

Kentucky Housing Corporation  
Housing Contract Administration Department

**Policy Manual:**  
**2025 RHTF Single-Family Homebuyer**  
**New Construction Projects**

*Funded by:*  
*Kentucky's Rural Housing Trust Fund (RHTF)*

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## Notice

This manual serves as a reference for the Kentucky Housing Corporation's administration of its Rural Housing Trust Fund (RHTF). KHC program policy manuals are subject to change without notice.

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Separate policy manuals are available for other Housing Contract Administration programs.

Go to the [HCA Partner Agency Portal](https://kyhmis.zendesk.com/home) at <https://kyhmis.zendesk.com/home> to submit a request to the Housing Contract Administration (HCA) Partner Agency Portal if you have questions or need additional assistance with materials within this manual.

# Contents

Definitions .....	5
Public Information and Open Records Act Requests .....	6
General Policies & Requirements .....	6
.....	7
2025 RHTF Priorities.....	7
Priorities Set Forth in RHTF Legislation.....	7
Additional Priorities Established by the RHTF Advisory Committee.....	7
Eligible Applicants .....	7
Capacity.....	8
Maximum Funding Requests .....	8
Funding Awards .....	8
Prohibition on Combining RHTF Funds with HOME and/or AHTF in a Specific Local Project.....	8
Obligation of Funding Commitments.....	8
Activity Set-up Requirements .....	9
De-obligation of Funding Commitment .....	9
Eligible Household Income Limits .....	10
Eligible Beneficiaries: RHTF .....	10
Income Documentation and Determination (24 CFR §92.203) .....	10
Income Verification.....	10
Homeownership Definition.....	11
Duplication of Benefits Analysis if Serving Disaster Survivors .....	11
Fair Housing, Equal Access and Affirmative Marketing Requirements .....	11
Home Buyer Counseling & Estate Planning .....	12
RHTF Range of Uses, Funding Limits, and Affordability Terms.....	13
Other Requirements .....	13
Audits.....	13
Recordkeeping.....	13
Conflict of Interest .....	14
Data Breach.....	14
.....	15
At-a-Glance: .....	15
RHTF Single-Family Homebuyer New Construction.....	15
.....	18

Ineligible Activities .....	18
Construction Requirements .....	19
Construction Contingency.....	19
Inspections .....	20
Draw Requests .....	21
RHTF-Eligible Costs.....	21
Homeowner/Homebuyer Protections .....	21
Written Underwriting Standards .....	22
Home Buyer Value Limits.....	23
Subsidy Requirements .....	24
Subsidy Analysis .....	24
RHTF Range of Uses, Funding Limits, and Affordability Terms.....	24
Development Gap Subsidy .....	24
Direct Subsidy: Homebuyer Assistance .....	25
Collateral .....	25
Insurance.....	26
Annual Verification of Occupancy Status.....	26
Recapture.....	26
Fees .....	27
Program Income.....	27
Displacement, Relocation, and Acquisition .....	27
Partner Processes Overview– Single Family Development.....	28
Release of Funds .....	28
Closing Documents.....	28
Project Close-out.....	29
Resources .....	30
APPENDIX A.....	31
KHC Single Family Homebuyer Development Funding Flow Chart.....	32
APPENDIX B.....	33
APPENDIX C.....	34
Single-Family Homebuyer Development-New Construction Requirements .....	35

This manual outlines the policies pertaining to single-family homebuyer activities funded by RHTF awards. It is the responsibility of the project developers/subrecipients to read, understand, and comply with these requirements as applicable to each funding source used for the development of a housing unit as well as the documents and notices listed below, as applicable.

- RHTF Requirements (Kentucky Revised Statutes 198A.740 to 198A.750)
- *Policy Manual - 2025 RHTF Single-Family Homebuyer New Construction Projects*
- *RHTF Single Family Homebuyer Development Project Set-Up Template*
- The applicant's application for funding
- Grant agreement(s) between the applicant and KHC
- RHTF Administrative Certifications

## Definitions

*Applicant:* Any eligible entity that makes application for funding from Kentucky Housing Corporation for RHTF program funds. Applicant is used to refer to the entity throughout the process until KHC obligates funds to the organization in the form of a funding agreement.

*Commit to a specific local project:* If the project consists of rehabilitation or new construction (with or without acquisition) and the developer has executed a construction contract where necessary financing has been secured; a budget and schedule have been established; underwriting has been completed; and construction is scheduled to start within twelve months of the written agreement date. Additionally, the project has been set up by KHC in the KHC Performance Management Draw System. RHTF-funded homebuyer projects will be funded through individual project set ups and governed by the subrecipient grant agreement for the program year.

*Developer:* The Applicant awarded funds will serve as the developer of homebuyer new construction housing funded by KHC, where it is either: a) the owner (in fee simple absolute) and developer of new housing that will be constructed or existing substandard housing that will be rehabilitated for sale to low-income households as proposed in its application for funding. Developers will be subrecipients of RHTF funding.

*Development Gap Subsidy:* In the event the total development costs exceed the appraised value, the housing unit may not sell for more than the appraised value. The difference between the total development costs and the appraised value is the **development gap subsidy**. Development subsidy is only permitted for those developers that undertake homebuyer new construction or acquisition/rehabilitation/resale activities.

*Direct Subsidy:* The total amount of funding that enabled the home buyer to purchase the dwelling unit is considered the **direct subsidy**. This includes any RHTF assistance that reduces the purchase price from the fair market value to an affordable price but **excludes** development subsidy. Direct subsidy is typically classified as down payment and closing costs assistance.

*Homebuyer:* The end beneficiary of RHTF assistance to a housing unit. They will own the assisted unit upon completion of the RHTF activities and will occupy the unit as their primary residence for the duration of the affordability period.

*Set-up Packet:* All paperwork required for submission by KHC so that KHC can approve the start of construction for an activity. The set-up packet includes, but is not limited to, the following: household income verifications, cost estimates, construction start-up notices, environmental reviews, purchase agreement, and the Developer Written Agreement. **The submitted set up packet must include the newest RHTF Single-Family Homebuyer Development Set-Up Packet Excel workbook downloaded from the HCA Partner Agency Portal at <https://kyhmis.zendesk.com>.**

**Public Information and Open Records Act Requests**

Applicants are advised that materials contained in applications are subject to the requirements of the Kentucky open records laws at KRS §61.870-61.884 and the application materials may be viewed and copied by any member of the public. Applicants seeking to claim a statutory exemption to disclosure from open records requests, which may be made, must place all documents viewed as confidential in a sealed envelope marked “confidential”. Applicants must be aware that if an open records request is made for any of the application materials, KHC will make an independent determination of confidentiality and may or may not agree with the applicant’s determination regarding the confidentiality of the materials.

**General Policies & Requirements**

**KHC 2025 Rural Housing Trust Fund  
Single-Family Homebuyer New Construction Program  
At-a-Glance**

<b>Single-Family Homebuyer Development</b>	<p><u>Purpose:</u> To bring new homeownership units to rural housing markets to attract and retain moderate and low-income families.</p> <p><u>Eligible Activities:</u></p> <ul style="list-style-type: none"> <li>• Construction of spec-built homes not pre-sold before construction.</li> <li>• Land acquisition and construction of new homes outside of the floodplain.</li> <li>• Site-built, factory-built, and modular construction.</li> <li>• Home may NOT be located in the Special Flood Hazard Area.</li> <li>• Site preparation necessary for home construction/delivery.</li> <li>• Assistance to help a homebuyer purchase an RHTF-funded home.</li> <li>• Lease purchase to help buyers unable to immediately obtain mortgages.</li> </ul>
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## 2025 RHTF Priorities

### Priorities Set Forth in RHTF Legislation

1. Projects located in a federally declared disaster area or projects assisting individual recipients displaced by a federally declared disaster area. RHTF Funds must be committed with two years (24 months) of a disaster declaration by the federal government to qualify under this priority (Western Kentucky tornado declaration dated December 12, 2021; Eastern Kentucky flooding declaration, dated July 29, 2022)
2. Projects submitted by nonprofit organizations or local governments for new rural housing construction.
3. Projects using existing privately owned housing stock, including stock purchased by nonprofit public development agencies.
4. Projects using existing publicly owned housing stock.
5. Projects submitted by local governments for projects that demonstrate effective zoning, conversion, or demolition controls for single room occupancy units.

### Additional Priorities Established by the RHTF Advisory Committee

In consultation with the RHTF Advisory Committee, KHC has established additional priorities for projects to be funded for disaster recovery via this NOFA. Projects must meet at least two of the additional priorities.

1. Projects creating new housing supply.
2. Projects located in rural areas with significant job growth.
3. Projects located in counties shown to have a housing supply gap based on KHC's gap analysis.
4. Projects with contributions from local government, a local employer, economic development entity, and/or philanthropic organization (Land donation, project funding, down payment assistance, etc.).

As required by KRS §198A.746, all funds received are to be used for rural areas of the Commonwealth. To be considered rural, properties must be in areas defined as rural by USDA Rural Development (RD). KHC reserves the right to make funding decisions to meet this requirement. Applicants can determine if a property is in a rural area by accessing the USDA-RD Property Eligibility Site <https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>, "Single Family" and then enter the property address. **A copy of the USDA-RD eligibility determination must be provided with the Project Set-Up.**

### Eligible Applicants

To be eligible to participate in the RHTF programs, an applicant must be deemed to be in good standing by the Secretary of State of the Commonwealth of Kentucky and Kentucky Revised Statutes (KRS §198A.700 to §198A.730). Once awarded funds, all developers must follow the requirements of KRS §198A.700 to §198A.730; the RHTF Disaster Housing Recovery for Single-Family Projects in EKY and WKY policy manual; the RHTF grant agreement; and applicable Mortgage Letters. An eligible applicant must also have at least one full-time employee.

