

**STANDARD OPERATING PROCEDURE**  
**for the**  
**COUNTY OF HAWAI‘I**  
**HOME IMPROVEMENT LOAN PROGRAM**  
**FOR LOW AND MODERATE HOUSEHOLDS**  
**(HILP)**

OFFICE OF HOUSING AND COMMUNITY DEVELOPMENT  
COUNTY OF HAWAI‘I  
1990 KINO‘OLE STREET, SUITE 102  
HILO, HAWAI‘I 96720

April 24, 2025

TABLE OF CONTENTS

COUNTY OF HAWAI'I  
HOME IMPROVEMENT LOAN PROGRAM  
FOR LOW AND MODERATE HOUSEHOLDS

1.0 GENERAL PROVISIONS ..... 1

    1.1 DEFINITIONS..... 1

    1.2 PUROSE ..... 2

    1.3 FUNDING..... 2

2.0 ELIGIBILITY REQUIREMENTS ..... 2

    2.1 CERTAIN COUNTY OFFICERS OR EMPLOYEES INELIGIBLE..... 2

    2.2 DISCRIMINATION PROHIBITED ..... 2

    2.3 ELIGIBLE APPLICANTS ..... 2

    2.4 OCCUPANCY ..... 3

    2.5 INCOME QUALIFICATIONS ..... 3

    2.6 ELIGIBLE PROPERTIES ..... 5

    2.7 ELIGIBLE REPAIRS ..... 6

    2.8 ELIGIBILITY INSPECTION..... 9

    2.9 ELIGIBILITY CONFERENCE..... 9

    2.10 PRIORITY LIST OF REPAIRS ..... 10

    2.11 CONTRACTOR ELIGIBILTY ..... 11

    2.12 CONTRACTOR DISQUALIFICATION..... 12

3.0 APPLICATION PROCESS ..... 13

    3.1 APPLICATION SUBMISSION ..... 14

    3.2 APPLICANT SELECTION AND PRIORITY..... 15

    3.3 APPLICANT PROCESSING PROCEDURES ..... 15

    3.4 REQUIRED DOCUMENTATION AND VERIFICATIONS ..... 16

    3.5 APPEAL PROCESS ..... 17

    3.6 CONTRACTOR SELECTION..... 17

    3.7 CONSTRUCTION CONTRACT REQUIREMENTS ..... 18

    3.8 NOTICE TO PROCEED ..... 20

4.0	LOAN SPECIFICATIONS.....	21
4.1	LOAN AMOUNTS AND LIMITS.....	21
4.2	INTEREST RATE .....	21
4.3	UNDERWRITING STANDARDS .....	22
4.4	TERMS AND PAYMENT .....	22
4.5	LOAN SECURITY AND COLLATERAL REQUIRMENTS.....	24
4.6	LIFE ESTATES AND TRUSTS .....	24
4.7	CHANGE OF TENANCY.....	25
4.8	LOAN REPAYMENT .....	25
4.9	SUBORDINATION OF MORTGAGE.....	26
4.10	OWNER ASSETS .....	28
5.0	PROGRAM COMPLIANCE.....	28
5.1	COMPLIANCE WITH AFFORDABILITY REQUIREMENTS .....	28
5.2	COMPLIANCE WITH HRS CHAPTER 343 .....	28
5.3	COMPLIANCE WITH HRS CHAPTER 104.....	28

## 1.0 GENERAL PROVISIONS

### 1.1 DEFINITIONS. Whenever used in this document, unless otherwise specifically defined:

- a. “Borrower” means a person or persons who borrow loan funds to rehabilitate a dwelling unit.
- b. “HILP” means the County of Hawai‘i Home Improvement Loan Program for Low to Moderate Households.
- c. “County” means the County of Hawai‘i, which is the Lender and responsible for the administration of the HILP.
- d. “Housing Administrator” means the Administrator of the OHCD or, if there is no Housing Administrator, the Finance Director.
- e. “HQS” means HUD Section 8 Program Housing Quality Standards.
- f. “Income Limits” means the income limits as published annually in the OHCD Affordable Housing Guidelines.
- g. “Loan” means the principal amount of the HILP. This Loan will be called the “Loan.”
- h. “Low and Moderate Income Persons” mean persons whose incomes do not exceed 80 percent of the median income as published annually in the OHCD Affordable Housing Guidelines.
- i. “Mortgage and Note” means a legal document used to create a lien on the property as security for your promise to pay the County the principal amount at a future specified time on the Loan. The Mortgage and Note will be called the “Contract.”
- j. “OHCD” means the County of Hawai‘i Office of Housing and Community Development.
- k. “Repairs” means repairs made to extend the life of a dwelling unit or to correct health or safety hazards. Repairs must be physically attached to the dwelling unit and be permanent in nature.
- l. “Primary Residence” means the borrower’s principal home, occupied on a full-time, year-round basis.

## 1.2 PUROSE

The purpose of the County of Hawai‘i’s Home Improvement Loan Program for Low and Moderate Households is to provide a low interest loan to low and moderate income homeowners to support essential home repairs that enhance safety, health, and living conditions. By extending the useful life of existing housing, promoting energy efficiency, and encouraging sustainable practices, the program aims to reduce maintenance costs and ensure long-term housing stability for economically disadvantaged families in Hawai‘i County.

## 1.3 FUNDING

The HILP is supported by County funds and may receive support from other funding sources. Program administration shall be conducted in compliance with the requirements of all applicable funding sources.

Any remaining balance of program funds at the end of the fiscal year, interest earned on the HILP funds, repayments or recovery of program funds, including penalties, shall be designated for further use in this program. This ensures continued support for low-and-moderate income homeowners in need.

## 2.0 ELIGIBILITY REQUIREMENTS

### 2.1 CERTAIN COUNTY OFFICERS OR EMPLOYEES INELIGIBLE

To avoid the appearance of undue influence, mayor, county council members, and staff of the OHCD are ineligible from participating in the HILP.

