

Kentucky Housing Corporation  
Housing Contract Administration Department

# SINGLE-FAMILY HOMEBUYER DEVELOPMENT

*Funded by:*

*Kentucky's Affordable Housing Trust Fund (AHTF)*

*HOME Investment Partnership Program (HOME)*

## Program Policy Manual

*Revised April 8, 2021*



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The policies outlined in the manual are effective for projects funded after January 1, 2021. All previous awards of HOME and AHTF single-family homebuyer development or owner-occupied home repair funding must follow policies in place at the time of award.

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## Notice

This manual serves as a reference for the Kentucky Housing Corporation's administration of its Single-Family Homebuyer Development and Owner-occupied Replacement Reconstruction program funded by HOME and AHTF. KHC program policy manuals are subject to change without notice.

To the best of our knowledge, the information in this publication is accurate; however, neither Kentucky Housing Corporation nor its affiliates assume any responsibility or liability for the accuracy or completeness of, or consequences arising from, such information. Changes, typos, and technical inaccuracies will be corrected in subsequent publications. This publication is subject to change without notice. The information and descriptions contained in this manual cannot be copied, disseminated, or distributed without the express written consent of Kentucky Housing Corporation. This document is intended for informational purposes only. The manual is not inclusive of all resources needed to successfully administer a project.

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

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

## KHC Single-Family Homebuyer Development Program At-a-Glance

<b>Purpose</b>	To expand the supply of quality, affordable housing for low-income and very-low income households in Kentucky through the creation or rehabilitation of single-family detached housing units.
<b>Funding Sources</b>	<ul style="list-style-type: none"> <li>HOME Investment Partnerships (HOME)</li> <li>Kentucky's Affordable Housing Trust Fund (AHTF)</li> </ul>
<b>Eligible Households</b>	<p>Households with a combined household income of:</p> <ul style="list-style-type: none"> <li>HOME-funded projects: ≤80% HUD Area Median Income (AMI)</li> <li>AHTF-funded projects: ≤60% of HUD AMI or KY Median Family Income, whichever is greater.</li> </ul> <p>Income-eligible applicants should have non-home assets valued at no more than \$50,000.</p>
<b>Eligible Properties</b>	Single-family detached homes or qualified manufactured homes. Home must be the homebuyer's primary residence.
<b>Geography</b>	Anywhere in the Commonwealth of Kentucky.
<b>Max Assistance</b>	Direct assistance to homebuyers: up to \$40,000, based on front- and back-end ratios. Development gap funding: up to \$25,000, depending on HERS rating. <sup>1</sup> (\$35,000 until June 30, 2021)
<b>Eligible Activities</b>	<ul style="list-style-type: none"> <li>New construction and sale to new homebuyers. (<i>CHDO-eligible</i>)</li> <li>Acquisition, rehabilitation, and resale of existing homes to new buyers. (<i>CHDO-eligible</i>)</li> <li>Demolition and replacement of substandard owner-occupied homes, with an emphasis on substandard manufactured homes. (<i>NOT CHDO-eligible</i>)</li> </ul>
<b>Form &amp; Term of Assistance</b>	Up to 15 years depending on amount of direct homebuyer or homeowner subsidy invested. Period of affordability is governed through forgivable mortgages (HOME and AHTF) and deed restrictions (AHTF).
<b>Eligible Applicants/Developers</b>	Private developers, nonprofit organizations, Community Housing Development Organizations (CHDOs), Faith-Based and community service organizations, units of local government in Kentucky; regional or statewide housing-assistance organizations; and Public Housing Authorities (AHTF only). Applicants must be in good standing with both the Commonwealth and KHC and have at least one full-time staff member. Entities providing services in jurisdictions that receive direct HOME allocations from HUD are ineligible for KHC HOME funding.
<b>Developer Fee</b>	<p>For new construction (which includes demolition/rehabilitation) projects, developer fee cannot exceed the lesser of:</p> <ul style="list-style-type: none"> <li>15% of total development costs, excluding acquisition; or</li> <li>\$15,000.</li> </ul> <p>For acquisition/rehabilitation/resale projects, the developer fee cannot exceed the lesser of:</p> <ul style="list-style-type: none"> <li>20% of total development costs, excluding acquisition; or</li> <li>\$15,000.</li> </ul>
<b>Program Forms &amp; Templates</b>	<a href="#">HCA Help Desk</a> : Homebuyer Development section; 2020 Single-Family Homebuyer Development Set Up packet

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**NOTE:** This manual outlines the policies pertaining to single-family homebuyer activities and replacement/reconstruction activities funded by HOME and/or AHTF 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.

- 24 CFR Part 92 Final HOME Rule
- 2 CFR Part 200 Uniform Administrative Requirements
- HUD-published HOME CPD Notices
- 24 CFR §5.609 Calculation of Annual Income
- HUD Income Limits
- Kentucky Revised Statutes (KRS) §198A.700 TO §198A.730-Low Cost Housing
- US Code Title 40 Subtitle IV-Appalachian Regional Development
- KHC Design and Construction Requirements at <http://www.kyhousing.org/Development/Pages/Design-and-Construction.aspx>
- KHC's Consolidated and Annual Action Plans
- KHC's Single-Family Homeownership Application Guidelines (HOME and AHTF as applicable)
- KHC's HOME and AHTF Funding Agreements (as applicable)
- KHC's eGram Notices
- Any other relevant state and federal law, policies, and regulations not otherwise listed above.

Separate policy manuals are available for other Housing Contract Administration programs on the Housing Contract Administration (HCA) Help Desk at <https://kyhmis.zendesk.com>.

## **Definitions**

*Applicant:* Any eligible entity that makes application for funding from Kentucky Housing Corporation for HOME or AHTF 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 Homebuyer Written Agreement under which AHTF or HOME assistance will be provided to the homebuyer for an identifiable project for which: all 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 disbursement and information system established by HUD. Each HOME-funded specific local project will be funded through and governed by a separate Developer Written Agreement with KHC. AHTF-funded homebuyer projects will be funded through individual project set ups and governed by the subrecipient grant agreement for the program year.

*Community Housing Development Organization (CHDO):* A CHDO is a private nonprofit, community-based organization that has staff with the capacity to develop affordable housing for the community it serves using HOME funding. In order to qualify for designation as a CHDO, the organization must meet certain requirements pertaining to their legal status, organizational structure, and capacity and experience as specified in 24 CFR §92.2. Organizations must submit an application to KHC annually to be certified as a CHDO.

*Developer:* The Applicant awarded funds will serve as the developer of homebuyer 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; or b) the developer for *unlike* replacement housing for owner-occupants of substandard units. Developers will be subrecipients of AHTF funding and awardees of HOME funding, as applicable.

