Community Housing Development Organization (CHDO) Manual

- Policies
- Application for Designation
- Recertification

Kentucky Housing Corporation
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Notice

This manual serves as a reference for Kentucky Housing Corporation’s administration of the Community Housing Development Organization (CHDO) portion of the Home Investments and Partnerships Program (HOME).

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 contains resources and forms for CHDOs. The manual is not inclusive of all resources needed to successfully administer a project.

Please contact a KHC program representative if you have questions or need additional assistance with materials within this manual.

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WHAT IS A COMMUNITY HOUSING DEVELOPMENT ORGANIZATION (CHDO)?

A CHDO (pronounced cho'doe) is a private nonprofit, community-based service organization that has significant capacity, and whose primary purpose is, to develop affordable housing for the community it serves. Certified CHDOs receive special designation from Kentucky Housing Corporation (KHC). The HOME Program definition of a CHDO is found at 24 CFR Part 92.2.

WHAT SPECIAL BENEFITS ARE AVAILABLE TO CHDOs?

HOME regulations require that KHC set aside 15 percent of its annual HOME allocation exclusively for qualified, eligible CHDO projects. If an organization becomes a certified CHDO, it is eligible to take advantage of the HOME funds set-aside just for CHDOs, as well as financial support for a portion of its operating expenses associated with CHDO projects.

REGULATORY REQUIREMENTS FOR CHDO CERTIFICATION

The U.S. Department of Housing and Urban Development has established standard criteria for organizations to be eligible to become a certified CHDO:

1. **Organized Under State/Local Law.** A nonprofit organization must show evidence in its Articles of Incorporation that it is organized under state or local law.
2. **Nonprofit Status.** The organization must be conditionally designated or have a tax exemption ruling from the Internal Revenue Service (IRS) under Section 501(c) of the Internal Revenue Code of 1986. A 501(c) certificate from the IRS must evidence the ruling.
3. **Purpose of Organization.** Among its primary purposes, the organization must have the provision of decent housing that is affordable to low- and moderate-income people. This must be evidenced by a statement in the organization's Articles of Incorporation and/or Bylaws.
4. **Board Structure.** The board of directors must be organized to contain no more than one-third representation from the public sector and a minimum of one-third representation from the low-income community.
5. **No For-Profit Control.** The organization may not be controlled by, nor receive directions from, individuals or entities seeking profit from or that will derive direct benefit from the organization.
6. **No Individual Benefit.** No part of a CHDO’s net earnings (profits) may benefit any members, founders, contributors, or individuals. This requirement must also be evidenced in the organization’s Articles of Incorporation.
7. **Clearly Defined Service Area.** The organization must have a clearly defined geographic service area outlined in its Articles of Incorporation and/or Bylaws. CHDOs may serve individual neighborhoods or large areas. However, while the organization may include an entire community in their service area (such as a city, town, village, county, or multi-county area), they may not include the entire state.
8. **Low-Income Advisory Process.** A formal process must be developed and implemented for low-income program beneficiaries and low-income residents of the organization’s service area to
advise the organization in all of its decisions regarding the design, location, development and management of affordable housing projects.

9. **Capacity/Experience.** The key staff and board of directors must have significant experience and capacity to carry out CHDO-eligible, HOME-assisted projects in the community where it intends to develop affordable housing (key staff and board of directors have successfully completed HOME-funded, CHDO-eligible projects in the past).

10. **Community Service.** A minimum of one year of relative experience serving the community(ies) where it intends to develop affordable housing must be demonstrated.

11. **Financial Accountability Standards.** The organization must meet and adhere to the financial accountability standards as outlined in 24 CFR 84.21, "Standards for Financial Management Systems."

**KHC REQUIREMENTS FOR CHDO CERTIFICATION**

In addition to the regulatory requirements, KHC has established additional criteria for CHDO designation. To be eligible for CHDO designation, an organization must also:

1. Maintain a record of good standing with the Kentucky Secretary of State’s office.
2. Maintain a staffed, physical office location in the proposed service area that is open for business and accessible by potential program applicants during generally-accepted customary business hours.
3. Have established a minimum three-year strategic business plan, which must include CHDO-related production and community involvement goals.
4. Maintain a history of no significant compliance findings on its KHC-funded projects.

Please note that the criteria noted above is not intended to be all-inclusive and KHC may require additional information prior to making a determination for CHDO designation. Meeting the above requirements does not guarantee that the organization will be granted CHDO designation. KHC reserves the right to deny or revoke CHDO designation based upon its evaluation of the nonprofit organization’s performance. Designated CHDOs will be evaluated periodically for production and other benchmarks as established by KHC.

**ORGANIZATIONAL STRUCTURE REQUIREMENTS FOR CHDO CERTIFICATION**

The HOME Program establishes requirements for the organizational structure of a CHDO to ensure that the governing body of the organization is **controlled by the community it serves.** These requirements are designed to ensure that the CHDO is capable of decisions and actions that address the community’s needs without undue influence from external agendas.

There are four specific requirements related to the organization’s board, which must be evidenced in the organization’s Articles of Incorporation and/or Bylaws. These are:
1. **Low Income Representation.** At least one-third of the organization’s board must be representatives of the low-income community served by the CHDO. There are three ways a board member can meet the definition of a low-income representative:

   - The person lives in a low-income neighborhood where 51% or more of the residents are low-income. This person need not necessarily be low-income.
   - The person is a low-income (below 80% area median income) resident of the community.
   - The person was elected by a low-income neighborhood organization to serve on the CHDO board. The organization must be composed primarily of residents of the low-income neighborhood and its primary purpose must be to serve the interests of the neighborhood residents. Such organizations might include block groups, neighborhood associations, and neighborhood watch groups.

