

RHODE ISLAND HOUSING AND
MORTGAGE FINANCE CORPORATION

RULES AND REGULATIONS OF THE CORPORATION APPLICABLE TO THE HOME REPAIR
PROGRAM AND ACCESSORY APARTMENT PROGRAM

SECTION 1. CONSTRUCTION OF RULES AND REGULATIONS

1.1 Construction with the Act. Unless otherwise defined herein or unless a different meaning is required from the context in which they are used herein, all words and terms used in these Rules and Regulations are as defined in the Act.

1.2 Definitions. As used in these Rules and Regulations:

- 1.2.1 "Accessory Apartment Loans" means loans issued pursuant to the Accessory Apartment Program of the Corporation, which loans provide financing for the creation of additional Units to existing Dwellings and the conversion to Units of nonresidential structures located on the same real estate as said Dwellings.
- 1.2.2 "Accessory Apartment Program" means the Accessory Apartment Program of the Corporation.
- 1.2.3 "Act" means the Housing and Mortgage Finance Corporation Act set forth in Chapter 55 of Title 42 of the Rhode Island General Laws of 1956, as amended.
- 1.2.4 "Aggregate Family Income" shall have the same meaning as "Total Annual Income" as defined in HUD regulations set forth in 24 CFR § 813.106, as the same may be amended from time to time.
- 1.2.5 "Aggregate Monthly Debt of Borrower" means an amount equal to the sum of all monthly expenses of a Borrower for (a) principal and interest of any debt secured by the Dwelling, (b) real estate taxes on the Dwelling, (c) insurance premiums paid to insure the Dwelling, (d) principal and interest of secured or unsecured installment loan debts having more than ten (10) remaining payments, (e) alimony, child support and maintenance payments, and such other amounts as the Corporation, in its sole discretion, deems necessary and appropriate.
- 1.2.6 "Aggregate Monthly Housing Debt of Borrower" means an amount equal to the sum of all monthly expenses of a Borrower for (a) principal and interest of any debt secured by the Dwelling, (b) real estate taxes on the Dwelling, (c) insurance premiums paid to insure the Dwelling, and such other amounts as the Corporation, in its sole discretion, deems necessary and appropriate.
- 1.2.7 "Aggregate Monthly Income of Borrower" means an amount equal to the sum of verifiable monthly income of Borrower from (a) salary and wages, (b) alimony payments, (c) child support payments, (d) maintenance payments, (e) public assistance payments, (f) rental payments and (g) such other amounts as the Corporation, in its sole discretion, deems necessary or appropriate.
- 1.2.8 "Application" means the application submitted to the Area Housing Office by the applicant to obtain a Home Repair Loan or Accessory Apartment Loan.
- 1.2.9 "Area Housing Office" means an organization, office or department which satisfies the criteria of Section 4 hereof.
- 1.2.10 "Board of Commissioners" means the Board of Commissioners of the Corporation.

- 1.2.11 "Borrower" means the individual or individuals who receive Home Repair Loans or the individual or individuals or non-profit corporations which receive Accessory Apartment Loans.
- 1.2.12 "Closing" means the date the Home Repair Loan or Accessory Apartment Loan documents are executed by the Borrower.
- 1.2.13 "Corporate Office" means 44 Washington Street, Providence, Rhode Island 02903.
- 1.2.14 "Corporation" means the Rhode Island Housing and Mortgage Finance Corporation, a public corporation organized and existing under the Act.
- 1.2.15 "Designated Funds" means Reserve Funds designated by the Corporation to fund Accessory Apartment Loans and proceeds of tax-exempt bond issues designated by the Corporation to fund Home Repair Loans.
- 1.2.16 "Dwelling" means both real estate and improvements thereon used primarily for housing of families of low and moderate income persons, which shall serve as security for Home Repair Loans or Accessory Apartment Loans.
- 1.2.17 "Fair Market Value of the Dwelling" means either (i) the value of the Dwelling after completion of all repairs or improvements as determined by a qualified appraiser acceptable to the Corporation, or (ii) the value of the Dwelling as determined by such other methods as the Corporation may determine in its sole discretion from time to time.
- 1.2.18 "Handicapped Condition" means a physical condition which significantly limited or impairs a major life function, including mobility, hearing or vision.
- 1.2.19 "Home Repair Loans" means loans issued pursuant to the Home Repair Program of the Corporation.
- 1.2.20 "Home Repair Program" means the Home Repair Program of the Corporation.
- 1.2.21 "HUD" means the Department of Housing and Urban Development of the United States of America.
- 1.2.22 "Normal Business Hours of the Corporation" means 8:30 a.m. to 5:00 p.m., Monday through Friday.
- 1.2.23 "Program Bulletin" means a bulletin issued by the Corporation implementing a section or sections of these Rules and Regulations. Copies of all Program Bulletins shall be maintained by the Corporation at its principal office, and shall be available for inspection and copying during the hours of 9:00 a.m. to 5:00 p.m. on Mondays through Fridays, except holidays.
- 1.2.24 "Program Guide" means the guide established and amended from time to time by Program Bulletin relating to the implementation of the Home Repair Program and Accessory Apartment Program.
- 1.2.25 "Reserve Funds" means funds of the Corporation which are not the proceeds of tax-exempt bond issues.
- 1.2.26 "State" means the State of Rhode Island and Providence Plantations.
- 1.2.27 "Tax Act" means the Internal Revenue Code of 1986, as amended, the rules and regulations promulgated or deemed to be promulgated thereunder as now in effect or as may be promulgated and from time to time amended, and any corresponding provision of prior or future federal tax laws that apply to the Home Repair Program.
- 1.2.28 "Unit" means a residential unit having within it a sleeping area and complete kitchen and bathroom facilities.