*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 AHTF or HOME 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/Homeowner:* The end beneficiary of AHTF or HOME assistance to a housing unit. They will own the assisted unit upon completion of the AHTF or HOME activities and will occupy the unit as their principle 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, and the Homebuyer Written Agreement. **The submitted set up packet must include the newest KHC Single-Family Homebuyer Development Set-Up Packet Excel workbook downloaded from the HCA Help Desk 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.

## **Program Purposes-HOME and AHTF**

### *Program Purpose-HOME Investment Partnerships*

Created by Congress in 1990, the HOME Investment Partnerships Program (HOME) provides funding to subrecipients for several types of affordable housing production and rehabilitation. KHC administers and monitors the program for the U.S. Department of Housing and Urban Development (HUD), awarding funding to eligible subrecipients; including local governments, housing authorities, private developers, and nonprofit housing providers.

The purpose of the HOME Program is to expand the supply of quality, affordable housing for low-income (at or below 80 percent of area median income) and very-low income (at or below 50 percent of area median income) households. The HOME Program can be utilized to expand the supply of decent, safe, and sanitary housing through either new construction or rehabilitation of existing structures with forgivable, deferred grants. The HOME Program's flexibility empowers local communities to design and implement strategies tailored to their own needs and priorities.

### *Program Purpose- Kentucky Affordable Housing Trust Fund (AHTF)*

The AHTF was established by the Kentucky State Legislature (see KRS §198A.700-730) to provide housing for very low-income Kentuckians. The fund was created in response to economic conditions, federal housing policies, and declining resources; which adversely affected the ability of very low-income persons to obtain safe, quality, and affordable housing. State leaders decided it was in the public's interest to establish the AHTF to assist very low-income persons (at or below 60 percent area median income) in meeting their basic housing needs.

There are four priorities for use of AHTF financing:

- New construction projects for low-income households submitted by nonprofits or local governments.
- Projects using existing, privately-owned housing stock.
- Projects using existing, publicly-owned housing stock.
- Application from local governments for projects that demonstrate effective zoning, conversion, or demolition controls for single-room occupancy units.

As required by KRS §198A.720 (6), a minimum of 40 percent of all funds received is 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 the property is in a rural area by accessing the 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 eligibility determination must be provided with the Project Set-Up.**



## Eligible Applicants

To be eligible to participate in the HOME and AHTF programs, an applicant must be deemed to be in good standing by the Secretary of State of the Commonwealth of Kentucky and in compliance with the requirements of 24 CFR Part 92 and Kentucky Revised Statutes (KRS §198A.700 to §198A.730). Once awarded funds, all developers must follow the requirements of 24 CFR §92.505 and all applicable Mortgagee Letters. An eligible applicant must also have at least one full-time employee.

Entities that can apply to KHC for HOME and AHTF funding are:

- Private developers
- Nonprofit organizations
- Community Housing Development Organizations (CHDOs)
- Faith-Based and community service organizations
- Units of local government in Kentucky
- Regional or statewide housing-assistance organizations;
- Public housing authorities (AHTF only)

The city of Owensboro; the merged governments of Lexington/Fayette County and Louisville/Jefferson County; and the consortium consisting of the cities of Covington, Ludlow, Newport, Bellevue, and Dayton receive a direct allocation of HOME funds from HUD and are not allowed to apply for HOME funds from KHC.

***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.***

## State Clearinghouse Review

Applicants requesting HOME funds must also submit project information to the [Kentucky eClearinghouse](https://kydlgweb.ky.gov/eClearinghouse/16_echHome.cfm) via the State's online system at [https://kydlgweb.ky.gov/eClearinghouse/16\\_echHome.cfm](https://kydlgweb.ky.gov/eClearinghouse/16_echHome.cfm) as part of the application process. Successful submission to the online Clearinghouse system will generate a confirmation that includes the State Application Identification (SAI) number. A copy of this confirmation is a required checklist attachment for the KHC application.

## 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 Homebuyer new construction and/or rehabilitation projects to eligible applicants via an annual competitive application process governed by a Notification of Funding Availability (NOFA). Recipients will be awarded HOME funds via a conditional commitment letter that allows them to submit project set-ups and request a Developer Written Agreement for each specific local project (typically a single housing unit). AHTF 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.

## Prohibition on Combining HOME and AHTF Funds in a Specific Local Project

If an eligible applicant is awarded both AHTF and HOME funds for eligible homebuyer activities via the annual competitive allocation, each specific local project must use only AHTF or HOME. Combination of HOME and AHTF on a specific local project is prohibited. KHC reserves the right to swap HOME and AHTF on a specific local project based on homebuyer eligibility and funding availability.

## Obligation of Funding Commitments

KHC will only commit funds to a specific local project and execute Developer Written Agreements for each HOME-funded 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 *KHC Single-Family Homebuyer Development Set-Up/PCR Packet*<sup>1</sup> with all necessary supporting documentation.

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

New Construction:	Footing (post-excavation and before concrete is poured) Interim (between wall insulation and drywall) Completion (100% complete, prior to move in)
Rehabilitation:	Under roof/weatherization Interim (between wall insulation and drywall) Completion (100% complete, including waste removal)

KHC requires that developers/subrecipients have all funds committed and expended according the terms established in the HOME Developer Written Agreement for each HOME-funded project and the grant agreement for AHTF-funded projects (as applicable). Commitment means that the subrecipient must have a signed written agreement with the homebuyer (see Homebuyer Written Agreements section).

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<sup>1</sup> Download and complete the newest *KHC Single-Family Homebuyer Development Set-Up/PCR Packet* from the HCA Help Desk at <https://kyhmis.zendesk.com>

A *KHC Single-Family Homebuyer Development Set-Up/PCR Packet*<sup>1</sup> with all necessary supporting documentation must be submitted to KHC prior to release of funds for all homebuyer activities and execution of a project-specific written agreement for HOME- funded activities. **Prior to submitting a project set up packet, an Environmental Review with necessary supporting documentation must be completed using the HUD Environmental Review Online System (HEROS) and assigned to the designated KHC contact.**<sup>2</sup> All HOME-funded activities must also be entered into the HUD Integrated Disbursement Information System (IDIS) and assigned an IDIS number prior to release of funds.

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.

## Homebuyer Written Agreements

For KHC to commit funds to a homebuyer, each homebuyer must sign a written agreement with the developer. Each agreement should contain a homeowner's name and address. Developers should draft their written agreements and submit it to the HCA with their set-up packets for each homebuyer unit. KHC will review agreements to ensure they meet requirements of the funding source (AHTF or HOME). Written agreements should:

- Identify all parties to the agreement.
- Provide dated signatures of each party.
- Provide the address of the project.
- Specify the amount of the HOME or AHTF funds.
- Specify the form of assistance.
  - Examples: grant, amortizing loan, deferred payment loan
- Specify how the funds will be used.
  - Examples: down-payment assistance, closing costs assistance, rehabilitation, new construction
- State the time by which the housing must be acquired.