### 2.2 DISCRIMINATION PROHIBITED

Pursuant to the Fair Housing Act of 1988, no person in the United States of America shall on the ground of race, color, national origin, religion, familia status, sex, or disability be excluded from participation in or be denied the benefits of or be subjected to discrimination under any housing program or activity and pursuant to Chapter 515 of the Hawai‘i Revised Statues, no person in the State of Hawai‘i shall on the ground of race, sex, color, religion, marital status, familial status, ancestry, disability, age, or HIV (human immunodeficiency virus) infection be excluded from participation or be denied the benefits of, or be subjected to discrimination under any real property program or activity.

### 2.3 ELIGIBLE APPLICANTS

- a. The applicant must be a legal owner of record for the property to be repaired for at least one year prior to filing a Loan application and will remain as legal owner for one year after the closing of the HILP loan. Verification of ownership will be

confirmed by an official recorded deed to the property. The OHCD will further confirm ownership through the State of Hawai‘i Bureau of Conveyances – Official Public Records and the Real Property Tax Office websites. Ownership is defined as being listed as a grantee on the deed for the property.

- b. All owners of record must agree to encumber the property to be repaired.
- c. The applicant will execute a Certification of Legal Owners that requires the applicant to certify that they have been legal owner for at least one year prior to the Loan application and that the applicant will remain as legal owners for one year after the closing of the Loan. Failure to comply will constitute just cause for the County to call the loan immediately due and payable.

## 2.4 OCCUPANCY

- a. The applicant must occupy the dwelling as their primary residence to be repaired for at least one year prior to filing a Loan application. Verification of occupancy may be confirmed by, but not limited to, real property tax exemption filing date, home address, mailing records and/or neighborhood survey.
- b. The OHCD may monitor each rehabilitation loan to confirm compliance to the applicable occupancy requirements. Violation of the occupancy requirements may result in acceleration of the maturity of the loan.

## 2.5 INCOME QUALIFICATIONS

- a. Owner borrower shall be income eligible from the time of application for a HILP loan through execution of loan documents. After execution of loan documents, the future income of the owner will not have any affect on the status of their HILP loan.
- b. **Adjusted Gross Annual Income:** The applicant’s adjusted gross annual household income, as defined for purpose of reporting under IRS Form 1040 for individual federal income tax purposes, shall be used in determining eligibility. Current income status will be verified through paystubs and third-party verification.
  - 1. Applicants must provide the County with a copy of the previous year’s Federal Income Tax Return and State Income Tax Return and the last three month’s pay stubs or other evidence of income for all income earners in the household.
  - 2. If the applicant does not file a Federal Income Tax Return, the applicant must file with the HILP application a Certification of Non-Filing of Federal

Income Tax Return.

3. Any occupant income derived from a self-employed business shall be the gross income less the direct expenses incurred to produce the self-employed income.
  4. Salaried incomes are to be converted to applicable yearly compensation by multiplying average weekly income times 52 weeks.
- c. **Live-in Attendants:** In determining household income, the income of live-in attendants will not be considered when a medical doctor verifies the necessity of a live-in companion, nurse, or attendant.
- d. **Shared Housing Concept:** The shared housing concept consists of two or more related or unrelated individuals living in the same house. The two individuals share housing needs, which include physical, emotional, or financial cooperation. The County will review each case to determine household income.
- e. **Income Limits:**
1. The income limits for the HILP shall be the limits that are published annually in the OHCD Affordable Housing Guidelines.
  2. Adjustments will be made in the income limits for smaller and larger families by using the four-person family as a base and applying percentage adjustments for various size families as follows:

NO. OF PERSONS IN FAMILY & PERCENTAGE ADJUSTMENTS

1	2	3	4	5	6	7	8
70	80	90	Base	108	116	124	132

3. Income limits are approved for families larger than eight persons. For each person in excess of eight, 8 percent of the four-person base should be added to the eight-person income limit. (For example, the nine-person limit equals 140 percent of the relevant four-person income limit.) All limits developed by the use of these factors are to be rounded to the nearest \$50.
4. For the purpose of this program, family income and household income shall be synonymous. All applicable household occupants shall be considered for determining eligibility under the OHCD Affordable Housing Guidelines income limits.

## 2.6 ELIGIBLE PROPERTIES

- a. The dwelling to be repaired must be located on the Island of Hawai‘i, County of Hawai‘i.
- b. The dwelling located in a Flood Hazard Area indicated on the Flood Insurance Rate Maps of the National Insurance program of the Federal Emergency Management Agency is eligible if that dwelling receives a HILP loan that is not more than 50% of the value of the structure before rehabilitation. A dwelling that receives a HILP loan that is more than 50% of the value of the structure before rehabilitation and is located within the flood boundaries is ineligible, unless all flood hazards are mitigated pursuant to the eight-step process under Executive Order 11988, Flood Plain Management, and adequate flood insurance coverage is provided by the owner. Any Loan for a dwelling in a flood area requires additional processing for eligibility.
- c. **Dwelling Qualifications Characteristics:**
  1. Single-family dwellings owned in fee simple will be eligible for a HILP Loan.
  2. Single-family dwellings on leasehold properties will NOT be eligible.
  3. Single-family dwellings on Department of Hawaiian Home Lands (DHHL) are eligible as long as a master Agreement between DHHL and the County remains in effect.
  4. The single-family dwelling must be the primary residence of the applicant.
  5. Dwellings used for investment or business purposes are NOT eligible.
  6. The dwelling must be a completed residence prior to the owner applying for the HILP. No incomplete dwellings will be approved.
- d. Repairs to a dwelling located in a Special Management Area (SMA) under the jurisdiction of the Hawai‘i Coastal Zone Management (CZM) Program shall be consistent to CZM rules and regulations. The homeowners must provide documentation from the County’s Planning Department that the dwelling located in a SMA is consistent to CZM rules and regulations.
- e. No Loan shall be granted where apparent violations of the Comprehensive Zoning Ordinance, the Hawai‘i County Building Code or the Administrative Rules of the Environmental Health Services, State Department of Health, exist. The OHCD

shall notify the homeowner of the apparent violation. The homeowner shall be required to provide evidence that no violation exists or to correct the violation. If a Building Code violation exists, the owner shall correct the violation before any further Loan processing is performed or include correction of the violation as a repair item of the HILP.

