



Bennington Rental Rehab

LANDLORD HANDBOOK
2019-2020

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NeighborWorks of Western Vermont

136 North Street, Bennington VT 05201
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Introduction

Thank you for your interest in NeighborWorks of Western Vermont’s pilot Rental Rehabilitation Program in the Town of Bennington. This is the first effort of its kind in Vermont and the model for a new statewide initiative.

NeighborWorks of Western Vermont works to create and maintain safe, affordable and livable housing in Bennington, Rutland and Addison counties. Both locally and statewide, agencies working on this goal have focused on owner-occupied homes, with few resources available for landlords who wished to improve or create affordable, high-quality rental units. Beginning in 2017, NeighborWorks, the Vermont Agency of Commerce and Community Development (ACCD) and the Town of Bennington created this project to begin to address this need.

The grants associated with Rental Rehab originate with HUD, the U.S. Department of Housing and Urban Development, through a Community Development Block Grant distributed by the Vermont ACCD to the Town of Bennington as subgrantee and administered by NWWVT. This seed money becomes part of a package designed to encourage smaller scale rental property owners to reinvest in their rental units through incentives in the form of a rehabilitation grant. These rehabbed units are held to a quality standard and have a period of stabilized rents and tenant incomes.

NWWVT can also help landlords to work with local and statewide partners including BROCC, 3E Thermal, Efficiency Vermont, VHCB, Green Mountain Power and others to bring additional incentives to their rehab project.



Rutland West Neighborhood Housing d/b/a NeighborWorks of Western Vermont Licensed Lender #6200 NMLS #194008



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Background

You may apply for a grant of up to \$7,000 per unit for up to four units per building, with an additional \$7,000 grant for the building envelope and systems. You may apply for projects in multiple buildings, as long as they do not contain more than four rental units per building, for a total of up to eight units. Owner-occupied and mixed-use properties are all eligible. New ground-up construction is not permitted with this grant, but you may create new units in an existing building if allowed by zoning.

You must provide a minimum 200% match of any grant amount, either through a NeighborWorks loan or other funding, as well as a construction contingency equal to 10% of the total project budget. All funds associated with the project, regardless of source, will be deposited into a construction escrow account and paid out by NeighborWorks directly to contractors, which can include your own employees but not the property owner.

These payouts will be in a one-third to two-thirds ratio from your grant and self-financed match, respectively. At the completion of the project, if you have a NWWVT loan, any loan funds remaining in escrow will be used as payment towards the principal of your loan; and any grant funds will be returned to the grants pool. Any and all additional funds that you contribute to the project outside of your NeighborWorks grant/loan agreement must also be deposited into your construction escrow as part of the project total.

The documents and forms referred to in this handbook are provided by NWWVT or will be created during the loan and rehab process and may vary from what is described here, depending on your particular circumstances.



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Criteria

NeighborWorks, the Town of Bennington and the Vermont Community Development Program are focused on renewing affordable housing in targeted downtown areas. All properties within the Town of Bennington are eligible for consideration, although we will give preference to projects within a quarter-mile walking distance of downtown. We also prioritize property owners who might not otherwise be able to perform renovations without grant assistance; properties that are not currently available for rental; and energy efficient and ADA-compliant accessibility proposals. Our goal is to improve affordable housing in the neighborhoods that will benefit most.

All properties improved through this program must have at least 51% of their tenants at or below 80% of the Area Median Income ("AMI," \$47,250 for two people in 2020); and at least 51% of units must have their gross rents, including all utilities whether included in their rent or not, capped at a Fair Market figure derived from that number,¹ although they do not need to be the same units: If you improve three or four units, one of those will not have rent restrictions, so you may use that unit's income to offset the others. You and your tenants will provide us with income and rent verification at leasing and every time units are turned over to new lessees. This will include a copy of your lease; a copy of your tenant's tax return at leasing and annually; an income self-reporting form; and an IRS form 4506-T for each household.

The income and rent stabilization agreement continues for five years. NeighborWorks will perform annual inspections to ensure properties are maintained at HUD Housing Quality Standards for the same term. Failure to maintain your units may result in the forfeiture of your grants.