The CHDO is required to certify the status of low-income representatives.

2. **Public Sector Limitations.** No more than one-third of the organization's board may be representatives of the public sector, including elected public officials, appointees of a public official, any employees of a local government or public school system, or employees of KHC or the Commonwealth of Kentucky. If a person qualifies as a low-income representative and a public sector representative, their role as a public sector representative supersedes their residency or income status. Therefore, this person counts toward the one-third public sector limitation.

3. **Low-Income Advisory Process.** Input from the low-income community is not met solely by having low-income representation on the board. The CHDO must provide a formal process for low-income program beneficiaries to advise the CHDO on design, location of sites, development and management of affordable housing. The process must be described in writing in the Articles of Incorporation and/or Bylaws. Each project undertaken by the CHDO should allow potential program beneficiaries to be involved and provide input on the entire project from project concept, design and site location to property management. One way to accomplish this requirement is to develop a project advisory committee for each project or community where a HOME assisted project will be developed. Proof of input from the low-income community will be required at the CHDO’s annual recertification.

4. **For-Profit Limitations.** If a CHDO is sponsored by a for-profit entity, the for-profit may not appoint more than one-third of the board. The board members appointed by the for-profit may not appoint the remaining two-third of the board members.

**EXPERIENCE, CAPACITY AND ROLES (24 C.F.R. 92.300-92.303)**

To be certified as a CHDO, the HOME Program requires organizations to demonstrate sufficient experience, capacity, and financial accountability. Experience & Capacity: A CHDO must certify to KHC that it has the capacity, demonstrated by having paid staff with demonstrated capacity to perform the specific role for which is it being funded. CHDO
staff can be full-time or part-time and can be contract employees. The CHDO cannot count the experience of board members, donated staff, parent organization staff, or volunteers to meet the capacity requirement. The CHDO can only count capacity brought to the table by a consultant in the first year of participation. Afterward, the CHDO must demonstrate capacity based upon paid staff. The CHDO must demonstrate experience and capacity relevant to the project and its role as owner, developer, or sponsor. If the CHDO is the owner, its staff must have the capacity to act as the owner (this may mean the ability to oversee development.) If the CHDO is the developer or sponsor, its staff must have development experience on projects of similar scope or complexity.

CHDOs must demonstrate a history of serving the community where the housing to be assisted with HOME funds will be located. HUD requires that organizations show a history of serving the community by providing:

- A statement that documents at least one year of experience serving the community.
- For newly created organizations, provide a statement that the parent organization (if applicable) has at least one year experience serving the community.

CHDOs must provide resumes and/or statements of key staff members that describe their experience of successfully completed projects similar to those proposed.

**CHDO Service Area**

While KHC does not limit the number of counties is a CHDO’s service area, the very definition of a CHDO is that it be community-based. Therefore, an organization proposing a large or regional service area must demonstrate that it is taking the appropriate steps to achieve the community-based component. Some of the ways this can be achieved is by having an active community (non-public) representative from each of the counties on the CHDO’s board of directors; establishing local advisory councils to advise the CHDO board on topics relative to the organization’s activities; hosting “town hall” meetings in the proposed project areas, etc. KHC will consider other methods suggested by the CHDO. CHDOs will be required to provide updates on how it is ensuring that it is active and visible in the communities included in its service area.

KHC reserves the right to limit CHDOs going into a service area where an existing CHDO is already providing service. Unless a CHDO is already approved to serve a particular territory, KHC will not approve CHDOs to serve overlapping territory.

**CHDO Recertification**

To ensure compliance with the HOME regulations, each CHDO will be required to submit specific information to KHC on an annual basis, including, but not limited to:

- A list of its board of directors, as well as which sector each represents
• An updated three-year business plan and a description of how the low-income advisory process was implemented. If no HOME funds were used within the reporting period, a detailed description of all other affordable housing initiatives undertaken will be requested.

Recertification will be required EACH TIME KHC COMMITS HOME FUNDS (i.e., at the time of project set-up). The CHDO must recertify as to its continued qualifications as a CHDO and its capacity to own, sponsor, or develop housing.

CHDOs that have not been allocated project funds from the HOME CHDO set-aside for three consecutive years will be deemed inactive. At its discretion, KHC may revoke the designation of inactive CHDOs based upon a review of other non-CHDO housing activities the organization has undertaken (if any), as well as other factors deemed appropriate by KHC.

**CHDO SET-ASIDE**

The HOME requirements at 24 CFR Part 92.300 require KHC to set aside at least 15 percent of its annual HOME allocation for projects owned, developed or sponsored by CHDOs. A certified CHDO must serve as the owner, developer or sponsor of a HOME-eligible project when using funds from the 15 percent CHDO set-aside. A CHDO may serve in one of these roles or it may undertake projects in which it combines roles, such as being both an owner and developer. The CHDO must be certified for each type of activity it plans to undertake.

**CHDO AS AN OWNER**

A CHDO is considered an owner of a property when it holds valid legal title or has a long-term leasehold interest (99-year minimum). The CHDO may be an owner with one or more individuals, corporations, partnerships, or other legal entities. If the CHDO is the owner of property it did not develop, it must maintain ownership in fee simple or with the long-term ground lease for the duration of the affordability period.

While a CHDO may be sole owner and have another entity act as developer, it can also be the owner and developer of its own project. The CHDO may own a property in partnership with either a majority or minority interest. However, the CHDO, in partnership with a wholly owned for profit or nonprofit subsidiary, must be the managing general partner with effective control (in decision making authority) of the project.