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<sup>2</sup> Awardees must submit their environmental review documentation via the HUD Environmental Review Online System (HEROS) at <https://heros.hud.gov>. If an awardee does not have a HEROS account, see *HEROS Account Access Form Instructions 2019-9* on the HCA Help Desk at <https://kyhmis.zendesk.com/> to learn how to request an account. HEROS instruction guides are also available on the HCA Help Desk under the HEROS-HUD ENVIRONMENTAL REVIEW ONLINE SYSTEM sub-header. Awardees must use the *Environmental Review Worksheet Completion Guide-HOME Single- Family Developers* found on the HCA Help Desk at <https://kyhmis.zendesk.com/> for instructions on creating environmental review supporting documentation that must be included in the HEROS submission. Prior to submitting an environmental review record to KHC via HEROS, email [hcadev@kyhousing.org](mailto:hcadev@kyhousing.org) to confirm the appropriate KHC team member to whom the environmental review should be assigned in HEROS. **All proposed projects where five or more units will be created on a single site, regardless of funding source, must complete a full Environmental Assessment. Contact KHC via an email to [hcadev@kyhousing.org](mailto:hcadev@kyhousing.org) if this is the case.**

Additionally, agreements for HOME-funded projects must include language mandating compliance with the following requirements of 24 C.F.R. §92.254(a):

- The housing must be intended for use as a single-family homebuyer dwelling and maintained as the principle residence of the household throughout the affordability period.
- The sales price of rehabilitated existing 95 percent of the median purchase price for the area based on Federal FHA single-family mortgage program data for existing housing and other appropriate data that are available nationwide for sale of existing housing in standard condition. These price limits are established via HUD's annual HOME Homeownership Value Limits table and are included in the *KHC Single-Family Homebuyer Development Set-Up/PCR Packet*<sup>1</sup>
- 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. These price limits are established via HUD's annual HOME Homeownership Value Limits table and are included in the *KHC Single-Family Homebuyer Development Set-Up/PCR Packet*.<sup>1</sup> The period of affordability must be calculated pursuant to 24 C.F.R. § 92.254(a)(4) based on the amount of HOME assistance.
- The assisted household must qualify as low-income at the time the contract is signed.
- Must include a provision describing the recapture provisions of 24 C.F.R. § 92.254(a)(5).

**Homebuyers of HOME-funded housing must also complete and sign the newest version of the Kentucky Housing Corporation *HOME Investment Partnership Program Homebuyer Written Agreement* downloaded from the HCA Help Desk (<https://kyhmis.zendesk.com>) for submission with the final draw as part of the activity close-out.**

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

The developer must submit a complete *KHC Single-Family Homebuyer Development Set-Up/PCR Packet*<sup>1</sup> 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.**

### **Deobligation of Funding Commitment**

Furthermore, KHC reserves the right to:

- Withdraw its conditional funding commitment if technical submission items are not submitted by the applicant by the date referenced in the commitment letter.
- Deobligate 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 HOME and AHTF allocation. If KHC determines that the project is no longer feasible or is not progressing timely so that the imposed deadlines will be met, funds may be deobligated.
- Deobligate funds from any developer who becomes suspended or debarred in accordance with KHC's Suspension and Debarment Policy.

- Deobligate 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 avoid any federal recapture of funds, and KHC will take the necessary steps to ensure this does not occur.
- Reallocate funds to another eligible project, if KHC deobligates funds or has funds uncommitted.

## Match and Leverage Requirements for HOME-funded Projects

Beginning with the 2017 HOME funding round, Match and Leverage is no longer required; however, KHC reserves the right to implement this requirement in future funding rounds.

## Eligible Activities: KHC Single-Family Homebuyer Program

### Activities Eligible for HOME Funding

HUD allows a wide variety of activities under the HOME Program. 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 HOME funding as identified in KHC's Consolidated Plan and Annual Action Plan:

- New construction;
- Acquisition, rehabilitation, and re-sale of existing single-family dwellings;
- Site development combined with new construction;
- Construction financing;
  - ***NOTE: Community Housing Development Organizations (CHDOs) may retain any surplus HOME 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) as CHDO proceeds per 24 C.F.R. §92.300(a)(6)(ii). However, surplus HOME financing for developers that are not CHDOs is classified as program income per 24 C.F.R §92.503. KHC will allow non-CHDO developers to carry forward surplus HOME financing for use as interim construction financing or permanent gap financing (developer or buyer) on subsequent homes developed under this award. In other words, a non-CHDO developer can revolve surplus HOME funds throughout the development of homes under this grant award. Once all homes supported under this grant award are completed and sold, all surplus HOME financing remaining following the sale of the final HOME-funded unit created under this award must be returned to KHC as program income.***
- Rehabilitation of owner-occupied units;
- Demolition and reconstruction of owner-occupied units;
- Relocation expenses, when combined with other HOME-eligible expenses;
- Reasonable administrative costs; and/or
- Conversion of existing affordable housing.

**NOTE: KHC will not allow HOME 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 KHC Single-Family Homebuyer Development Set-Up/PCR Packet<sup>1</sup> "2) TDC" tab submitted for each specific local project.**

### Activities Eligible for AHTF Funding

- Provision of matching funds for federal housing dollars requiring a local or state match including, but not limited to, the National Affordable Housing Act of 1990;
- Acquisition of housing units for preservation or conversion as very low-income housing;
- New construction or rehabilitation of very low-income housing units (including down payment, closing costs, and principle reduction);
  - *Note: AHTF moneys may be requested to provide up to 100 percent of the rehabilitation/construction costs per unit as interim construction financing.*
    - ***However, any surplus AHTF 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) is classified as program income. KHC will allow developers to carry forward surplus AHTF financing for use as interim construction financing or permanent gap financing (developer or buyer) on subsequent homes developed under this award. In other words, a nonprofit developer can revolve AHTF funds throughout the development of homes under this grant award. Once all homes supported under this grant award are completed and sold, all surplus AHTF financing remaining following the sale of the final AHTF-funded unit created under this award must be returned to KHC as program income.***
- Matching funds for technical assistance directly related to providing housing for persons pursuant to KRS §198A.700 to §198A.730.

**NOTE: KHC will not allow AHTF 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 *KHC Single-Family Homebuyer Development Set-Up/PCR Packet*<sup>1</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 a unit not constructed or rehabilitated by the developer under this funding cycle" is an ineligible activity. In some AHTF or HOME-funded single-family homebuyer new construction or acquisition/rehabilitation/resale projects the appraised value/sales price exceeds the total development costs 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 AHTF or HOME interim construction financing. The Project Summary in the *KHC Single-Family Homebuyer Development Set-Up/PCR Packet*<sup>1</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.

