

AMENDED IN SENATE JANUARY 29, 2002

AMENDED IN SENATE JANUARY 14, 2002

AMENDED IN SENATE MAY 31, 2001

AMENDED IN SENATE MAY 10, 2001

**SENATE BILL**

**No. 444**

**Introduced by Senator Perata**

February 21, 2001

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~~An act to amend Section 50662.7 of, and to add Section 50662.8 to,~~  
*An act to add Section 50662.8 to the Health and Safety Code, relating to housing assistant assistance.*

LEGISLATIVE COUNSEL'S DIGEST

SB 444, as amended, Perata. Disaster relief: owner-occupied dwellings.

Existing law establishes within the State Treasury the Housing Rehabilitation Loan Fund, a fund continuously appropriated to the Department of Housing and Community Development for, among other purposes, making deferred payment rehabilitation loans and deferred payment loans. Existing law authorizes financial assistance for the purposes of repairing, including reconstructing, owner-occupied dwellings and rental dwellings of one to 4 units that were damaged or destroyed as a result of a natural disaster resulting in a state of emergency.

Existing law provides that the outstanding balance of loans for owner-occupied dwellings becomes due and payable after 30 years or when the borrower transfers ownership of the rehabilitated property or fails to occupy the rehabilitated property, whichever comes first. For

rental dwellings the term of the loan is 20 years. Existing law prohibits the subordination of the deed of trust that secures these loans except in specified circumstances including cases of extreme hardship necessary to protect the health and safety of the occupants.

This bill would, instead, authorize subordination in cases when borrowing becomes necessary to protect the health or safety of the occupants, including corrections to violations of certain state or local building codes and would also authorize loan assumption for loans for owner-occupied dwellings in other specified circumstances. The bill would require the department to, among other things, with respect to these loans for owner-occupied dwellings, annually mail statements with specified information to the borrowers of the loans, and adopt a written application process and evaluation guidelines for borrowers pursuing loan subordination or assumption.

The bill would also authorize the department to delay the foreclosure of loans for owner-occupied dwellings if the department determines that its security interest is not jeopardized.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

*The people of the State of California do enact as follows:*

- 1 SECTION 1. — Section 50662.7 of the Health and Safety Code
- 2 is amended to read:
- 3 50662.7. — For the purpose of providing disaster relief to those
- 4 owners of owner-occupied dwellings that were damaged or
- 5 destroyed as a result of a natural disaster defined by Section 8680.3
- 6 of the Government Code, resulting in a state of emergency
- 7 proclaimed by the Governor pursuant to Section 8625 of the
- 8 Government Code, financial assistance may be provided to
- 9 disaster victims as prescribed in this chapter under the following
- 10 special conditions, which shall prevail over conflicting provisions
- 11 of this chapter and administrative regulations:
- 12 (a) (1) The loans shall be provided in any city, county, or city
- 13 and county proclaimed by the Governor to be in a state of disaster:
- 14 (A) to persons who do not qualify for loan assistance from an
- 15 agency of the United States for repair of the damage caused by a
- 16 natural disaster, (B) to the extent that federally provided or assisted
- 17 financing may be insufficient to accomplish the necessary repair,
- 18 and (C) to the extent required to enable the recipient to obtain and



1 ~~afford loan assistance from an agency of the United States to~~  
2 ~~finance the necessary repair.~~

3 ~~(2) The loans shall be made only to households that are victims~~  
4 ~~of a natural disaster and only to the extent that other federal and~~  
5 ~~state resources, private insurance proceeds, or private institutional~~  
6 ~~lending sources, are not available or do not provide the assistance~~  
7 ~~or coverage needed to rehabilitate or reconstruct their homes.~~

8 ~~(3) This subdivision shall not be construed to prevent the~~  
9 ~~processing of a loan application once a person or household has~~  
10 ~~received loan approval from a federal, state, or private institutional~~  
11 ~~lending source, nor shall this subdivision be construed to prevent~~  
12 ~~the funding of short-term loans until other federal, state, or private~~  
13 ~~loan proceeds become available.~~

14 ~~(4) In allocating grants and loans, the department shall in no~~  
15 ~~event provide a loan to a family with an annual income in excess~~  
16 ~~of 150 percent of statewide median income, adjusted for family~~  
17 ~~size. This paragraph shall apply to any disaster that occurs on or~~  
18 ~~after January 18, 1994.~~