#### Eligible Applicants

- Nonprofit housing organizations
- Local governments
- Private, for-profit developers and businesses that undertake the new construction or rehabilitation of rural housing units for moderate income individuals
- Public Housing Authorities

**NOTE: Organizations should only apply if they themselves will develop affordable single-family homes and/or repair existing owner-occupied homes with KHC funds. KHC will NOT award funds to intermediary subrecipients.**

## Capacity

KHC will assess the capacity of the applicant to complete the development process and the applicant's fiscal soundness to ensure they have adequate resources and liquidity to make it through the development process and get the project completed.

## Maximum Funding Requests

KHC limits the amount of funds an applicant may request.

KHC reserves the right to award lesser or greater amounts than requested. This determination may be based on such factors as the capacity of the applicant or administrator, a project's readiness to proceed, the number of applications received, geographic distribution of funds, and any other factors that KHC deems appropriate and necessary.

## Funding Awards

KHC will competitively award funding for 2025 RHTF Single-Family Homebuyer New Construction projects to eligible applicants via competitive application processes governed by a Notifications of Funding Availability (NOFA). RHTF funds will be awarded through a subrecipient grant agreement that permits recipients to submit project set-ups for individual housing units and request release of funds for those individual units. NOTE: RHTF funds will be made available via competitive NOFAs until fully committed. If funds are fully committed via the first NOFA, KHC will not hold subsequent competitions.

## Prohibition on Combining RHTF Funds with HOME and/or AHTF in a Specific Local Project

If KHC awarded an eligible applicant HOME, Kentucky Affordable Housing Trust Fund (AHTF), and 2024 RHTF via competitive allocation, those projects must not combine with 2025 RHTF in a specific local activity.

## Obligation of Funding Commitments

KHC will only commit funds to a specific local project (typically a single unit) when the project has secured all the financing necessary to complete the project, established a budget and schedule for construction, completed underwriting and subsidy layering, and submitted a complete *2025 RHTF Single-Family Homebuyer Development Set-Up Packet* or<sup>1</sup> with all necessary supporting documentation.

The schedule for construction must include timelines for each of the following phases:

- Footing (post-excavation and before concrete is poured)
- Interim (between wall insulation and drywall)
- Completion (100% complete, prior to move in)

KHC requires that developers/subrecipients have all funds committed and expended according to the terms established in the grant agreement for RHTF-funded projects. Commitment means that the subrecipient received a release of funds from KHC for a specific local project.

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<sup>1</sup> Download and complete the newest *RHTF Set-Up/PCR Packets* from the HCA Partner Agency Portal at <https://kyhmis.zendesk.com>



A *RHTF Single-Family Homebuyer Development Set-Up Packet*<sup>2</sup> with all necessary supporting documentation must be submitted to KHC prior to release of funds for all homebuyer/homeowner activities.

KHC may award additional funds to developers/subrecipients who wish to continue projects within the same activity for which they were previously funded and who are using the same project design, provided the applicant has been monitored by KHC and no significant monitoring issues have been identified nor findings made.

### **Activity Set-up Requirements**

The developer must submit a complete *RHTF Single-Family Homebuyer Development Set-Up Packet* with all required supporting documentation for each specific local project to HCA at [hcadev@kyhousing.org](mailto:hcadev@kyhousing.org) at least **three weeks prior to the start of construction**.

**Note: Developers may not begin construction on any unit until the project has been approved by HCA program staff as demonstrated by the receipt of an activity number and a release of funds email. Any unit started (defined as any on-site construction activity) before approval by KHC may make the unit ineligible for KHC assistance and could affect future funding.**

### **De-obligation of Funding Commitment**

Furthermore, KHC reserves the right to the following:

- Withdraw its conditional funding commitment if technical submission items are not submitted by the applicant by the date referenced in the commitment letter.
- De-obligate funds if funds are not committed and/or expended and construction completed by the dates referenced in the funding agreement, or if the project substantially changes after funding commitment.
- Periodically review the developer's progress toward timely commitment and expenditure of the RHTF allocation. If KHC determines that the project is no longer feasible or is not progressing at a rate where the imposed deadlines will be met, funds may be de-obligated.
- De-obligate funds from any developer who becomes suspended or debarred in accordance with KHC's Suspension and Debarment Policy.
- De-obligate funds if the developer has not met the commitment and expenditure deadlines as referenced in the funding agreement. However, KHC reserves the right to extend the date if extenuating circumstances prevented the commitment. KHC's goal is to ensure timely use of RHTF dollars to best meet the needs of disaster-affected communities.
- Reallocate funds to another eligible project, if KHC de-obligates funds or has funds uncommitted.

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<sup>2</sup> Download and complete the newest *RHTF Set-Up/PCR Packets* from the HCA Partner Agency Portal at <https://kyhmis.zendesk.com>

## Eligible Household Income Limits

The income limit is the **greater** of either 120% of Kentucky's state median family income **OR** 120% of area median income. RHTF income limits will be published annually on the HCA Partner Agency Portal.

Maximum Household Income	Source of Income Limits
The <b>greater</b> of either: 120% of Kentucky's state median family income <b>OR</b> 120% of HUD area median income for the county	Published by HUD. Listed on KHC's <a href="#">Partner Agency Portal</a> .

## Eligible Beneficiaries: RHTF

### Eligible Beneficiaries of RHTF

All program beneficiaries must:

- Be Kentucky residents;
- Occupy the property as a principal residence; and
- Be moderate-income; that is, have an annual (gross) income that does not exceed 120 percent of median income for the county in which the household resides for the county in which the household resides or 120% of the median for the Commonwealth of Kentucky, whichever is higher. These income limits are available on the HCA Partner Agency Portal (<https://kyhmis.zendesk.com>). The [HUD CPD Income Calculator](#)<sup>9</sup> can be used to document RHTF eligibility.

KHC updates RHATF Income limits each spring, using HUD's income limits as a basis. Updated income limits will be announced via KHC eGram and updates will be included in the RHTF Set-Up Packet.

## Income Documentation and Determination (24 CFR §92.203)

The census long-form definition of income has been eliminated. KHC requires that the 24 CFR Part 5 method be used to define income eligibility. When a developer does an income determination to use in determining the eligibility of an applicant for RHTF assistance, it must include at least two months of income documentation. KHC does not allow "grossing up" non-taxable income for determining ratios.

## Income Verification

All households assisted must be income-eligible based on the anticipated gross income as determined by the Section 8 method ([24 CFR Part 5](#)) of income determination. The income of the applicant includes all household income and the actual or imputed income from assets of all household members. Imputed asset income must be determined using the current passbook savings rate, as published by HUD.

For projects assisting existing homeowners and homebuyer projects where the buyer has been identified prior to construction, income and asset verifications are valid for 180 days prior to the developer's submission of the Project Set Up to KHC. If more than 180 days elapse after the income verification for a household is completed, but before KHC grants release of RHTF funds for a specific local project, the developer must re-verify all household income and assets using the Section 8 method.

If a developer has not identified a homebuyer prior to submission of project set up for a unit to be developed, the developer must verify the homebuyer's income prior to closing. The developer must submit a revised *RHTF Single-Family Homebuyer Development Set-Up Packet* with the "5) Buyer Income" worksheet completed to [hcadev@kyhousing.org](mailto:hcadev@kyhousing.org) at least **3 weeks prior to closing** along with completed RHTF closing documents (RHTF mortgage and note), and terms of private homebuyer mortgage(s) and note(s) for review and approval by KHC.

When determining income eligibility, at least 2 months' worth of source documentation must be reviewed. The income of ALL adults (18 and over) household members must be counted. The [HUD CPD Income Calculator](#)<sup>3</sup> is a tool that developers can use to help accurately document income.

### Homeownership Definition

- Homeownership is defined as fee simple title (title must be clear and free from defects), or a 99-year leasehold interest in a one- to four-unit dwelling, or equivalent form of ownership approved by KHC.
- Inherited property with multiple owners, life estates, inter vivos trust, living trusts, and beneficiary deeds are all considered eligible forms of ownership.
- Ownership must be proven, and title searches must be completed prior to the investment of RHTF. NOTE: Property assisted with RHTF will not be eligible for additional assistance during the 10-year affordability period.
- Land contracts and Contracts for Deed **are not** an eligible form of ownership.

### Duplication of Benefits Analysis if Serving Disaster Survivors

If serving a survivor of a federally-declared disaster, all developers need to establish a process to analyze duplication of benefits to include the total amount of awards (federal, state, insurance, and other private, non-subsidized payments) and the total remaining in available balances. Available balances must be contributed to the project for the purchase, which will reduce either the first mortgage or RHTF direct subsidy needed. Developers will need to document sources of awards, amounts, and uses to ensure the total amount of awards and confirm remaining balances; however, any spent or misspent funds will not adversely affect the RHTF award amount. (If developers have questions about duplication of benefits and what qualifies, contact KHC.)