- f. **Lead-Based Paint Hazards.** Any dwelling built before January 1978 may have lead-based paint which could be hazardous. If the applicant's dwelling was built before January 1978, the dwelling must be tested by a State certified Risk Assessor. If lead-based paint is detected in any areas where any proposed rehabilitation work is to be performed, the lead-based paint hazard must be mitigated. The OHCD will allow the cost to mitigate any lead-based paint hazard as part of the HILP loan.
- g. **Taxes.** No applicant will be eligible for a Loan if any outstanding or delinquent Real Property Taxes are due, unless the applicant is on a payment plan with the Real Property Tax Office.

## 2.7 ELIGIBLE REPAIRS

- a. **General Requirements:** HILP improvements may include substantial maintenance and repairs, which also includes natural disaster related repairs and improvements. All improvements must be physically attached to the dwelling unit and shall be permanent in nature. Improvements shall extend the physical life of the dwelling or shall correct unsafe or unhealthy conditions. No work will be permitted that violates any code, ordinance regulation or law in effect at the time of the application.
- b. **Eligible Improvements:**
  - 1. Any improvements and repairs required to increase the economic life of existing dwelling units and ensure a safe and healthy living environment including natural disaster related repairs and prevention improvements to the dwelling pre-natural disaster;
  - 2. Any improvements to increase the efficient use of water through such means as water saving faucets, toilets and shower heads, the repair of water leaks and the repair or upgrade of water catchment systems;
  - 3. Any improvements to remove, replace, repair or upgrade systems in a completed dwelling unit to comply with County Building Code requirements, including but not limited to:
    - i. Existing plumbing systems

- ii. Unsafe electrical wiring and fixtures
  - iii. Existing electrical systems
4. Any improvements to replace, repair or upgrade the structure of a completed unit if it was constructed contrary to the provisions of the County Building Code;
  5. Removal of architectural barriers and/or the construction of accessible improvements for the benefit of disabled household members;
  6. Connecting to the County sewer system, conversion to or construction of a septic system and/or the backfilling of any cesspool;
  7. Fumigation when there is evidence of termite infestation;
  8. Construction of additional bedrooms or bathrooms when an overcrowded household condition exists;
  9. Interim controls of lead-based paint;
  10. The installation of a solar water heater and/or a solar energy system.

**c. Eligible Improvements for a Dwelling that is Overcrowded:**

If the existing family is living in the dwelling in an overcrowded condition, additional bedrooms and/or baths may be eligible under this program. In order for an overcrowded condition to exist, the following occupancy standards shall apply:

1. Each bedroom in the dwelling shall be occupied by at least one person.
2. The dwelling unit should not require more than two persons to occupy the same bedroom.
3. Every member of the family, regardless of age, shall be counted as a person.
4. Age, sex and other factors such as disability of members of the family shall be taken into consideration in determining bedroom allotment:
  - i. Any member of the family over 62 years of age may be allotted a separate bedroom;

- ii. In cases of single parents and dependents, separate bedrooms may be allotted to the child and the parent;
  - iii. In cases when the children are of opposite sexes, separate bedrooms may be allotted for each child except where one or both are below seven years of age;
  - iv. A person with valid medical ailments may be allotted a separate bedroom, provided the necessity by a signed statement from a medical doctor and other supporting data; or
  - v. A disabled person may be allocated a separate bedroom if the OHCD determines that such separate bedroom is necessary.
5. A living room, den, recreation room, study, office, or family room in a dwelling may be counted as a bedroom.
6. The following schedule shall be used as a guide:

Number of Bedrooms or Sleeping Rooms	Persons per Dwelling Minimum
0	1
1	1
2	2
3	3
4	4

7. The dwelling unit should not require more than five persons to use the same toilet or bathing facilities.

**d. Other Improvements:**

Any general home improvements not included as an eligible repair may be included in the construction contract of the rehabilitation program if all of the following conditions are met:

- 1. All repairs identified for HQS conformance and items generally necessary for extending the economic life of the dwelling unit are included in the construction contract;
- 2. Sufficient funds are remaining without the maximum allowable amount to contract for other improvements; and

3. Other improvements may not exceed twenty-five percent (25%) of the total construction contract amount.

e. **Ineligible Improvements:**

1. Air conditioning, unless necessary for medical reasons (supporting medical documents to be provided by applicant);
2. New additions such as a den or family room not necessary to correct an overcrowded condition;
3. Construction of any new residential structure;
4. Completion of any incomplete or unfinished improvements; and
5. Fences, walls (other than necessary retaining walls), or sheds.

## 2.8 ELIGIBILITY INSPECTION

- a. Each dwelling proposed for repairs will be inspected by one or more qualified OHCD inspector(s) or official(s) to determine the eligibility of repairs requested by the applicant. In addition, the inspector will examine the need for any other repairs that may be required to conform to HUD's HQS.
- b. HUD's HQS Inspection Form #HUD-52580-A, Section 8 Existing Housing Program Inspection Checklist, will be completed for each dwelling inspected for the HILP.
- c. The OHCD will prepare a "Priority List of Repairs" that shall list all items from the property that require repairs and/or maintenance to preserve the unit and extend its economic life.
- d. If a dwelling is built prior to January 1, 1978, the County will conduct a risk assessment for lead.