19 ~~(b) (1) The loans shall be for the purpose of repairing,~~  
20 ~~including reconstructing, dwellings that are owner-occupied or~~  
21 ~~would be owner-occupied but for the damage caused by the natural~~  
22 ~~disaster and for rental dwelling units of one to four units. Loan~~  
23 ~~funds shall be used to fund work necessary to repair damaged~~  
24 ~~dwellings and to correct serious, life-threatening violations of the~~  
25 ~~state or local building code or housing standards that are required~~  
26 ~~to be corrected prior to occupancy, including ensuring compliance~~  
27 ~~with applicable seismic safety standards and related property~~  
28 ~~improvements or to finance the reconstruction of dwellings~~  
29 ~~destroyed as a result of the natural disaster up to a maximum of~~  
30 ~~fifty thousand dollars (\$50,000) per unit. The department shall~~  
31 ~~limit the square footage of units repaired or reconstructed using~~  
32 ~~funds provided pursuant to this section to the pre-disaster size of the~~  
33 ~~unit.~~

34 ~~(2) In the case of manufactured housing or mobilehomes, loan~~  
35 ~~funds shall be used to bring the manufactured home or~~  
36 ~~mobilehome into compliance with the standards set forth in~~  
37 ~~Chapter 4 (commencing with Section 18025) of Part 2 of Division~~  
38 ~~13.~~

39 ~~(3) For the purposes of this section:~~



1 ~~(A) “Owner-occupied dwellings” include single-family units,~~  
2 ~~attached owner-occupied units, condominiums, townhouses,~~  
3 ~~cooperatives, and manufactured homes, including mobilehomes.~~

4 ~~(B) “Rental dwelling of one to four units” includes~~  
5 ~~single-family units, condominiums, townhouses, cooperatives,~~  
6 ~~duplexes, and manufactured homes, including mobilehomes.~~

7 ~~(c) The loan, together with any existing indebtedness~~  
8 ~~encumbering the secured property, shall not exceed the after-repair~~  
9 ~~value of the property, except that the department may waive this~~  
10 ~~limitation in individual cases to ensure, when necessary,~~  
11 ~~correction of serious, life-threatening violations of the state or~~  
12 ~~local building code or housing standards, seismic safety standards,~~  
13 ~~and general property improvements relating to these standards~~  
14 ~~pursuant to subdivision (b).~~

15 ~~(d) (1) The outstanding balance of a loan provided under this~~  
16 ~~section, including principal and accrued interest thereon, shall be~~  
17 ~~due and payable, after 30 years or when either of the following~~  
18 ~~occurs: (A) the borrower transfers ownership of the rehabilitated~~  
19 ~~property, or (B) fails to occupy the rehabilitated property as his or~~  
20 ~~her principal place of residence, whichever comes first. For rental~~  
21 ~~dwellings, the term of the loan shall be 20 years.~~

22 ~~(2) After the initial recordation of the deed of trust securing the~~  
23 ~~department’s loan, the department shall not subordinate its deed of~~  
24 ~~trust to additional or other financing except in cases when~~  
25 ~~borrowing becomes necessary to protect the health or safety of the~~  
26 ~~occupants, including corrections to violations of state or local~~  
27 ~~building codes that must be corrected before occupancy, or to the~~  
28 ~~extent that the total principal of loans senior to the department’s~~  
29 ~~loan is unchanged or decreased and the department’s security~~  
30 ~~interest is not jeopardized, as determined by the department.~~

31 ~~(e) The department may make loans directly to borrowers, or~~  
32 ~~contract for the administration under this section of loans with one~~  
33 ~~or more entities that it determines to have the necessary experience~~  
34 ~~to successfully administer the loan program, including, but not~~  
35 ~~limited to, local public agencies and private organizations. The~~  
36 ~~department may authorize, under that contract, the payment of~~  
37 ~~expenses incurred by the entities in administering the loan~~  
38 ~~program and may prescribe the conditions pursuant to which the~~  
39 ~~entities shall administer the loans.~~



1 ~~(f) Sections 50663 and 50668 do not apply to loans made~~  
2 ~~pursuant to this section.~~

