

Hawaii Housing Finance & Development Corporation
(HHFDC)

Capital Improvement Guidelines for Health and Safety Reasons;
Property subject to HHFDC's Shared Appreciation Equity (SAE) Program

The information contained herein (Guidelines) is provided to assist (1) the owner in determining whether or not the proposed capital improvements meet HHFDC's criteria under the SAE Program; and (2) the lender in understanding the process for consent to subordination of HHFDC's SAE Program, when mortgage proceeds are being used for capital improvements due to health and safety reasons.

- A. **Capital improvement means** any alteration, betterment, addition or replacement as permanent improvement which appreciably extends the useful life of the property (site, structures, or non-expendable equipment) five (5) or more years and/or increases its value. It is understood that the value of the improvement shall be based on the original costs only less allowances for depreciation where applicable.

Examples of capital improvements include:

1. *Construction of additional rooms (bedroom, bathroom, family room etc.)
2. *Construction of additional interior walls.
3. *Construction of fence, retaining walls, sidewalks, patio, lanais, etc.
4. *Construction of outdoor storage area, garage or carport.
5. Installation of wall coverings, e.g., vinyl, wall paper, paneling, mirrors, etc.
6. Installation of screen door, security equipment, e.g., dead bolt locks, alarm system, yard lighting, etc.
7. Installation of new gutters and downspout.
8. Installation of drapery rods and draperies.
9. Installation of ceramic tile.
10. Installation of major built-in appliances not included at original purchase.
11. Upgrading of kitchen cabinets and fixtures.
12. Upgrading of electrical, gas and/or bathroom fixtures.
13. Upgrading of tile floor covering and carpeting.
14. Upgrading of AC parking area or driveway to concrete.
15. Landscaping of property.
16. Replacement of original built-in appliances included at purchase.

*Plans or sketches of the proposed capital improvements as marked with asterisks must be submitted as part of Affidavit of Owner's Use of Mortgage Proceeds for Health and Safety Reasons (Owner's Affidavit). **Refer to attached Exhibit 1.**

- B. HHFDC requirements for Consent to Capital Improvement Costs.

1. Owner shall complete and sign the attached Exhibit 1 - Owner's Affidavit as to Use of Mortgage Proceeds for Health and Safety Reasons.

For instructions on how to complete the Owner's Affidavit, refer to the attached Exhibit A.

2. HHFDC will consent to capital improvements costs only.
 - a. Owner-Builder. Owner's labor (sweat-equity), property maintenance and repair such as interior and/or exterior painting of the dwelling, roof repairs, plumbing and electrical repairs, etc., are **not** included as part of capital improvement costs.
 - 1) Copies of costs and/or bids for the proposed improvements from owner selected contractor and/or vendors to be paid from the proposed loan, must be submitted to HHFDC, with Owner's Affidavit.
 - 2) Upon completion of such capital improvements, all invoices and/or receipts from contractor and/or vendors for each capital improvement cost, if not included in contractor's total cost, must be submitted to HHFDC.
 - b. Licensed Contractors.
 - 1) Copies of contractor's bid and floor plans, if applicable, shall be submitted to HHFDC with Owner's Affidavit.
 3. Proposed improvements must be completed within one (1) year from date of closing the new loan
- C. Pursuant to HHFDC's Administrative Rules, 100% of owner's equity is the maximum loan amount HHFDC will consent to subordinate to lender's mortgage.

EXHIBIT A

HOW TO COMPLETE EXHIBIT 1 - AFFIDAVIT AS TO OWNER'S USE OF MORTGAGE PROCEEDS FOR HEALTH AND SAFETY REASON (Owner's Affidavit)

AFFIDAVIT MUST BE COMPLETED BY OWNER ONLY

INSTRUCTIONS TO OWNER: Please type or print in ink. Upon completion of Owner's Affidavit, all owners must sign in the presence of a notary. The original, signed Owner's Affidavit must be submitted to HHFDC, along with copies of all required supporting documentation as indicated in the Guidelines. A PHOTOCOPY or FAX of Owner's Affidavit will not be accepted.

- Item 1. List the name of all owners on title and include all appropriate property information.
- Item 4. Provide the appropriate lender information.
- Item 5. Provide an itemized description *in detail* of the proposed capital improvements. For example, do not just state "framing of buildings", cost \$12,000.00. Give a more detailed description such as additional bedroom, size and the related costs.