If you sell the property during the first five years that the rent stabilization agreement is still in effect, 100% of your grants convert into loans that must be repaid. All rent and income obligations continue with the property for the original term with the new owner, as specified in your Grant-Loan Agreement with us.

¹ For 2020 that is \$ \$828.30 for a studio, \$ \$903.10 for a one bedroom, \$ \$1,028.50 for a two bedroom, \$ \$1,388.20 for a three bedroom and \$ \$1,393.70 for a four bedroom. You may adjust rents to compensate for annual changes in these figures, which you can obtain from us or the State of Vermont.



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Screening

In order to help both parties use their time well, we will have an informal discussion with you about your property and your financial capabilities; to determine if you are a good fit for the program; and if your potential rehab project is likely to be approved. Next, NWWVT will discuss your property with an advisory steering committee which includes town government, local agencies and NeighborWorks members. NeighborWorks alone will then make a determination to proceed.

Once conditionally approved, you will have an intake meeting with your Project Coordinator, followed by a 30- to 60-minute phone loan application with the lending department. If you intended to fund your project escrow commitment outside of a bank or NeighborWorks loan, we will establish financial capability to ensure you are able to complete and maintain the project in accordance with the grant requirements.

Evaluation

Following your phone loan application, we will visit the property with you or your representative to perform a written and photo evaluation, as well as a later energy audit. This will include both your planned improvements; and our health and safety recommendations. Certain conditions, such as the remediation of mold within living areas, are mandated by state or federal government. We will use this to create a preliminary scope of work and budget for the project, which will help estimate the range of your grants and loan. Some properties, such as those located within a floodway or in immediate proximity to a toxic site, will be ineligible.



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Environmental Review

All projects must undergo *Environmental Review*, also known as an *ER* or *Tier II*. This is work performed by us at NWWVT for the State of Vermont to “to assess the impacts of the project on the environment and the impacts of the environment on the project; involve the public in the decision-making process; and make better-informed decisions.” You may have participated in some portion of this process before—it is mandated in many projects receiving government funding. Work cannot commence without approval of the ER from the State Agency of Commerce and Community Development.

For work performed solely on the interior of buildings and on buildings less than 50 years old, this is quick, straightforward and requires minimal involvement from you. However, work that involves ground disturbance (like running a new septic line or excavating a foundation); which involves the exterior of a building more than 50 years old; which uncovers toxic contamination; or which affects endangered species, has the potential to result in a more involved process which can include people like a state archaeologist, biologist or an architectural historian. In some instances, these consultants will generate reports including *mitigation measures* to preserve historic features or protect endangered species which will have to be followed during construction. Mitigation measures might include an archaeological survey (unlikely) or a list of historically important building features such as windows or a slate roof which will need to be retained or replaced in kind (very common). Like any and all other permitting fees, costs from outside consultants incurred during this process will be paid for from your escrow account and the \$7,000 grant for the building envelope and systems, just as you would pay for such fees during any other construction project.

If the total combined cost of work exceeds the cost of the building, as might be the case in a foreclosure, a vapor encroachment screen (VES) and radon test may also be performed. Any conditions identified will require a clean-up plan or mitigation action prior to construction.

From commencing the process to approval, the ER can take anywhere from two or three weeks to several months, and a VES may add an additional three weeks.





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Lending

We provide the loan application documentation for you to sign, based on your phone loan conversation with one of our licensed lenders. This will include but not necessarily be limited to information about your income, assets, expenses, property and credit. This lending package, underwriting documents and the property evaluation with estimated budget are returned to lending for review.

After the state approves the ER and your financial reviews are complete, the Bennington office will work with you to create a total project budget and initial scope of work, and to solicit estimates from contractors to. During this period, NeighborWorks HEAT Squad will perform an energy audit on the building, including a blower door test and an infrared camera scan, depending on the temperature delta between the interior and exterior of the home. Some structures, such as one lacking windows or doors, might not be audited.