3 ~~(g) The department may set aside or use funds that are made~~  
4 ~~available for the purposes of this section for the purpose of curing~~  
5 ~~or averting an owner's default on the terms of any loan or other~~  
6 ~~obligation where that default would jeopardize the department's~~  
7 ~~security in the owner-occupied housing assisted pursuant to this~~  
8 ~~section. The payment or advance of funds by the department~~  
9 ~~pursuant to this subdivision shall be exclusively within the~~  
10 ~~department's discretion, and no person shall be deemed to have~~  
11 ~~any entitlement to the payment or advance of those funds. The~~  
12 ~~amount of any funds expended by the department pursuant to this~~  
13 ~~subdivision shall be added to the loan amount secured by the deed~~  
14 ~~of trust and shall be payable to the department upon demand.~~

15 ~~(h) Any rule, policy, or standard of general application~~  
16 ~~employed by the Department of Housing and Community~~  
17 ~~Development in implementing this section shall not be subject to~~  
18 ~~the requirements of Chapter 3.5 (commencing with Section~~  
19 ~~11340) of Part 1 of Division 3 of Title 2 of the Government Code.~~

20 ~~(i) Fund allocations made pursuant to this section shall not be~~  
21 ~~subject to review or approval by the Loan Committee of the~~  
22 ~~Department of Housing and Community Development operating~~  
23 ~~pursuant to Subchapter 1 (commencing with Section 6900) of~~  
24 ~~Chapter 6.5 of Title 25 of the California Code of Regulations.~~

25 ~~(j) (1) In order to be eligible for one or more loans pursuant to~~  
26 ~~this section, the borrower shall agree to all of the following~~  
27 ~~conditions:~~

28 ~~(A) All buildings shall be connected to their foundation~~  
29 ~~systems as necessary to meet the seismic requirements of the 1973~~  
30 ~~Edition of the Uniform Building Code of the International~~  
31 ~~Conference of Building Officials in a manner approved by the~~  
32 ~~department, which may include seismic strengthening of~~  
33 ~~foundation cripple walls and affixing or bolting sill plates to the~~  
34 ~~foundation.~~

35 ~~(B) All water heaters shall be braced, anchored, or strapped to~~  
36 ~~resist falling or horizontal displacement due to earthquake motion.~~

37 ~~(C) Hazard insurance shall be obtained and maintained as~~  
38 ~~required by the department.~~



1 ~~(2) As a condition of receipt of assistance under this section,~~  
2 ~~owners of rental dwellings shall agree, in writing, to all of the~~  
3 ~~restrictions set forth in this subdivision.~~

4 ~~(3) The loan shall include an amount sufficient to meet the~~  
5 ~~requirements of subparagraphs (A) and (B) of paragraph (1).~~

6 ~~(k) Initial rents for rental housing rehabilitated under this~~  
7 ~~section shall not exceed the rent charged immediately prior to the~~  
8 ~~natural disaster. The department may allow for adjustments to the~~  
9 ~~predisaster rents due to cost of living increases or increases~~  
10 ~~necessary for debt service.~~

11 ~~(l) The department shall adopt regulations establishing terms~~  
12 ~~and conditions upon which repair loans may be made. These~~  
13 ~~regulations shall be made available to the public by the~~  
14 ~~department. The department may set interest rates for individual~~  
15 ~~loans for each disaster at a rate that shall not exceed the rate for~~  
16 ~~veterans' home loans established pursuant to Section 987.87 of the~~  
17 ~~Military and Veterans Code on the date the Governor declares a~~  
18 ~~state of emergency for that disaster, plus up to one-half percent for~~  
19 ~~administrative costs not included in the interest rate. The~~  
20 ~~Department of Housing and Community Development shall~~  
21 ~~prepare an annual audit of administrative costs for the Department~~  
22 ~~of Finance. All loans for each disaster shall bear the same interest~~  
23 ~~rate. The department may also require periodic payments of~~  
24 ~~interest, or principal and interest, or provide incentives for earlier~~  
25 ~~repayment of principal and interest on owner-occupied dwellings.~~  
26 ~~Incentives may include reduction of interest rates to a minimum of~~  
27 ~~3 percent for repayment that occurs within three years of the~~  
28 ~~closing of the loan.~~