1.3 Application of Regulations. These Rules and Regulations shall become effective twenty (20) days from the date on which they are filed with the Secretary of State of Rhode Island, provided that, the First Amended and Restated Rules and Regulations of the Corporation Applicable to the Home Repair Program and Access Independence Program adopted by the Corporation on June 20, 1988, (the "Prior Regulations") shall remain in effect as to complete Applications filed on or before December 23, 1988.

SECTION 2. PURPOSE AND SCOPE

2.1 Scope of Rules and Regulations. These Rules and Regulations contain the criteria used by the Corporation and the Area Housing Offices in determining eligibility for participation in and procedures to be followed in the implementation of the Home Repair Program and Accessory Apartment Program.

2.1.1 Purpose of the Home Repair Program. The primary purpose of the Home Repair Program is to provide financing for (i) the rehabilitation of existing housing for persons and families of low and moderate income and the elderly, necessary to make the Dwellings sanitary, decent and safe, and (ii) the completion of improvements to existing housing for persons and families of low and moderate income necessary to enhance utilization of the Dwellings by persons with Handicapping Conditions.

2.1.2 Purpose of the Accessory Apartment Program. The primary purpose of the Accessory Apartment Program is to provide financing for the creation of additional Units in existing Dwellings or the conversion of nonresidential structures located on the same real estate as an existing Dwelling to residential use for persons of low and moderate income.

2.2 Funding of the Home Repair Loans. The Corporation has secured funds to finance Home Repair Loans by issuing tax exempt bonds. Requirements concerning the eligibility of the Dwellings and Borrowers receiving tax-exempt bond proceeds contained in the Tax Act must be adhered to by the Corporation and the Borrower and are incorporated herein by reference.

2.3 Funding of the Accessory Apartment Loans. The Accessory Apartment Loans shall be financed exclusively from the Reserve Funds of the Corporation in such amounts as may be designated by the Corporation from time to time by Program Bulletin.

SECTION 3. ELIGIBILITY CRITERIA

3.1 Qualifications of Borrowers.

3.1.1 Income Limitations. The Aggregate Family Income of the Borrowers of Home Repair Loans shall not exceed One Hundred and Fifteen percent (115%) of the median income for the area, adjusted for family size, as published from time to time by HUD. The Aggregate Family Income of individual Borrowers of Accessory Apartment Loans, and tenants of the Dwelling in instances where the Borrower of an Accessory Apartment Loan is a non-profit corporation, shall not exceed eighty percent (80%) of the median income for the area, adjusted for family size, as published from time to time by HUD. The Corporation is authorized to change, from time to time by Program Bulletin, the percentage of median income used to determine Borrower eligibility.

3.1.2 Debt Limitations. The Aggregate Monthly Debt of Borrowers must not exceed forty-five percent (45%) of their Aggregate Monthly Income. The Aggregate Monthly Housing Debt of Borrowers must not exceed thirty-three percent (33%) of their Aggregate Monthly Income. The Corporation is authorized to change, from time to time by Program Bulletin, the percentage of Aggregate Monthly Income used to determine Borrower eligibility.

