



Kentucky's Homeowner Assistance Fund

Program Manual
09/13/2021

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Introduction

In March 2021, the U.S. Department of Treasury announced \$9.961 billion in funding to provide relief for our country's most vulnerable homeowners affected by COVID-19. The purpose of the Homeowner Assistance Fund (HOAF) is to prevent mortgage delinquencies, defaults, foreclosures, loss of utilities or home energy services, and the displacement of homeowners experiencing financial hardship after January 21, 2020. The law prioritizes funds for homeowners experiencing the greatest hardships by leveraging local and national income indicators to maximize the impact.

The COVID-19, worldwide pandemic caused Kentucky's unemployment rate to jump from 4.2% in March 2020 to 16.9% in April 2020. As of May 2021, Kentucky's unemployment rate was 4.7%, according to the Bureau of Labor Statistics. This figure only represents residents who are actively seeking employment. To date, over 468K cases of COVID-19 have been recorded in Kentucky resulting in over 7,300 deaths. This prolonged period of unemployment and the thousands affected by COVID-19 personally or as care givers are major contributors to homeowners in distress. Responsible families across the country have found themselves unable to pay or maintain their mortgages due to unemployment or reduction in employment income due to COVID-19. Homeowners who have experienced a material loss of income or increase in expenses are at a high risk of foreclosure, particularly in a global pandemic. These homeowners may benefit from assistance until they have restored their income to maintain their mortgage. The HOAF is designed to help keep families in their homes.

This funding is modeled after the Hardest Hit Fund (HHF) which led to a 40 percent reduction in the probability of mortgage default and foreclosure and saved housing finance system participants almost \$8 billion in losses. The goal of HOAF is to continue to reduce the probability of mortgage default and foreclosure.

The Commonwealth of Kentucky received just over \$85 million to administer the Homeowner Assistance Fund Program (HOAF Program). The maximum allowed homeowner income limit is 150% of the area median income. Not less than 60% of amounts made available to each HOAF participant must be used for qualified expenses that assist homeowners with incomes equal to or less than 100% of the area median income or equal to or less than 100% of the median income for the United States, whichever is greater. Any amount not made available to homeowners that meet this income-targeting requirement must be prioritized for assistance to socially disadvantaged individuals. Kentucky Housing Corporation's HOAF Program will begin with a pilot launch in late 2021.

Definitions

100% of the area median income: for a household means two times the income limit for very low-income families, for the relevant household size, as published by the Department of Housing and Urban Development (HUD) in accordance with 42 U.S.C. 1437a(b)(2) for purposes of the HOAF.

100% of the median income for the United States: means the median income of the United States, as published by HUD for purposes of the HOAF.

150% of the area median income for a household: means three times the income limit for very low-income families, for the relevant household size, as published by HUD in accordance with 42 U.S.C. 1437a(b)(2) for purposes of the HOAF.

Attestation: The action of being a witness to or formally certifying something; Homeowners will provide an attestation certifying COVID-19 impacted their financial situation.

Assessment: Fees paid by homeowners for unanticipated expenses in living community that participates in a homeowner's association.

Co-Borrower: A person jointly liable on the mortgage loan.

Date of Closing: The date the homeowner executes the HoAF Grant Agreement.

Deed: A written document which shows title or an interest in real property.

Eligible Borrower: A person who can meet all qualifications of the HOAF Program guidelines in force at the time of application and occupies their home as their principal residence.

Eligible Area: All areas of the Commonwealth of Kentucky.

Equal Credit Opportunity Act (ECOA): A federal law that prohibits originators from denying mortgages based on the homeowner's race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Forgiveness Period: Two years

HoAF: Homeowners Assistance Fund designated under the American Rescue Plan of 2021; Kentucky will utilize \$85M to assist homeowners in need. Nationally known as HAF. KHC designates differently internally to avoid confusion with its Housing Assistance Fund, also known as HAF.

HOA: Homeowners Association

KHC: Kentucky Housing Corporation, the state housing finance agency, created by the 1972 General Assembly to provide affordable housing opportunities. As a self-supporting, public corporation, Kentucky Housing offers lower-than-market rate home mortgages, housing production financing, homeownership education/counseling, rental assistance, housing rehabilitation, and supportive housing programs for special needs populations.

Maximum Combined Unpaid Principal Balance Limit: The maximum amount of unpaid principal on mortgage liens, not to exceed the limitations described in the HoAF Program guidelines.

Mortgage: The instrument securing a mortgage loan which creates a lien on a residence subject only to permitted encumbrances.

Mortgage Loan: Any loan evidenced by a Mortgage Note which is secured by the related Mortgage for financing a residence.

Mortgage Note: The promissory note, executed by a homeowner, evidencing the obligation to repay a mortgage loan, payable to the order of an Originator.

Non-Borrowing Spouse: A spouse who is not listed on the Mortgage Note as being jointly liable.

Non-Recourse Grant: with reference to any obligation or liability of any person, any obligation or liability for which such person is not liable or obligated other than, if at all, as to its interest in a specifically identified asset only, subject to such limited exceptions to the non-recourse nature of such obligation or liability, such as fraud, misappropriation, misapplication and environmental indemnities, as are usual and customary in like transactions involving institutional lenders at the time of the incurrence of such obligation or liability.