**NOTE: If HOME funds are used for such projects, the expenditures are not CHDO-eligible.**

### Owner-Occupied Replacement Housing- HOME and AHTF

KHC will allow developers to replace substandard, owner-occupied housing units<sup>3</sup> with **unlike stick-built housing constructed on site or unlike modular housing constructed remotely and assembled on site as an eligible homebuyer new construction activity without property acquisition** as allowed by the HOME program under 24 CFR §92.254(d). In these cases, the developer will build housing on property currently owned by the household that will occupy the housing upon completion. Such replacement housing activities will also be permitted with AHTF funding. **NOTE: While this is a HOME-eligible activity it is NOT a CHDO-eligible activity because the developer will not obtain fee-simple title to the owner-occupied property as is required for a CHDO activity under 24 C.F.R. §92.300(a)(6).** Such owner-occupied replacement projects will not generate CHDO Proceeds.

The assisted household must document ownership of both the land and the housing unit to be replaced prior to contracting for the development of the replacement housing with the developer. The assisted household must also obtain permanent financing for the replacement housing prior to funding release. The developer should underwrite the development of replacement housing as it would any other homebuyer new construction project without land acquisition costs. AHTF or HOME funding can provide direct subsidy to the homeowner to offset the difference between other grant and loan funds available to the homeowner and the appraised value of the replacement housing up to the direct subsidy cap of \$40,000. AHTF or HOME funds that are a direct subsidy to the homeowner must be secured as noted in the “Collateral” section of this document. The difference between the appraised value of the replacement housing and total development costs can be offset as HOME and AHTF development gap funding. The project set up for such replacement housing must be fully documented using the newest *KHC Single-Family Homebuyer Development Set-Up/PCR Packet*<sup>1</sup> with all required supporting documentation.

*Should Awardees wish to replace existing owner-occupied housing with like housing or conduct a complete rehabilitation of an owner-occupied unit, it is considered an eligible homeowner rehabilitation activity per HOME regulations found at 24 CFR §92.205 and not a homebuyer activity. It is also considered a homeowner rehabilitation activity for AHTF. KHC will permit developers to request a waiver to substitute a homeowner rehabilitation unit for an awarded homebuyer unit. In this case, the developer will not be allowed to charge a developer fee on the project and can only request reimbursement for construction costs up to \$60,000 plus a 7.5 percent administrative fee. All units assisted under such a waiver must be brought up to Kentucky Code and meet KHC Minimum Design Standards.*

### Single-Family Development Projects where the Homebuyer Owns the Land Prior to Construction OR a Relative or Friend of Homebuyer Provides Land for Development

In cases where a prospective homebuyer either owns or has been gifted vacant land where the home will be newly constructed, the developer must take title to the property prior to construction for it to be considered a CHDO-eligible activity per 24 C.F.R. §92.300(a)(6). 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 Help Desk (<https://kyhmis.zendesk.com/>) under “Homebuyer Development (HOME/AHTF)/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 KHC Single-Family Homebuyer Development Set-Up/PCR Packet<sup>3</sup> “2) TDC” tab submitted for the specific local project. If the buyer or buyer’s family donated the land, it may be entered as a subsidy under the “4) Buyer Affordability Tab” of the Set-Up Packet.**

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<sup>3</sup> Units failing to meet KHC Habitability Standards and manufactured housing units constructed before 1976.

### Additional Considerations

- Acquisition of vacant land or demolition must be undertaken only with respect to a housing project intended to provide affordable housing. Note: the use of AHTF or HOME 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.
- If the project proposes demolition and reconstruction, the dilapidated structure must be demolished. In the event of a mobile home replacement, the dilapidated mobile home must be demolished or salvaged (a salvage title must be obtained) and the salvage value should be reinvested into the new unit. For all demolition and reconstruction projects, a demolition agreement must be executed with the property owner.
- 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 HOME or AHTF funds, the homeowner must maintain all risk, fire, and extended coverage, in form and with companies acceptable to the developer, for each homeowner or homebuyer activity, in an amount not less than the HOME or AHTF 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.
- Manufactured housing.
  - AHTF or HOME funds may be used to purchase and/or rehabilitate a manufactured housing unit or purchase the land where a manufactured housing unit is located. 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 (24 CFR Part 3280), and the HUD Manufactured Housing Installation Standards (24 CFR Part 3285). The real property on which the manufactured home is located must also meet all zoning requirements.
  - Manufactured housing may qualify as an eligible HOME CHDO activity, provided the CHDO is acting as the developer a project in accordance with all HOME Program requirements. To be a CHDO-eligible activity, the CHDO must undertake the final development of the housing unit by removing the drawbar and coupling mechanism, running gear assembly, tires, and lights. Additionally, the CHDO must install the unit on a permanent foundation, finish the interior, install the flooring systems, HVAC systems, plumbing system, and roofing system, as well as adhere to all KHC's Minimum Design Standards.



- 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**

In addition to the activities that are prohibited by the HOME regulations, KHC considers the following activities ineligible for HOME or AHTF Homebuyer funding:

- 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.
  - Garages, unless required by a neighborhood or subdivision covenant, or are an existing attached structure.
  - Fences (other than those required for security).
  - Television satellite dishes.
  - Upgrades to surfaces, furnishings, fixtures, appliances, etc. except as may be deemed appropriate and necessary to improve accessibility.
- 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.
- Rehabilitation damaging to the historical character or value of a structure as determined by the State Historic Preservation Office of the Kentucky Heritage Commission.
- Refinancing of existing debt.
- AHTF or HOME 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.
- Reconstruction of a unit that was not standing at least 12 months prior to the commitment of HOME funds (HOME only).
- Provide assistance (other than assistance to a homebuyer to acquire housing previously assisted with AHTF or HOME funds) to a project previously assisted with AHTF or HOME funds during the period of affordability established by the written agreement.
- Payment of delinquent taxes, fees, or charges on properties.

## HOME CHDO Set-Aside

Organizations seeking designation as a CHDO must submit a complete CHDO application with all required supporting documents to KHC annually prior to the commitment of HOME funding via project-specific written agreements

For organizations to utilize CHDO set-aside funds, the activity must include one of the following:

- Acquisition **and** moderate-to-substantial rehabilitation of existing home (minimum of \$5,000 in rehabilitation); or
- New construction of a homebuyer property.

HOME CHDO set-aside funds **must** be used during the construction or rehabilitation of a housing unit.

All CHDO set-aside funds must be expended within 5 years of the date KHC receives its formula allocation.

### CHDO Proceeds

Developers certified as CHDOs may be authorized to retain proceeds from the sale of a property developed with HOME funds where the developer has fee-simple title to the property prior to construction. Developer must use any CHDO Proceeds which it is authorized to retain for HOME- eligible or other housing activities to benefit low-income households with incomes at or below earning 80% of Area Median Income as adjusted for family size, as allowed under 24 C.F.R. §92.300(a)(6)(ii)(A). Examples of affordable housing activities which may be funded with CHDO Proceeds include: emergency repairs, project operating costs and reserves, housing refinancing costs, Developer's operating expenses, and homebuyer counseling. CHDO Proceeds which are retained by Developer are not subject to the requirements of the HOME regulations, except for §92.300(a)(6)(ii)(A). Thus, the Davis-Bacon Act, National Environmental Policies Act and Uniform Relocation Assistance and Real Property Acquisition Policies Act do not apply to the use of CHDO Proceeds. However, because CHDO Proceeds are derived from the expenditure of HOME funds, any activities which are funded with CHDO Proceeds may not be contributed as HOME match. Funds generated from the use of CHDO Proceeds are not CHDO Proceeds. CHDO Proceeds are governed by the Developer Written Agreement for the project that created them.