- 3.1.3 Tax Act and Home Repair Program Requirements. A condition to continued eligibility for a Home Repair Loan is the continued use of the Dwelling as the primary permanent residence of the Borrower. Borrowers shall be required to execute an affidavit evidencing an intent to continue to use and occupy the Dwelling as a primary permanent residence throughout the terms of the Home Repair Loan and such other affidavits and certifications as may be required by the Corporation in order to provide evidence of compliance with the Tax Act and the requirements of the Home Repair Program.
- 3.2 Eligible Properties. To be eligible under the Home Repair Program or Accessory Apartment Program, the Dwelling must be located in the State. For Home Repair Loans, (i) the Dwelling must be a one (1) to four (4) unit Dwelling, and (ii) at least eighty-five percent (85%) of the floor space of the Dwelling must be used from residential purposes. In the case of Dwellings used in part for commercial purposes, only a percentage of the total cost of repairs to common areas of the Dwellings, such as repairs to the exterior walls and the roofs of the Dwellings, equal to the percentage of the total space of the Dwellings used for residential purposes may be financed with the proceeds of the Home Repair Loan. Only Dwellings having one unit are eligible for Accessory Apartment Loans. For Home Repair Loans and Accessory Apartment Loans, full title to the Dwelling must be held by persons qualified as Borrowers in fee simple.
- 3.3 Compliance with Section 2 of Title I of the National Housing Act. All Home Repair Loans shall comply with all requirement contained in, and shall be eligible for HUD insurance under Section 2 of Title I of the National Housing Act and all rules and regulations promulgated thereunder, as the same may be amended from time to time ("Title I"). At the option of the Corporation, Home Repair Loans shall be insured through Title I or insurance provided by the Corporation, provided that no insurance on such mortgage Loans shall be required where the total outstanding balance of all indebtedness or liens secured by the Dwelling is equal to or less than sixty percent (60%) of the Fair Market Value of the Dwelling.

SECTION 4. PARTICIPATION BY AREA HOUSING OFFICE

- 4.1 Eligible Participants. There may be one or more Area Housing Offices for each municipality of the State. Municipalities, Rhode Island non-profit or public corporations, state or federally chartered financial institutions having their principal place of business in Rhode Island, or a consortium of two or more of the above may establish an Area Housing Office.
- 4.2 Application for Area Housing Office. Each qualified applicant shall submit an application to operate an Area Housing Office to the Corporation. Applications will be approved by the Corporation based on the staff capacity, the need for the creation of an Area housing Office, ability of the applicant to perform the administrative requirements of the Home Repair Program and Accessory Apartment Program, and such other terms and conditions as the Corporation may determine from time to time. Upon approval of an application, the Corporation shall assign to the applicant a specified portion of the Designated Funds allocated to the municipality to be served by the applicant.
- 4.3 Allocations to Municipalities. Each municipality of the State shall receive a total reservation of proceeds of tax-exempt bonds to fund Home Repair Loans in such amount as the Corporation may specify from time to time by Program Bulletin. The Corporation shall notify each municipality in writing of the funds reserved for its use. Once commitments have been issued for all funds reserved to a municipality, the Area Housing Offices of the municipality shall have access on a loan by loan basis to other Designated Funds of the Corporation allocated to the Home Repair Program. Accessory Apartment Loans shall be funded on a loan by loan basis from that portion of the Designated Funds comprised of Reserve Funds.

- 4.3.1 Reallocation of Reservations. The Corporation shall periodically review the balance of funds allocated to each municipality under either the Prior Regulations or these Rules and Regulations and the performance of each Area Housing Office and may recall or reallocate funds among municipalities accordingly. Factors which may result in a reallocation of funds include, but are not limited to, (a) failure of an Area Housing Office servicing the municipality to process, grant, close or disburse loans in a timely manner, (b) evidence of noncompliance with these Rules and Regulations by an Area Housing Office servicing the municipality, (c) evidence that an Area Housing Office servicing the municipality lacks the ability to perform its responsibilities under the Home Repair Program and Accessory Apartment Program, (d) failure of the Area Housing Office to apply for sufficient Home Repair Loans to utilize the funds allocated to the municipality served by the Area Housing Office, or (e) failure to establish an Area Housing Office to serve the municipality.
- 4.3.2 Restrictions on Use of Funds. No portion of the funds allocated or reallocated to municipalities under the Home Repair Program or Accessory Apartment Program may be used by the Area Housing Offices to cover operating or administrative costs.

4.4 Fees of Area Housing Office. Each Area Housing Office may collect an origination fee as authorized from time to time by the Corporation by Program Bulletin. The Area housing Office may waive its right to any origination fee to which it is entitled.