Participating Agency: A counseling agency that agreed to participate in the HOAF Program and completed the HOAF Program Participation Agreement. Participating Agencies receive automatic client referrals through the Protection Center System.

Participating Servicer: A mortgage servicing bank or company that agrees to participate in the HoAF Program. Participating Servicers will receive monthly payments for approved homeowners and will cooperate with monthly program reporting requirements.

PITI: Principal, Interest, Taxes, and Insurance, full monthly house payment. Will also include Homeowner's Association dues, if applicable.

Principal Residence: Housing which the eligible homeowner intends to occupy as a primary residence and which is not to be used in a trade or business, or as an investment property.

Profit and Loss: A statement by a business reflecting a financial gain or loss for a given period.

Protection Center: The Kentucky Homeownership Protection Center (HPC), administered by KHC, provides a centralized location for information on public services to assist Kentuckians in keeping their homes. Homeowners can find information on the foreclosure process, learn about mortgage options, and make informed choices to avoid losing their homes. Homeowners interested in applying for HOAF should contact the Protection Center at www.ProtectMyKYHome.org.

Protection Center System: The Web-based system used by the Kentucky Homeownership Protection Center to track and process homeowners requesting HOAF or other Loss Mitigation or Foreclosure Intervention Counseling.

Protection Center Status Definitions:

InProcess – Status that most new cases go into when they are first entered into the system (used for both HPC and HOAF).

ToKHC – Status that new cases go into that are KHC homeowners (used for both HPC and HOAF).

Reserved – Status after new cases begin showing on HOAF reports and have the maximum dollar amount of assistance set aside from KHC's Money tracker System.

File Received – Status that KHC staff designate when a HOAF file comes to KHC for underwriting. Counselor can no longer make changes to client in system at this status.

Pend – Status after underwriting if additional information is needed.

Approved – HOAF client approved by underwriting.

Denied – HOAF client denied by underwriting.

Servicer Approved – Status after the Servicer Liaison Team gets notice from a servicer that the client is approved, and the servicer will accept payments from KHC.

Servicing – Status when a file is closed; final closing docs are received, and payments are being made.

Complete – Status when HOAF Program funds are either depleted or stopped (client has become reemployed). This is also used under HPC when an outcome is put on the client and it closes out the case.

Withdrawn – Status when, under HOAF, a client either requests to stop the process and not close or they did not complete/provide required documentation. This removes application from Money tracker. For HPC – it is used if client did not complete/provide required documentation.

Not Eligible – Status when a counselor verifies that the client is not eligible for HOAF and selects a reason. This status removes funds from Money tracker and switches application back to HPC program so counselor can continue to work other options. After switching the program, it automatically changes the status to KHCCancel as well.

Recapture: A provision of the Program which requires the homeowner to pay back all or a portion of the HOAF assistance, mainly due to occurrence of fraud.

Residence: A single-family, owner-occupied unit located within the Eligible Area, including detached and attached units, condominiums, planned unit developments, and manufactured homes attached to a permanent foundation.

SBA: Small Business Act.

Servicing Liaison Team: KHC staff who recruits, enrolls, and communicates with HOAF Participating Servicers and manages the reinstatements and monthly mortgage payments to Participating Servicers.

Socially Disadvantaged: Those people whose ability to purchase or own a home is impaired due to diminished access to credit on reasonable terms as compared to others in

comparable economic circumstances based on disparities in homeownership rates in the HOAF participant's jurisdiction as documented by the U.S. Census. The impairment must stem from circumstances beyond their control. Indicators of impairment under this definition may include being a (1) member of a group that has been subjected to racial or ethnic prejudice or cultural bias within American society, (2) resident of a majority-minority Census tract; (3) individual with limited English proficiency; (4) resident of a U.S. territory, Indian reservation, or Hawaiian Homeland, or (5) individual who lives in a persistent-poverty county, meaning any county that has had 20% or more of its population living in poverty over the past 30 years as measured by the three most recent decennial censuses.

State: The Commonwealth of Kentucky.

Subordinate Mortgage Loan: Any loan evidenced by a mortgage note, secured by the related mortgage that is recorded after the first mortgage loan and in a subordinate lien position.

Utilities: For HOAF, utilities refer to an organization that supplies the homeowner with electricity, gas, water, or sewerage services.

Structure of the Homeowner Assistance Fund

As part of the Kentucky Homeownership Protection Center (Protection Center), Kentucky Housing Corporation (KHC) will administer the Homeowner Assistance Fund (HOAF) to subsidize 100 percent of an eligible homeowner's delinquent mortgage payments and all other mortgage-related expenses (including subordinate liens and non-escrowed expenses like homeowner's association (HOA) fees, property taxes, and homeowners and/or flood insurance). Homeowners must provide an Attestation stating they experienced hardship due to COVID-19 after January 21, 2020. The Attestation must describe the nature of the financial hardship (for example, reduction in income, job loss, illness, caregiving). The HOAF assistance will not exceed a total of \$35,000 per household. KHC will make payments directly to the applicable payees, i.e., servicers, HOAs, insurance companies, tax assessors, etc. This mortgage assistance is not to exceed 6-months of mortgage payments or \$35,000 total, whichever amount is reached first. Delinquent taxes, HOA fees, and assessments will be paid in a lump sum, one-time payment.