The developer must complete the "Duplication of Benefits Analysis" section of the appropriate RHTF Project Set Up.<sup>4</sup> Documentation of disaster benefits received by a household must be submitted with the RHTF Project Set Up. **Unspent benefits must be accounted for in the RHTF Project Set Up as a source contributing to the total project cost.**

### Fair Housing, Equal Access and Affirmative Marketing Requirements

Developers must comply with all Fair Housing requirements, including:

- [Equal Access to Housing in HUD Programs Regardless of Sexual Orientation or Gender Identity](#)
- (2012 Equal Access Rule) and
- [Equal Access in Accordance with an Individual's Gender Identity in Community Planning and Development Programs](#) (2016 Equal Access Rule)

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<sup>3</sup> <https://www.hudexchange.info/incomecalculator/>

<sup>4</sup> Found on the "4) Buyer Affordability" worksheet of the *RHTF Single-Family Homebuyer Development Set-Up Packet* and the "3) Sources and Uses" work sheet of the *RHTF Home Repair Set-Up Packet*

To be eligible, agencies must be able to satisfactorily address the impediments to fair housing. These impediments are defined in Kentucky Housing Corporation's document entitled [2019 Analysis of Impediments to Fair Housing Choice](#). Developers shall not discriminate or deny assistance to any person because of race, religion, age, sex, sexual orientation, gender identity, national origin, familial status, marital status, disability, or actual or perceived sexual orientation or gender identity.

KHC requires that RHTF-funded projects comply with Affirmative Marketing requirements and procedures established by the US Department of Housing and Urban Development HOME Investment Partnerships program, as outlined in 24 CFR Part 92.351.

## **Home Buyer Counseling & Estate Planning**

Home buyer counseling and estate planning is **required** for all home buyers receiving or purchasing a unit developed with RHTF.

### Counseling and Estate Planning Costs

Counseling and estate planning costs (not to exceed \$2,000 combined) may be charged:

- as a project-related soft cost; or
- to the homebuyer, if the fee is reasonable.

KHC has not set a policy on the number of hours or length of such counseling but may review each application for reasonableness as a part of the application process. Estate planning must result in a will, trust, or similar document. Certification, signed by counselor or developer and homebuyer/homeowner that estate planning was completed.

### Counseling Provider

The developer may determine the provider (KHC or HUD-approved counseling agency, or other provider), content, and length of the counseling. The counseling curriculum must prepare homebuyers for not only the process of purchasing the home but also for budgeting, maintaining the home, and everything else during the affordability period. Counseling may be provided by a HUD-approved online provider.

KHC recommends, but does not require, that all counseling components meet the current National Industry Standards for Homeownership Education and Counseling. The current voluntary national standards can be found at [www.homeownershipstandards.com](http://www.homeownershipstandards.com).

Information about KHC's post-purchase education is available on KHC's website at <https://www.kyhousing.org/Homeownership/Future-Homebuyers/Pages/Housing-Counseling-and-Education.aspx>.

## RHTF Range of Uses, Funding Limits, and Affordability Terms

Activity Type	Maximum Permanent RHTF Funding (Development Gap + Homeowner Subsidy)	KHC Design Requirement	Affordability Requirement
Homebuyer New Construction on New Site (HB)	Up to \$120,000	Minimum Design Standards	10-year deed restriction + Mortgage/note in the amount of direct subsidy to the homebuyer

### Other Requirements

#### Audits

Audits of developers will be conducted in accordance with 2 CFR Part 200.

#### Recordkeeping

- Developers must maintain sufficient records to enable KHC to determine whether the developer has met the requirements in grant agreement requirements for projects. At a minimum, the following records will be required:
  - Program records;
  - Project records;
  - Financial records;
  - Program administration records
- **Record Retention for RHTF-funded Activities.** All records pertaining to each fiscal year of funds must be retained for 5 years, with the following exceptions:
  - For homeownership housing projects, records may be retained for five years after the project completion date, except for documents imposing recapture/resale restrictions which must be retained for five years after the affordability period terminates.
  - Written agreements must be retained for five years after the agreement terminates.
  - Records covering displacements and acquisition must be retained for five years after the date by which all persons displaced from the property and all persons whose property is acquired for the project have received the final payment to which they are entitled.
  - If any litigation, claim, negotiation, audit, monitoring, inspection, or other action has been started before the expiration of the required record retention period; records must be retained until completion of the action and resolution of all issues which arise from it, or until the end of the required period, whichever is later.

## Conflict of Interest

All developers, regardless of funding source awarded, must establish a Conflict-of-Interest Policy.

Potential conflicts of interest may arise from many situations. Some of the more common examples are:

- Requests for program assistance from employees or families of employees
- Developers contracting with or procuring materials from employees or family members of employees

All developers are responsible for identifying situations in which a conflict of interest, whether real or perceived, may exist. If a conflict of interest is identified, the developer must request an exemption by emailing [hcadev@kyhousing.org](mailto:hcadev@kyhousing.org).

Developers must immediately **report** to KHC any real, potential, or perceived conflict of interest, as applicable, regarding the receipt of, assistance provided with, or expenditure of RHTF. For example, a potential or perceived conflict of interest may exist when a relative (sibling, cousin, parent, etc.) of the developer's staff applies for housing assistance through an RHTF-assisted program or in an RHTF-assisted property. For additional guidance on how to identify, refer to HUD's Integrity Bulletins at <https://www.hudexchange.info/resource/5065/hud-integrity-bulletins/>.

## Data Breach

In the event of a data breach, the developer will notify KHC in the most expedient manner possible, and without unreasonable delay, but in no event later than seventy-two (72) hours from the determination of a security breach relating to the data in developer's possession. Developer agrees to comply with all provisions of KRS 61.932, including that the developer shall implement, maintain, and update security and breach investigation procedures which are appropriate to the nature of the information disclosed, at least as stringent as the security and breach investigations procedures and practices in KRS 61.932(1), and reasonably designed to protect the data from unauthorized access, use, modification, disclosure, manipulation, or destruction. On the event of a developer committing an unauthorized disclosure of data listed in KRS 61.932(1)(a) through (f), developers shall provide to KHC a copy of all reports and investigations relating to such investigations or notifications that are required by federal law or regulation.

## At-a-Glance: RHTF Single-Family Homebuyer New Construction

<b>Purpose</b>	To bring new homeownership units that meet KHC Design Guidelines to rural housing markets to attract and retain moderate and low-income families.
<b>Eligible Households</b>	<ul style="list-style-type: none"> <li>• Homebuyers with combined household income &lt;120% AMI.</li> <li>• Homebuyers must acquire ownership interest in the land and the home.</li> <li>• Housing-to -income ratio must fall between 10% and 29%.</li> </ul>
<b>Eligible Properties</b>	<ul style="list-style-type: none"> <li>• Single-family homes and qualified manufactured homes.</li> <li>• Home must be the homeowner or homebuyer’s primary residence.</li> <li>• Home may NOT be built in the Special Flood Hazard Area (SFHA).</li> </ul>
<b>Geography</b>	<ul style="list-style-type: none"> <li>• Rural areas of Kentucky, per the USDA-RD property eligibility lookup webpage.</li> </ul>
<b>Max Assistance</b>	<ul style="list-style-type: none"> <li>• A maximum of \$120,000 can be permanently invested in a home.</li> <li>• This maximum includes the sum of affordability gap funding + development gap funding.</li> <li>• RHTF funds must be used to fill gaps—not to duplicate other available funds.</li> <li>• RHTF can be used to finance 100% construction/development costs, but the amount of funds not recycled/repaid must only subsidize documented project gaps.</li> </ul>
<b>Disaster Mitigation</b>	To mitigate the impact of future disasters on assisted households, RHTF project may include mitigation, such as fortified roofs and flood-resistant basements.
<b>Eligible Activities</b>	<ul style="list-style-type: none"> <li>• Home Construction that Meets <i>KHC Minimum Design Standards</i>.</li> <li>• Construction of spec-built homes not pre-sold before construction.</li> <li>• Land acquisition and construction of new homes outside of the floodplain.</li> <li>• Site-built, factory-built, and modular construction are all eligible.</li> <li>• Site preparation necessary for home construction/delivery.</li> <li>• Assistance to help a homebuyer purchase an RHTF-funded home.</li> <li>• Lease-purchase is allowable to help buyers unable to immediately obtain mortgages.</li> </ul>
<b>Assistance Form/Term</b>	10 years enforced via deed restriction and a mortgage forgiven incrementally each year. (Forgivable mortgage is only for amount of direct assistance to buyer.)
<b>Eligible Applicants/Developers</b>	Private nonprofit and for-profit developers, other nonprofit organizations, units of local government; and Public Housing Authorities in good standing with both the Commonwealth and KHC.
<b>Per Unit Developer Fee</b>	If acting as a developer or contractor, the developer/builder may earn a fee upon completion of the home equal to the lesser of 20% of total project costs up to a maximum of \$20,000.
<b>Forms &amp; Templates</b>	<a href="#">HCA Partner Agency Portal</a> , KHC RHTF Single-Family Homebuyer Set Up Template

### Activities Eligible for Single Family Development Funding

KHC strives to maintain a great deal of flexibility in how the funds can be utilized to maximize the opportunities to create or maintain affordable housing of all types across Kentucky. The following project types may be eligible for the following:

- Home Construction that meets *KHC Design Guidelines*:
- Construction of spec-built homes not pre-sold before construction.
- Land acquisition and construction of new homes outside of the floodplain.
- Site-built, factory-built, and modular construction are all eligible.
- Site preparation necessary for home construction/delivery.
- Assistance to help a homebuyer purchase an RHTF-funded home.
- Lease-purchase is allowable to help buyers unable to immediately obtain mortgages.