SECTION 5. QUALIFIED LOANS

- 5.1 Terms of the Home Repair Loans and Accessory Apartment Loans. All Home Repair Loans and Accessory Apartment Loans shall be evidenced by a promissory note in a form provided by the Corporation, and secured by a mortgage and security agreement on the Dwelling. The loan documents shall contain provisions concerning the security for the loan, insurance, escrow payments, late charges, prepayment penalties, if any, deficiencies, defaults, priority of liens, maintenance of the Dwelling and such other terms, and conditions as are customary, in the sole discretion of the Corporation, to protect the interests of institutions engaged in making residential mortgage loans and as the Corporation may deem prudent to ensure compliance with the Act, the Tax Act, and these Rules and Regulations. In addition, the Area Housing Offices shall accept and process Applications in an honest, fair and timely manner, and to the extent applicable, shall comply with truth-in-lending, equal opportunity and other state and federal laws and regulations.
- 5.2 Rent Regulatory Agreement. As a condition to the granting of a Home Repair Loan or Accessory Apartment Loan, the Borrower shall execute and deliver at the Closing a Rent Regulatory Agreement in a form provided by the Corporation, which shall provide in part that for the entire terms of the loan, and in any event for not less than five (5) years for Home Repair Loans and fifteen (15) years for Accessory Apartment Loans, rents charged for units within the Dwelling shall not exceed the fair market rents as established and published by HUD from time to time for such units in the area in which the Dwelling is located. In the case of Accessory Apartment Loans, the Rent Regulatory Agreement shall also provide that the Borrower shall only rent the Unit financed in whole or in part by the Accessory Apartment Loan during the terms of the loan to persons whose Aggregate Family Income at the time of the initial occupancy does not exceed eighty percent (80%) of the median income for the area, adjusted for family size, as published from time to time by HUD. The Area Housing Office shall notify persons renting each unit of the Dwelling of the existence of the Rent Regulatory Agreement, and shall provide them with access to a copy thereof upon request.
- 5.3 Right to Denial Explanation. Any person who is refused a Home Repair Loan or Accessory Apartment Loan by the Corporation after receiving the initial approval of an Area Housing Office may, in writing, demand a written explanation as to the specific

reasons for the refusal. The Corporation shall comply with such demand within forty-five (45) days after the date the demand is received by the Corporation.

- 5.4 Interest Rate and Loan Amounts. The annual interest rate on all Home Repair Loans shall be determined from time to time by the Board of Commissioners taking into consideration the cost of funds, prevailing market conditions, the need to provide funds to subsidize the interest rates for particular loans and the ability of Borrowers to make payments on loans applied for. The annual interest rates so established may include lower rates of interest than those normally imposed on Home Repair Loans for Borrowers whose Aggregate Family Incomes do not exceed a percentage determined by the Corporation of the median income for the area adjusted for family size as published from time to time by HUD. The annual interest rate on all Accessory Apartments Loans shall be three percent (3%), provided that the Corporation is authorized to establish a different rate of interest on said loans from time to time by Program Bulletin. No Home Repair Loan shall be issued in an amount less than One Thousand Dollars (\$1,000.00) nor more than Fifteen Thousand Dollars (\$15,000). No Accessory Apartment Loan shall be issued in an amount less than One Thousand Dollars (\$1,000.00) nor more than Twenty-five Thousand Dollars (\$25,000.00)
- 5.4.1 Interim Special Rate Home Repair Loans. The annual interest rate on Home Repair Loans granted in connection with Applications filed after the effective date of these Rules and Regulations and on or before May 31, 1989 shall be three percent (3%) (the "Special Rate Loans") if the Borrowers of said loans qualify under a needs test to be established by the Corporation by Program Bulletin. Special Rate Loans shall be funded from the allocations made to municipalities under the Prior Regulations. After all such funds of a municipality have been depleted, the Corporation may from time to time allocate Reserve Funds to the municipality to finance Special Rate Loans. No Special Rate Loans shall be issued in connection with Applications filed after May 31, 1989, unless otherwise determined by the Corporation by Program Bulletin.
- 5.5 Amortization Period. The amortization period for Home Repair Loans and Accessory Apartment Loans shall not exceed fifteen (15) years, and shall be such as to result in monthly payments by Borrower of not less than Twenty Dollars (\$20.00).
- 5.6 Permissible Use of Loan Proceeds. Proceeds of a Home Repair Loan or Accessory Apartment Loan may not be used to refinance any existing loan debt, including without limitation, any debt secured by a mortgage on the Dwelling. All repairs or improvements financed with loan proceeds must comply with all applicable state and federal laws, building and housing codes and standards, and zoning ordinances. Proposed repairs or improvements may be rejected by either the Area Housing Office or the Corporation, notwithstanding the fact that the repairs or improvements come within one or more of the general categories listed in Paragraphs 5.7 and 5.8 of these Rules and Regulations, if the Area Housing Office or the Corporation determines that the proposed repairs or improvements exceed those types of repairs or improvements for which the Home Repair Program and Accessory Apartment Program were designed to finance. In no event shall loan proceeds be used to finance or pay any assessment for public improvements.
- 5.6.1 Use of Home Repair Loan Proceeds. Proceeds of Home Repair Loans may only be used to cover those costs listed in Section 5.9 hereof and to finance the types of repairs to the Dwelling listed in Section 5.7 of these Rules and Regulations.
- 5.6.2 Use of Accessory Apartment Loan Proceeds. Proceeds of Accessory Apartment Loans may only be used to cover those costs listed in Section 5.9 hereof and to finance the types of construction listed in Section 5.8 of these Rules and Regulations.
- 5.7 Permissible Home Repairs. The overall purpose of the Home Repair Program is to make needed repairs to properties which are occupied by low and moderate income families

and the elderly. It is not intended to finance cosmetic repairs that do not add measurably to the housing quality of the Dwelling. The proceeds of a Home Repair Loan may be used for the following types of repairs to the Dwelling:

- (a) The correction of code violations;
- (b) The repair or replacement of inadequate or inoperable heating, electrical, plumbing, well and septic systems of the Dwelling;
- (c) The insulation, weatherproofing, repair of the chimney or the making of other energy efficiency improvements to the Dwelling;
- (d) The repair of holes in or replacement of structurally unsound ceilings, walls, floors, roofs, doors and stairs;
- (e) The replacement of broken or rotted windows and window frames;
- (f) The repair or replacement of exterior siding;
- (g) The painting of the exterior and interior of the Dwelling;
- (h) The repair of cracks or defects in the foundation of the Dwelling;
- (i) The repair of the kitchen and bathroom to operating condition through the repair or replacement of inoperable or inadequate major kitchen appliances or bathroom fixtures;
- (j) The removal and replacement of asbestos, lead paint or other hazardous substances from the Dwelling;
- (k) The construction of ramps, elevators and lifts of a sufficient width and type to provide a means of access by persons with Handicapping Conditions to areas previously only accessible by stairs;
- (l) The widening of doors, passage ways within the Dwelling and the completion of other similar improvements the primary purpose and effect of which is to provide access to and within the Dwelling by persons with Handicapping Conditions;
- (m) The installation of alarms and signals appropriate to the utilization of housing by persons with visual or hearing impairments, such as flashing alarms and tactile warnings on doors, floors and walls;
- (n) The renovation of bathroom facilities to allow access and use by persons with Handicapping Conditions; and
- (o) The completion of such other improvements or repairs to the Dwelling as the Corporation may deem appropriate.

Notwithstanding any other provision herein contained, repairs to the Dwelling described in Subsection (a) of this Section must be completed before the proceeds of the Home Repair Loan may be used to finance any other type of repair.

5.8 Permissible Accessory Apartment Expenses. Proceeds of Accessory Apartment Loans may only be used to finance additions, alterations, renovations or repairs necessary to create one additional Unit either in, or attached to an existing Dwelling, or in an existing structure on the same real estate as an existing Dwelling. Only the cost of the following types of improvements may be financed with the proceeds of an Accessory Apartment Loan:

- (a) The correction of code violations;
- (b) The repair, replacement or addition of heating, electrical and plumbing systems;
- (c) The installation of energy efficiency improvements;

- (d) The repair, replacement, installation or addition of walls, floors, roofs, exterior cladding, doors, windows and steps;
- (e) The painting of the exterior and interior of the Unit;
- (f) The repair, renovation or addition of foundations;
- (g) The additions of kitchen and bathroom facilities, including the purchase and installation of major appliances and fixtures;
- (h) The completion of improvements of the type listed in Section 5.7 (k) – (n) hereof; and
- (i) The completion of such other improvements as the Corporation may deem appropriate.

The proceeds of Accessory Apartment Loans may not be used to finance (i) the construction of patios, decks or fireplaces, (ii) the acquisition of furnishings for the Unit, or (iii) repairs or improvements to residential portions of the existing Dwelling. Notwithstanding any other provision therein contained, repairs to the Dwelling described in Subsection (a) of this Section must be completed before the proceeds of the Accessory Apartment Loan may be used to finance any other type of repair or improvement.

5.9 Costs which may be added to Home Repair Loan and Accessory Apartment Loan Amounts. The following costs incurred by the Borrower in connection with the Home Repair Loan or Accessory Apartment Loan may be added to the principal amount of said loan, provided that the sum of such costs and the cost of all repairs or improvements to be financed with proceeds of the Home Repair Loan or Accessory Apartment Loan shall not exceed limitations place on loan amounts under these Rules and Regulations.

- (a) Cost of obtaining building permits if not otherwise included in cost of repair or improvements;
- (b) Fee for credit report of Borrower; and
- (c) Architect or Engineering Fee.

5.10 Payment of Home Repair Loans and Accessory Apartment Loans. Payments on a Home Repair Loan and Accessory Apartment Loan shall be made to the Corporation monthly and shall be in such amounts and upon such terms as are satisfactory to the Corporation as provided in the promissory note executed by Borrower in favor of the Corporation.

5.10.1 Prepayment of Assignment or Transfer. No prepayment penalty shall result from the prepayment of the unpaid balance of any Home Repair Loan or Accessory Apartment Loan.