A CHDO may also own rental property in which it did not directly undertake development, allowing it to acquire standard housing, or hire a project manager, or contract with a developer to perform rehabilitation or construction. Assistance must be provided to the entity that owns the project.
**CHDO AS DEVELOPER**

A CHDO is considered a developer when it either owns the property and develops the project or has the contractual obligation to a property owner to develop a project.

**If the CHDO owns the property,** it must obtain financing and rehabilitate or construct the project. For HOME-assisted rental housing the CHDO may maintain ownership and manage the project over the long term, or it may transfer the project to another entity for long-term ownership and management. KHC must approve any transfer of ownership or management in advance. For HOME-assisted homebuyer projects, the CHDO must transfer title to the property and the HOME obligations to an eligible homebuyer within a specified time frame of project completion.

**If the CHDO does not own the property,** it must be under a contractual obligation with the owner to obtain financing and rehabilitate or construct the project. Under this arrangement, the CHDO assumes all risks and rewards associated with being the project developer. A written agreement between the CHDO and the property owner must detail the CHDO’s specific obligations. Any such agreement must be approved by KHC prior to the allocation of HOME funds from the CHDO set-aside. For HOME-assisted rental housing, the CHDO may manage the project for the owner at project completion. However, a nonprofit to which ownership of a rental project is transferred cannot be an organization created by a government entity.

For homebuyer housing, the owner must transfer title of the property and the HOME obligations to eligible homebuyers within a specified timeframe of project completion. The written sales agreement must specify:

- The actual sales price of the property or method of determining it;
- The disposition of the proceeds of the sale (i.e., whether it will be returned to KHC or whether KHC will permit the CHDO to retain it)

**If the CHDO develops the property for an owner pursuant to a written or other agreement** with KHC, the CHDO is acting in the capacity of a sub-recipient. CHDOs receiving funds as sub-recipients cannot use the funds from the 15 percent set-aside for that particular project or service.

**CHDO AS A SPONSOR**

A CHDO may be a sponsor for both HOME-assisted rental housing and homebuyer housing. A CHDO sponsor must always own the project prior to and/or during the development phase of the project.

**For HOME-assisted homebuyer projects** - The CHDO is considered a sponsor when it owns a property and then transfers responsibility for the project to another nonprofit at a specified time in the development process. Any transfers of responsibility or ownership must be approved by KHC. The recipient nonprofit must be approved based on its capacity and eligibility according to the CHDO guidelines.
The second nonprofit, in turn, transfers title, along with the HOME obligations and resale/recapture requirements, to a HOME-qualified homebuyer within a specified time frame. In this situation, the following requirements apply:

- The HOME funds must be invested in the property owned by the CHDO.
- The other nonprofit being sponsored by the CHDO must acquire the completed units or complete the rehabilitation or construction of the property.

Upon completion of the rehabilitation or construction, the sponsored nonprofit is required to sell (transfer) the property, along with the HOME loan/grant obligations, to a qualified homebuyer.

**For HOME-assisted rental housing** - The CHDO is considered a sponsor when it develops a project that it solely or partially owns and agrees to convey ownership to a second nonprofit organization at a predetermined time. The conveyance may occur prior to or during development or upon completion of the development of the project. In this situation, the following requirements apply:

- HOME funds must be invested in the project owned by the CHDO sponsor. The CHDO sponsor must identify the particular nonprofit organization that will obtain ownership of the property prior to commitment of HOME funds. The second nonprofit must assume all HOME obligations (including repayment of loans and tenant and rent requirements) for the project from the CHDO at a specified time. If the property is not transferred to the nonprofit organization, the CHDO sponsor will remain liable for the HOME obligations. The assuming nonprofit must be approved by KHC and must meet all KHC capacity criteria as well as the CHDO requirements.
- The nonprofit organization must be financially and legally separate from the CHDO sponsor. (The second nonprofit may have been created by the CHDO; nevertheless it is a separate entity from the CHDO.) The CHDO must provide sufficient resources to the nonprofit organization to ensure the completion of the development and long-term operation of the project.

If the partnership agreement permits removal of the CHDO as the sole managing partner or member, removal will only be permitted for cause. The partnership agreement must specify that the CHDO must be replaced with another CHDO. (This applies only to rental projects that have been allocated housing credits and the HOME funds are being provided to the CHDO via the CHDO set-aside.)

**CHDOs as Developer or Sponsor**

The CHDO developer and sponsor roles are similar in many ways. In both roles, the CHDO carries out the principal project development activities, such as acquisition, financing, construction management, and assembling a capable development team to bring a project from conception to completion. However, as developer, the CHDO need not own the property. As sponsor, the CHDO must own the property and shift the responsibility to another nonprofit at a specified time in the development process.

This transfer could occur, for example, at the:
• Initiation of the construction,
• Completion of the construction, or
• Issuance of the certificate of occupancy.

**Financial Accountability**

CHDOs must have financial accountability standards that conform to the requirements detailed in 24 CFR 82.21, "Standards for Financial Management Systems." This can be evidenced by:

• A notarized statement by the president or chief financial officer of the organization.
• Certification from a certified public accountant.
• Audit completed by CPA.
• KHC reserves the right to request additional audited financial statements at any time.

**Eligible and Ineligible Uses of HOME CHDO Set-Aside Funds**

**Eligible Activities - Owners, Sponsors, Developers**

Using the 15% set-aside, a CHDO acting as an owner, sponsor, or developer may undertake any of the following activities:

• Acquisition and/or rehabilitation of rental property;
• New construction of rental housing;
• Acquisition, rehabilitation and resale of existing, vacant homebuyer property;
• New construction of homebuyer property;
• Direct financial assistance to purchasers of HOME-assisted housing developed by a CHDO with HOME CHDO set-aside funds.