If necessary, up to the maximum assistance amount (\$35,000) may be paid upfront to satisfy the homeowner's delinquent balance, to include late fees, penalty interest, taxes, insurance, HOA dues, and protective advances.

Qualified Expenses- Homeowners Assistance Funds

HOAF participants may use assistance from HOAF for qualified expenses to prevent homeowner mortgage delinquencies, mortgage defaults, mortgage foreclosures, and displacements:

Qualifying expenses are outlined below:

1. Mortgage payment assistance, up to 6 months maximum.
2. To reinstate a mortgage or pay other housing-related costs related to a period of forbearance, delinquency, or default
3. Homeowner's insurance, flood insurance, and mortgage insurance
4. HOA fees or liens, condominium association fees, or common charges; and
5. Delinquent property taxes (up to 3 years) to prevent homeowners tax foreclosures.
6. Utility assistance for utilities 90-days is greater delinquent

Homeowner Eligibility

Eligibility

Homeowners are eligible to receive assistance if they experienced a financial hardship after January 21, 2020 and have incomes equal to or less than 150% of the area median income or 100% of the median income for the United States, whichever is greater.

Occupancy

Homeowners must occupy the residence as their Principal Residence at the time of hardship and after the closing.

Renting, Leasing, Assigning, or Transferring Residence

The homeowner cannot rent, lease, sell, assign, or transfer any interest in the residence to another party or enter into an agreement, understanding, or other arrangement without prior approval of KHC.

Usage of Residence in Trade or Business

The homeowner cannot use the residence as a place of business. No portion of the residence can be specifically designated for any commercial use.

Residence Used for Investment Purpose

The homeowner cannot use the residence as investment property and may not receive any income from the residence or the land.

Residence Used as Vacation, Seasonal, Recreation, or Second Home

The homeowner cannot use the residence as a recreational, seasonal, vacation, or second residence.

Powers of Attorney for the Homeowners

Specific Powers of Attorney are acceptable for closing if the property, grant program and amount are specifically addressed. Prior approval is required by KHC and a recorded copy will be required prior to closing.

Mortgage Loan Eligibility

Permitted Encumbrances

Homeowners who receive HOAF assistance will execute a grant agreement in favor of KHC. The grant will be interest-free and non-amortizing.

Types of Loans

FHA, USDA, VA, conventional, adjustable-rate mortgages, and Habitat for Humanity loans are eligible for assistance.

Servicer(s)

To be eligible for HOAF, the mortgage(s) must be with a Participating Servicer.

Foreclosure

Participating Servicers will have their own policies in place when working with a homeowner in foreclosure. It will be the decision of each Participating Servicer to approve their grantee.

Bankruptcy

Applicants may be in active or discharged Chapter 7 or 13 bankruptcies to participate in HOAF. KHC does not require the reaffirmation agreement following a Chapter 7 bankruptcy.

Permanent Modifications

If a Mortgage Loan was permanently modified, a qualifying homeowner may use the HOAF to make monthly mortgage payments.

Modification Trial Period

A homeowner in a modification trial period may use HOAF to make trial period payments if the Participating Servicer approves.

Forbearance

A homeowner currently in a forbearance payment arrangement may be approved for HOAF assistance if the Participating Servicer approves.

Reinstatement of Loans

KHC will provide up to the \$35,000 maximum assistance to reinstate a loan, if needed. The total amount paid may include all outstanding fees required to bring the loan current (late fees, attorney fees, PITI, etc.) If the total required to reinstate exceeds the program maximum the homeowner must work with their servicer(s) on the remaining balance.

Property Eligibility

Eligible Grant Area

The Eligible Grant Area is the entire geographic boundaries of the State.

Qualifying Properties

Qualifying properties must be the borrower's Principal Residence and one of the following:

1. Manufactured homes.
2. Detached single-family houses, consisting of no more than one dwelling unit.
3. Attached single-family houses or townhomes; and
4. Units of a "condominium" or units within a "planned unit development" as defined in the Fannie Mae Guide.

Ineligible Properties

Properties not eligible under the HOAF Program are:

1. Rental properties or properties where the homeowner receives income from the residence or land.
2. Properties used for business purposes or with areas specifically designated for commercial purposes.
3. Properties that are recreational, seasonal, vacation, or second homes; and
4. Properties sold by a seller providing mortgage financing to the homeowner in the way of a private mortgage.

Maximum Combined Principal Balances

The unpaid principal balance was not more than the Conforming Loan Limit, at the time of origination.