CONTRACTOR/VENDOR. Example of itemized improvements and costs to build a family room and install air conditioning unit:

<u>Contractor's/ Vendor's Invoice No.</u>	<u>Type Proposal/ Description Items</u>	<u>Type, Use Location</u>	<u>No./Size Sq. Ft.</u>	<u>Improvement Cost</u>
1121	Contract Invoice	Family room Air Conditioner	15' X 20' 4 units	\$30,000.00 <u>10,000.00</u>
			TOTAL	\$40,000.00

OWNER BUILDER. Example of itemized improvements and costs to build a lanai:

<u>Receipts/ Invoice/</u>	<u>Type Proposal/ Description Items</u>	<u>Type, Use Location</u>	<u>No./Size Sq. Ft.</u>	<u>Improvement Cost</u>
100	Concrete	Lanai	10' X 10'	2,000.00
121	Lumber	Lanai	100 Pieces	5,000.00
122	Roof Covering	Lanai	12' X 12'	900.00
200	Electrician Labor	Lanai	9 outlets	<u>500.00</u>
			TOTAL	\$8,400.00

- Item 5. a) Indicate the date of completion of the capital improvement. The proposed improvements must be completed within one (1) year from date of closing of the loan.
- Item 6. State the reasons why the capital improvements are necessary. Please attach doctor's statement or any governmental agency statement or letters to document the health and safety reason.

END OF EXHIBIT A

EXHIBIT 1

**AFFIDAVIT AS TO OWNER'S USE OF MORTGAGE PROCEEDS
FOR HEALTH AND SAFETY REASON**

(MUST BE COMPLETED BY OWNERS ONLY)

State of Hawaii)
) SS.
City and County of _____)

Each of the following undersigned Owner(s) as also listed below, being first duly sworn on oath, deposes and says:

1. That I/We are the Owner(s) of the following described real property:

Project: _____
Apt./Lot No. _____
Tax Map Key: _____
Address: _____

2. That the owner(s) understands that the use of mortgage proceeds is for purposes of installing capital improvements due to health and safety reasons only.

3. That the owner(s) understands that the maximum mortgage loan amount allowed by HHFDC under the SAE Agreement is 80% of the owner's total equity which is the sum of the owner's percentage share of appreciation in the property and the original sales price. The maximum loan amount may be increased to 100% of owner's total equity when capital improvements to the property are necessary due to health and safety reason.

4. That the owner(s) will be obtaining a loan from mortgage broker/lender indicated below:

Name of Lender: _____
Name of Loan Officer _____
Loan Officer Tel No. _____
Lender Address: _____

5. That the owner(s) agree to use the above referenced new mortgage proceeds to pay for capital improvements by contractor/vendor or owner-builder as indicated and as listed and described below:

CAPITAL IMPROVEMENTS BY CONTRACTOR/VENDOR

CAPITAL IMPROVEMENTS BY OWNER BUILDER

Item No.	Contractor or Vender Receipt or Invoice No.	Description of Capital Improvement	Type of Use / Location	Qty / Size/ Sq. Ft.	Cost
Ex. 1.	Inv No. 3355	Replace all existing flooring with vinyl tile		900 s.f.	\$1,500.00
Total Cost of Capital Improvements:					\$

If additional space is necessary, continue on another sheet.

- a) That the Owner(s) agree to complete the above-referenced improvements on or before (date) _____ or such subsequent date as may hereafter be approved, in writing, by the HHFDC; and that the said work to be completed by the Owner comply with the requirements of the homeowner's association, if any, and of the county having jurisdiction.
- b) That the Owner(s) has attached, as may be required, copies of proposed plans and specifications for construction of certain capital improvements as specifically indicated with asterisks in the Guidelines; and that construction must be completed within one (1) year from date of closing the new loan.
- b) That the Owner(s) has attached, as may be required, copies of Vendor/Contractor costs/bids for the proposed improvements to be paid by the homeowner from the proposed loan proceeds.
- e) That the owner(s), at HHFDC's option, agree to send copies of the receipts,

checks, invoices etc., for the added capital improvements upon completion of all of the improvements listed above for HHFDC's files.

- f) That the owner(s), at HHFDC's option, agree to allow its inspectors to inspect the above added capital improvements upon completion.

6. Capital Improvements are necessary for the following health and safety reasons:

- 7. That the owner(s) has attached a letter from the doctor or governmental agency that substantiates the necessity for the capital improvements listed.
- 8. That the owner(s) makes this affidavit in support of owner(s) request to obtain HHFDC's consent to a mortgage.
- 9. That owner(s) understands that the statements made in this Affidavit are made under oath and will be relied upon by HHFDC in its approval to use these funds as indicated above.
- 10. That the Owner(s) shall be subject to misdemeanor criminal charges under Hawaii Penal Code, Section 710-1061, HRS, which are punishable by a fine of not more than \$1,000 and/or imprisonment of not more than one year, for knowingly making a false statement in this Affidavit.

_____	_____	_____
Print Name of Owner	Signature of Owner	Date
_____	_____	_____
Print Name of Owner	Signature of Owner	Date
_____	_____	_____
Print Name of Owner	Signature of Owner	Date
_____	_____	_____
Print Name of Owner	Signature of Owner	Date

This ____-page (Doc description) _____

dated _____ was subscribed and sworn
to before me this ____ day of _____
by _____

Print Name:
Notary Public, ____ Judicial Circuit, State of Hawaii
My commission expires: _____

327W.CTS REV. 3.10.2010

END OF EXHIBIT 1