## 2.9 ELIGIBILITY CONFERENCE

- a. **Procedure:** After review of HUD's HQS Inspection Form #HUD-52580-A, the OHCD will determine the need to conduct a conference to discuss the dwelling unit's eligibility for the HILP. If needed, the conference will be conducted by an OHCD staff member and perform the following:
  1. Review HUD's HQS Inspection Form #HUD-52580-A;

2. List all repairs and improvements requested by the applicant and list all other repairs needed;
  3. Establish a priority sequence for all repairs and improvements listed;
  4. Review conformance of listed items to Section 2.6 ELIGIBLE PROPERTIES, of these rules and eliminate ineligible items;
  5. Identify all repairs necessary to preserve the dwelling unit, which will be referred to as Mandatory Repair Items;
  6. Identify other eligible repairs that are recommended by the Homeowner, if sufficient Loan funds are available after all Mandatory Repair Items are funded;
  7. Summarize the results of the proceedings into a “Priority List of Repairs” that is comprised of the Mandatory Repair Items and other eligible repairs recommended by the Homeowner;
  8. Summarize the results of a risk assessment for lead if one is conducted for a home constructed prior to January 1, 1978.
- b. Upon review of HUD’s HQS Inspection Form #HUD-52580-A, if the OHCD determines that a Eligibility Conference is not necessary and the applicant concurs, the OHCD will complete the “Priority List of Repairs”.
- c. **Loan Approval:** The result of the Eligibility Conference is Loan approval or disapproval. If the OHCD determines an Eligibility Conference is not necessary, the OHCD will notify the applicant in writing that the Loan was approved. If a dwelling or the requested repairs are determined to be ineligible by the program rules, the applicant shall be notified in writing by the OHCD with reference to the general areas of failure. When a dwelling is determined eligible, the applicant will receive written notification of their eligibility for a rehabilitation Loan, along with a “Priority List of Repairs” that specifies the approved repairs. This Loan approval notice serves as a commitment, pending confirmation that the rehabilitation contract amount, contractor eligibility, and reasonable cost certification comply with program requirements.

## 2.10 PRIORITY LIST OF REPAIRS

- a. The OHCD will prepare the written document known as the “Priority List of Repairs” from the results of the inspection. The document will be approved by the OHCD and submitted to the applicant. The applicant is required to approve and

sign the “Priority List of Repairs” before the Loan may proceed.

- b. The applicant may appeal for a reconsideration of the eligibility of repair items dropped from its request and/or for reconsideration of the priority sequence of the approved items and/or addition of new repair or improvement items not included in its original request. Appeals from the applicant should be justified prior to reconsideration by the OHCD staff. The final decision shall be rendered by the Housing Administrator.

## 2.11 CONTRACTOR ELIGIBILITY

- a. **General Contractor’s License:** Except for a contract which specifies a single construction trade specialty, all contracts shall be performed by contractors who shall be licensed General Contractors in the State of Hawai‘i.
- b. **Specialty License:** When only a single construction trade is contracted for, the contractor may be licensed with the appropriate and applicable specialty license, State of Hawai‘i, in lieu of the General Contractor’s License requirement.
- c. **Subcontractor’s License:** Any work performed by other than the General Contractor or his employees shall be performed by a licensed subcontractor with the appropriate State of Hawai‘i specialty license. The contractor shall inform the homeowner and the OHCD of the names of any subcontractors to be used prior to their performance of any work.
- d. **Contractor’s Insurance:**
  - 1. **Public Liability and Property Damage Insurance:** All contractors must maintain not less than \$300,000 public liability (bodily injury) and not less than \$50,000 property damage insurance during the life of this contract.
  - 2. **Worker’s Compensation Insurance:** All contractors must maintain insurance required by the Worker's Compensation Law, as may be necessary to protect them, the homeowner, and the County from any claims for damages because of bodily injury, including death, which may arise out of operations performed under contract.
- e. **Ineligible contractors:**
  - 1. Contractors listed on the “Debarred List” maintained by the United States Department of Housing and Urban Development, Department of Labor, or General Services Administration;

2. Contractors listed on the “Debarred List” maintained by the State of Hawai‘i, Department of Accounting and General Services, State Procurement Office;
3. Contractors determined by the County to be unsatisfactory because of their prior performance under any other previous rehabilitation loan program contract.

## 2.12 CONTRACTOR DISQUALIFICATION

- a. If the OHCD determines that a contractor has violated the program policies and requirements, such contractor may be disqualified from participation in the program for such period as deemed appropriate by the OHCD. The contractor shall be notified in writing of the disqualification and shall be entitled to a hearing. Nothing in this rule is intended to give any contractor any right to participate in the program.
  1. The contractor has been suspended from participation by the Housing Administrator;
  2. The federal government has instituted an administrative or judicial action against the contractor for violation of the Americans with Disabilities Act or other federal equal opportunity requirements;
  3. The contractor violated any contractual obligations under the affordable housing program;
  4. The contractor has committed fraud, bribery or any other corrupt or criminal act in connection with any government program;
  5. The contractor has a history or practice of noncompliance with any rules, laws, or requirement of the County; or
  6. The contractor has not paid local, State or federal taxes, fines or assessments.
- b. **Informal Settlement of Disputes:** In the event a Contractor disputes any action taken by the OHCD and claims that such actions adversely affect the rights, duties, welfare or status of the Contractor, they may present a written complaint to the OHCD so that the dispute may be discussed informally and settled without a hearing. (The complaint must be filed within ten (10) business days after the dispute arose or, if there was a written notification which gave rise to the dispute, within ten (10) business days from the date on the written notice.) A summary of the

discussion shall be prepared within ten (10) business days and one copy shall be given to the complainant. The summary shall specify the names of the Contractors, Dates of meetings, the nature of the proposed Disposition of the dispute and the specific reasoning therefore and shall specify the procedures by which a hearing may be obtained if the complainant is not satisfied.

c. **Hearing on Dispute:**

1. **Request for a Hearing:** If a complainant is not satisfied with the disposition of dispute in the informal discussion, he may submit a written request for a hearing to the OHCD within ten (10) business days after receipt of the written summary of the informal discussion.
2. **The written request shall contain each of the following:**
  - i. Name, address and telephone number of the complainant;
  - ii. A designation of the specific statutory provision, rule, or order in question, together with a statement of the dispute involved;
  - iii. A statement of the complainant's position of contention;
  - iv. A memorandum of points and authorities, containing a full discussion or reasons or legal authorities in support of such position or contention; and
  - v. The action or relief sought.
3. **Person Conducting Hearing:** The Housing Administrator or their duly authorized representative shall conduct the hearing.
4. **Notice and Conduct of Hearing:** The decision of the Housing Administrator shall be final.

### 3.0 APPLICATION PROCESS

Applications will be available and accepted for processing on a year-round basis while funds are available for HILP Loans. Applicant information will be accepted for a waitlist once funds are exhausted, in anticipation of securing additional funding.