The detailed scope of work and energy audit will be combined into a total project budget, which will determine your final grant and if needed, loan amounts. The application package will proceed through underwriting and, upon approval, be used by lending to generate a commitment letter for you to sign. At that time, you will need to satisfy any remaining pre-closing conditions, such as providing evidence of insurance and naming NWWVT as mortgagee so that your closing may be scheduled. If the property is located in a 100-year flood zone, flood insurance is required. Your total budget will include a 10% contingency for unforeseen construction costs, but this amount is not available for projects outside of the scope of work and will be returned or paid against the principal of the loan if otherwise unused.

Final closing will take place in one of our offices with NeighborWorks' loan officer and your Bennington Project Coordinator. We will review and sign loan closing documents including a Publicity Release; the final work scope and contracts; timetable; and lay out disbursement procedures and timelines. Once you receive your welcome letter in the mail after closing, you are ready to get to work.



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Construction phase

By the completion of loan closing, we should have contractors lined up and ready to go. A NeighborWorks employee will act as your Project Coordinator for the duration of the project, but their involvement will depend on the complexity of the work, as well as your skills and inclinations. You can supervise your construction directly and we will monitor for quality purposes; or we can hire and work directly with subcontractors on site. There is a 1.5% fee for work specifications and disbursements as part of your closing costs to cover these services.

In any scenario, all construction, unless performed by yourself or your direct employees, must be done on a contract basis between the property owner and contractors; and all work must adhere to the Scope of Work with specifications which was created prior to the Environmental Review phase, and which includes any and all materials and mitigation measures specified in the Environmental Review. Building permits, inspections and other similar State and Town requirements are your and/or your contractor's responsibility unless otherwise specified.

Any contaminants identified in the Evaluation and Environmental Review, most commonly mold, lead and asbestos, will be cleaned up as specified in the Scope of Work. If there is asbestos disturbance, it must be remediated by a licensed contractor in all cases prior to any other construction. Lead may be addressed on a case-by-case basis in accordance with applicable lead laws, and in some cases, abatement assistance may be available.

For work over \$3,000 performed by subcontractors, sealed competitive bids must generally be solicited; however, if you have a preferred contractor, a bid waiver may be obtained with your Project Coordinator's approval. Subcontractors may receive no more than a 30% deposit prior to the start of work. Large contracts can have partial or incremental payouts during construction, while smaller jobs will generally have only a deposit and final payout. For work billed hourly, payroll records must be kept and submitted with each invoice.



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Payments will be made by NeighborWorks from your escrow account directly to subcontractors and only on the Project Coordinator's approval. You, your contractor, and your Project Coordinator will verify and sign a payment release and lien waiver prior to the issuance of each check. Cost overruns of more than 10% as indicated in the Scope of Work will be authorized by a signed Change Order. If any contract or subcontract should exceed \$100,000, ACCD procedures on bonding requirements will come into effect.

Plumbing, electrical, gas and oil, boiler and sprinkler installation must be done by licensed and/or certified contractors. The appropriate trade licenses and insurance are required for all subcontractors. Accessibility modifications will follow Vermont Centers for Independent Living guidelines.

In addition to the forms mentioned already, we will maintain a Construction File of documentation. Some of these will be generated during regular construction activities:

- Contracts with all subcontractors
- W-9s or 1099 of all subcontractors
- Certificates of liability insurance for all contractors and subcontractors
- Construction estimates or bid lists
- Hazardous materials certifications including asbestos and lead
- License verification for all licensed trades
- Subcontractor DUNS numbers
- Payroll records of any direct employees of the property owner working on the site
- Change Orders
- Bid waivers as applicable
- Lien waivers and payouts
- List of planned subcontractors





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Completion

At the close of construction, your Project Coordinator will perform a final inspection to insure the units are move-in ready, then create a close-out report for your file, as well as closing your escrow account and distributing contingency and any other remaining funds as appropriate.

Your tenants during the first five years are entitled to free NeighborWorks Homebuyer Education classes; financial coaching and/or budget and credit counselling; and we will provide you with a packet to hand out during leasing including all the relevant income verification forms.

While we will try to adhere to the timetable and Scope of Work as much as possible, we understand what construction is like and outside of some specific lending requirements, we will work with schedules and around unforeseen circumstances. Working together, we can do our part to improve life not just for your tenants, but all our neighbors, as well.



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