The Conforming Loan Limit means the applicable limitation governing the maximum original principal obligation of a mortgage secured by a single family residence, a mortgage secured by

a 2-family residence, a mortgage secured by a 3-family residence, or a mortgage secured by a 4-family residence, as determined and adjusted annually under section 302(b)(2) of the Federal National Mortgage Association Charter Act (12 U.S.C. 1717(b)(2)) and section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act (12 U.S.C. 1454(a)(2)).

For 2021, Fannie Mae’s Conforming Loan Limit is \$548,250.

Socially Disadvantaged Households

The August 2, 2021 published Homeowner Assistance Fund guidance from US Treasury defines socially disadvantaged individuals as individuals with at least one of the following characteristics: (1) member of a group that has been subjected to racial or ethnic prejudice or cultural bias within American society, (2) resident of a majority-minority Census tract; (3) individual with limited English proficiency; (4) resident of a U.S. territory, Indian reservation, or Hawaiian Home Land, or (5) individual who lives in a persistent-poverty county, meaning any county that has had 20% or more of its population living in poverty over the past 30 years as measured by the three most recent decennial censuses. In addition, an individual may be determined to be a socially disadvantaged individual in accordance with a process developed by a HOAF participant for determining whether a homeowner is a socially disadvantaged individual in accordance with applicable law, which may reasonably rely on self-attestations.

For item (5), an individual who lives in a persistent-poverty county, meaning any county that has had 20% or more of its population living in poverty over the past 30 years as measured by the three most recent decennial censuses, KHC has determined the following counties as persistent-poverty counties:

Adair, Bell, Breathitt, Casey, Clay, Clinton, Cumberland, Elliott, Estill, Floyd, Fulton, Harlan, Hart, Jackson, Johnson, Knott, Knox, Lawrence, Lee, Leslie, Letcher, Lewis, Magoffin, Martin, McCreary, Menifee, Metcalfe, Monroe, Morgan, Owsley, Perry, Pike, Powell, Russell, Wayne, Whitley, & Wolfe, based on the poverty statistics in the table below.

| County | 2000 Estimated percent of people of all ages in poverty | 2010 Estimated percent of people of all ages in poverty |
|----------|---|---|
| Owsley | 36.9 | 40.1 |
| Clay | 32.2 | 38 |
| Lee | 29.5 | 37.3 |
| Martin | 28.5 | 36.6 |
| McCreary | 29.7 | 36.5 |
| Knox | 27.4 | 33.9 |
| Harlan | 27.6 | 33.7 |
| Wolfe | 32.3 | 31.8 |
| Morgan | 26 | 31.8 |
| Bell | 26.8 | 30.2 |
| Jackson | 24.2 | 30.2 |
| Floyd | 24.8 | 29.9 |
| Elliott | 24.7 | 29.9 |
| Magoffin | 28.6 | 29.4 |
| Leslie | 24.8 | 29.2 |
| Perry | 24.4 | 28.7 |

| | | |
|------------|------|------|
| Estill | 20.9 | 28.7 |
| Lewis | 23.8 | 28.4 |
| Meniffee | 23.4 | 28.4 |
| Breathitt | 28.3 | 28.3 |
| Wayne | 23.4 | 28.3 |
| Russell | 21.2 | 27.8 |
| Casey | 20.8 | 27.8 |
| Pike | 20.5 | 27.3 |
| Fulton | 20.4 | 27.1 |
| Knott | 25.4 | 26.4 |
| Cumberland | 22.6 | 26.3 |
| Whitley | 23.8 | 26.2 |
| Clinton | 22.8 | 25.4 |
| Hart | 20.4 | 25.3 |
| Powell | 20.5 | 25.2 |
| Monroe | 20.2 | 24.5 |
| Adair | 21.5 | 24 |
| Johnson | 22.4 | 23.4 |
| Letcher | 23.1 | 23.2 |
| Metcalf | 20.3 | 21.4 |
| Lawrence | 23.6 | 20 |

Methodology

The 2020 census data on county poverty rates had not yet been released at the time of this report. Additionally, the 2010 data was incomplete. KHC has elected to begin our program using the SAIPE State and County estimates for 2000 and 2010. The 2010 SAIPE county data was complete but again, 2020 data was not yet available. Once the 2020 data is available, we will add that to our county comparison and will adjust as needed.

An important note: while all these sources come from the Census Bureau, there is a difference between the Decennial Census/ACS estimates and the SAIPE estimates. Please be aware they are not the same percentages and SAIPE is not the same thing as a decennial Census survey or the American Community Survey. For example, the 2000 Decennial Census says the poverty rate in Bourbon County was 14% but SAIPE says it was 11.9%. This discrepancy is due to the differences in data collection, methodologies, and statistical modeling for each of these types of surveys. Here is an explanation provided by the Census Bureau:

10. How does SAIPE compare to other estimates of poverty and income produced by the U.S. Census Bureau?

The U.S. Census Bureau reports income and poverty estimates from several major national household surveys and programs: The Annual Social and Economic Supplement to the Current Population Survey (CPS ASEC), the American Community Survey (ACS), the Survey of Income and Program Participation, Census 2000 Long Form, and the Small Area Income and Poverty Estimates Program (SAIPE). Each of these surveys differs from the others in some ways, such as the length and detail of its questionnaire, the number of households included (sample size), and the methodology used to collect and process the data. The SAIPE program uses data from a variety of sources, to create statistical models to produce income and poverty estimates. It is important to understand that different surveys and methods, which are designed to meet

different needs, may produce different results. For more information about the various surveys, please visit the following page: <https://www.census.gov/topics/income-poverty/poverty/guidance/surveys-programs.html>

Reporting

KHC will build a report to show socially disadvantaged households served with HoAF. The qualifiers will be the following:

1. Any 1 borrower with race/ethnicity non-white. Those who choose not to respond would not count as non-white for this report.
2. For any borrower with a demographic of white/Caucasian or chose not to respond, if their property is in one of the identified persistent-poverty counties.

