

## **Borrower Requirements and Guidance for PHFA Home Improvement Loans**

The following information is intended to help you successfully use the home improvement funds you have borrowed through PHFA's Purchase & Improvement, Access Home Modification, Renovate & Repair Loan Program, Homeowner Energy Efficiency Loan Program, PENNVEST or funds that you have escrowed with PHFA to complete Weather-delayed Repairs.

The first item describes the content that **MUST** be included in any contracts for work to be paid for with these programs. Items 2-10 are guidance materials to help you make your construction project go smoothly.

### **1. HOME IMPROVEMENT CONTRACTS**

PHFA REQUIRES borrowers to look for the following items in the home improvement contract that they will sign to spend their loan funds. Many of these items are specified in the Pennsylvania Home Improvement Consumer Protection Act, but not all. For your own protection, please review information about the Act (or the Act itself) at <http://hicsearch.attorneygeneral.gov/>

- The company's registration number on all advertisements, contracts and proposals.
- A written contract that includes space for the homeowner and contractor's signatures and the date that they sign it.
- The contract includes a detailed description of the work to be done, including separate totals for labor and materials; approximate start and completion dates; total price; any down payment requests or charges for special order items; and the notice of the consumer's right to cancel the contract.
- The names and contact information for all subcontractors who will work on the job.
- Guarantees that all work will be completed within 90 days of loan closing; receive a one year warranty on workmanship (contractor's labor); that the contractor will complete the work in compliance with all applicable building codes and zoning restrictions, and obtain the necessary permits.
- The contractor and homeowner must also determine who will get the certificate of completion or occupancy, if applicable. For the R&R program, form A10b Construction Completion is used to indicate that the job is finished. For Purchase & Improvement and Access Home Modification Loans Form 49 must be executed. A completed H18- Construction Completion Form is required for HEELP loans. PENNVEST loans require a HUD-56002 to document completed repair or replacement of existing individual on-lot sewage disposal systems or first time connection to public sewer system.
- Be aware that limitations on down payments are governed by the Pennsylvania Home Improvement Consumer Protection Act, section 517.9 and other actions are also defined as fraudulent and not allowed, too.

### **2. CONTRACTOR SELECTION**

PHFA requires borrowers to select their own contractors to do work on their home or the home that they are purchasing with PHFA funding. The Agency strongly encourages borrowers to take the following steps to ensure that they find a good contractor:

- Get insurance certificates indicating that your contractor carries general liability insurance and, if applicable, workers' compensation insurance; PA's Home Improvement Consumer Protection Act (effective July 1, 2009) specifies at least \$50,000 in General Liability insurance but many contractors carry \$500,000 or more. Pennsylvania also permits "self-insured" contractors, which includes many Amish contractors, to register with the Attorney General's Office as long as they provide specified information regarding their insurance and insurance provider. Self-insured contractors may be used

on PHFA home improvement loan-funded work as long as they are registered with the AG and their contracts contain the required notice of self-insurance and insurer contact information.

- Ask if they will provide at least a 1 year written warranty on workmanship and materials (many roofers will provide 5 year or longer warranties);
- Insist on a verifiable physical address and phone number (and check that they are real);
- Talk to other homeowners, friends, and relatives in your area that have had similar work completed (not just “in progress”) to get contractor recommendations.
- Find out if the contractor is a member of the local builder’s association or has a good reputation with the local housing and/or redevelopment authority in your municipality or county.
- Call the contractors’ references, look at online resources, and check the Better Business Bureau to ensure that the company is in good standing.
- Get several estimates. Compare prices & contractors’ solutions to your home’s issues. You may want to ask for to-scale drawings to help make their work proposal clear.

### **3. MECHANICS’ LIENS**

A Mechanics’ Lien is a lien recorded against a homeowners’ house at the County Recorder of Deeds Office for failure to pay a subcontractor, or someone who delivers supplies and materials for the home improvement project. These liens are bad for homeowners because when you sell or refinance your home they have to be paid off first – even before the mortgage that you used to buy your home! Worse, this type of lien can be placed against your home even though you paid the General Contractor in full, and it is the General Contractor who failed to pay the subcontractors or supply companies.

The Agency encourages borrowers to ask their General Contractors to sign and record a “Stipulation Against Liens” document before work starts or materials are delivered. PHFA cannot prevent affected parties from filing Mechanics’ Liens against your home. If you don’t know whether your contractor uses subs, ask! It should also be disclosed on the company’s estimate and contract.

### **4. LEAD HAZARDS**

As of December 2008, federal law requires remodeling and painting contractors to provide homeowners with the US Environmental Protection Agency’s pamphlet titled, “Renovate Right: Important Lead Hazard Information for Families, Child Care Providers and Schools.” As of April 2010, contractors must be certified through an accepted Lead Safe Work Practices program and use the techniques taught to minimize lead dust. The Environmental Protection Agency’s website can provide more information at <http://www.epa.gov/lead/pubs/renovation.htm>.