**KHC will not allow CHDOs to retain proceeds on units that place a third lien on the property with a payable note that takes the place for needed additional subsidy that could have been negated with HOME homebuyer subsidy funding (up to \$40,000).** (Developers should maximize all available homebuyer grant subsidy, including HOME and other sources, such as FLHB AHP before placing an additional, payable lien on a property.)

All CHDOs will be required to submit to KHC quarterly reports that document uses of CHDO proceeds, CHDO proceeds earned, and CHDO proceeds net balance for the prior quarter. Failure to use existing CHDO proceeds on eligible activities may result in caps on retention of CHDO proceeds for future specific local projects.

**NOTE: KHC may choose to implement a cap on CHDO Proceeds to be retained for each specific local project. The amount of CHDO proceeds to be retained and/or returned to KHC will be established in the project-specific HOME written agreements.**

## 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>, and 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 and/or rehabilitation 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 *KHC Single-Family Homebuyer Development Set-Up/PCR Packet*<sup>1</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 that is newly constructed with HOME funds must be constructed as to mitigate the impact of potential disasters (e.g., earthquakes, floods, wildfires) in accordance with state and local laws.

### 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 and a 7.5 percent to 10 percent construction contingency for rehabilitation 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)

Rehabilitation units selected for inspection will be inspected a minimum of one time each. Rehabilitation project units will, based on the work scope of the project, be inspected at the following stages as applicable: (Contact your KHC Construction Specialist for guidance.)

- Under-roof/weatherization
- Interim (any time between completion of wall insulation and hanging of drywall)
- Completion (100% complete, including removal of waste materials)

**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 Help Desk](#) 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. 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 *KHC Single-Family Homebuyer Development Set-Up/PCR Packet*<sup>1</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)	\$200
Rehab Inspection (per unit) <sup>4</sup>	\$200
Framing Inspection (rough in mechanical, electrical, plumbing, and wall insulation complete) <sup>5</sup>	\$225
Final Inspection	\$225
Onsite Re-Inspection	\$200
Re-Inspection via Electronic Document Review (may be performed in lieu of onsite re-inspection at KHC's discretion)	\$100
Plan, Specification, Energy, and Modification Review for Rural Development	\$50

KHC will charge the "Onsite Re-Inspection" fee of \$200 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.
- 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 HOME or AHTF. 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 in HOME or AHTF 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 *KHC Single-Family Homebuyer Development Set-Up/PCR Packet*.<sup>1</sup>

<sup>4</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>5</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.

## Eligible Costs for HOME Funds

- **Project costs (24 CFR §92.206).** HOME 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 HOME Funds if the Funding Agreement expressly permits these costs), CHDO costs set forth in 24 CFR §92.301, relocation costs, and costs relating to payment of loans; all of which are described in 24 CFR §92.206(g). NOTE: KHC does not allow for refinancing costs.

## Homeownership Definition

- HOME defines homeownership 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 or HUD.
- Inherited property with multiple owners, life estates, inter vivos trust, living trusts, and beneficiary deeds are all considered eligible forms of ownership; even though they do not meet the definition of homeownership in 24 CFR §92.2.
- Ownership must be proven and title searches must be completed prior to the investment of HOME funds. NOTE: Property assisted with HOME funds will not be eligible for additional assistance during the affordability period.
- Land contracts and Contracts for Deed **are not** an eligible form of ownership.
- The AHTF program will abide by the HOME Homeownership Definition.

## Eligible Beneficiaries: HOME & AHTF

### Eligible Beneficiaries of HOME Funds

All program beneficiaries must:

- Be Kentucky residents;
- Occupy the property as a principal residence; and
- Be low-income; that is, have an annual (gross) income that does not exceed 80 percent of median income for the county in which the household resides.

HUD's income limits are typically updated each spring. The most recent income limits can be found at: <https://www.hudexchange.info/programs/home/home-income-limits/>

### Eligible Beneficiaries of AHTF Funds

All program beneficiaries must:

- Be Kentucky residents;
- Occupy the property as a principal residence; and

- Be low-income; that is, have an annual (gross) income that does not exceed 60 percent of median for the county in which the household resides or 60% median of the State of Kentucky, whichever is higher. KHC publishes applicable [AHTF Income Limits by County](#) annually.<sup>6</sup> These income limits are available on the HCA Help Desk (<https://kyhmis.zendesk.com>). The [HUD CPD Income Calculator](#)<sup>9</sup> can be used to document AHTF eligibility.

## 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 HOME 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.

Income and asset verifications are valid for 180 days prior to the execution of the HOME written agreement. If more than 180 days elapse after the verifications are completed, but before the HOME written agreement is executed, the developer must re-verify all household income and assets using the Section 8 method.

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>7</sup> is a tool that developers can use to help accurately document income.

## 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.

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<sup>6</sup> Current AHTF Income Limits can be downloaded [from the HCA Help Desk](#) at <https://kyhmis.zendesk.com>.

<sup>7</sup> <https://www.hudexchange.info/incomecalculator/>

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 HOME Program requires the assisted household occupy the assisted property as its principal residence during the applicable affordability period as do deed restrictions for AHTF-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 Homebuyer Development section of the [HCA Help Desk](https://kyhmis.zendesk.com) at <https://kyhmis.zendesk.com> under the Legal Documents subheader for the appropriate funding source used for the homebuyer project. Closing documents must be submitted 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.

## **Underwriting Criteria**

### *Sustainable Homeownership Program Design and Underwriting [24 C.F.R. §92.254(f)]*

HUD has provided specific guidance regarding the way participating jurisdictions must evaluate subrecipients of HOME funds to ensure sustainability for the household while not over-subsidizing. As a result, KHC has adopted the following minimum underwriting criteria to ensure the appropriate amount of AHTF or HOME assistance.

Each developer may impose more restrictive underwriting criteria; however, more *lenient* criteria than those outlined below are not acceptable.

## **Written Underwriting Standards**

### *Sustainable Homeownership Responsible Lending [24 C.F.R. §92.254(f)]*

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 AHTF or HOME assistance. AHTF or HOME assistance should be based on individual household need.

KHC will examine the terms of private mortgages (first and second, if applicable) 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 AHTF or HOME funds from KHC. **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. AHTF or HOME funding must be secured by a mortgage in favor of the 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 AHTF and HOME programs should ensure that AHTF or HOME 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 *KHC Single-Family Homebuyer Development Set-Up/PCR Packet*<sup>1</sup>.