**NOTE: KHC will not allow funds to support administrative costs for single-family development. Such costs should be supported via Developer Fees and/or Builder's Overhead/Profit + General Requirements line items in the RHTF Single-Family Homebuyer Development Set-Up Packet<sup>2</sup> "2) TDC" tab submitted for each specific local project.**

### Direct Subsidy for Single-Family Homebuyer Construction Projects without Construction Financing

As stated in the "Ineligible Activities" section below, "down payment, closing costs, and/or principal reduction for the acquisition of a unit not constructed or rehabilitated by the developer under this funding cycle" is an ineligible activity. In some single-family homebuyer new construction or acquisition/rehabilitation/resale projects, the appraised value/sales price exceeds the total development cost and no construction development gap financing is necessary. In these cases, the developer can request only down payment assistance (direct subsidy) for a homebuyer development project without requesting RHTF interim construction financing. The Project Summary in the **RHTF Single-Family Homebuyer Development Set-Up Packet<sup>2</sup>** for such projects should clearly state that only direct subsidy is necessary for the sale of the newly constructed (or rehabilitated) home as market conditions do not necessitate development gap financing. **KHC will not permit stand-alone RHTF down payment assistance funding for units not developed with RHTF construction financing.**

### Single-Family Development Projects where a Relative or Friend of Homebuyer Provides Land for Development

In cases where a prospective homebuyer has been gifted vacant land where the home will be newly constructed, the developer must take title to the property prior to construction. In these cases where the acquisition of the property is not an "arms-length" transaction, the developer should acquire the property for the nominal fee of one dollar (\$1.00) and the property seller and the developer must execute *the Certification of Seller and Developer for Land Acquisition Below Appraised Value* located on the HCA Partner Agency Portal (<https://kyhmis.zendesk.com/>) under "Homebuyer Development (HOME/RHTF)/Single-Family Homebuyer Development Program-Related Tools and Documents." **NOTE: In such a case DO NOT enter the value of the donated land in the Building & Property Acquisition section of the RHTF Single-Family Homebuyer Development Set-Up Packet "2) TDC" tab submitted for the specific local project. If the land is donated, it may be entered as a subsidy under the "4) Buyer Affordability Tab" of the Set-Up Packet.**



### Additional Considerations

- Acquisition of vacant land must be undertaken only with respect to a housing project intended to provide affordable housing. Note: the use of funds must result in a unit of affordable housing. Land acquisition or demolition that does not result in a unit of affordable housing is ineligible.
- Developers are responsible for ensuring that housing units are properly insured during the construction and/or rehabilitation process. Developers must also ensure that the assisted property remains insured throughout the affordability period.
- For all properties assisted with RHTF, the homeowner must maintain all risk, fire, and extended insurance coverage, in form and with companies acceptable to the developer, for each homebuyer activity, in an amount not less than the investment in the property. Each policy must include appropriate loss payable clauses in favor of Kentucky Housing Corporation, as beneficiary, and without right of cancellation or change except upon thirty (30) days' written notice to developer. Homeowner will deliver proof of all insurance to the developer at closing and via subsequent verifications of occupancy status.
- For spec housing or townhomes, KHC will allow set-ups without income information or homebuyers' names. Partners need to place the Lot Numbers or addresses in the name section and leave the income tab blank. For the affordability tab, use average mortgage amounts and direct subsidy amounts. Once buyers are identified, the setups can be revised.
- Manufactured housing.
  - RHTF dollars may be used to purchase a manufactured housing. Any manufactured unit must, at project completion, be on a permanent foundation, be connected to permanent utility hook-ups, and be located on land that is owned by the manufactured housing unit owner or land for which the manufactured housing owner has a lease for a period at least equivalent to the applicable period of affordability.
  - Manufactured housing must meet all applicable state and local construction standards, the HUD Manufactured Home Construction and Safety Standards, and the HUD Manufactured Housing Installation Standards. The real property on which the manufactured home is located must also meet all zoning requirements.
  - A manufactured home that is built on a chassis (as opposed to modular housing, which is constructed off site and delivered by truck) is issued a motor vehicle title. Recording a mortgage against the real property to secure a loan does not automatically secure the home in these cases. Recording a mortgage and a motor vehicle lien protects the lien. Alternatively, provided the manufactured home is permanently attached to a foundation (with axles and towing gear removed), the developer and homeowner may surrender the Kentucky Certificate of Title and file an Affidavit of Conversion to Real Estate with the county clerk in the county where the property is located. By doing this, a mortgage is the only lien required. The manufactured home becomes "real property" instead of "personal property."

## Ineligible Activities

- Acquisition/rehabilitation/resale activities.
- Owner-occupied demolition/reconstruction projects.
- Owner-occupied rehabilitation/repair activities.
- Finished basements. Partially finished basements may be permitted on a case-by-case basis if the existing topography of the site would yield a sub-surface area large enough to be usable by the assisted household. This activity would require prior approval.
- Luxury items including but not limited to:
  - Swimming pools.
  - Fences (other than those required for security).
  - Television satellite dishes.
  - Any upgrades (see definition below) not approved with through the waiver process and included in plans and specifications.
- Non-essential landscaping (unless installed as part of a green building design) and other yard or nonstructural improvements.
- Rehabilitation of accessory structures, unless specifically authorized by KHC for health and safety reasons.
- Additional rooms, except to comply with Kentucky Residential Code.
- Refinancing of existing debt.
- RHTF assistance of less than \$1,000.
- Down payment, closing costs, and/or principal reduction for the acquisition a unit not constructed or rehabilitated by the developer under this funding cycle.
- Payment of delinquent taxes, fees, or charges on properties.

Note: Upgrades may be approved by KHC, but developers have sole discretion to choose whether they will allow upgrades. If offered, a specific upgrade policy must be established in the developer's written homebuyer program policies and procedures. KHC will approve upgrades on a unit-by-unit basis if requested via KHC's online waiver system.

To submit an upgrade for consideration of approval, developers must include the upgrade in revised plans and specifications, which must then be submitted to KHC's Design and Construction Review department for approval. The online upgrade waiver request for a specific unit must describe the upgrades, price differences, how the upgrades will be funded, and include the developer's written program procedures for upgrades. The project set up must incorporate upgrade costs in the Total Development Costs worksheet of the RHTF Single-Family Homebuyer Development Set-Up Packet.

Upgrades are defined as the following:

- Garages, unless required by a neighborhood or subdivision covenant, or are an existing attached structure.
- Upgrades to surfaces, furnishings, fixtures, appliances, materials, etc. that are beyond the minimum needed to meet Minimum Design Standards.

Examples of upgrades, may include but are not limited to the following:

- Granite countertops
- Custom cabinets
- Wood flooring
- Tiled shower
- Jacuzzi tub (tub with jets)
- Stainless steel smart refrigerator
- Wood or brick siding

## Construction Requirements

All construction must comply with all applicable KHC design and construction standards at <http://www.kyhousing.org/Development/Pages/Design-and-Construction.aspx>, along with building and residential codes adopted by the Commonwealth of Kentucky. Information for purchasing adopted codes and standards is available through the Kentucky Department of Housing, Buildings, and Construction web site at <http://dhbc.ky.gov/bce/bc/Pages/default.aspx>.

### Construction Management

- Developers must develop construction management procedures that outline contract provisions for the contractor and subcontractors, payment requests, forms to be completed, inspection procedures, and project completion procedures.
- Developers must establish and maintain a current listing of qualified contractors based on experience (unless the developer utilizes only in-house crews) who are interested in doing new construction work. At a minimum, agencies should annually advertise a request for qualifications. Every effort must be made to ensure that the bidding is fair and open.
- A full work write-up with line-item cost estimates must be submitted to KHC as part of the newest
  - *RHTF Single-Family Homebuyer Development Set-Up Packet.*<sup>2</sup>
- KHC will determine the feasibility and cost reasonableness of the project prior to project approval.
- All variances from KHC's design and construction standards must be submitted to KHC prior to project set-up. KHC will determine the feasibility of the variance and issue a written response to any variance request.
- Contractors hired by the developer must submit a request for payment with lien waivers and affidavits to the developer with each pay request. The developer must inspect the property to determine that the work completed is valued at an amount equal to the progress payment requested. If the work completed is not in compliance, it is the responsibility of the developer to obtain appropriate corrective action from the contractor before requesting payment from KHC. The contractor must be notified at the time of inspection of any necessary corrective action to enable the developer to make a progress payment. This notification must be included in the case file.
- Housing must be constructed as to mitigate the impact of potential disasters (e.g., earthquakes, floods, wildfires) in accordance with state and local laws.
- Fortified roofs are a construction requirement for RHTF units.
- Newly constructed units must receive a HERS rating of 55 or below to be eligible for RHTF assistance.

### Change Orders

**Any changes in the approved plans and scope of work must be approved by a KHC construction specialist before the change of work scope occurs.** Proposed changes should be submitted to KHC in the form of a detailed Change Order submitted on proper forms and executed by all parties. Change Orders must be approved by KHC prior to beginning the work and include the Change Order amount in the Draw Request.

## Construction Contingency

**KHC mandates that developers to incorporate a 5 percent to 7.5 percent construction contingency for new construction projects.** This is to be calculated as a percentage of the total construction costs budgeted for each specific local project. However, if a construction contingency is added to the cost estimate, it should not be considered an automatic project cost. Construction contingency is designed to help developers pay for unforeseen cost overages. Uses of construction contingency must be documented via change orders. If the amount budgeted for construction contingency on a unit is insufficient to meet the cost overage, **the developer must then use their developer fee to meet these costs before requesting additional funds from KHC.**

**Inspections**

All homebuyer units funded by KHC must be inspected by KHC staff, regardless of funding source. Units are to be inspected for code compliance as well as reviewed to meet all KHC design requirements. Inspection reports for all project units must be kept on file by the developer. Developers shall provide to KHC representatives the final inspection report with the close-out documentation.