Please note that to be considered a CHDO-eligible project, CHDO set-aside HOME funds must be used during the construction or rehabilitation of the project.

**Ineligible CHDO Activities**

Using the 15% set-aside, a CHDO may not undertake any of the following activities:

• Rehabilitation of existing homeowners' properties;
• Tenant-based rental assistance (TBRA); or
• Down payment and/or closing cost assistance to purchasers of housing not developed with HOME CHDO set-aside funds.
**Eligible Activities – Sub-recipients**

CHDOs may also act as sub-recipients with non-set-aside funds by undertaking other HOME-eligible activities such as:

- Tenant-Based Rental Assistance (TBRA);
- Owner-occupied rehabilitation of single-family dwellings; and
- Down payment or closing cost assistance in the acquisition of single-family units.

**Operating Expenses**

From time to time, funds may be available to provide general operating assistance to CHDOs receiving CHDO set-aside funds for activities. When funds are available, certified CHDOs that are administering an eligible project funded from the CHDO set-aside may be eligible to receive funds to be used for operating expenses. The regulations require that KHC allocate no more than 5 percent of its HOME allocation for CHDO operating expenses. However, KHC reserves the right to further restrict the amount of funds an entity may receive for CHDO operating funds. This allocation does not count toward the required 15 percent CHDO set-aside funds that are to be used by CHDOs for projects.

The amount of operating funds awarded will be based on, but not limited to, the following factors:

1. The total amount of HOME funds KHC has available to allocate for reimbursable CHDO operating expenses;
2. The anticipated completion date and size of your current CHDO set-aside project(s); and
3. The CHDO’s past performance as a CHDO developer.
4. The CHDO’s capacity to complete the project in a timely manner.
5. The ability of the CHDO to retain CHDO proceeds.

KHC will allocate operating funds on a two-year basis, as long as funds are available. The allocation of operating funds in year two will be up to 50 percent of the first year’s allocation. If a CHDO has two active HOME projects funded from the 15 percent CHDO set-aside, it will only receive one allocation of operating funds.

For example, a CHDO receives an award of HOME funds from the CHDO set-aside in 2015. It receives $20,000 of operating funds for 2015 and $10,000 for 2016. If this same CHDO applies for and receives an allocation of CHDO HOME funds in 2016, it would receive $20,000 of operating funds for 2015, $20,000 for 2016 and $10,000 for 2017.

If a CHDO applies for and receives two awards of CHDO HOME funds in the same year, (homebuyer and rental), it would receive one allocation of operating funds of $20,000 in the first year and $10,000 in the second year.

Please note the dollar amounts reflected are for example only.
Operating funds will be provided on a fiscal year basis (July 1 – June 30) provided funds are available and the CHDO has demonstrated acceptable performance.

Although the disbursement of CHDO operating funds is not tied directly to the draw down of the CHDO project funds, KHC reserves the right to delay disbursement of operating funds if it is evident that the CHDO project is experiencing excessive delays.

KHC reserves the right to reduce the amount of, or not award, operating funds based upon its evaluation of the CHDO’s production and overall performance.

Eligible operating expenses for which CHDOs may use operating funds include:

- Salaries, wages, benefits, and other employee compensation
- Employee education, training and travel
- Rent and utilities
- Communication costs
- Taxes and insurance
- Equipment, materials and supplies

Because the purpose of providing CHDO operating support is to nurture successful CHDOs and ensure their continued growth and success, KHC will periodically evaluate the performance of any CHDO wishing to receive CHDO operating funds.

**Process for Drawing CHDO Operating Funds**

CHDO operating funds are awarded on a fiscal year (July 1 – June 30) basis. Draw requests for eligible expenditures may be made on a calendar quarter reimbursement basis (CHDO must first expend the funds and then request reimbursement from KHC). For example, the CHDO may submit a draw request in October for eligible expenses incurred and paid in calendar quarter July – September. For CHDOs that become eligible to receive operating support mid-year, the following will apply:

- Eligibility determined July - December: CHDO operating funds will be retroactive to July 1 of the current fiscal year and draw requests may be submitted for eligible expenses incurred during that timeframe. If eligible expenses cannot be documented, CHDO operating will begin on July 1 of the following year.

Operating funds must be drawn on a quarterly basis, beginning October 1 of the applicable fiscal year. The quarterly draw requests must be submitted within 30 days of the end of each quarter; otherwise, operating funds are subject to recapture.

**CHDO PROCEEDS**

In an effort to support the organizational strength and financial stability of CHDOs, KHC may, upon request, allow a CHDO to retain proceeds and/or program income generated from its CHDO set-aside
projects. To be eligible to request to retain CHDO proceeds, a CHDO must meet, at a minimum, all of the following criteria. KHC reserves the right to require additional information to be submitted for review and analysis.

1. Demonstrate a minimum of three (3) years of experience administering a revolving loan fund in a size and amount similar to the anticipated revolving loan pool to be derived from the use of CHDO proceeds. In its request, the CHDO must describe or provide the following:
   a. Type of existing revolving loan fund it administers (housing, economic development, etc.);
   b. How many loans it is servicing;
   c. Year-to-date balance sheet for the revolving loan fund (must be current within 30 days of submission);
   d. Length of time the revolving loan fund has been in place;
   e. Source (or seed money) that established the fund and any associated restrictions;
   f. Loan servicing mechanism the CHDO utilizes (loan tracking software, manual ledger books, etc.); and
   g. Copy of the CHDO’s policies and procedures for loss mitigation and loan delinquencies.