### Limit on Investment

KHC will not invest more HOME or AHTF funds 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 HOME investment, KHC has established a **minimum** front-end ratio of 20 percent (minimum PITI to gross monthly income cannot be less than 20 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, construction, or rehabilitation 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.

Applicant households with non-home assets of more than \$50,000 are ineligible for assistance.

## 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 [KHC SF Homebuyer Development Set-Up Packet](#)<sup>3</sup> from the HCA Help Desk 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.

## Home Buyer Counseling

Home buyer counseling is **required** for all home buyers receiving AHTF or HOME assistance or purchasing a unit developed with AHTF or HOME funds.

### Counseling Costs

Counseling costs 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.

### Counseling Provider

KHC 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).

All housing counselors must comply with the requirements of Subtitle D of Title XIV of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations implementing this Act, including, but not limited to:

- Ensure counseling covers the entire process of homeownership, from the purchase of a home to disposition.
- Ensure homeownership counseling is administered in accordance with procedures established by HUD.
- All developers must comply with the [Final Rule for Housing Counseling Certification published in the Federal Register on December 14, 2016](#).

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

***NOTE: All homebuyers of HOME-funded units with closing dates after July 31, 2021 MUST receive counseling from a HUD-certified housing counselor who has passed the HUD certification examination and is employed by a HUD-approved housing counseling agency. This deadline was initially implemented as August 1, 2020 as a requirement of the Final Rule for Housing Counseling Certification and [HUD Notice CPD-18-09 Requirements for HOME Homebuyer Program Policies and Procedures](#). However, the Interim Final Rule [Housing Counseling Program: Revision of the Certification Timeline](#) issued by HUD on August 5, 2020 extended the deadline until August 1, 2021 in response to the COVID-19 pandemic. Proof of HUD-certified homebuyer counseling for such project MUST be submitted with project close-out documentation for all closings after July 31, 2021. However, it is a best practice to use HUD-certified counseling before that date.***

[Follow this link for a current listing of HUD-approved Housing Counseling Agencies in Kentucky.](#)

## **Subsidy Requirements**

### **Subsidy Analysis**

Before investing AHTF or HOME 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 AHTF or HOME 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 AHTF or HOME 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.

Additionally, developers should consider the population being served when conducting the subsidy analysis review. For instance, if the targeted population is 60 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).

AHTF or HOME funds may be requested to provide 100 percent of the rehabilitation/construction costs per unit as interim construction financing and can be used to permanently provide development gap subsidy. Up to \$40,000 of AHTF or HOME funds may be used to assist home buyers in direct subsidy.

### **Development Gap Subsidy Requirements**

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.

- AHTF or HOME funds may be used for development subsidy. However, development subsidy paid by HOME or AHTF funds may not exceed a total of \$15,000 (\$25,000 until June 30, 2021 or an updated public notice from KHC) on any one unit unless the following conditions are met:
  - If a unit has a HERS rating of 65 or below, the allowable AHTF or HOME development gap subsidy can be increased to \$20,000 (30,000 until June 30, 2021 or an updated public notice from KHC)
  - If any unit has a HERS rating of 55 or below, the allowable AHTF or HOME development gap subsidy can be increased to \$25,000 (\$35,000 until June 30, 2021 or an updated public notice from KHC)
- In the event the development gap subsidy exceeds \$15,000 (or \$25,000 until June 30, 2021) for a unit that does not meet the HERS rating targets, the developer may use funds from other sources along with AHTF or HOME funds to cover the development gap subsidy above the \$15,000 cap on AHTF or HOME funds.
- Developers will be required to submit documentation to KHC to support the necessity of a development subsidy. This may include, but is not limited to an appraisal, a Certified HERS report, and a detailed final cost breakdown.
- AHTF or HOME funds cannot be used solely for development gap subsidy without some level of direct subsidy to the home buyer. There must be a minimum of \$1,000 of AHTF or HOME funds used as direct subsidy to the end beneficiary.

**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 AHTF or HOME funds that enabled the home buyer to buy the dwelling unit is considered the **direct subsidy**. This includes any AHTF or HOME assistance that reduces the purchase price from the fair market value to an affordable price but **excludes** development subsidy. All AHTF or HOME funds that are a direct subsidy to the home buyer must be secured as noted in the “Collateral” section of this document. **There must be a minimum of \$1,000 of AHTF or HOME funds used as direct subsidy to the end homebuyer.**

AHTF or HOME funding should be considered “gap financing”, and the actual amount of AHTF or HOME permanent investment must be based on the household’s need, after all other available sources of financing and subsidy have been maximized. **The maximum amount of direct AHTF or HOME subsidy to be provided to the household is \$40,000 per unit.** Developers are required to use the maximum amount of available direct subsidy before adding more long-term debt to the homebuyer in the form of a second, non-forgivable mortgage.

## Structure and Repayment of KHC Subsidy

Although subject to change, KHC currently permits the HOME or AHTF subsidy for non-CHDO 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 Help Desk](#).

Agencies that are permitted to retain HOME CHDO proceeds or program income, and who can service loans or contract with a servicer, may retain the proceeds or program income for use in another HOME-eligible activity. Those agencies must establish and comply with all HOME program requirements as outline in 24 CFR Part 92 and this manual.

## 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, HOME funds must be secured by a mortgage lien on the property and a title lien on 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.

**KHC requires the incorporation of deed restrictions ensure the affordability period when AHTF 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 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 on the HCA Help Desk at <https://kyhmis.zendesk.com> under the appropriate funding source used for the homebuyer project. **Drafts of all legal documents, including terms of 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.**

If the project includes Community Development Block Grant (CDBG) funds, KHC may remove this requirement if it is an involuntary relocation program.

Furthermore, KHC requires that all developers of HOME funds have a homebuyer written agreement with the end beneficiary that meet the requirements of 24 CFR §92.504(c)(5). This agreement must be a standalone agreement (See Homebuyer Written Agreements section).

<i>Affordability Period Requirements KHC Single-Family Homebuyer Development Program</i>		
<b>SOURCE OF FUNDS</b>	<b>DIRECT SUBSIDY INVESTED</b>	<b>AFFORDABILITY PERIOD</b>
HOME and AHTF	\$1,000 - \$14,999	5 years
HOME and AHTF	\$15,000 - \$40,000	10 years
HOME and AHTF	\$40,001 - \$60,000	15 years

**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 AHTF or HOME 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 (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.

**Annual Verification of Occupancy Status**

Developers are required to **annually** verify homeowners’ **compliance** with residency requirements established by the terms of their Homebuyer Written Agreement, mortgage, note, and deed restriction (as applicable) 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:

- 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.

For HOME specific local projects, this obligation is established by Section 3.5 Developer's Compliance Monitoring Obligations of the HOME Developer Written Agreement, which reads “Developer is responsible for monitoring Buyer's compliance with HOME requirements, including the principal residence requirement of 24 C.F.R. §92.254(a)(3), throughout the Affordability Period. Developer shall submit to KHC annual documentation demonstrating Buyer's continued compliance with HOME requirements.”