5.10.2 Prohibition of Assignment or Transfer. Unless waived by the Corporation, Home Repair Loans and Accessory Apartment Loans are not transferable or assignable and shall become immediately due and payable without notice or demand upon the attempted assignment of rights arising therefrom or upon the sale of or any transfer of title to the Dwelling.

5.11 Act of Default on Home Repair Loans and Accessory Apartment Loans. Together with all other actions identified as acts of default under the loan documents, the failure of the Borrower to make any required payments of principal and interest on Home Repair Loans or Accessory Apartment Loans for sixty (60) days from the date payment is due shall constitute an act of default by Borrower, upon the occurrence of which the entire loan balance shall become due and payable at the option of the Corporation. Any Unit financed in whole or in part with the proceeds of an Accessory Apartment Loan must be rented in accordance with Section 5.2 of the Rules and Regulations for the life of said loan. Upon the failure of Borrower to expend reasonable efforts, as determined in the sole discretion of the Corporation, to maintain said Unit for rental by persons whose Aggregate Family Income does not exceed eighty percent (80%) of the median income

for the area, adjusted for family size, as published from time to time by HUD, the entire loan balance shall become due and payable at the option of the Corporation.

SECTION 6. IMPLEMENTATION OF THE PROGRAM: Area Housing Offices shall administer Home Repair Loans and Accessory Apartment Loans, and disburse the proceeds thereof in accordance with the Program Guide.

- 6.1 Servicing of Loans. The Corporation may contract with a qualified servicer or servicers who shall perform all billing and collection services in connection with Home Repair Loans and Accessory Apartment Loans. The Master Servicer of the Corporation may request the Area Housing Office to assist in the collection of any delinquent Home Repair Loans and Accessory Apartment Loans which it originates.

SECTION 7. UNDERWRITING CRITERIA

- 7.1 General Guidelines on Application Approval For Home Repair Loans and Accessory Apartment Loans. In determining whether or not to approve a Home Repair Loan or Accessory Apartment Loan application and after determining the applicant's eligibility under Section 3.1 of these Rules and Regulations and the Program Guide, and the eligibility of the Dwellings under Section 3.2 of these Rules and Regulations and the Program Guide, the Area Housing Office shall consider the applicant's ability to repay the loan if made, the applicant's credit history, the applicant's equity in the Dwelling, and the scope of the proposed repairs or improvements.
- 7.2 Rental Income Limitations. Rents in effect at the time the Application is received by the Area Housing Office must not exceed rents established and published annually by HUD as Fair Market Rents for Existing Housing for the area in which the Dwelling is located. Borrowers shall provide the Area Housing Office which originated the loan or the Corporation (as instructed by the Corporation) with annual certifications, in a form satisfactory to the Corporation, on the second Friday of January of each year during the term of said loan, certifying that the Dwelling is in good condition on the date of said certification. Borrowers receiving Accessory Apartment Loans shall provide such Area Housing Offices with annual certifications in a form satisfactory to the Corporation, on the second Friday of January of each year during the term of said loan, certifying (i) that the Aggregate Family Incomes of any new tenants of the Unit financed by the proceeds of the loan since the last certification do not exceed eighty percent (80%) of the median income for the area, adjusted for family size, as published from time to time by HUD, and (ii) that the Unit is in good condition on the date of said certification.
- 7.3 Insurance Requirement. All Dwellings shall be covered by a valid and subsisting policy of standard hazard and flood insurance (if any is required by the Federal Energy Management Agency at the time of the Closing) providing extended coverage in an equal amount to the sum of all existing debt secured by the Dwelling including the amount of the Home Repair Loan and/or Accessory Apartment Loan, which policy shall name the Corporation as a mortgagee.
- 7.4 Maximum Loan to Value Ratio and Lien Position. The principal amounts of each Home Repair Loan or Accessory Apartment Loan plus the sum of all other debt, liens and all other encumbrances secured by the Dwelling shall not exceed such percentages of the Fair Market Value of the Dwelling as specified in the Program Guide. Each Home Repair Loan and Accessory Apartment Loan shall be secured by a valid first or second lien mortgage on the Dwelling granted by the Borrower to the Corporation, which mortgage shall be in a form provided by the Corporation. Such loans may be secured by a third lien mortgage position on the Dwelling only with the prior approval of the Corporation.
- 7.5 Documentation Required to Approve Home Repair Loan or Accessory Apartment Loan. The Area Housing Office shall compile a loan package consisting of all documentation described in the Program Guide, which demonstration shall include, but not be limited to, an Application listing all of Borrower's debts; credit verification; income and

employment verification; evidence of title; verification of value; inspection reports; completion cost estimates; as well as such other information as the Corporation, in its sole discretion, may deem necessary or desirable to evaluate, underwrite and administer the loan in accordance with prudent lending practice.