2. Employ an on-staff loan servicing department and/or finance officer or contract with a 3rd party to provide this service.

3. Complete a successful HOME monitoring visit with no outstanding concerns or findings. Any other KHC-financed projects must also be successfully monitored.


5. Review most recent financial statements.

First-time recipients of CHDO HOME funds are not eligible to retain CHDO proceeds. In addition, meeting the above-outlined criteria does not guarantee that the CHDO will be allowed to retain CHDO proceeds. KHC reserves the right, at its discretion, to make this determination.

The final rule of the HOME regulations created the concept of CHDO proceeds. Examples of CHDO proceeds are funds resulting from:

- The permanent financing of a CHDO project used to pay off a CHDO-financed construction loan;
- The sale of CHDO-developed homeownership housing; or
- The principal and interest payments from a loan to a buyer of CHDO-developed homeownership housing.

Proceeds generated from the investment of CHDO set-aside funds in a HOME-eligible project and that are retained by the CHDO are not subject to the requirements of the HOME regulations, except in the event of repayment or recapture. Therefore, CHDO proceeds have no federal identity and are not subject to lead-based paint requirements, the Davis-Bacon Act, Uniform Relocation Act, etc. However, since CHDO proceeds are derived from HOME funds, any activities funded with CHDO proceeds may not be counted as match for other KHC-financed projects.
Once CHDO proceeds are used the first time, no further HOME requirements must be met. However, per CPD Notice 97-09, the first time proceeds are used, the funds must be used for housing activities to benefit low-income households. KHC defines low-income as households at or below 80 percent of area median income. Funds generated from the use of CHDO proceeds are not CHDO proceeds.

CHDOs allowed to retain CHDO proceeds and/or program income must report annually to KHC how these proceeds were utilized. KHC reserves the right to disallow a CHDO to continue to retain CHDO proceeds, if deemed necessary.

Program income never loses its federal identity and is always subject to HOME regulations. HOME funds that are a result of repayment or recapture are always considered program income, even if originally funded from the CHDO set-aside. Repayment occurs when a HOME-funded project, including CHDO set-aside funds, is terminated before completion. Recapture occurs when a HOME-funded project, including CHDO set-aside funds, does not continue to be the principal residence of the HOME-assisted home buyer for the full affordability period. No administrative fees may be retained on repaid or recaptured funds.

If a CHDO is acting as a sub-recipient, the funds generated from HOME-assisted activities are program income and are subject to HOME program income requirements.

A CHDO may retain 10 percent of realized program income as administrative fees, except in the event of repayment or recapture, as noted above. All remaining program income must be reinvested into HOME-eligible projects. If the CHDO has an active HOME-funded project, the realized program income must be expended prior to requesting to draw down additional HOME funds from KHC. The generated program income, as well as any CHDO proceeds being utilized in the active HOME funded project, must be identified on a revised HOME project set-up report.

**CHDO Procurement**

As noted in HUD CPD Notice 97-11, CHDO organizations are not subject to the requirements of 24 CFR, Part 84 in regard to the procurement of goods and services. However, KHC strongly encourages organizations to ensure that costs are reasonable and equitable. This exemption is only applicable to procurement associated with CHDO-eligible projects; CHDOs must still follow appropriate procurement procedures compliant with Part 84 for its non-CHDO projects. KHC may request a copy of the CHDO’s procurement policy for any non-CHDO project funding proposals.

**Effective Period of CHDO Certification**

In order to maintain its CHDO certification, the CHDO must submit, by June 30th of each year a copy of the Annual CHDO Recertification along with all required attachments to KHC. The application and all documentation must be submitted through KHC’s online system. If the CHDO fails to submit the recertification packet, the CHDO may no longer qualify as a CHDO. Prior to awarding any KHC CHDO funds, the CHDO must recertify that no changes have occurred within the agency that would disqualify the entity as a CHDO for the specific type of activity being undertaken.
HOW TO APPLY FOR CHDO CERTIFICATION

1. Complete the CHDO Certification Application, including all requested attachments, documentation and forms, through the Universal Funding Application (UFA) which is KHC’s online application system.

2. The applicant has 30 days to respond to any request for additional information. If information is not received within 30 days, the CHDO certification application will be denied.
Please note: These forms will be completed online and are examples only

**Application for CHDO Certification**

<table>
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<th>Organization Name:</th>
<th>Tax ID Number:</th>
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Mailing Address (include physical address if different from mailing address):

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<tr>
<th>Contact Name / Title:</th>
<th>Organization President/CEO/Executive Director Name &amp; Title:</th>
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**PLEASE DESCRIBE THE CHDO-ELIGIBLE ACTIVITIES YOUR ORGANIZATION PLANS TO UNDERTAKE AS A CHDO:**


**LIST EACH GEOGRAPHIC AREA TO BE CONSIDER FOR CHDO CERTIFICATION:**

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*I certify that the submission of this application has been approved by a two-thirds vote of the Board of Directors.*

Board President Signature: ____________________________ Date: ____________________________
Application for CHDO Certification
Application Checklist

Please complete the applicant portion of this checklist. Include the requested information in the Attachments indicated and check-off the item in the checklist. Articles of Incorporation, By-Laws, Charters, Memorandums of Understanding, Contracts, Certifications and Resolutions must be signed and dated by the Board President or other authorized signor. Incomplete applications will not be considered.