New construction units selected by KHC for inspection will be inspected a minimum of three times each. For new construction, these inspections will be at the following stages:

- Footing (after excavation of footings and before footing concrete is poured)
- Interim (any time between completion of wall insulation and hanging of drywall)
- Completion (100% complete including landscaping and site work and before move-in)

**NOTE: The inspection stages and percentage of work completed may not directly correspond to the percentage of KHC funds that may be requested.**

**NOTE: A representative from the developer must attend each inspection.**

**All developers must enter into a Memorandum of Agreement (MOA) with KHC governing inspections for homes funded under this cycle.** The MOA template can be found on the [HCA Partner Agency Portal](#) under “KHC Inspections.” All inspection costs should be included in the Total Development Costs budget for each unit provided on the “TDC” tab of the newest Set-Up/PCR Packet. Specifically, charges for KHC inspections should be included on the “Inspection & Draw Fees” line item of the “Carrying and Financing Costs” section of the “2) TDC” tab of the *RHTF Single-Family Homebuyer Development Set-Up Packet*.<sup>2</sup>

Per the MOA, the cost for inspections shall be per the following schedule:

Footing Inspection (all excavation complete; all steel properly in place; all from work complete)	\$250
Rehab Inspection (per unit) <sup>5</sup>	\$250
Rough-In/Pre-Drywall Inspection (rough in mechanical, electrical, plumbing, and wall insulation complete) <sup>6</sup>	\$275
Final Inspection	\$275
Onsite Re-Inspection	\$250
Re-Inspection via Electronic Document Review (may be performed in lieu of onsite re-inspection at KHC’s discretion)	\$120
Plan, Specification, Energy, and Modification Review for Rural Development	\$60
Third Party Repair/Habitability Inspection	\$250

KHC will charge the "Onsite Re-Inspection" fee of \$250 under the following circumstances:

- Units on which a KHC inspector must perform more than one final inspection due to the project not being 100% complete.
- Failure by the developer to provide a representative on the project site during the inspection to provide access.

<sup>5</sup> Should Developer desire inspection of rough-in work in connection with a rehab inspection, Developer shall notify KHC before such work is covered. An additional requested final inspection will require an additional Rehab inspection fee.

<sup>6</sup> Prior to KHC performing a rough-in or final inspection, electrical, plumbing and HVAC inspections must be completed by a Kentucky licensed inspector having jurisdiction.

- Unsuccessful attempts due to the developer not coordinating the inspection with other involved parties which renders the unit inaccessible for inspection.
- A hazard exists on the project site at the time of inspection which endangers the welfare of the inspector. Examples: insect infestation, poisonous snake infestation, uncontrolled animals, etc.

The reinspection fee must be paid to KHC prior to any additional funds being drawn from KHC. This fee cannot be paid using RHTF. A re-inspection fee will not be charged for follow-up inspections to verify correction of deficiencies observed during any inspection.

## Draw Requests

KHC will allow a maximum of three draw requests per unit for home buyer projects. (In extenuating circumstances, KHC may allow additional draws.) Each draw request must be approved by a KHC construction specialist. Draw amounts should be proportionate to the percentage of completion of the unit and represent only incurred costs that can be documented. The first two draws must not exceed 90% of KHC funding to ensure a 10 percent retainage is held. KHC reserves the right to reduce any draw that is requesting excessive funds compared to the percentage of construction completed at the unit.

At completion of each unit, the developer may submit a final draw to KHC, **which must be done within 90 days of the unit closing**. No funds will be paid by KHC on a unit deemed non-compliant of any applicable code or KHC standard by a KHC Construction Specialist. The final draw request must also include required closeout documentation, including completed PCR tabs from the *RHTF Single-Family Homebuyer Development Set-Up Packet*.<sup>2</sup>

## RHTF-Eligible Costs

*Project costs*: RHTF funds may be used to pay development hard costs, acquisition costs, related soft costs (including architectural, engineering, or related professional services if incurred not more than 24 months before the commitment of RHTF if the Funding Agreement expressly permits these costs). NOTE: KHC does not allow for refinancing costs.

## Homeowner/Homebuyer Protections

Each developer must develop and utilize a standard program application form that must be completed by each household. If necessary, the developer will provide assistance in preparing the form; especially to the elderly, disabled, non-English speaking persons, and persons who are unable to read or write. **A Uniform Residential Loan Application is not considered a program application for the purposes of this program.**

All households deemed ineligible for assistance must be notified in writing of such determination and the reasons for such determination. The household should also be notified of other potential resources in rehabilitating or acquiring the property for which the household may be eligible and where to apply for such assistance.

Developers should document their efforts to ensure clients are complying with the requirements of the mortgage, loan agreement, promissory note, and deed restriction (as applicable). The Program requires the assisted household occupy the assisted property as its principal residence during the applicable affordability period as do deed restrictions for RHTF-assisted homebuyer activities. Developers should also outline the steps they will take to ensure compliance with the requirements set forth in their application and funding agreement(s).

Closing documents must be prepared in compliance with all applicable federal and state lending protection requirements and given to each household assisted with amortized or forgivable loan funds given to each household assisted with amortized or forgivable loan funds. KHC Mortgage and Note templates must be used and are available on the Rural Housing Trust Fund section of the [HCA Partner Agency Portal](#). **Closing documents must be submitted to [hcadev@kyhousing.org](mailto:hcadev@kyhousing.org) for review by the KHC Legal Department at least three weeks prior to closing.**

A Right of Rescission statement must be given to all households assisted in home buyer projects in which the assisted household owns the lot.

## **Written Underwriting Standards**

### *Sustainable Homeownership Responsible Lending:*

KHC's goal is to ensure the sustainability of the homeownership situation for the low-income buyer over time. Underwriting standards for the homebuyer should consider housing debt, total debt, household's recurring expenses, and assets that are available for the purchase. KHC will require every KHC-assisted homebuyer to have a minimum of \$250 in cash reserves at the time the loan is closed. Not all homebuyers will receive the same amount of assistance. RHTF assistance should be based on individual household need.

KHC will examine the terms of **all** private mortgages that homebuyers secure (homebuyers who are receiving, for example, down payment assistance or buying a property) to ensure the terms of the loan are reasonable and sustainable. If the private mortgages contain terms and conditions that are predatory or harmful to the homebuyer or homeowner (such as excessive fees or interest rates, balloon payments, adjustable interest rates, etc.), the homebuyer or homeowner will not be eligible to receive RHTF or HOME

funds from KHC. **Developers are required to use the MAXIMUM amount of available RHTF direct subsidy before adding long-term debt to the homebuyer in the form of an additional, non-forgivable mortgage.**

***At least three weeks prior to closing, developers must submit terms of private homebuyer mortgage(s) and note(s) along with completed closing documents to [hcadev@kyhousing.org](mailto:hcadev@kyhousing.org) for KHC Legal Department review.***

KHC will also look at the terms of mortgages to ensure terms that are reasonable, standard for the industry, and not predatory or unsustainable. funding must be secured by a mortgage in favor of KHC with due-on-sale and refinance clauses to ensure repayment to KHC in the event of a transfer of ownership or a no cash-out refinance any time during the affordability period, a promissory note and deed restriction (as applicable), based on the affordability period.

Underwriting standards for the programs should ensure that RHTF investments and developer returns are not excessive. Underwriting standards evaluate the homebuyer's housing debt, overall debt, monthly household expenses, assets available to acquire housing, and the financial resources available to the household to ensure that the appropriate amount of federal and state assistance being provided is appropriate to afford and sustain homeownership. These underwriting standards are incorporated in the newest *RHTF Single-Family Homebuyer Development Set-Up Packet*.<sup>2</sup>

### *Limit on Investment*

KHC will not invest more than is necessary to provide quality affordable housing that is financially viable. To this end, KHC will examine the sources and uses of funds to determine whether costs are reasonable.

To limit the amount of RHTF, KHC has established a **minimum** front-end ratio of 10 percent (minimum PITI

to gross monthly income cannot be less than 10 percent) to ensure the household is only receiving enough KHC assistance to complete the transaction and is not being over-subsidized. Based on its review, KHC may require the developer to decrease the amount of KHC assistance and increase the amount of borrowed funds. If the review indicates that the household is being provided housing that is excessive in size or amenities, KHC may also require the developer to reduce the size and scope of the project to provide more suitable housing as it relates to the household's current needs. **The goal of the KHC Single-Family Homebuyer program is to help low- income persons obtain safe, quality, and affordable housing that meets their basic housing needs.**

#### Front- and Back-End Ratios

For **all** homeownership activities, the maximum front-end ratio for principal, interest, taxes, and insurance (PITI) is 29 percent of the assisted household's gross monthly income. The maximum back-end ratio for total long-term debt (six months or longer) plus PITI is 41 percent of the household's gross monthly income. *Waivers may be requested when student loans cause a homebuyer's back-end ratio to exceed 41 percent provided the ratio does not exceed 50 percent.*

#### Liquid Assets

All developers must have a Liquid Asset Policy and must establish a method to evaluate liquid assets and the ability of assisted households to financially contribute to the acquisition, of their housing to ensure that a minimum amount of KHC funds are used. All households utilizing HOME funds must contribute a minimum of \$250.00 to the transaction. HCA will allow an exception to the minimum \$250.00 contribution and the minimum \$250.00 liquid asset requirement if the **ONLY** source of household income is SSI or SSDI.

### **Home Buyer Value Limits**

The sales price of newly constructed housing cannot exceed 95 percent of the median purchase price for the area based on Federal Housing Administration (FHA) single-family mortgage program data for newly constructed housing.