For specific local projects supported with AHTF moneys, this obligation is established by Section 3.3 of the AHTF Grant Agreement, which reads, in part, “Developer is responsible for monitoring Buyer's compliance with AHTF requirements, including the principal residence requirement, throughout the Affordability Period. Developer shall submit to KHC annual documentation demonstrating Buyer's continued compliance with AHTF requirements.”

## **Recapture [24 C.F.R. §92.254(a) (5)].**

For homeownership activities, KHC requires all AHTF or HOME 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 AHTF or HOME funds. In the event the net proceeds from a sale are insufficient to repay KHC the HOME or AHTF investment, KHC will recapture the **net proceeds**. In the event of foreclosure, if the shared net proceeds are insufficient to repay the HOME funds, the HOME affordability may be terminated, subject to 24CFR Part 92.254(a)(5)(ii)(A).

In the event an heir does not meet the 80 percent AMI limit on HOME-funded properties, the HOME investment must be recaptured.

## **Fees**

### **Developer Fee**

For **new construction** (which includes demolition/rehabilitation) projects, developer fee cannot exceed the lesser of:

- 15 percent of the total development costs; or
- \$15,000.

For **acquisition/rehabilitation/resale** projects, the developer fee is determined as follows cannot exceed the lesser of:

- 20% percent of rehabilitation costs;<sup>8</sup> or
- \$15,000.

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 HOME and AHTF dollars.

## **Program Income**

Surplus HOME 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 that are not CHDOs is classified as program income per 24 C.F.R §92.503. KHC will allow non-CHDO developers to carry forward surplus HOME financing for use as interim construction financing or permanent gap financing (developer or buyer) on subsequent homes developed under this award. In other words, a non-CHDO developer can revolve surplus HOME funds throughout the development of homes

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<sup>8</sup> For the purposes of determining allowable developer fee in acquisition/rehabilitation/resale projects, “rehabilitation costs” include any necessary and customary development hard and soft costs, but exclude the developer fee, permanent financing fees, and the cost to acquire the unit  
*KHC Single-Family Homebuyer Development Program*

under this grant award. Once all homes supported under this grant award are completed and sold, all surplus HOME financing remaining following the sale of the final HOME-funded unit created under this award must be returned to KHC as program income and recorded in IDIS if HOME funds. Community Housing Development Organizations (CHDOs) may retain any surplus HOME as CHDO proceeds per 24 C.F.R. §92.300(a)(6)(ii) if approved in a specific local project's set up.

All AHTF program income must be returned to KHC. AHTF program income will most likely be generated when AHTF moneys are used as interim construction financing in an amount greater than total permanent financing remaining in the unit (combined developer gap subsidy and direct homebuyer subsidy). Such surplus AHTF funds are defined as program income and must be returned to KHC following the sale of the assisted home. However, KHC will allow developers to carry forward surplus AHTF financing for use as interim construction financing or permanent gap financing (developer or buyer) on homes developed under this award following the closing and final draw on the first home completed using AHTF construction financing under this award. All surplus AHTF financing remaining following the sale of the final AHTF-funded unit created under this award must be returned to KHC as program income.

### **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)

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.

Affirmative marketing requirements and procedures also apply to all HOME-funded programs, as outlined in 24 CFR Part 92.351 and all AHTF-funded programs must also follow these requirements.

### **Displacement, Relocation, and Acquisition**

KHC must take all reasonable steps to minimize displacement and follow the requirements for relocation in accordance with the requirements of 24 CFR §92.353. These standards will also be applied to AHTF-funded activities.



## Other Requirements

### Audits (24 CFR §92.506)

Audits of developers will be conducted in accordance with 24 CFR Part 200.

### Recordkeeping (24 CFR §92.508)

- Developers must maintain sufficient records to enable HUD and KHC to determine whether the developer has met the requirements of 24 CFR §92.508 for HOME-funded projects and grant agreement requirements for AHTF projects. At a minimum, the following records will be required:
  - Program records;
  - Project records;
  - CHDO records (if applicable);
  - Financial records;
  - Program administration records;
  - Records concerning other Federal requirements for HOME-funded projects including:
    - equal opportunity and fair housing records;
    - affirmative marketing and MBE/WBE records;
    - records demonstrating compliance with environmental review requirements;
    - records demonstrating compliance with the requirements of 24 CFR §92.353 regarding displacement, relocation, and real property acquisition;
    - records demonstrating compliance with the labor requirements of 24 CFR §92.354, including contract provisions and payroll records *only if a HOME-funded specific local project results in the creation of 12 or more units of housing*;
    - records demonstrating compliance with federal lead-based paint requirements;
    - records supporting exception to the conflict-of-interest prohibition in 24 CFR §92.3546; and
    - records demonstrating compliance with debarment and suspension requirements.
- **State Recipients.** KHC will require state recipients to keep the records required by 24 CFR §92.508(b).
- **Record Retention- AHTF or HOME-funded Activities.** All records pertaining to each fiscal year of AHTF and HOME 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 in accordance with 24 CFR §92.353.
  - 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 that adheres to 24 CFR Part 92.356.

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 families 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.

Developers must immediately **report** to KHC any real, potential, or perceived conflict of interest, as outlined in 24 CFR Part 92.356, as applicable, regarding the receipt of, assistance provided with, or expenditure of HOME funds. These same standards apply to AHTF activities. 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 AHTF or HOME-assisted program or in an AFHT or HOME-assisted property. For additional information, 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.

## Partner Processes Overview– Single Family Homebuyer Development

### Set-up Submission

1. Complete the KHC Single-Family Homebuyer Development Set-Up/PCR Packet<sup>3</sup> on [HCA Help Desk](#).
2. Review and complete the Set-up Checklist, making sure to attach additional required documents.
  - a. Deed – (to demonstrate site control)
  - b. Appraisal (or other supporting appraisal – may include an as-built appraisal or other like appraisal)
  - c. Purchase Agreement – between developer and buyer
  - d. Word Version of Legal Description (double check to ensure there are no typos)
  - e. Evidence of Clear Title
  - f. URA Guide Form Notice
  - g. CHDO Recertification – (one-page document) (*HOME projects only*)
3. Complete ERR using HEROS (<https://heros.hud.gov/>) (*HOME projects only*)
4. Send set-up packet and ERR to [hcadev@kyhousing.org](mailto:hcadev@kyhousing.org).

### Set-up Approval

Set-up approvals will take 2 – 3 weeks.

### **HOME Only**

1. KHC will send written agreement to developer for signature.
2. Developer signs the written agreement and emails it back to [hcadev@kyhousing.org](mailto:hcadev@kyhousing.org).
3. Project specialist will email developer of release of funds and attach the executed written agreement between KHC and developer.