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<tr>
<th>LEGAL STATUS</th>
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| **A** The nonprofit organization is organized under State or local laws. As **Attachment A-1**, please provide a signed and dated copy of:  
_____ A Charter, -OR-  
_____ Articles of Incorporation | Requirement Met? |
| | |  
| | | | Yes | No |
| As **Attachment A-2**, please provide a Certificate of Good Standing from the Kentucky Secretary of State’s office. If the organization is newly created and has been in existence less than one year, a Certificate of Existence will suffice.  
Date of incorporation: ____________________ | |
| **B** No part of its net earnings inure to the benefit of any member, founder, contributor, or individual. As **Attachment B**, please provide and highlight the appropriate area in the following document:  
_____ A Charter, -OR-  
_____ Articles of Incorporation | Requirement Met? |
| | | | Yes | No |
| **C** Has either a tax exemption ruling or conditional designation from the Internal Revenue Service (IRS) under Section 501(c) of the Internal Revenue Code of 1986. As **Attachment C**, please provide complete copy of:  
_____ A 501(c) Certificate from the IRS, -OR- | Requirement Met? |
<p>| | | | Yes | No |</p>
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<td>D</td>
<td>Has among its purposes the provision of decent housing that is affordable to low- and moderate-income people. As Attachment D, please provide and highlight the appropriate area in one of the following document:</td>
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<tr>
<td>Requirement Met?</td>
<td>Yes</td>
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<td>_____ Charter</td>
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<td>_____ Articles of Incorporation</td>
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<td>_____ By-laws</td>
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<td>_____ Resolutions</td>
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| E | Conforms to the financial accountability standards of Attachment F of OMB Circular A-110, "Standards for Financial Management Systems. As Attachment E, please provide a copy of one of the following: |
| Requirement Met? | Yes | No |
| _____ A notarized statement by the president or chief financial officer of the organization; | |
| _____ A certification from a Certified Public Accountant; | |
| -OR- | |
| _____ A HUD approved audit summary. | |

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<th>CAPACITY/EXPERIENCE</th>
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<td>Has a demonstrated capacity for carrying out activities assisted with HOME funds. As Attachment F, please provide the following:</td>
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<td>Requirement Met?</td>
<td>Yes</td>
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<td>_____ Resumes and/or narrative that describes the experience of key staff and board members who have successfully completed HOME-funded projects similar to those to be undertaken as a CHDO.</td>
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<td>CAPACITY/EXPERIENCE</td>
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<td><strong>G</strong></td>
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<td>Has a history of serving the community(ies) where housing to be assisted with HOME funds will be produced.</td>
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<td>As <strong>Attachment G</strong>, provide one of the following:</td>
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<td>_____ Statement signed by the Board President that details at least one year of experience in serving each community which for which Certification is sought,</td>
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<td><strong>-OR-</strong></td>
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<td>_____ For newly created organizations formed by local churches, service or community organizations, a statement signed by the Board President that details that its parent organization has at least one year of experience in serving each community for which Certification is sought.</td>
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<td>Requirement Met?</td>
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<td>[ ] Yes</td>
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<td><strong>ORGANIZATIONAL STRUCTURE</strong></td>
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<td><strong>H</strong></td>
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<td>Maintains at least one-third of its governing board’s membership for residents of low-income neighborhoods, other low-income community residents, or elected representatives of low-income neighborhood organizations.</td>
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<td>As <strong>Attachment H</strong>, highlight the relevant text in one of the following:</td>
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<td>_____ By-Laws</td>
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<td>_____ Charter</td>
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<td>_____ Articles of Incorporation</td>
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<td>Requirement Met?</td>
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<td>[ ] Yes</td>
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<td><strong>I</strong></td>
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<td>Provides a formal process for low-income, program beneficiaries to advise the organization in all of its decisions regarding the design, siting, development, and management of all HOME-assisted affordable housing projects.</td>
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<td>As <strong>Attachment I</strong>, highlight the relevant text in one of following:</td>
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<td>_____ The organization’s By-laws, <strong>-OR-</strong></td>
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<td>_____ Resolutions, <strong>AND</strong></td>
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<td>_____ A written statement of operating procedures approved and signed by the governing body.</td>
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<td>Requirement Met?</td>
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<td>[ ] Yes</td>
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### ORGANIZATIONAL STRUCTURE

| J | A CHDO may be chartered by a State or local government, however, the State or local government may not appoint: (1) more than one-third of the membership of the organization’s governing body; (2) the board members appointed by the State or local government may not, in turn, appoint the remaining two-thirds of the board members; and (3) no more than one-third of the governing board members are public officials.  
As Attachment J, highlight relevant text in one of the following which describes the process for selecting the remaining two-thirds of the board members:  
_____ By-Laws  
_____ Charter  
_____ Articles of Incorporation | KHC Use Only |
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<td>Requirement Met?</td>
<td>□ Yes □ No</td>
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### RELATIONSHIP WITH FOR-PROFIT ENTITIES

| L | Does the CHDO have a relationship with a for-profit entity?  
If yes, the CHDO cannot be controlled by, nor receive directions from, individuals or entities seeking profit from the organization.  
As Attachment L, highlight the relevant text and provide one of the following: | Requirement Met? |
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<td>Requirement Met?</td>
<td>□ Yes □ No</td>
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The organization's By-laws, **OR**
A Memorandum of Understanding (MOU).