For existing housing, the value limit is the greater of one of the following:

- 95 percent of the median purchase price for the area based on Federal FHA single-family mortgage program data and other appropriate data that are available nationwide for sale of existing housing in standard condition; or,
- the minimum limit (or floor) based on 95 percent of the statewide, nonmetropolitan area median purchase price using this data. This limit encompasses the total purchase/rehabilitation price, regardless of source of financing.

The current limits are subject to change annually. Please check HUD's website at [www.hudexchange.info/home](http://www.hudexchange.info/home) for the most up-to-date information. The limits are also provided by county in the newest *RHTF Single-Family Homebuyer Development Set-Up Packet*<sup>2</sup> from the HCA Partner Agency Portal at <https://kyhmis.zendesk.com>.

Please note: the purchase/rehabilitation price is the contract purchase price and does **not** include settlement charges.

Cost effectiveness must be considered by the developer. KHC, at its discretion, may review work write-ups and cost estimates to ensure cost reasonableness and reserves the right to reduce funding on projects KHC deems not to be cost reasonable. KHC may also require additional supporting documentation for any activity that appears to have unusual or elevated costs.



**Subsidy Requirements**

**Subsidy Analysis**

Before investing funds in a single-family dwelling, the developer must assess if other assistance has been, or is expected to be, made available to that unit. In performing this evaluation, the developer should consider the aggregate amount of assistance from other sources that is necessary **to ensure the feasibility of the assisted project**. Developers should not provide a standard amount of funds for each assisted unit. Instead, the household’s ability to pay and availability of other loan and grant funds should be evaluated on an individual-unit basis. Only enough funds should be used to ensure the housing is affordable to the assisted household. Developers must develop a written policy for this analysis and apply it uniformly to all clients.

Developers must also undertake a Duplication of Benefits analysis for survivors of federally-declared disasters. Additionally, developers should consider the population being served when conducting the subsidy analysis review. For instance, if the targeted population is 120 percent of area median income, that level of assistance would be different than that necessary for a targeted population that is very low-income (50 percent or lower).

Funds may be requested to provide 100 percent of the construction costs per unit as interim construction financing and can be used to permanently provide development gap subsidy and direct homebuyer assistance.

KHC will adhere to the following combined homebuyer per unit subsidy limit (development gap subsidy plus homebuyer direct subsidy) according to the guidelines below:

**RHTF Range of Uses, Funding Limits, and Affordability Terms**

Activity Type	Maximum Permanent RHTF Funding (Development Gap + Homeowner Subsidy)	KHC Design Requirement	Affordability Requirement
Homebuyer New Construction on New Site (HB)	Up to \$120,000	Minimum Design Standards	10-year deed restriction + Mortgage/note in the amount of direct subsidy to the homebuyer

**Development Gap Subsidy**

In the event the total development costs exceed the appraised value, the housing unit may not sell for more than the appraised value. The difference between the total development costs and the appraised value is



the development gap subsidy. Development subsidy is only permitted for those developers that undertake homebuyer activities.

**Note: For construction projects, KHC-administered funds, except for mortgage revenue bond financing, may not be used to take out another KHC-administered construction source.**

### **Direct Subsidy: Homebuyer Assistance**

The total amount of RHTF assistance that enabled the home buyer to buy the dwelling unit is considered the **direct subsidy**. This includes any assistance that reduces the purchase price from the fair market value to an affordable price but **excludes** development subsidy. All funds that are a direct subsidy to the home buyer must be secured as noted in the “Collateral” section of this document.

Funding should be considered “gap financing”, and the actual amount of permanent investment must be based on the household’s need, after all other available sources of financing and subsidy have been maximized.

***NOTE: Developers are required to use the MAXIMUM amount of available direct subsidy before adding long-term debt to the homebuyer in the form of an additional, non-forgivable mortgage.***

### **Structure and Repayment of KHC Subsidy**

Although subject to change, KHC currently permits the subsidy for developers to be forgivable on a pro-rata basis per year over the term of the applicable affordability period. These funds must still be secured by a mortgage in favor of the developer with due-on-sale and refinance clauses to ensure repayment to KHC in the event of a transfer of ownership or refinance any time during the affordability period. The

mortgage must be assigned to KHC following closing. Developers must use the appropriate mortgage, note, and assignment of mortgage templates for the applicable funding source as found in the Homebuyer Development section of the [HCA Partner Agency Portal](#).

All Program Income must be returned to KHC, but KHC may allow the developer to recycle the program income into another activity.

### **Collateral**

All KHC funds invested, regardless of amount or type of activity, must be secured by a first or second mortgage lien; excluding administrative fees, environmental fees, and development subsidy. **These funds must be provided in the form of a forgivable loan.**

In the case of mobile homes, they must be permanently fixed to a foundation. Funds must be secured by a mortgage lien on the property, including the mobile home. The debt must be evidenced by a promissory note for the full amount of KHC funds. Lien positions other than a first or second must be approved by KHC in writing prior to closing. The lien position of the KHC mortgage must be in direct relation to the amount of KHC funds invested, i.e., if the KHC mortgage is providing the most funds, it should be in first-lien position. The property must be taxed as real property.

**KHC requires the incorporation of deed restrictions ensure the affordability period when RHTF moneys are in a project.** The deed restriction must be recorded in the office of the County Clerk of the county in which the property is located. **The deed restriction must remain in place for the entire 10-year affordability period as outlined in the table below.**

All developers are required to have promissory notes and mortgages executed for the investment and the duration of the affordability period. All property owners and spouses will be required to execute the mortgage. KHC Mortgage and Note templates must be used and are available in the RHTF section of the HCA Partner Agency Portal at <https://kyhmis.zendesk.com>. **Drafts of all legal documents, including terms of all private mortgage(s) and note(s), must be submitted to KHC via the [hcadev@kyhousing.org](mailto:hcadev@kyhousing.org) email address at least three weeks prior to closing.**

## Insurance

Developers are responsible for ensuring that KHC-funded Homebuyer units are properly insured during the construction/rehab process. The developer's mortgage document must contain provisions that require the assisted property to remain insured throughout the period of affordability.

For all properties assisted with KHC funds, the homeowner must maintain all risk, fire, and extended coverage, in form and with companies acceptable to developer, for each homebuyer activity, in an amount not less than the total investment in the property. Each policy must include appropriate loss payable clauses in favor of KHC as beneficiary, and without right of cancellation or change except upon thirty (31) days' written notice to developer. Homeowner will deliver proof of all insurance to the developer at closing and via subsequent verifications of occupancy status.

## Annual Verification of Occupancy Status

As established in the RHTF Grant Agreement, developers must **annually** verify homeowners' **compliance** with residency requirements established by the terms of the mortgage, note, and deed restriction for the duration of the Period of Affordability (POA) **governing the assisted unit**. Methods by which developers could document this include, but are not limited to the following:

- calling homeowner(s) and get oral verification and documenting the call with a memo to file;
- sending owner(s) a written verification form that they could sign and return via mail or email; and/or
- reviewing property tax records to verify that owner's address is same as unit address and documenting the verification with a copy of the tax record and/or a memo to file.

The developer must maintain records of annual homeowner compliance verification for five years following the conclusion of the RHTF POA.

## Recapture

For homeownership activities, KHC requires all funds to be repaid at the time the property is transferred to another owner.

If the property is sold, leased, refinanced, or no longer used as the primary residence of the assisted homeowner; KHC may recapture the funds, reviewed on a case-by-case basis. In the event the net proceeds from a sale are insufficient to repay KHC the investment, KHC will recapture the **net proceeds**. In the event of foreclosure, if the shared net proceeds are insufficient to repay the unforgiven amount, the RHTF affordability requirements may be terminated.

In the event an heir does not meet the 120 percent AMI limit on RHTF-funded properties, the RHTF investment must be recaptured, less the forgiven portion.

## Fees

### Production/Developer Fee

For **new construction (including acquisition/rehab/resale) and demolition/reconstruction projects (see Activity Detail Chart)**, the developer fee cannot exceed the lesser of the two listed below:

- \$20,000
- 20% of Total Development Costs (TDC)

The developer fee is a soft cost (24 CFR §92.206(d)(2)) and is considered part of the total development cost. ***Any increase in project costs must be paid first from developer fee prior to requesting additional funds from KHC.***

### Lending Fee

Lenders cannot charge fees for dollars.

## Program Income

Surplus RHTF financing, defined as the difference in interim construction financing and total permanent financing remaining in the unit (combined developer gap subsidy and direct homebuyer subsidy) for developers is classified as program income.

All surplus RHTF financing remaining following the sale of the final RHTF-funded under unit created under this award must be returned to KHC as program income.

KHC will allow the recycling of RHTF Program Income into other RHTF eligible activities. Program Income will be documented on the Project Close-out Report (PCR). Developers must keep a separate, non-interest bearing, account for RHTF Program Income. As developers submit new setups reserving RHTF Program Income, they will also need to submit a tracking report to KHC, which shows the projects that generated program income; the amounts; the setup activity numbers which are reserving program income and amounts; and a running balance.

## Displacement, Relocation, and Acquisition

Developers must take all reasonable steps to minimize displacement. *In the development of rural housing under KRS 198A.740 to 198A.750, displacement of moderate-income individuals or families shall not be permitted unless the project pays all reasonable relocation costs.* In cases of relocation, developers will need to consult with KHC for guidance on what will be considered reasonable relocation costs.

