a total maximum budget of \$271,000 (Two Hundred Seventy-one Thousand Dollars). Direct expenses, if any, are part of the maximum budget and will be negotiated on a case-by-case basis. ~~Any invoices already paid under the contract as first executed February 11, 2010 will be deducted from the activity delivery percentage billing.~~

#### FEE SCHEDULE

Activity Delivery for due diligence/pre-development purchase and rehabilitation and disposition for additional units: 7% purchase activity delivery can be billed when purchase escrow closes. 19% Rehabilitation Activity Delivery can be billed as partial payments based upon the percentage of rehabilitation complete or upon filing Notice of Completion. 8% disposition activity delivery costs and 8% homebuyer loan processing and qualification activity delivery costs can be billed upon close of escrow sale to an eligible buyer.

Additional direct expenditures for holding costs, also known as carrying costs, over and above the percentages above, can be paid out of the total contract budget. Eligible holding costs are those expenditures not funded by NSP loans. Holding costs are defined to include property taxes, insurance maintenance, utilities and similar expenditures to maintain the property during rehabilitation and in a post-rehabilitation condition and prepare the property for sale.

# Before the Board of Supervisors County of Placer, State of California

In the matter of:

Authorizing an Amendment to the Community Development Block Grant Neighborhood Stabilization Program Loan Guidelines to allow for loan balance reductions for acquisition and rehabilitation of bank-owned homes for resale to qualified low-, moderate-, and middle-income homebuyers

Reso. No. \_\_\_\_\_

Ord. No. \_\_\_\_\_

First Reading \_\_\_\_\_

The following Resolution was duly passed by the Board of Supervisors

of the County of Placer at a regular meeting held \_\_\_\_\_,

by the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

Attest:

\_\_\_\_\_  
Chair, Board of Supervisors

Clerk of said Board

\_\_\_\_\_

WHEREAS, the State of California Department of Housing and Community Development (HCD) has awarded Community Development Block Grant (CDBG) Neighborhood Stabilization Program (NSP) fund allocations to the City of Lincoln - \$667,852, the City of Rocklin - \$505,694, and the unincorporated areas of Placer County - \$872,923;

WHEREAS, the County seeks to find a cost effective means to acquire bank-owned homes with CDBG NSP funds and rehabilitate them prior to resale to qualified buyers;

WHEREAS, the CDBG NSP program allows acquisition and rehabilitation of a bank-owned house;

WHEREAS, after-rehabilitation appraisals on homes in the NSP program show values in Placer County continue to decline and show rehabilitation costs cannot generally be fully recovered at resale;

WHEREAS, prior amendments to the loan guidelines allow a reduction in the loan amount and corresponding purchase price to the amount identified in the after-rehabilitation appraisal report; and

WHEREAS, continued declining property values lead to houses remaining unsold for several months, even after the initial purchase price reduction.

NOW, THEREFORE BE IT RESOLVED that the CDBG NSP guidelines be amended to allow, upon application of a non-profit borrower, the Loan Committee to authorize reduction in the balance of a CDBG NSP loan originally made to a non-profit organization for the purpose of acquisition and rehabilitation under the following circumstances:

1. The amount of the loan balance to be reduced is funded entirely with CDBG NSP funds.
2. The house must be listed for sale on the Multiple Listing Service.
3. The non-profit borrower has to document at least two other site specific marketing initiatives.
4. The sales price to the homebuyer must be documented by an after-rehabilitation appraisal.
5. When the house has been listed at the after-rehabilitation value for 30 days and no purchase offer has been received from eligible buyers, the price can be reduced an additional 10%.
6. The house must be in an NSP eligible area.
7. The house must be sold to an NSP eligible buyer for owner occupancy.
8. All other provisions of the CDBG and CDBG NSP guidelines for acquisition and rehabilitation apply.
9. Approval for the loan will follow the same approval steps as for a homebuyer loan in the CDBG guidelines.
10. The loan committee for NSP loans will be two Redevelopment Agency Managers.

BE IT FURTHER RESOLVED that the loan balance reduction provision expires July 30, 2013, unless extended by Board of Supervisors Resolution.