### 3.1 APPLICATION SUBMISSION

- a. Applications may be picked up or mailed from the OHCD. Applications can also be found online on the OHCD website. Completed applications shall be submitted to the OHCD.
- b. All applicant information is confidential and shall be available only to those OHCD staff, auditors, County Attorney legal staff and financial institution lending personnel who require applicant information necessary to process the Loan applications.
- c. **Processing Fee:** HILP applicants will be charged a processing fee of fifty and no/100 dollars (\$50.00) under this program. The processing fee shall be payable to the Director of Finance by personal check, cashier's check or money order. Pursuant to Section 2-134, as amended, of the Hawai'i County Code, there shall be a service charge imposed for a returned check or other negotiable instrument due to insufficient funds.

#### 1. **Processing Fee may be used to pay for:**

- i. Credit report;
- ii. Recordation fees;
- iii. Notary fees;
- iv. Risk Assessment for Lead; and
- v. Other applicable administrative processing costs.

#### 2. **Refund of Application Fee:**

- i. If the applicant is deemed ineligible based upon the initial review of the application, the application fee will be fully refunded.
- ii. If the applicant chooses to cancel the application or is deemed ineligible during processing, only the unused portion of the application fee will be refunded.
- iii. In all other circumstances the balance of the unused portion of the application fee will not be refunded.

### 3.2 APPLICANT SELECTION AND PRIORITY

- a. **Applicant Selection:** Applicants shall be processed for eligibility in the order of the receipt (time stamp) of their complete application at the OHCD. Any applicant may advance ahead of another applicant on the selection list if all income and asset verification documentation are received by the OHCD before that of another applicant.
- b. **Application Priority:** Priority shall be given to an applicant residing in an area that has been declared a disaster area by the President, Governor, Mayor, or in his absence, the Civil Defense Administrator, to be a hazard or threat to the applicant's health, safety or welfare, resulting from a natural disaster.
- c. **Availability of Funds:** The source of funding for the HILP is a County grant provided through the Affordable Housing Production Program. These funds will operate as a revolving fund to help ensure continuous availability. While the County periodically estimates loan needs and allocates funds, it cannot guarantee that funds will be available at the exact time a rehabilitation loan is approved.
- d. **Waiting List:** The OHCD shall maintain a list of approved loan applicants in order of the date the loan was approved. Whenever all available funds have been committed to approved loan applicants for approved loans, the next approved loan applicant on the list shall wait until additional funds are made available to fund their loan. If one full year elapses from the date of loan approval to a loan closing date, income eligibility of the occupant of the dwelling to be rehabilitated shall be reviewed to comply with the provisions of Subsection 2.5 INCOME QUALIFICATIONS and dwelling qualification provisions may be reviewed to comply with Subsection 2.6 ELIGIBLE PROPERTIES.

### 3.3 APPLICANT PROCESSING PROCEDURES

- a. The applicant shall agree to conform to the program rules and be responsible to perform the following processing procedures:
  1. Submit the application and, if needed, be interviewed by the appropriate OHCD staff or other authorized persons;
  2. Cooperate and assist the OHCD or other authorized persons in compiling all documentation necessary to evaluate applicant income eligibility during the Loan approval process;

3. Notify the OHCD of any changes in household size, household income, or use of the property to be repaired;
4. Review, revise and/or approve the “Priority List of Repairs”;
5. Review, revise and/or approve the proposal document;
6. Select a contractor selection method, contact contractors willing to perform and bid the work specified, and submit invited contractor names;
7. Award and execute the construction contract;
8. Provide evidence of good title to property to be encumbered;
9. Execute Construction Contract;
10. Execute Notice to Proceed;
11. Approve contractor progress payments when eligible for payment;
12. Cooperate with the contractor for the satisfactory completion of the rehabilitation work; and
13. Repay the Loan amount according to the method specified in the Mortgage and Note.

#### 3.4 REQUIRED DOCUMENTATION AND VERIFICATIONS

- a. **Proof of Ownership:** The applicant shall provide a copy of the property deed or title showing the applicant’s legal ownership of the home.
- b. **Income Verification:** The applicant shall provide copies of previous year tax returns and last three months paystubs, as described in Subsection 2.5 INCOME QUALIFICATIONS.
- c. **Identification:** The applicant(s) shall provide a copy of their government-issued photo identification.
- d. **Mortgage Statement:** The applicant shall provide a copy of the recent mortgage statement for the property, if applicable.
- e. **Credit Report:** The applicant shall authorize the County to request written credit reports from the known creditors on all outstanding applicant loans. A credit rating

company may also be utilized. These reports may be used to establish a credit history for the applicant to determine credit worthiness.

- f. **Employment and Bank Account Verification:** The applicant shall authorize the County to request written verification of employment from the applicant’s employer and verification of income from other sources of income. The applicant shall also authorize the County to request written verification of the applicant’s bank deposits and other savings and investment accounts.
  
- g. **Credit Risk Loan Denial:** Information acquired from employment and bank verifications, or credit reports, which indicate that an applicant may be a credit risk shall entitle the County to review each case and determine the applicant’s loan eligibility. In the sole discretion of the Housing Administrator, poor debt service history in the payment of loans, especially mortgage loan delinquency, or insufficient income may be deemed to constitute a credit risk. The determination that a rehabilitation loan applicant is a credit risk shall be sufficient reason for denial of a rehabilitation loan.

3.5 APPEAL PROCESS

- a. If an applicant is deemed ineligible for the program after their application is reviewed, they may appeal this decision by submitting a written complaint to the OHCD within fourteen (14) days of the ineligibility notification.
  
- b. **The appeal should include:**
  - 1. Reason(s) the applicant believes the decision is incorrect; or
  - 2. Reason(s) why the applicant would like their application to be reconsidered; and
  - 3. Any relevant supporting documents.
  
- c. Upon receiving the applicant’s appeal request, the OHCD will review and reassess eligibility based on the submitted materials. A final written decision will be provided to the applicant within thirty (30) days. This decision is final and not open to further appeal.