### **5. ENERGY EFFICIENCY**

Making your home more energy efficient may save you money and also make your home more comfortable. Learn more about what “building science research” shows is worth buying for or doing to your home and how much you may be able to save.

See <http://www.energy.gov/eere/buildings/take-action-save-energy-home> to learn more.

### **6. ACCESSIBILITY**

Making your home accessible if you or a family member has a permanent disability is important. It can also be complicated. There are many different ways to overcome a barrier like the front door being at the top of a few stairs or to make a bathroom safer and easier to use. There are also many “Assistive

Technology” devices that can increase an individual’s independence, and they range in cost from a few dollars to thousands of dollars.

PHFA strongly encourages borrowers to use accessibility design professionals to help them decide how to make their home work for their needs. Unfortunately, there is not a single professional certification or license for these individuals. Good resources to use to find people with the needed skills are the Pennsylvania Occupational Therapy Association (<http://pota.site-ym.com/>), support groups for specific disabilities, Centers for Independent Living (<http://www.ilru.org/projects/cil-net/cil-center-and-association-directory-results/PA>), and your own medical services providers.

## 7. TAX CREDITS

Federal tax credits may be available for energy efficiency work, depending on the type of work and the year it is completed. PHFA does not provide tax guidance to borrowers but encourages them to determine whether or not the work they are having done to their home qualifies for these credits. See [www.energystar.gov](http://www.energystar.gov) for more information. As of publication of this form PHFA is not aware of state tax credits but again encourages borrowers to research their availability on their own. The Commonwealth’s Department of Revenue website is <http://www.revenue.state.pa.us/> or you can contact your local representative’s office.

PA does have loan and rebate programs for many energy efficiency home improvements. Read more about these programs at <http://www.energy.gov/articles/energy-efficiency-tax-credits-rebates-and-financing-what-options-are-available-you>.

You may be able to claim home modifications as medical expenses on an itemized federal tax return. Learn more at <https://www.irs.gov/Credits-&Deductions/Individuals/Medical-and-Dental-Expenses-Glance>

## 8. UNDERSTANDING DEBT SECURED BY YOUR HOME

In order to help borrowers make their homes more energy efficient, safer and/or more accessible, PHFA makes the Purchase & Improvement, Access Home Modification, Renovate & Repair Loans, HEELP, and PENNVEST loans available. These are debts secured by the homebuyer or owner’s house and may encumber the home with more debt than it is currently worth. There is also no guarantee that the future value of the home will be greater than the amount of all debts placed against it. You have to decide if taking on debts to improve your home makes the home better for you – even if it doesn’t improve or possibly even maintain its resale value. PHFA retains the servicing for the life of these loans.

Due to the nature of these loans you may begin repayment of your loan before construction work has begun. The repayment start date of your loan is given on your loan Note.

## 9. ISSUE RESOLUTION

The best issue resolution process starts before the contractor starts work on your home. You need to have a clear and detailed, written contract that specifies exactly what you expect to have done in your home, an estimated work schedule, and how any “unexpected” construction issues will be handled. An example of an “unexpected” issue might include rotted plywood under the roof shingles. You need to understand whether the contractor has considered these types of items in his or her bid or whether repairing such underlying damage would be in addition to the estimated price he or she is providing to you. Any changes,

additions or deletions to the original contract should be provided to you in writing and both you and the contractor should sign the “change order.”

One good way to be prepared for unknowns is to have the contractor include a contingency bid as a separate part of their estimate, indicating what items it would cover. The contractor can earn this additional payment(s) by demonstrating with invoices and/or receipts that the construction has exceeded the scope of work in the initial bid and become work covered by the contingency funding.

Next, you and the contractor need to agree on how to communicate with each other – in person, by phone/text/email, what times of day, weekends? You’ll both need to be available to each other to keep the job moving along. Lastly, do your best not to let concerns develop into issues. Ask questions, share concerns, and be clear and realistic about expectations.

Unfortunately, you may need additional resources to deal with a contractor that isn’t willing to work with you to resolve issues and problems. Some helpful resources for this situation may include: the PA Attorney General’s Consumer Protection Bureau at 800-441-2555, the Better Business Bureaus in Pennsylvania, located in Philadelphia, Scranton, Pittsburgh, Harrisburg, and Bethlehem (you can find local contact information by starting at the website: <http://www.bbb.org/> ). Hiring your own attorney may ultimately be needed as well. Borrowers select vendors and contractors to perform work at their homes, and contracts between the borrower, and these vendors and contractors contain the only warranties for work being performed. PHFA, Local Program Administrators, and Pennvest Participants are not parties to these contracts and do not warranty the work that is performed with borrowed funds. Borrowers are responsible for repayment of their loan regardless of their satisfaction with the work performed.

## **10. SEPTIC AND SEWER CONNECTION GUIDANCE**

All first-time sewer connections must be made in accordance with the Pennsylvania Domestic Wastewater Facilities Manual, found at <http://www.elibrary.dep.state.pa.us/dsweb/Get/Document-106697/362-0300-001.pdf>

Your local Sewage Enforcement Officer, SEO, is responsible for authorizing the on lot septic repair/replacement.