7.5.1 Approval of Borrowers. Prior to approving an Application for a Home Repair Loan or Accessory Apartment Loan, the Area Housing Office must determine what Borrowers meet the financial criteria contained in Section 3.1.1 of these Rules and Regulations, must verify the applicant's employment history for a period of not less than two (2) years, and must determine applicant's credit worthiness through a review of applicant's credit report; provided that, in the event that the Borrower of an Accessory Apartment Loan is sixty-five (65) years old or older, the reasonably expected rent of the Unit to be constructed may, at the Corporation's sole option, be considered in place of said Borrower's employment history or income. Any lapses in employment during the period reviewed must be explained to the satisfaction of the Corporation prior to approval of a Home Repair Loan or Accessory Apartment Loan, and any adverse credit ratings and the steps taken to rectify the same must be explained in writing. The financial condition and credit history of Borrower must be such as to demonstrate an ability to meet financial obligations when due.

SECTION 8. MISCELLANEOUS

- 8.1 Acquisition of Forms. All forms referenced in these Rules and Regulations may be obtained by contacting the Corporation by telephone or in writing during the Normal Business Hours of the Corporation.
- 8.2 Termination of the Home Repair Program or Accessory Apartment Program. The Corporation reserves the right to terminate the Home Repair Program and/or Accessory Apartment Program in whole or in part at any time.
- 8.3 Conflicts of Interest. No person: (1) who is an employee, agent, consultant, officer, elected or appointed official of the Corporation, an Area Housing Office or a municipality of the State (or of any designated public agencies) and who exercises or has exercised any functions or responsibilities with respect to the Home Repair Program or Accessory Apartment Program activities or (2) who is in a position to participate in a decision making process or gain inside information with regard to such activities, may obtain a personal or financial interest or benefit from the activity, or have an interest in any contract, subcontract or agreement with respect thereto, or the proceeds thereunder, either for themselves or those with whom they have family or business ties, during their tenure or for one year thereafter. The Corporation may grant an exception to this exclusion on a case-by-case basis when it determines that such an exception will serve to further purposes of the Home Repair Program or Accessory Apartment Program and the effective and efficient administration of said programs. An exception may be considered only after the applicant has provided a written disclosure of the nature of the conflict to the Corporation. In determining whether to grant a requested exception, the Corporation shall consider the cumulative effect of the following factors, where applicable:
- (i) Whether the exception would provide a significant cost benefit or an essential degree of expertise to the programs that would otherwise not be available;
 - (ii) Whether the person affected is a member of a group or class intended to be the beneficiaries of the rehabilitation or improvement activity, and the exception will permit such person to receive generally the same interests or benefits as are being made available or being provided to the group or class;
 - (iii) Whether the affected person has withdrawn from his or her functions or responsibilities, or the decision making process, with respect to the specific rehabilitation or improvement activity in question;

- (iv) Whether the interest or benefit was present before the affected person was in a position as described in this paragraph;
- (v) Whether undue hardship will result when weighed against the public interest served by avoiding the prohibited conflict; and
- (vi) Any other relevant consideration.

9.2 Notice of Violation. In the event that the Affirmative Action Officer determines that a Housing Sponsor is in violation of its obligations under these Rules and Regulations, the Affirmative Action Officer shall notify the Housing Sponsor of such violations in writing by certified or registered mail, which notice shall specify the violations established, shall request the Housing Sponsor to correct all violations within fifteen (15) business days from receipt of said notice, and shall inform the Housing Sponsor of possible suspension for failure to rectify all violations within said period. The Housing Sponsor shall have fifteen (15) business days from receipt of the notice in which to rectify all violations identified, and to provide the Affirmative Action Officer with evidence of compliance satisfactory to the Affirmative Action Officer. In the event that Housing Sponsor fails to rectify the violations and produce sufficient evidence of compliance, the Affirmative Action Officer may recommend to the Executive Director that the Housing Sponsor be suspended.

9.3. Suspensions. Any Housing Sponsor who fails to comply with the requirements of these Rules and Regulations may be suspended by the Executive Director until such time as the Housing Sponsor is able to demonstrate the resolution of the matter or matters serving as a basis of the suspension and future compliance with these Rules and Regulations to the satisfaction of the Executive Director. The Executive Director shall review all findings of the Affirmative Action Officer and determine whether or not to suspend the Housing Sponsor as soon as practicable after receiving the recommendation of the Affirmative Action Officer.

9.3.1 Effects of Suspension. During the term of the suspension, the Housing Sponsor may not obtain any advances or payments due under any existing loan agreement with the Corporation, and the Housing Sponsor may not participate in any of the programs of the Corporation unless the Executive Director determines, in his/her sole discretion, that participation by such Housing Sponsor is in the best interest of the public. The determination to consider such applications shall include consideration of the unique value of the applicant's proposals, and the need of the community to be served by the granting of the applications.