### **AHTF Only**

1. Project specialist will email developer of the release of funds.

### **Release of Funds**

1. Developer should request to access the project in the Project Management Draw System.
2. 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)
2. Contact your KHC inspector for your area to schedule the inspections.

### 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 Help Desk.
  - a. Mortgage
  - b. Note
  - c. Deed Restriction (*AHTF projects only*)
  - d. Homebuyer Written Agreement (*HOME projects only*)
  - e. Assignment of Mortgage (*HOME projects only*)
  - f. Assignment of Note (*HOME projects only*)
2. Fill in all relevant information including the Exhibit A legal description, check for typographical issues
3. **Email all proposed closing documents and any 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 any applicable assignments and the Homebuyer Written Agreement.
6. Developer or developer's attorney records the deed, the mortgage, the deed restriction (if applicable), and the mortgage assignment (if applicable). Mail original of both note and note assignment to the following address:

Kentucky Housing Corporation  
HCA  
1231 Louisville Road  
Frankfort, KY 40601

### **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 KHC Single-Family Homebuyer Development Set-Up/PCR Packet<sup>1</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) (*AHTF projects only*)
  - f. Mortgage Assignment (with recording information from the County Clerk's office) (*HOME projects only*)
  - g. Promissory Note Assignment (*HOME projects only*)
  - 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: For projects funded with AHTF (or non-CHDO set aside HOME funds), which generates Program Income and proposed using recycle AHTF (or recycled HOME funds), should return the Program Income to KHC, notating the project number on the accompanying documentation. KHC will return the Program Income to the project-level, which will be available to the subgrantee for future set-ups.

## Resources

### HOME Final Rule

[https://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&tpl=/ecfrbrowse/Title24/24cfr92\\_main\\_02.tpl](https://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&tpl=/ecfrbrowse/Title24/24cfr92_main_02.tpl)

### HUD Notice CPD-18-09: Requirements for HOME Homebuyer Program Policies and Procedures.

<https://www.hudexchange.info/resources/documents/Notice-CPD-18-09-Requirements-for-HOME-Homebuyer-Programs-Policies-Procedures.pdf>

### 2 CFR Part 200- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

[https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl)

### KRS Chapter 198A-Low Cost Housing (AHTF Regulations)

<https://apps.legislature.ky.gov/law/statutes/chapter.aspx?id=38084>

### HCA Help Desk

<https://kyhmis.zendesk.com>

### KHC Design & Construction

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

### HOME Income Limits

HUD updates income limits annually. The most up-to-date information can be found at:

<http://www.hud.gov/offices/cpd/affordablehousing/programs/home/limits/income/index.cfm>

Click on the most current year and then on “Kentucky” to find the applicable income limits.

### HUD CPD Income Eligibility Calculator

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

### HOME Homeownership Value

The homeownership value limits are subject to change annually, and can be found at:

[HOME Maximum Purchase Price/After-Rehab Value - HUD Exchange](#)

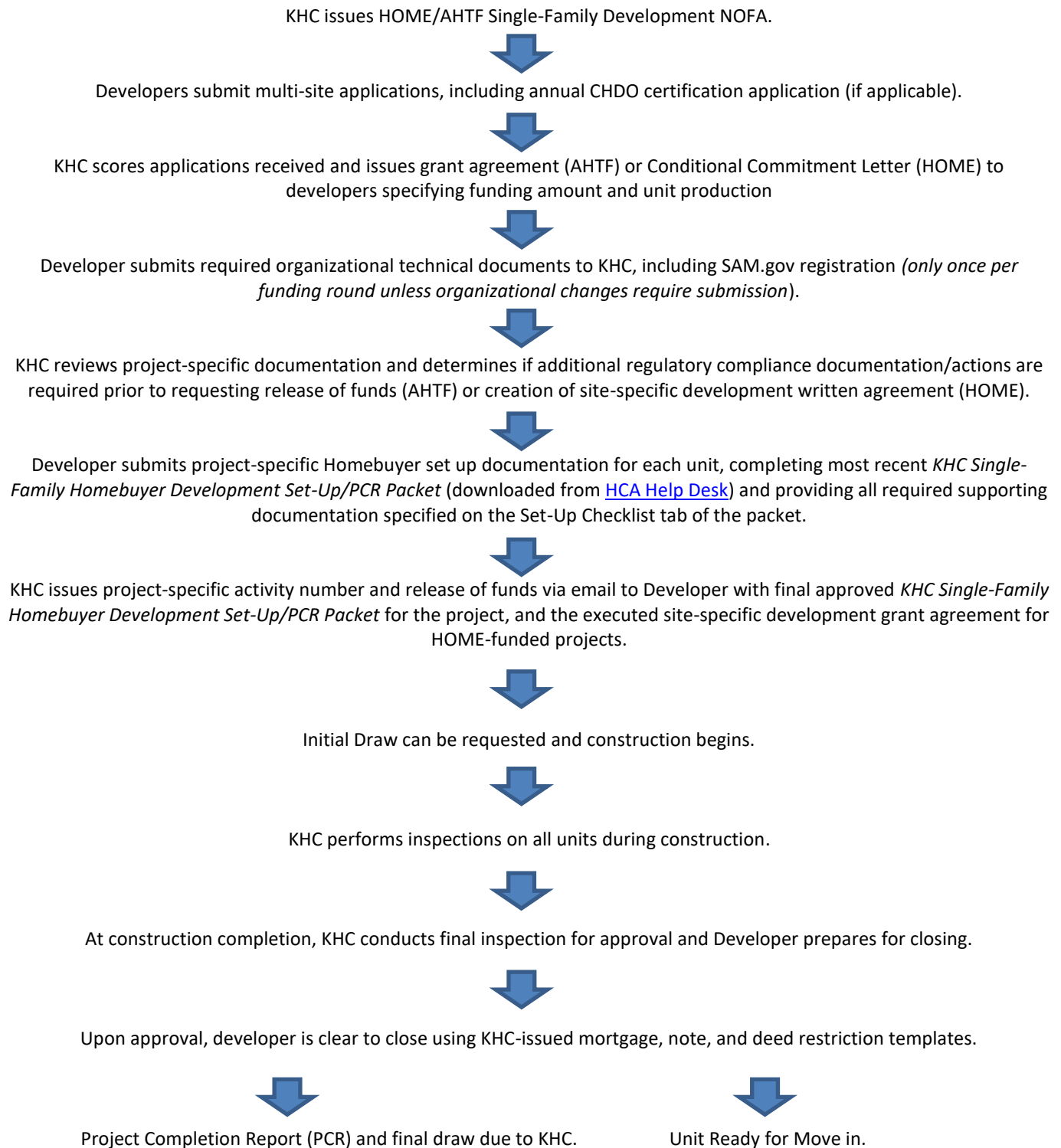
### ENERGY STAR Residential New Construction Program Requirements

[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>

## KHC Single Family Homebuyer Development Funding Flow Chart



# APPENDIX A

# 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/>.