At least 60% of program funding must serve households at or below 100% AMI. Anything between 100.1-150% must be priorities toward Socially Disadvantaged Households. KHC will monitor production reports to ensure these thresholds are being met and will adjust the program if necessary.

Underwriting Guidelines

Material Decrease in Income or Increase in Expenses

KHC is defining Material Decrease in Income or Increase in Expenses as having experienced at least 15% change following date of hardship.

Documenting Reason

The required Attestation must describe the nature of the financial hardship (for example, job loss, reduction in income, increased costs due to healthcare, need to care for a family member, etc.). Anyone requiring assistance to complete documentation will be offered services as needed including translations and/or limited English proficiency.

Qualifying Disability

Applicants who have been affected by COVID-19 resulting in disability will provide the date of approval for disability.

Documenting Income Determinations:

One of the following may be used to verify income:

1. Written attestation as to household income together with supporting documentation such as paystubs prior to the January 21, 2020 date and after which demonstrates the impact of the pandemic related event(s),
2. W2s or other wage statements,
3. IRS Form 1099s,
4. 2019 tax filings,
5. Depository institution statements demonstrating regular income, or
6. An attestation from an employer.

KHC may provide waivers or exceptions to this income documentation requirement as reasonably necessary to accommodate extenuating circumstances, such as disabilities, practical challenges related to the pandemic, or a lack of technological access by homeowners; in these cases, the KHC is still responsible for making the required determination regarding household income and documenting that determination.

Current Income Examples

Applicants who receive unemployment benefits will supply a recent check stub showing amount received or proof of direct deposit in the bank account. Applicants who receive maximum unemployment benefit of \$415 per week is calculated as follows: $\$415 \times 52$ (weeks in a year) / 12 (for a monthly amount) = \$1,798.33/month.

Applicants working for less than pre-event income would provide a recent paystub reflecting year-to-date earnings. KHC will average by the number of weeks worked in that year. Use gross earnings, not net.

Applicants who receive some type of long-term or permanent disability award will supply a recent check stub showing amount received or proof of direct deposit.

Applicants must be designated as payee on award letter when job loss is due to disabled child's need for long-term care. If the dependent child is over the age of 18, the applicant must show proof of guardianship.

Pre-event Income Examples

If an applicant worked the entire previous year at the job lost, the previous year w-2 for that job may be used.

If an applicant did not work the entire previous year at the job lost, the counselor may have to average using the number of weeks worked in that year.

If an applicant lost their job in the current or previous one year from application, they do not need to provide 2 years of tax returns, just need W-2's.

If the applicant is self-employed, they must submit the previous two years' Federal tax returns, with all schedules, and provide a year-to-date profit and loss statement.

Pre-event income for disabled clients would be the employment income before applicant became disabled

Documenting Income

| | Primary Source of Verification | Secondary Source of Verification |
|-------------------------------|--|--|
| <i>Unemployment Benefits</i> | <ul style="list-style-type: none"> Copy of check stub/bank statement (from homeowner) Copy of Monetary Determination Letter (from unemployment office, if available) | N/A |
| <i>Payroll</i> | Pay stubs verifying current and/or past income. | Current payroll ledger showing employer and employee name, signed, and dated by the employer. |
| <i>Self-Employment Income</i> | Copy of signed federal tax return including all schedules and W-2s, including 1099, and ytd profit/loss. | N/A |
| <i>Disability Income</i> | Copy of the original award letter—date of original award must be within the previous three-year window. | One month of the most current bank statement showing direct deposit of funds from identifiable source. |
| <i>Non-Taxable Income</i> | Pay stub or award letters. | Two consecutive months of recent bank statements showing automated deposit from identifiable source. |
| <i>Temporary Income</i> | Not qualifying income. | N/A |

Eligible Properties

To be eligible for HOAF assistance, the homeowner's property must be classified as **real** property and have a value determined for reporting purposes to the U.S. Department of Treasury.

One of the following documentation types is required:

- Tax assessment reflecting value of real property.
- Appraisal (no time limit); or
- Zillow.com or other website verifying value and real property.

Asset Statements

The homeowner's cash reserves cannot exceed six months' principal, interest, taxes, and insurance equal to the first- and second-mortgage payments. Homeowners may use any overage toward their mortgage or other debts to qualify.

Homeowners must provide all statement pages for every account. Account statements may not be older than 120 days when submitted to Underwriting. Credit documents expire 60 days from HOAF grant approval.