## Partner Processes Overview– Single Family Development

### Set-up Submission

1. Complete the *RHTF Single-Family Homebuyer Development Set-Up Packet*<sup>2</sup> downloaded from the [HCA Partner Agency Portal](#).
2. Review and complete the Set-up Checklist, making sure to attach additional required documents.
  - a. Deed or executed purchase option – (to demonstrate site control)
  - b. Project Area Map
  - c. Appraisal (or other supporting appraisal – may include an as-built appraisal or other like appraisal)
  - d. Written Agreement – between developer and buyer
  - e. Word Version of Legal Description (double check to ensure there are no typos)
  - f. Evidence of Clear Title
  - g. Executed MOU
  - h. URA Guide Form Notice
3. Send excel set-up packet and all required, supporting documents to [hcadev@kyhousing.org](mailto:hcadev@kyhousing.org).

### Set-up Approval

Set-up approvals will take 2 – 4 weeks.

### Release of Funds

1. Project specialist will email developer of the release of funds.
2. Developer should request to access the project in the Project Management Draw System.
3. Once access is granted, grant funds may be drawn.

### Inspections

1. Inspections are required for every unit:
  - a. Footing (after excavation of footings and before footing concrete is poured)
  - b. Interim (any time between completion of wall insulation and hanging of drywall)
  - c. Completion (100% complete, including landscaping and site work – before move-in)

Complete KHC Inspection Request Form, located on the [HCA Partner Agency Portal](#). Submit completed form at least five business days before anticipated inspection date to [KHCinspectionRequests@kyhousing.org](mailto:KHCinspectionRequests@kyhousing.org).

### Draws

Follow Project Management Draw System user manual for guidance on draw submission. A maximum of three draws per unit is permitted, which typically aligns with each inspection. **The final draw must be submitted within 90 days of the unit closing.**

### Completion of a Unit

#### **Closing Documents**

1. Find the closing documents on the HCA Partner Agency Portal.
  - a. Mortgage
  - b. Note
  - c. Deed Restriction
2. Fill in all relevant information including the Exhibit A legal description, check for typographical issues

3. Email all proposed closing documents and all other mortgages and notes associated with the project to [hcadev@kyhousing.org](mailto:hcadev@kyhousing.org) at least three weeks prior to closing for review by KHC's Legal Department
4. KHC will email approval of the closing documents to developer.
5. Developer closes the loan, including execution of any applicable assignments and the Homebuyer Written Agreement.

### Project Close-out

1. Submit final draw in Project Management Draw System, and mark as "final draw".
2. Attach a clear, high-quality pdf of the following documents:
  - a. Excel and signed PDF versions of PCR tabs from the *RHTF Single-Family Homebuyer Development Set-Up Packet*<sup>2</sup>
  - b. Deed (with recording information from County Clerk's office)
  - c. Mortgage (with recording information from County Clerk's office)
  - d. Promissory Note
  - e. Deed Restriction (with recording information from County Clerk's office)
  - f. Mortgage Assignment (with recording information from the County Clerk's office)
  - g. Promissory Note Assignment
  - h. Proof of homeownership counseling for homebuyer.
3. Draw and Project Close-out report will be processed once KHC receives and approves the original note and note assignment as well as all other closing documents.
4. Developer will receive notification once HCA has processed the draw and PCR.

*Note: KHC will allow the recycling of RHTF Program Income into other RHTF eligible activities. Program Income will be documented on the Project Close-out Report (PCR). Developers must keep a separate, non-interest bearing, account for RHTF Program Income. As developers submit new setups reserving RHTF Program Income, they will also need to submit a tracking report to KHC, which shows the projects that generated program income; the amounts; the setup activity numbers which are reserving program income and amounts; and a running balance.*

## Resources

### **HCA Partner Agency Portal**

<https://kyhmis.zendesk.com>

[All RHTF program documents can be found at this website, where requests for technical assistance can also be submitted.](#)

### **KHC Design & Construction**

<http://www.kyhousing.org/Development/Pages/Design-and-Construction.aspx>

### **ENERGY STAR Residential New Construction Program Requirements**

[https://www.energystar.gov/newhomes/homes\\_prog\\_reqs/national\\_page](https://www.energystar.gov/newhomes/homes_prog_reqs/national_page)

### **U.S. Green Building Council**

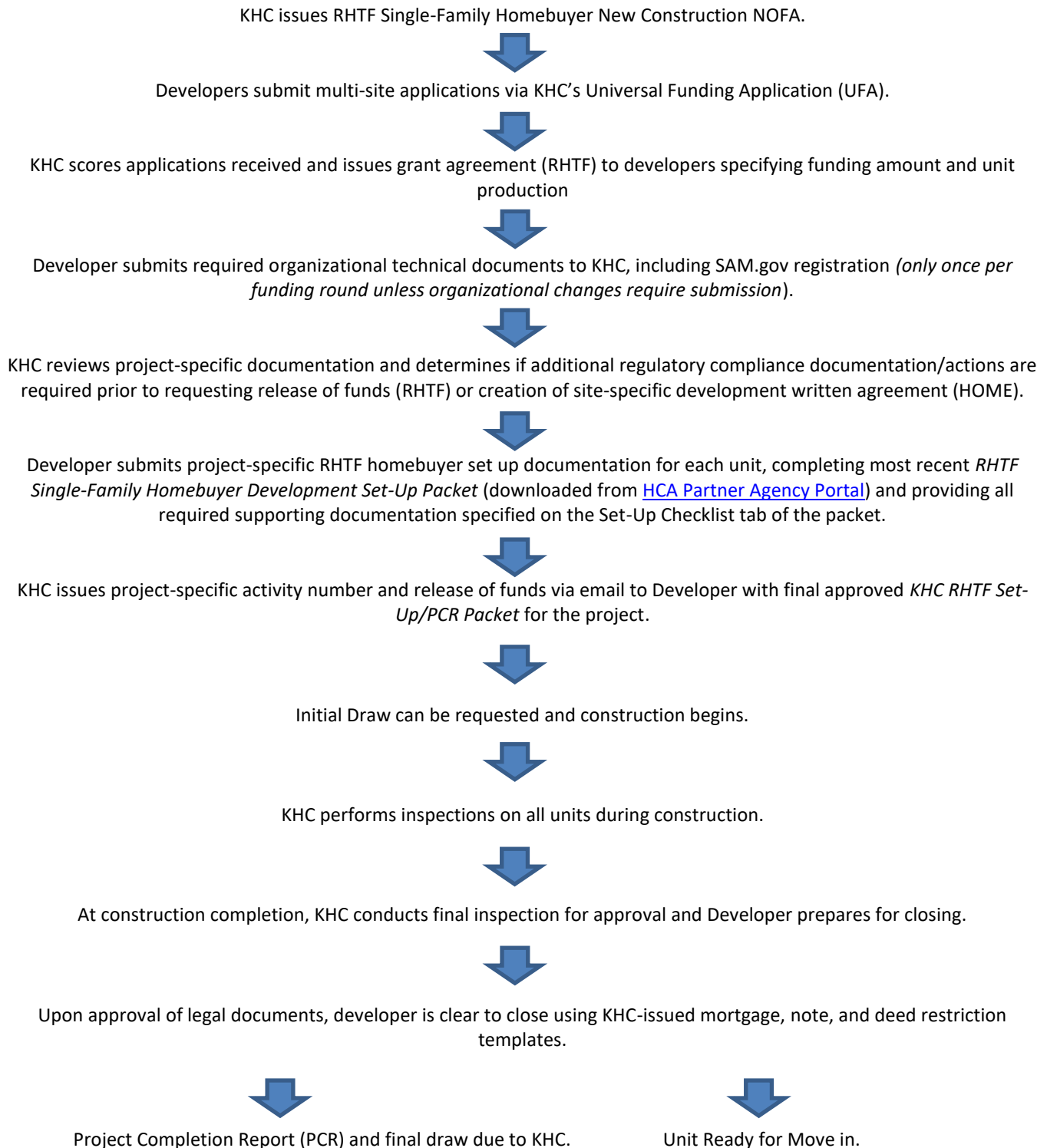
<http://www.usgbc.org>

### **FORTIFIED Home Construction Standards**

<https://fortifiedhome.org/>

# APPENDIX A

## KHC Single Family Homebuyer Development Funding Flow Chart





# APPENDIX B

## KHC Quick Reference on KY Building Code

The first statewide adoption of a residential code came in the Fifth Edition of the Kentucky Building Code (KBC) and became mandatory January 1, 1991. The code standard is located in Appendix A, and it referenced the 1989 version of CABO.

- The 1994 KBC keeps the CABO code but references the 1992 edition.
- The 1997 KBC keeps the CABO code but references the 1995 edition.
- In 2002, the Kentucky Residential Code went into effect. This code was based on a few different codes (the history is in the Preface).
- In 2007, the Kentucky Residential Code went into effect. Based on 2006 International residential code with KY changes.
- In 2013, the Kentucky Residential Code went into effect. Based on 2012 International residential code with KY changes.
- In 2018, the Kentucky Residential Code went into effect. Based on 2015 International residential code with KY changes.

For more detailed information and effective dates of code visit <http://bcapcodes.org/code-status/state/kentucky/>.

# APPENDIX C

## KHC Radon Testing and Mitigation Policy

*Updated July 9, 2024*

This policy outlines Kentucky Housing Corporation's (KHC) procedures to ensure grantees performing environmental reviews comply with the US Dept. of Housing & Urban Development (HUD) [CPD Notice- 23-103: Departmental Policy for Addressing Radon in the Environmental Review Process](#). This policy is effective April 11, 2024, and applies to housing developed using HOME Investment Partnerships Program (HOME) and/or National Housing Trust Fund (NHTF)<sup>7</sup> dollars that are subject to Part 58 Environmental Review regulations.