9.3.2 Notice of Suspension. The Housing Sponsor shall be served by registered or certified mail, return receipt requested, with a written notice of suspension within five (5) days prior to the effective date of the suspension. The Notice shall state the basis for the suspension, that the suspension is effective until compliance has been documented, that the Housing Sponsor may not participate in any program of the Corporation during the term of the suspension, that all rights of the Housing Sponsor under all loan agreements with the Corporation shall be suspended until reinstatement of the Housing Sponsor, and that the Housing Sponsor may be represented by counsel.

SECTION 10. HEARINGS.

10.1 Requests for Hearings. Any Housing Sponsor receiving a notification of suspension is entitled to request an opportunity to be heard and to be represented by counsel at all hearings. All hearing requests shall be made in writing addressed to the Corporation at the Corporate Office and to the attention of Affirmative Action Officer. If after ten (10) days following receipt of notification, no such request for a hearing has been received by the Corporation, the Housing Sponsor shall be deemed to have waived its right to be heard, and final action on the proposed suspension may be taken.

10.2 Notice and Procedures. Upon receipt of a request for an opportunity to be heard, the Affirmative Action Officer shall arrange a prompt and timely hearing. Notice of the time and place of such hearing shall be in writing, and delivered to all interested parties by certified or registered mail, return receipt requested, together with a statement indicating the nature of the proceedings. All hearings shall be conducted in accordance with Section 42-35 of the General Laws of the State of Rhode Island of 1956, as

amended, by a Hearing Officer. All witnesses shall testify under oath or affirmation and shall be subject to cross-examination.

10.3 Determinations by Hearing Officer in Suspension Hearings. The Hearing Officer shall make a written determination and recommendation to the Executive Director based on all evidence presented at suspension hearings. All interested parties shall be notified of said determination by certified or registered mail, return receipt requested. The Executive Director shall review the findings of the Hearing Officer and issue a final determination on suspension of the Housing Sponsor within thirty (30) days from the date of the hearing. Notice of the Executive Director's determination shall be given to all interested parties in writing, signed by the Executive Director and transmitted by registered mail, return receipt requested.

10.4 Powers of Hearing Officer. While conducting hearings, the Hearing Officer shall have all powers necessary to conduct hearings in an expeditious and fair manner. The powers of the Hearing Officer shall include, but not be limited to, the power to:

- (a) Hold conferences to settle, simplify, or fix the issues in a proceeding, or to consider other matters that may aid in the expeditious disposition of the proceeding by consent of the parties or upon his own motion;
- (b) Require parties to state their position with respect to the various issues in the proceeding;
- (c) Require parties to produce for examination those relevant witness and documents under their control;
- (d) Rule on motions and other procedural items on matters pending before him;
- (e) Regulate the course of the hearing and conduct of the participants therein;
- (f) Receive, rule on, exclude, or limit evidence, and limit lines of questioning or testimony which are irrelevant, immaterial or unduly repetitious;
- (g) Fix time limits for submission of written documents in matters before him;
- (h) Impose appropriate sanctions against any party or person failing or refusing to follow or to obey an order under these procedures which sanctions may include:
 - (i) Refusing to allow the party to support or oppose designated claims or defenses, or prohibiting him from introducing designated matters in evidence,
 - (ii) Excluding all testimony of an unresponsive or evasive witness,
 - (iii) Expelling any party or person from further participation in the hearing.
- (i) Take official notice of any material fact not appearing in evidence in the record, which is among the traditional matters of judicial notice.

SECTION 11. RECISSION AND REINSTATEMENT.

11.1 Request for Reinstatement. Any Housing Sponsor against which a Suspension has been invoked may request reinstatement in writing. Reinstatement proceedings shall be conducted by the Affirmative Action officer. All recommendations of the Affirmative Action Officer for reinstatement shall be submitted to the Executive Director for final approval. Reinstatements may only be granted upon the determination that the matter or matters resulting in Suspension have been rectified, and the suspended party shall comply with all requirements of these Rules and Regulations in the future. When a Suspension has been rescinded, the Executive Director shall forward notice of reinstatement to the Housing Sponsor by certified or registered mail, return receipt requested.

SECTION 12. SUBSTITUTE POLICIES OR PROCEDURES

12.1 Requests of Housing Sponsors. Housing Sponsors subject to other equal employment and affirmative action laws, regulations, procedures or policies ("Substitute Regulations") of any federal or

state agency, board, or commission may request that the Corporation accept compliance with such Substitute Regulations in lieu of compliance with these Rules and Regulations if such Substitute Regulations are substantially similar to the requirements of these Rules and Regulations. All such requests shall be made in writing to the Executive Director of the Corporation, and shall set forth the requirements of such Substitute Regulations. All decisions of the Executive Director regarding such Substitute Regulations shall be final and binding on the parties.