3.6 CONTRACTOR SELECTION

- a. **Allowable methods to select the contractor:**

1. Negotiate with one contractor – The homeowner may choose an eligible contractor and negotiate the price for the contract.
  2. Invitational bid – The homeowner chooses two or more eligible contractors who are willing to bid.
- b. **Selection:** The homeowner has the right to select any eligible contractor the homeowner desires to perform the repairs. Where invitational bids are called for, it is recommended that the homeowner should select the low bidder to perform the repairs. However, the homeowner has the right to reject the low bidder for just cause. The homeowner shall notify the OHCD of their final contractor selection.
  - c. **Formal Bidding:** Formal bidding procedures, such as utilized by the Division of Purchasing in the County of Hawai‘i Department of Finance, shall not be used for the HILP.
  - d. **Contractors Preference List:** The OHCD maintains a list of contractors who may be interested in participating in the HILP. Any contractors who have participated in OHCD programs may be included on the list, except “debarred” contractors, determined by the OHCD to be unsatisfactory pursuant to Subsection 2.11.e Ineligible Contractors.

### 3.7 CONSTRUCTION CONTRACT REQUIREMENTS

- a. **Specifications:** After the applicant has approved the “Priority List of Repairs,” the applicant will contact a licensed contractor and, if needed, have the licensed contractor prepare detailed specifications for the work to be contracted out. The specifications will describe the work to be done and the materials, equipment and fixtures to be furnished.
- b. **Contract award:** The County shall notify the homeowner of approval of the proposed contract price and prepare a Notice to Proceed.
- c. **Homeowner and Contractor Agreement:** The construction contract is a formal agreement between the homeowner and the contractor to provide the repair services for an agreed price. The County of Hawai‘i is not a party to the construction contract; however, the County, in its role as lender, has the right to deny or withhold progress payments when contractual provisions are not followed.
- d. **Contract Provisions:** The construction contract shall include, but not be limited to, the following:

1. Contract date;
2. Homeowner's name;
3. Contractor's name;
4. Contract amount;
5. Number of calendar days to complete the work;
6. Itemized list of repairs;
7. Payment schedule; and
8. Progress payments as described in section 3.7.e.
9. Compliance with Chapter 104, Hawai'i Revised Statutes, for contracts over \$2,000

e. **Progress Payments:**

1. **Payment Authorization:** The contractor shall initiate payment by request on the approved form. The following shall approve payment by signing the payment request:
  - i. Homeowner;
  - ii. Housing Inspector;
  - iii. Program Manager;
  - iv. Division Manager; and
  - v. Housing Administrator
2. **Payment Schedule:** Work progress payments will be based on actual expenses accrued which will include materials and/or labor.
  - i. Ten percent (10%) of the contract amount will be retained as a Final Payment.
  - ii. Progress payments shall be made only for work that has been completed in accordance with the construction contract, has passed

the required inspection, and has been approved by the homeowner. A signed payment request must be accompanied by documentation verifying compliance with inspection requirements and homeowner's written approval of the completed work.

- iii. Final Payment will be paid, after the following conditions have been met:
  - a. One hundred percent (100%) of the work specified is completed;
  - b. Forty-five (45) days have passed after the first Notice of Completion is published in a newspaper of general circulation; and
  - c. The dwelling passes a final HUD's HQS inspection, deeming the dwelling to be safe, sanitary and in decent condition.

### 3.8 NOTICE TO PROCEED

- a. The contractor shall not begin any work until issued the written "Notice to Proceed" authorization by the homeowner and the OHCD. This proceed order may be issued when both the contractor and the homeowner have completed certain obligations specified in the construction contract.
- b. **Contractor Requirements:** Prior to being issued the Notice to Proceed, the contractor shall:
  - 1. Provide copies of applicable building, planning, plumbing and electrical permits required to complete the work specified;
  - 2. If applicable, provide a set of approved plans and drawings, stamped by the Department of Public Works Building Division, County of Hawai'i;
  - 3. Meet with the OHCD and/or the OHCD's appointed inspector to review requirements, clarify expectations, and address any concerns, if needed.
- c. **Homeowner Requirements:** Prior to authorizing the Notice to Proceed, the homeowner shall:
  - 1. Complete financial agreements to pay for the construction contract, including:
    - i. The Mortgage and Note;
    - ii. Construction Contract; and

iii. The Grant Agreement, if applicable.

2. Meet with the OHCD to review requirements, clarify expectations, and address any concerns, if needed.

#### 4.0 LOAN SPECIFICATIONS

**Contract:** The HILP will require all legal owners of the property to be prepared to sign:

- a. A Mortgage and Note to protect the County from possible losses. The Mortgage and Note will be recorded with the Bureau of Conveyances, State of Hawai‘i, or the Assistant Registrar of the Land Court, as applicable, and
- b. A Grant Agreement, if the applicant qualifies for a grant consistent with Subsection 4.4.c. Preferred Terms.

#### 4.1 LOAN AMOUNTS AND LIMITS

- a. **Minimum and Maximum Loan:** Loans are available from a minimum of two thousand five hundred and no/100 dollars (\$2,500.00) to a maximum of fifty thousand and no/100 dollars (\$50,000.00). Each household is eligible for only one HILP Loan.
- b. **Conformance to HQS:** The HILP funds must be used to correct all dwelling deficiencies in order for the unit to pass HUD’s HQS minimum requirements and for repairs as stipulated in Subsection 2.7 ELIGIBLE REPAIRS. Any dwelling unit which requires estimated repair costs which are in excess of the maximum loan amount would be eligible for the program if the estimated repair cost can be reduced or if the homeowner agrees to pay the excess of the maximum loan amount.
- c. **Replacement Cost Limit:** The loan amount may not exceed seventy-five percent (75%) of the estimated replacement cost of a new comparable dwelling.
- d. **Composition of Loan Amount:** All HILP amounts shall be the total applicable cost for the dwelling repairs including, but not limited to, the construction contract amount and any change order amount. Only actual costs for services charged to the County or the homeowner are eligible costs for the HILP.

#### 4.2 INTEREST RATE

The rate of interest charged on the outstanding principal balance of the Loan is three percent (3%) simple interest.