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<th>RELATIONSHIP WITH FOR-PROFIT ENTITIES</th>
<th>KHC Use Only</th>
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<td><strong>M</strong> Is the CHDO sponsored or created by a for-profit entity?</td>
<td>Requirement Met?</td>
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<td>☐ Yes ☐ No</td>
<td>☐ Yes ☐ No</td>
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If yes, A CHDO may be sponsored or created by a for-profit entity, however:

(1) The for-profit entity's primary purpose does not include the development or management of housing. As **Attachment M-1** provide:

| The for-profit organization's By-Laws, AND; |
|——|

(2) The CHDO is free to contract for goods and services from vendor(s) of its own choosing. As **Attachment M-2**, highlight relevant text in the following CHDO:

| By-Laws |
|——|
| Charter |
| Articles of Incorporation |

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<th>HOUSING AS PRIMARY PURPOSE</th>
<th>KHC Use Only</th>
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<tr>
<td><strong>N</strong> Certification is available only to organizations whose primary purpose is to provide and develop affordable housing. Please provide as <strong>Attachment N</strong>, a copy of the following:</td>
<td>Requirement Met?</td>
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<tr>
<td>☐ Copy of current fiscal year’s full operating budget categorized by program, <strong>AND</strong></td>
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<td>☐ Description of current and planned affordable housing activities.</td>
<td>☐ Yes ☐ No</td>
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</table>
The Board and its low-income representatives must certify that it meets the low-income CHDO requirements. As **Attachment O**, attach

- Certification of Low Income Representation (form attached), **AND**
- Certification of Board Status

**Requirement Met?**
- [ ] Yes
- [ ] No

Do board members have professional skills directly relevant to housing development (e.g. real estate, legal, architecture, finance, management)? If so, as **Attachment P**, attach written documentation of each board member’s profession and relative experience.

**For KHC Use Only:**

[#] Approved  [#] Disapproved

CHDO Coordinator Signature: ________________________________
Date: __________________________
CHDO Capacity Assessment
(Attach to Application for CHDO Certification)

CHDO Applicant: ____________________________________________

Completed by: ___________________________ Date: ________________
(name and title)

Please provide detailed answers to the following questions regarding your organization’s capacity to act in the role of a CHDO developer and to administer CHDO set-aside funds. Your responses to this assessment will be used in conjunction with the CHDO Certification Application to evaluate your organization’s readiness and capacity to be a CHDO and will assist in KHC’s determination to award the CHDO designation.

Organizational Status
1. Can your organization provide a Certificate of Good Standing from the Kentucky Secretary of State’s Office? If yes, please attach.

2. Has your organization produced a strategic plan that specifies an action plan for housing development? If yes, please attach.

Board of Directors
3. Has there been stability and continuity in the members of your organization’s board of directors over the last several years? Please explain.

4. Does the board have a committee structure or other means of overseeing planning and development? Please describe.

5. Describe the professional skills of the board members that are directly relevant to housing development (e.g., real estate, legal, architecture, finance, management).
6. Describe the relationship between the board of directors and the staff of your organization. Do the board and staff have shared goals?

Identity of Interest

7. Are there any identity of interest issues between your organization and any of the contractors, consultants or other professional service providers that are used for development activities that might constitute a real or perceived conflict of interest? Please explain.

Relationship/Service to the Community

8. Are the current housing development plans of your organization based on an in-depth comprehension of current housing conditions, housing needs and market demand? Has your organization done any analysis of the local housing market and the housing needs of low-income households? Please describe.

9. How strong are the current reputation of your organization and the relationships with the communities it serves?

10. To what extent does NIMBY (not in my back yard) opposition exist to low-income housing in your organization’s service area? What mechanisms are utilized to negotiate with the community and potential opponents?

11. Does your organization have strong, favorable relationships with the local governments in your service area? How strongly do local governments and elected officials support your housing activities?

Financial Management

12. Does your organization undertake annual budgeting of operational and project/program activities? Are budget versus actual income and expenses tracked and reported? Please explain.

13. Does your organization maintain controls over expenditures? How regularly are cash flow problems experienced?

14. Describe the internal controls your organization has in place to ensure separation of duties and safeguarding of assets.
15. Describe your organization’s conflict of interest policy governing employees and board members regarding project development activities, particularly in procurement of contract services and the provision of housing assistance.

16. Explain the types and amounts of insurance carried by your organization (as applicable) for each of the following: liability, fidelity bond, workers compensation and property hazard.

17. Does your organization have a diversified and stable funding base for its operations? Do you have an established fundraising program for capital and operational needs? Please describe.

18. Does your organization have funds set aside for meeting the capital advance and/or pre-development needs of project development? Please describe the source and amount of funds available for capital advancement.

19. Are sufficient liquid assets available to cover your organization’s current expenses? What portion of your organization’s assets is liquid?

20. Describe the strength of your organization’s relationships with other housing funders and lenders.

**Development Capacity**

21. Describe the skills of key housing staff in the following areas:
   - Market analysis
   - Legal/financial aspects of housing development
   - Management of real estate development
   - Oversight of design and construction management
   - Marketing and client intake
   - Property management (if proposing rental activities)

22. Does your organization utilize the services of qualified consultants or other partners in your housing developments? Describe the training these third parties provide to your staff and board members to build their capacity.
Certification of Low-Income Representation

Board Member Name: __________________________________________________________

I certify that I am a current member in good standing of the governing board for

________________________________________________________________________

(name of the CHDO organization)

and that I represent the interests of low-income families in this organization’s targeted service area. I have checked below the manner in which I meet the qualification as a low-income representative:

☐ I qualify as a low-income resident under the HOME Program definition. The gross annual income of my household of ______ people is at or below 80% of the ________________ county area median income in the amount of $_____________.
   (name of county)  (80% AMI limit)

☐ I live in a low-income area (where 51% or more of the households in my US Census tract have incomes at or below 80% of the median household income, as defined by HUD), which is part of the CHDO’s targeted service area. My census tract is _______________. The Census tract data must accompany this certification.
   (census tract number)

☐ I am an elected representative of ________________________________,
   located within ________________________________,
   (name of low-income neighborhood organization)
   (name of county)

   which is part of the CHDO’s targeted service area. The meeting minutes and election roster that demonstrates the election of the member must be provided.