Owner Occupancy and Primary Residence

To receive assistance from the HOAF, the homeowner must certify that the property for which they are requesting assistance is their Principal Residence, which is defined as "the property occupied by the homeowner and located in Kentucky." "Owner" is determined by the General Warranty Deed and land sale agreements, where applicable.

To determine that the current property is "owner occupied," the home address on the homeowner's last year's tax return and their current bank statement should match the property. If the homeowner recently acquired the property and their most recent tax returns show a different address, a copy of the Closing Disclosure must be provided to show the purchase occurred after the most recent tax return filing or an appraisal showing "owner occupied" must be supplied with the application.

Second Occurrence Allowance

If the homeowner has unused or undrawn funds from the initial closing, they can reapply for a second "event" of a job loss or reduction in income only if they experience a second financial hardship event following the initial closing that resulted in additional delinquencies.

Second Lien Omission

If the second lien holder does not agree to accept payments from the HOAF Program, or if the borrower elects to omit the second mortgage from HOAF Program coverage, the borrower(s) may proceed with the first mortgage. The borrower will sign a HOAF Second Lien Notice at time of closing.

Homeowner Association Dues

Homeowners that identify they are delinquent on HOA fees and/or assessments may apply to utilize HOAF funds to bring delinquent HOA accounts current. This includes monthly HOA fees, dues, and/or one-time assessments. KHC will provide a one-time payment to the HOA to bring the account current.

Utilities

Homeowners who are 90-days or more past due on utilities, specifically water, sewer, gas and/or electric, may apply to use HOAF funds to bring delinquent utility accounts current. This includes reinstatement/ connection fees. The assistance will be paid as a one-time reinstatement.

Home Equity Lines of Credit (HELOC)

If the second mortgage is a HELOC, the borrower(s) will acknowledge they are not to make draws on the line of credit while receiving HOAF assistance. Any draws made on the line of credit during that time will terminate HOAF assistance.

Identifying Who MUST Be on HOAF Application

Parties listed as owner(s) on the deed of record have an ownership interest in the property and must be on the HOAF application. Therefore, the owner(s) of the property are an applicant.

Other examples include:

- If owner (borrower) is married and spouse is on deed: Both must be on HOAF application.
- If owner (borrower) is married but spouse is NOT on the deed, spouse would only be on the application if they have experienced the hardship.
- If owner's mother was on the deed but does not reside in the subject property, then she may be omitted from the application.

Counseling Agency Partnerships

KHC partners with counseling agencies throughout the State. Agencies who participate in the HOAF will be paid \$600 for each "Approved" HOAF grant. Payment will be made directly to each Participating Agency in one payment for all "Approved" HOAF applications during that payment period.

To participate, Participating Agencies must be HUD approved housing counselors in pre-purchase counseling, but preferably Loss Mitigation counseling as well to provide complete assistance to applicants. Participating Agencies must complete the Homeowner Assistance Fund Counseling Agreement, with all exhibits and HOAF Personnel Profile Sheets to receive a user ID and password to access the Protection Center System. Participating Agencies agree to meet with prospective clients, reserve the HOAF grant, submit the HOAF grant file to KHC in checklist order, and maintain pipelines in the Protection Center System.

Participating Agencies will receive client referrals automatically from the Protection Center System.

HOAF Workflow

Referral

Homeowners will apply through the Team KY Homeowner Assistance Fund Application portal, where they will also upload supporting documentation. This portal will be a link on the Protection Center site. When the application is complete, the case will be assigned to a housing counseling agency through the Protection Center System.

Pre-Screening

The Participating Agency's assigned counselor will complete a HOAF Pre-Screening with the homeowner to determine their eligibility for the HOAF Program. Counselors will proceed to the Protection Center System to reserve the HOAF grant for eligible homeowners. Ineligible homeowners will have the opportunity to pursue other loss mitigation and foreclosure intervention counseling.

Reservation

Counselors will log in to the Protection Center System and complete the case information and applicant screens. On the "Program's screen," enroll in HOAF. Counselors will select the assistance for which the homeowner needs, mortgage assistance/reinstatement, non-escrowed taxes, non-escrowed insurance, past due homeowner's association fees, etc.

HOAF Underwriting

KHC will underwrite the file and notify the counselor via e-mail if the file is "approved," "denied," or "pending." "Pending" means KHC needs additional information/clarification before a decision can be made on the file. The counselor will upload pending items through the Team KY HOAF portal. Once "pending" items are submitted to KHC, a final decision will be made, and the counselor will receive the decision via e-mail.

HOAF Servicer Approval

Once KHC approves a HOAF grant, KHC's Servicing Liaison Team will submit necessary documents to the Participating Servicer(s) for their final approval of the homeowner. The file is then sent to the Closing Team to order title update. Once the file is "servicer approved," the counselor will be notified by e-mail.

Communication to Borrowers

HOAF Personnel should keep borrowers updated on the progress of their grant applications. Decisions should be communicated in written format. Copies of Approval, Withdrawal, and Denial letters should be maintained in the grant file and the date letters are sent should be listed in the Comments section of the Protection Center System case file for each borrower.