### 4.3 UNDERWRITING STANDARDS

Value for fee simple estates includes both land and improvement value. All real estate mortgage loans, guarantees of record, the proposed rehabilitation loan, and any other liens against the property shall be considered in determining total debts on the property. The value of the property will be assumed to be that assessed value estimated by the Assessment Branch of the Real Property Division of the Department of Finance, County of Hawai'i, unless the Borrower provides an independent appraisal which indicates a more accurate value estimate. The independent appraisal must be completed within 90 days of the loan application. The existing liens together with the loan amount may not exceed up to one hundred twenty percent (120%) of the assessed value under the following conditions:

1. One hundred percent (100%) if the homeowner(s) have lived in the home less than 1,825 days (5 years), or
2. One hundred ten percent (110%) if the homeowner(s) have lived in the home between 1,825 days (5 years) and 3,650 days (10 years), or
3. One hundred twenty percent (120%) if the homeowner(s) have lived in the home over 3,650 days (10 years).

### 4.4 TERMS AND PAYMENT

- a. **Deferred Loan:** Principal and interest payments may be deferred for fifteen (15) years at such time full payment is due and payable.
- b. **Amortized Loan:**
  1. **Payments:** Borrowers are expected to pay at least thirty percent (30%) of their gross income toward housing costs, which include the sum of all mortgage loan payments, lease fee on leasehold estates, homeowner and liability insurance, real property tax, and the cost of utilities. Former owners with a remaining life interest are also expected to pay at least thirty percent (30%) of their gross income toward housing cost.
  2. **Repayment Analysis:** A loan repayment analysis shall be performed for all income eligible applicants to determine the applicant's ability to repay the loan. No loan shall be granted unless sufficient household funds are available for loan payments and no loan shall be granted where a repayment delinquency is likely to occur. No loan shall be granted with a deferred repayment period unless the applicant can show the ability to make loan payments after the deferred period.

3. **Extended Terms:** Extended loan terms may be considered for loans where the applicant demonstrates that there is or will be a financial hardship in repayment of the loan. The applicant must provide documentation to justify that their household income is not sufficient to provide for an adequate standard of living with the standard or existing loan repayment terms established by the OHCD. Any extended terms shall be approved at the sole discretion of the Housing Administrator. Extended terms may be provided as either or both of the following methods:
  - i. Longer repayment period, provided that the amortized period for the repayment of the loan shall not exceed 240 months, and/or
  - ii. For existing loans only, defer the monthly payment requirement for a period of three months to five years, as determined by the OHCD, through a forbearance procedure, where the requirement to make monthly payments is temporarily suspended until the end of the deferral period when monthly payments are again required. Interest shall continue to accrue during any payment deferral period.
- c. **Preferred Terms:** Fifty percent (50%) of the principal balance of the loan, may be forgiven as a grant to an Applicant if he/she or any member of the household is a member of any one of the following groups:
  1. Elderly person 62 years of age or older.
  2. Disabled person as defined by 24 CFR 5.403 when the condition is verified by appropriate diagnostician such as physician, psychiatrist, psychologist, therapist, rehabilitation specialist, or licensed social worker, using the HUD language as the verification format.
- d. The terms of the fifty percent (50%) Grant and the remaining fifty percent (50%) of the principal balance of the Loan provided under Subsection c. Preferred Terms, above, shall be consistent with Section 4.0 LOAN SPECIFICATIONS, of these rules.
- e. The applicant must also remain the owner-occupant of the dwelling unit for one year after the closing of the Loan. The closing of the loan is the first date the Notice of Completion is published in a newspaper of general circulation.
- f. If applicant chooses to pay off the loan before the one year period after the closing of the loan, the applicant will be required to pay the full Mortgage and Note amount.

#### 4.5 LOAN SECURITY AND COLLATERAL REQUIRMENTS

- a. **Mortgage and Note:** All approved rehabilitation loans shall require all legal owners of the property to sign a Mortgage and Note to protect the County from possible losses. The Mortgage and Note will be recorded with the Bureau of Conveyances, State of Hawai‘i, or the Assistant Registrar of the Land Court, as applicable.
- b. **Sale, Conveyance, or Transfer of Property:** The outstanding balance of the loan, including the principal amount, interest due, late charges, and any other amounts that may be due shall be immediately paid in full to the County upon the Sale, conveyance, or transfer of any possessory interest, in any manner whatsoever, of the real property rehabilitated under this loan program, unless transfer of title to the property is through the laws of descent or by devise or the maturing of a future interest to a family member who would otherwise qualify under the rules established by the County for the HILP.
- c. The outstanding balance of the loan, including the principal amount, interest due, late charges, and any other amounts that may be due shall be immediately paid in full to the County when an owner relocates from the rehabilitated dwelling unit to establish residence at another location.
- d. **Transfer Property to Heir.** Rehabilitation loans may be re-issued to a legal heir of the deceased borrower of the rehabilitated real property. The re-issuance will only be allowed where transfer of title is through the laws of descent or by devise or the maturing of a future interest to a family member who would otherwise qualify under Section 2.0 ELIGIBILITY REQUIREMENTS of these regulations and who receives full, undivided interest in the real property or who receives a partial interest in the real property and all others with an interest in the real property agree to execute and reissue the Mortgage and Note, whichever is applicable. Loans shall only be re-issued where a new borrower is income eligible and resides in the rehabilitated dwelling. The terms of a re-issued loan payment shall be revised, if necessary, to eliminate any payment deferrals and require payments consistent with Subsection 4.3 UNDERWRITING STANDARDS. The new borrower shall pay for all expenses related to the reissuance of a rehabilitation loan.

#### 4.6 LIFE ESTATES AND TRUSTS

- a. **Non-Eligible Heirs.** If an owner with an existing rehabilitation loan wants to create a life estate or trust where the title to the real property is to be transferred to another party, but retains the right to occupy the property for the duration of their life, the owner shall pay the County all monies due under the rehabilitation loan or the County may re-issue the existing loan for a new, revised loan that enjoins the new

owners of record into the Mortgage and Note or loan guaranty from the County. The owners shall pay fifty and no/100 dollars (\$50.00) for all expenses related to the re-issue of the rehabilitation loan.