29 ~~(m) Prior to full loan approval, the department may make loans~~  
30 ~~not exceeding five thousand dollars (\$5,000) per loan to pay for the~~  
31 ~~costs of predevelopment activity which must be undertaken prior~~  
32 ~~to making eligible repairs if, in the opinion of the department, the~~  
33 ~~borrower is unable to pay for these costs in advance of full loan~~  
34 ~~approval. These loans shall bear interest at the rate of 6 percent~~  
35 ~~simple interest per annum and shall be evidenced by a promissory~~  
36 ~~note secured by a deed of trust. At the time of full loan approval,~~  
37 ~~the predevelopment loan shall be canceled, and the principal~~  
38 ~~amount of the loan and all accrued interest shall be included in the~~  
39 ~~amount of the full loan and shall be subject to the same interest rate~~  
40 ~~and terms and conditions as the full loan. For purposes of~~



1 ~~computing the maximum loan amount, the amount of any~~  
2 ~~predevelopment loan shall be included.~~

3 ~~SEC. 2.—~~

4 *SECTION 1.* Section 50662.8 is added to the Health and  
5 Safety Code, to read:

6 50662.8. (a) Notwithstanding paragraph (1) of subdivision  
7 (d) of Section 50662.7, with respect to any loans made pursuant  
8 to subdivision (b) of that section for owner-occupied dwellings,  
9 the department shall allow the loan to be assumed by any of the  
10 following persons if the new borrower occupies or will occupy the  
11 rehabilitated property as a principal place of residence and can  
12 demonstrate to the satisfaction of the department an ability to  
13 repay the loan:

14 ~~(1) A relative of the original borrower who inherits the~~  
15 ~~property upon the death of the original borrower.~~

16 ~~(2) A spouse, domestic partner, or child of the original~~  
17 ~~borrower who receives ownership of the rehabilitated property.~~

18 ~~(b) Notwithstanding paragraph (1) of subdivision (d) of~~  
19 ~~Section 50662.7, with respect to any loans made pursuant to~~  
20 ~~subdivision (b) of that section for owner-occupied dwellings, the~~  
21 ~~department may allow the loan to be assumed by any other person~~  
22 ~~not mentioned in subdivision (a) if the new borrower occupies or~~  
23 ~~will occupy the rehabilitated property as a principal place of~~  
24 ~~residence and can demonstrate to the satisfaction of the department~~  
25 ~~an ability to repay the loan.~~

26 *(1) A spouse or domestic partner of the original borrower who*  
27 *receives ownership of the rehabilitated property.*

28 *(2) A child of the original borrower who receives ownership of*  
29 *the rehabilitated property and who, in the year prior to the year of*  
30 *the loan assumption, had an annual family income of less than 150*  
31 *percent of the statewide median income, as adjusted for family size.*

32 *(b) The outstanding balance of a loan assumed under this*  
33 *section, including principal and accrued interest thereon, shall be*  
34 *due and payable, upon the occurrence of any one of the following:*

35 *(1) Five years have elapsed since the assumption of the loan.*

36 *(2) The borrower transfers ownership of the rehabilitated*  
37 *property.*

38 *(3) The borrower fails to occupy the rehabilitated property as*  
39 *his or her principal place of residence.*



1 (c) With respect to any loans made pursuant to subdivision (b)  
2 of Section 50662.7 for owner-occupied dwellings, the department  
3 shall do all of the following:  
4 (1) Annually mail, by the end of January, to any borrower who  
5 has an outstanding balance a statement that provides all of the  
6 following information:  
7 (A) The principal loan balance.  
8 (B) The interest accrued to the date of the statement.  
9 (C) The interest percentage rate.  
10 (D) Payment instructions.  
11 (E) Contact information, including a telephone number and  
12 mailing address for borrower inquiries.  
13 (2) By July 1, 2003, adopt a written application process and  
14 evaluation guidelines to authorize the transfer of the borrower's  
15 loan obligations described in subdivision (a) or the subordination  
16 of the deed of trust. The department shall provide a summary of  
17 this process and the guidelines with all statements mailed on or  
18 before February 1, 2004.  
19 (3) Mail to the party that applies to the department to  
20 subordinate or assume the loan, the department's decision to  
21 approve or deny the application within 60 days of receipt, along  
22 with a statement of reasons for any denial.  
23 (d) With respect to any loans made pursuant to subdivision (b)  
24 of Section 50662.7 for owner-occupied dwellings, the department  
25 may delay the foreclosure of the loan if the department determines  
26 that its security interest is not jeopardized.