Closing

KHC's closer will order the draw up all final documents/ closing packet requiring e-signature. The closing package will be sent via DocuSign and will include the Notice of Award and Grant agreement.

Post-Closing

Once the closed HOAF file is returned to KHC, KHC's post closer will review for completion and imaging. Once complete, the file status will change to "To servicing," and the grant is ready for payment to begin to the participating recipients, i.e., servicer(s), property tax officials, insurance entities, and/or HOAs.

Grant Payments to Servicers

Re-instatement Fee

Within ten (10) business days following closing, up to \$35,000 can be made to the servicer(s) or other payee(s) to re-instate account(s), if needed. The re-instatement payment will be applied to the first mortgage first. Any remaining funds will then be applied monthly mortgage payments if the homeowner was approved for the monthly mortgage payment assistance.

Monthly Mortgage Payments to Servicers

Monthly mortgage payments will begin the month following closing. For example, a borrower who closes mid-October can expect monthly mortgage payments to begin in November. Payments are made during the first ten (10) business days of each month, not automatically on the first day of the month.

Payments to tax officials, insurance companies, and/or HOA's

Within ten (10) business days following the closing, the one-time reinstatement payment(s) will be processed and paid to any requested property tax, hazard/flood insurance, or HOA entities approved in the file.

Payment to Participating Counseling Agencies

Around the 15th of each month, KHC will pull reports on Approved status HOAF grant for each Participating Agency. Participating agencies will be paid \$600 for each "approved" HOAF application from the previous month.

Appeals

If KHC's Underwriting team denies a file for HOAF eligibility, the Participating Agency or borrowers may appeal the decision by writing a letter of explanation requesting reconsideration for the HOAF Program and explaining why the denial reasons do not apply. Participating Agencies or borrowers need to gather any additional documentation to support the appeal and submit the appeal to protectioncenter@kyhousing.org. The subject line of the email should read: "Appeal of HOAF Grant Denial, Last Name, case file #." KHC's Underwriting team will review new information and notify the Participating Agency of the decision by changing the status of the case file in the Protection Center System.

Re-Evaluation

If a homeowner's income increases, the Participating Agency will complete the Re-evaluation Checklist and Invoice. The Participating Agency will determine if the homeowner still demonstrates a need for assistance, as detailed in the underwriting guidelines. If the homeowner is still eligible under the guidelines, HOAF assistance will continue uninterrupted. If the homeowner is found to no longer be eligible for HOAF assistance, KHC will pay two more monthly mortgage payments and then assistance will end. Participating Agencies will be paid \$100 for each re-evaluation.

Second Occurrence Re-Evaluation

If a homeowner's HOAF assistance ended early due to re-employment or increase in income but experienced a second employment event within the two-year forgivable period, the Participating Agency may complete the Re-evaluation Checklist and Invoice for that client to see if they qualify to access the remaining funds of their original HOAF assistance. Participating Agencies will be paid \$100 for each re-evaluation.

Counseling Agency Pipeline Maintenance

Participating Agencies must maintain their pipelines in the Protection Center System. KHC staff will send monthly reports on HPC and HOAF pipelines for follow-up.

HPC Pipeline

HPC cases are the initial referrals in the Protection Center System that are not yet reserved. Applicants are instructed to complete their applications. Participating Agencies may have their own process detailed for handling new referrals. However, within thirty (30) days of initial entry into the HPC system, the case should be reserved for HOAF or withdrawn for non-compliance due to failure to respond.

KHC staff will send monthly reports of HPC case files older than thirty days with no activity for maintenance.

HOAF Pipeline

Once a HPC case file is reserved for the HOAF Program, the case file will then be moved to the HOAF Pipeline. HOAF grants should close within sixty (60) days of initial reservation. Counselors should submit files for underwriting no later than thirty (30) days from reservation.

KHC staff will send monthly HOAF Pipelines for any case files reserved for thirty (30) days or more but no file has been sent to KHC and for pended files older than thirty (30) days with no movement.

Miscellaneous Policies

Online Marketing

Participating Agencies are encouraged to market the HOAF Program on their websites. Because the risk of online scammers and copycat websites is a significant threat to consumers seeking assistance with retaining their homes, KHC is providing specific guidelines for online marketing of the HOAF.

In addition to the link information provided by KHC on the Participating Agency Tools page, agencies who choose to market the HOAF Program online should provide on their websites:

- Links to the official US Treasury websites (www.financialstability.gov and www.treasury.gov).
- A statement that HOAF assistance is free of charge; and
- Language encouraging consumers to contact the Office of Compliance within the U.S. Treasury's Office of Financial Stability (OFS Compliance) Antifraud Unit or the Office of the Special Inspector General hotline if fraud, waste, abuse, mismanagement, or misrepresentations affiliated with HOAF is suspected.

Agencies are prohibited from the following when marketing online:

- Using the Homeowners Assistance Fund to solicit other business.
- Making false statements and claims about the HOAF program.
- Inferring that the organization is part of or affiliated with Treasury, other government organizations, or servicers; or
- Use of a federal government organization seals or logos (e.g., Treasury seal, HUD, FHFA).