- b. **Eligible Heirs.** If a remainderman or trustee of a proposed life estate or trust is a family member who would otherwise qualify under the rules established for the HILP, the County may re-issue the existing loan for a new, revised loan, pursuant to Subsection 4.5.d. Transfer Property to Heir, above, that enjoins the new owners of record into the Mortgage and Note or guaranty from the County.

#### 4.7 CHANGE OF TENANCY

- a. At the discretion of the Housing Administrator, the applicant may be allowed to change the tenancy of the real property repaired and encumbered under this program, provided that the homeowner remain eligible under Section 2.0 ELIGIBILITY REQUIREMENTS of these rules.
- b. **Cost and Expenses:** The homeowner may be charged a fee of fifty and no/100 dollars (\$50.00) to prepare the amended documents, recordation fees and other applicable administrative processing costs.

#### 4.8 LOAN REPAYMENT

- a. All loans shall be serviced by the County and all loan payments shall be payable to the Director of Finance or by such other organization as the County may designate.
- b. **Place of Payment:** The principal amount, interest, late charges or any other amounts due under the Mortgage and Note shall be paid when due to the County or at such other place as the County may designate.
- c. **Prepayment:** There is no charge or penalty for prepayment of the principal amount at any time.
- d. **Failure to Make Payment as Required:**
  - 1. A late charge of ten percent (10%) per year will be paid for each calendar month, or fraction of a calendar month, on the outstanding balance or all amounts due and owed under the Mortgage and Note which have not been paid within fourteen (14) days of the due date. At the sole discretion of the Housing Administrator, late charges may be forgiven if a borrower submits a written appeal and is able to document prolonged economic hardship.

2. **Default:** The borrower will be in default if he fails to make payment(s) as required or breaches any of the terms and conditions of the Mortgage and Note. Without prior notice, the County may immediately demand payment in full for all amounts due and owed. The Housing Administrator may, at his/her discretion and for good cause, grant the borrower up to ninety (90) days to cure any default. Any such extension does not waive any of the County's rights.
  3. **Payment of County's Cost and Expenses:** The County has the right to charge the borrower all reasonable costs and expenses, including attorney's fees and court costs, caused by the borrower's failure to pay.
- e. **Application of Regular Payments and Prepayment:** Any payment made in conjunction with a rehabilitation loan shall be applied as follows:
1. First, to pay any applicable periodic payments for real property taxes, assessments, property and liability insurance that the County requires;
  2. Next, to pay all late charges;
  3. Next, to pay all interest accrued;
  4. Next, to pay all monies advanced by the County to protect the property and all collection cost; and
  5. Last, to pay the principal of the loan.

Any loan payment made in excess of the regular monthly amortized loan payment amount shall not excuse the borrower from paying the next monthly loan payment when due and shall not delay the due date of the next payment.

#### 4.9 SUBORDINATION OF MORTGAGE

- a. Request to the County to subordinate its mortgage for another mortgage to be placed in a lien position senior to the County's mortgage shall only be considered under qualifying circumstances. The provisions of Section 4.3 UNDERWRITING STANDARDS shall be maintained, which would require that for the County to subordinate its mortgage position, the debt to value ratio of all mortgage loans and liens of record in position senior to the County's mortgage, the County's mortgage, and the mortgage to be granted a senior position to the County's mortgage. The County reserves the right to inspect the property where additional improvements are to be made, or to require proof of payment for medical or education expenses. The qualifying circumstances for the County to subordinate its mortgage position

are as follows:

1. To refinance an existing mortgage loan where new funds are advanced to take cash out or refinance other debts, provided the total of all liens including the rehabilitation loan shall produce a debt to value ratio pursuant to Section 4.3 UNDERWRITING STANDARDS;
  2. To make necessary improvements to upgrade the property to meet current building code standards or to meet the special needs of the family occupying the home. Improvements that qualify under the HILP are eligible items. Luxury items are not eligible;
  3. To finance unusual or continuing medical expenses for a chronically ill or disabled family member.
- b. For the County to consider a request to subordinate its mortgage, the borrower must furnish the County with current property and financial information, including but not limited to the following:
1. New loan application furnishing the County with current financial information of the borrower
  2. Current Real Property Assessment card or appraisal
  3. Name of proposed lender
  4. Amount of proposed loan
  5. Purpose of proposed loan
  6. Term of proposed loan
  7. Interest rate of proposed loan
  8. Monthly payments of proposed loan
  9. Copy of current title search obtained from a title insurance organization licensed to do business in the State of Hawai`i
- c. The County also reserves the right to amend the terms of its loan as a condition for granting the subordination request based on the current financial information provided by the borrower.
- d. Subordination requests will not be considered for home equity credit lines.

#### 4.10 OWNER ASSETS

The County may deny a Loan if assets from insurance settlements, recoveries or other resources obtained from or related to the real property to be rehabilitated prior to or in conjunction with a rehabilitation Loan, are not expended on repairs.

#### 5.0 PROGRAM COMPLIANCE

##### 5.1 COMPLIANCE WITH AFFORDABILITY REQUIREMENTS

- a. As a condition of receiving financial assistance through the HILP, the property must remain affordable to low-and-moderate income households for the duration of the loan. During this time, the homeowner agrees to the following terms:
  1. **Primary Residence:** The homeowner must occupy the property as their primary residence throughout the affordability period.
  2. **Transfer and Resale:** The homeowner may not sell, transfer, or otherwise convey the property during the affordability period unless the sale or transfer is to a qualifying low-and-moderate income household, or is approved by the OHCD. In the event of a sale, transfer, or refinance, any remaining portion of the loan may become due and payable.
- b. The OHCD may grant exception or modify the affordability requirements in cases of financial hardship, unforeseen circumstances, or other justifiable reasons, at its discretion.

##### 5.2 COMPLIANCE WITH HRS CHAPTER 343

All activities under this program shall comply with the environmental review requirements outlined in Chapter 343, Hawai'i Revised Statutes, to ensure that any actions taken are in accordance with the environmental impact assessment processed mandated by state law.

##### 5.3 COMPLIANCE WITH HRS CHAPTER 104

This program will adhere to the wage and labor standards set for in Chapter 104, Hawai'i Revised Statutes, which governs prevailing wages and working conditions for laborers and mechanics employed on public works projects.