**PLEASE NOTE: to ensure the safety of residents of all housing constructed with KHC funds, homebuyer and rental units developed with Affordable Housing Trust Fund (AHTF) and Rural Housing Trust Fund (RHTF) dollars must comply with the passive radon reduction venting system, radon testing, and radon mitigation requirements established by this policy. Environmental Review requirements do not apply to AHTF and RHTF-funded units. Radon documentation for these projects must be submitted with project set up. These requirements do not apply to AHTF and RHTF owner-occupied repair programs.**

*Note: if your local community already has requirement regarding radon, contact KHC's Environmental Review Technical Administrator at [environmentalreview@kyhousing.org](mailto:environmentalreview@kyhousing.org).*

### What is Radon?

Radon is a naturally occurring colorless, odorless, and tasteless radioactive gas that comes from the natural radioactive decay of uranium. Radon, itself, decays into radioactive decay products that can be inhaled and cause damage to the lungs and stomach tissue which could cause cancer. Because more people are exposed to moderate levels of radon, most radon-induced lung cancer results from long-term exposure to low or moderate radon levels in the home, as opposed to short term exposure to very high levels of radon. The Environmental Protection Agency recommends homes be fixed if the radon level is 4.0 picocuries per liter (pCi/L) or more. When radon testing determines indoor air radon levels are at or above 4.0 pCi/L or the scientific data review determines the project site is located in an area that has documented radon levels at or above 4.0 pCi/L, HUD [CPD Notice 23-103](#) requires that the Environmental Review Record (ERR) for a housing project include a mitigation plan.

### What projects are subject to radon considerations?

KHC developed these strategies to assist grantees with the necessary consideration of radon in the site contamination analysis required under 24 CFR Parts 58.5(i). Not all projects are subject to radon compliance, such as those HUD declares as exempt from Environmental Review per 24 CFR 58.34(a) and those categorically excluded not subject to the Federal laws and authorities per 24 CFR 58.35(b) (CENST activities).

After April 10, 2024, if data (research for new construction) or actual radon testing (in the case of rehabilitation of structures) determines the radon levels are or may be above 4.0 pCi/L, a radon mitigation plan must be documented and implemented. In instances where radon testing will be conducted but cannot be conducted until after the ERR is certified, such as with new construction, the initial mitigation documentation would not include a radon evaluation but must include a condition for post-construction radon testing followed by mitigation, if needed.

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<sup>7</sup> NHTF is subject to the [environmental provisions](#) found at [24 CFR 93.301\(f\)\(1\) and \(2\)](#).

## Assess projected radon levels at a project site using the University of Kentucky Geologically Based Indoor Radon Potential mapping tool.

KHC requires all developers to explore the [UK College of Nursing's Bridging Research Efforts and Advocacy Toward Healthy Environments \(BREATHE\)](#) radon information and data for preliminary research regarding a project site. Particularly, developers must use the [University of Kentucky Geologically Based Indoor Radon Potential](#) mapping tool<sup>8</sup> to assess the project site's potential indoor radon levels.

- 1) Go to <https://kygs.maps.arcgis.com/apps/View/index.html?appid=eac52b77783d4f2a92403740aaf8de76>
- 2) Enter the geographic coordinates (longitude, latitude) of the center of the project site in the search bar in the upper right corner of the web page.
- 3) Click the layers icon (stacked papers) on the left toolbar, click the down arrow next to "Indoor radon potential...", and change the opacity percentage to 50.
- 4) Click the legend icon (bullet points logo) on the left toolbar and then screen shot a copy of the map with the legend pop up. DO NOT USE THE PRINT FUNCTION in the mapping tool because it will remove the legend.
- 5) Save a copy of the screen shot map as a PDF (preferred) or JPEG for upload to the HEROS Contamination and Toxic Substances Screen.
- 6) **If the project site is in the 0.0-2.7 pCi/L (light blue) category, radon testing is not required.** Complete the HEROS Contamination and Toxic Substances section as detailed in the specific instructions below for the development type ([Single-Family Homebuyer Development-Acquisition, Rehabilitation, Resale](#); [Single-Family Homebuyer Development-New Construction](#); or [Multi-Family Rehabilitation and New Construction](#))
- 7) **If the project site is in any other category, radon testing is required.**
  - a. **NOTE: If radon testing is required, the project cannot convert from CEST to Exempt.** Therefore, Notice of Intent to Request Release of Funds (NOIRROF) must be published in the local paper to initiate the KHC public comment period for the project. After the KHC public comment period, KHC will submit a *Form 7015.15 Request for Release of Funds* to HUD for the project. "Choice limiting activities" cannot be undertaken on the project until HUD issues *Form 7015.16 Authority to Use Grant Funds*. The publication fee for the public notice is a reimbursable pre-development cost.

## Single-Family Homebuyer Development-New Construction Requirements

**NEW DESIGN STANDARDS:** To ensure that all KHC-funded single family new construction units are radon mitigation ready, KHC's Design and Construction Review division has implemented the following updates to the Minimum Design Standards:

**Radon Reduction:** A passive radon reduction venting system is required for all units.

- a) The radon vent pipe shall pass through a heated portion of the structure and an accessible attic space or chase which will allow adequate working space to possibly install an inline fan.
- b) Electrical provisions shall be roughed in, in an accessible attic or chase, for possible future installation of an inline fan.
- c) If the UK Geologically Based Indoor Radon Potential mapping tool shows the project site is in the in the 0.0-2.7 pCi/L (light blue) category, radon testing is not required.
- d) If the UK Geologically Based Indoor Radon Potential mapping tool shows the project site is in any other category, radon testing must be conducted post construction but before occupancy using an acceptable test method as specified in KHC's Radon Policy.

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<sup>8</sup> This is a science-based data source cited by HUD in the February 27, 2024, "HUD's Departmentwide Radon Policy Notice" web that can serve as an alternative for radon testing under HUD CPD Notice 23-103 section III(A)(ii)(3).

- a. If testing shows 4 .0pCi/L or more, mitigation measures shall be completed according to the most current version of American National Standards Institute/American Association of Radon Scientists and Technologists CCAH Reducing Radon in New Construction of 1 & 2 Family Dwellings and Townhouses (ANSI/AARST CCAH). Mitigation measures must be installed by a professional certified for radon mitigation. [Click here](#) to see an interactive map of radon professionals certified for mitigation by the NRPP.<sup>2</sup>

**PREFERRED RADON TESTING METHOD:** The preferred method is testing completed by a professional certified to meet American National Standards Institute/American Association of Radon Scientists and Technologists (ANSI/AARST) radon testing standards for single-family buildings. The ANSI/AARST standards describe how to perform the following tasks:

- conduct testing;
- interpret test results;
- draft a Radon Test Report to document the process for the building owner; and
- use for the ERR.

The ANSI/AARST standards can be viewed online for free and radon tests must be conducted by certified radon professionals. [Click here](#) to see an interactive map of radon professionals certified for measurement by the National Radon Proficiency Program (NRPP), the credentialing division of AARST.<sup>2</sup>

***If there is certified radon measurement professional within 50 miles of the project site, a certified professional must be used for radon testing unless the developer can document at least a 15-day wait for testing services.*** If the project site is more than 50 miles from a certified radon measurement professional or testing cannot be secured within 15 days of request, the alternative do-it-yourself (DIY) radon testing method described below may be used.

**ALTERNATIVE RADON TESTING METHOD:** If the project site is more than 50 miles from a certified radon measurement professional or testing cannot be secured within 15 days of request, a DIY radon test kit may be used to measure radon levels in single-family dwelling units. You can request free [DIY radon tests kits](#) from your [local health department](#) or from the [Kentucky Radon Program](#). DIY radon kits can also be purchased online or at hardware/home improvement stores. Test devices must be approved by the National Radon Proficiency Program (NRPP) or the National Radon Safety Board (NRSB), and test results must be analyzed by a certified laboratory. All test instructions, as specified by the manufacturer, must be followed exactly. **Note:** The ANSI/AARST [Protocol for Conducting Measurement of Radon and Radon Decay Products in Homes](#) provides detailed instructions for conducting radon tests in single-family homes.

**RESULTS:** If testing demonstrates that radon levels within the building are below 4.0 pCi/L, mitigation is not required. Environmental review preparers can simply upload a PDF of the complete test results in the Environmental Review Record (ERR). Currently, HUD requires utilization of the existing fields in the Contamination and Toxic Substances HEROS screen to document radon testing and compliance.

If testing demonstrates that radon levels are at or above 4.0 pCi/L, mitigation measures must be employed to reduce indoor radon levels until levels are below 4.0 pCi/L and successful mitigation activities must be documented in the ERR.

**RADON MITIGATION:** When radon testing determines indoor radon levels are at or above 4.0 pCi/L, a mitigation plan must be created, which includes the following:

- identifies the radon level at initial testing;
- considers the risk to occupants' health;
- describes the radon reduction system that will be installed;
- establishes an ongoing maintenance plan;
- includes a reasonable timeframe for implementation;
- requires post-installation testing; and
- **mitigation measures must be installed by a professional certified for radon mitigation.** Go to [Click here](#) to see an interactive map of radon professionals certified for mitigation by the NRPP.<sup>2</sup>

**CLOSING ON A HOMEBUYER UNIT CANNOT OCCUR UNTIL RADON LEVELS BELOW 4.0 pCi/L ARE DOCUMENTED IN A POST-MITIGATION TEST.**