Conflict of Interest Policy

HOAF Personnel must abstain from any conflict of interests or appearance of conflicts of interest regarding the counseling of applicants. The purpose of this is to protect all the parties involved including, but not limited to the applicants, the counselors, and the Homeowner Assistance Fund Program. KHC considers a conflict of interest to exist when HOAF personnel has any interest in the matter relating to the client or an interest that might compromise the agency's ability to represent fully the best interest of the client.

The following is a non-exhaustive list of examples of actions that could create a conflict or the appearance of a conflict of interest:

- a. Receiving any type of fee for referral of applicant (other than HOAF Compensation outlined in this manual).
- b. Offering any other fee-based financial services to applicant (e.g., tax preparation, financial planning, bill payments, etc.).
- c. Working directly with one's spouse, child, or another close relative.
- d. Using a position of trust and authority with the applicant for financial gain.

Agencies must notify KHC in writing of any conflicts of interest that may have occurred as well as what actions were taken in response. Failure to comply with this policy will result in termination of the HOAF Program.

Fraud Policy

KHC recognizes the importance of protecting the organization, its operations, its employees, and its assets against financial risks, operational breaches, and unethical activities. Therefore, it is incumbent upon KHC's Board of Directors and management to institute and clearly communicate the fraud prevention policy to both internal and external customers, vendors, and partners.

KHC recognizes a zero-tolerance policy regarding fraud and corruption. All matters raised by any source will be taken seriously and properly investigated.

This policy covers all KHC employees and officers. Additionally, this policy covers all KHC vendors, customers, and partners to the extent that any KHC resources are involved or impacted.

Fraud is defined as an intentional deception, misappropriation of resources, or the manipulation of data to the advantage or disadvantage of a person or entity. Some examples of fraud include:

- Falsification of expenses and invoices.
- Theft of cash or fixed assets.
- Alteration or falsification of records.
- Failure to account for monies collected; and
- Knowingly providing false information on job applications and requests for funding.

Corruption is defined as the offering, giving, soliciting, or accepting of an inducement or reward that may improperly influence the action of a person or entity. Some examples of corruption include:

- Bribery.
- Conspiracy; and
- Extortion.

Reporting of Fraud or Corruption

Allegations and concerns about fraudulent or corrupt activity may come from various sources including:

- Employees
- Vendors
- Members of the public
- Results of internal or external audit reviews
- Any other interested parties

All employees and officers have a duty to report their concerns or information provided to them about the possible fraudulent or corrupt activity of any officer, employee, vendor, or any other party with any association with KHC. Any person who has a reasonable basis for believing fraudulent or corrupt acts have occurred has a responsibility to report the suspected act immediately.

Concerns should be reported to any of the following:

- Director of Internal Audit
- KHC's General Counsel
- U.S. Department of Treasury
- Anonymous Fraud and Corruption Hotline – Toll free (866) 384-4277



or on-line through:

https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=5039

Retaliation and retribution will not be tolerated against any employee or officer who reports suspected fraudulent or corrupt activities. However, if an employee is determined to have acted maliciously or with deceit, the employee will be subject to disciplinary action.

All reports will be taken seriously and will be investigated by KHC Internal Audit staff and/or the Legal Services and Compliance Department. If deemed necessary, KHC will notify and fully cooperate with the appropriate law enforcement agency. Any investigation resulting in the finding of fraud or corruption will be referred to the KHC Disciplinary Committee for action. The Disciplinary Committee is composed of KHC's General Counsel, director of Internal Audit, director of Human Resources, and the Chief Executive Officer. Fraudulent or corrupt activities that result in disciplinary action will be reported to the Board of Directors.

Deterring Fraud and Corruption

KHC established internal controls, policies, and procedures to deter, prevent, and detect fraud and corruption.

All new employees, plus temporary and contract employees, are subject to background investigations including a criminal background check. KHC will also verify all applicants' employment history, education, and personal references prior to making an offer of employment.

All vendors, contractors, and suppliers must be active, in good standing, and authorized to transact business in the State. Vendors, contractors, and suppliers are subject to screening, including verification of the individual's or company's status as a debarred party.

All contractual agreements with KHC will contain a provision prohibiting fraudulent or corruptive acts and will include information about reporting fraud and corruption.

KHC employees will receive fraud and corruption awareness training. New employees will receive training as part of orientation at the commencement of employment. All employees will receive fraud and corruption awareness training every two years.

Corrective Action

Final determination regarding action against an employee, vendor, recipient, or other person found to have committed fraud or corruption will be made by the Disciplinary Committee.

Offenders at all levels of KHC will be treated equally regardless of their position or years of service with KHC. Determinations will be made based on a finding of facts in each case, cooperation by the offender, and legal requirements.

Depending upon the seriousness of the offense and the facts of each individual case, action against an employee can range from written reprimand and a probationary period to legal action – either civil or criminal. In all cases involving monetary losses to KHC, KHC will pursue recovery of losses.