If the applicant is representing a low-income neighborhood organization, please attach a copy of the signed resolution from the neighborhood organization naming the individual as their representative on the CHDO’s board of directors.

By signing and dating this statement, I hereby certify that I meet the low-income representation characteristic checked above.

________________________________________________________________________

Board Member Signature  Date

________________________________________________________________________

Board President Signature  Date
<table>
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<tr>
<th>Current Board Member Name</th>
<th>County of Residence</th>
<th>Employer (If unemployed, indicate reason such as student, retired, disabled, etc.)</th>
<th>Low-Income Household (below 80% AMI)</th>
<th>Resident of a Low-Income Neighborhood (must provide US Census tract data)</th>
<th>Elected Representative of a Low-Income Neighborhood Organization</th>
<th>Public Official, Appointee, or Employee</th>
<th>Private Sector</th>
<th>Term Expiration Date</th>
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I certify that this listing of current, participating board members is accurate.

____________________________________  ________________________________
Board President Signature             Date
I certify that this listing of current, participating board members is accurate.

___________________________________  ______________________
Board President Signature                   Date

SELECT ONLY ONE OF THE FIVE CATEGORIES BELOW FOR EACH BOARD MEMBER (Appropriate Documentation Must Be Provided)

<table>
<thead>
<tr>
<th>Current Board Member Name</th>
<th>County of Residence</th>
<th>Employer (If unemployed, indicate reason such as student, retired, disabled, etc.)</th>
<th>Low-Income Household (below 80% AMI)</th>
<th>Resident of a Low-Income Neighborhood (must provide US Census tract data)</th>
<th>Elected Representative of a Low-Income Neighborhood Organization</th>
<th>Public Official, Appointee, or Employee</th>
<th>Private Sector</th>
<th>Term Expiration Date</th>
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1. Provide a listing of the CHDO board of directors, including the board member’s name, place of employment, and which sector he/she represents (i.e., public, private or low-income). Keep in mind the requirement that no more than one-third of the board may be comprised of public representatives and at least one-third of the board must be low-income representatives. Using the form provided, please include the listing of the board of directors as Attachment A.
   - Per a regulatory clarification from HUD, a local government employee, school board employee, etc. does not have to be counted as a public sector representative if he/she would otherwise qualify as a low-income representative.
   - However, a board member who is employed by any branch or agency of state government is automatically considered a public representative, regardless of his/her income level. Other types of public representatives include elected officials and board members appointed by a public official.

2. For the low-income representatives on the board, provide supporting documentation of their eligibility to be a low-income representative. There are three ways a board member can be classified as a low-income representative:
   - The board member’s gross household income is below 80% of the area median.
   - The board member is an elected representative of a low-income neighborhood organization. (Refer to page 4 of the CHDO Certification Manual for further guidance).
   - The board member is a resident of a low-income neighborhood (at least 51% of the residents of the census tract are below 80% area median income).
Using the form provided, please provide the appropriate low-income documentation as Attachment B.

3. Identify the CHDO’s service area. Please ensure that the service area is the same as is identified in the CHDO bylaws.

4. Is the CHDO currently administering a HOME-funded CHDO set-aside project? If so, does the service area of the current project comply with the CHDO’s service area as defined in the bylaws?
5. Detail the affordable housing activities that have been accomplished or undertaken in the past year.
   a. How many total units have been produced and/or households assisted?

   

   b. Were HOME funds from the CHDO set-aside used in these activities and if so, how? *(Note: to be eligible, CHDO set-aside funds must be used during the construction phase; permanent financing only is ineligible).*

6. **THIS QUESTION IS ONLY FOR CHDOs PREVIOUSLY APPROVED TO RETAIN CHDO PROCEEDS:**
   a. What is the current balance of your CHDO proceeds account?
      $__________ as of ___/___/_____ (date)

   b. What are the specific intended uses of these CHDO proceeds funds?

   

   c. For households assisted with CHDO proceeds in this reporting period, complete the chart below (you may duplicate the chart if additional space is needed).

<table>
<thead>
<tr>
<th>Household #1</th>
<th>Household #2</th>
<th>Household #3</th>
<th>Household #4</th>
<th>Household #5</th>
<th>Household #6</th>
<th>Household #7</th>
<th>Household #8</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of Activity</strong>*</td>
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<td><strong>Household Name</strong></td>
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<tr>
<td><strong>Unit Address</strong></td>
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<tr>
<td><strong>Household Size</strong></td>
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<td><strong>No. of Bedrooms</strong></td>
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<td><strong>% Area Median Income</strong></td>
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<tr>
<td><strong>Race/Ethnicity of HOH</strong></td>
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<tr>
<td><strong>Amount of CHDO Proceeds</strong></td>
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<tr>
<td><strong>Date Proceeds Invested</strong></td>
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<tr>
<td><strong>Total Project Cost</strong></td>
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</tbody>
</table>

*Describe the assistance provided to the household; i.e., new construction, homeowner rehabilitation, acquisition/ rehab/ resale, down payment and closing costs assistance, rental assistance, etc.*
7. Describe the CHDO’s low-income advisory process and the outreach performed to involve the low-income community in the CHDO’s decision-making processes.
   ► Having low-income representatives on the board of directors or having “open” board meetings does not satisfy the requirements of the low-income advisory process. The low-income advisory process is designed to report the outreach efforts made by the CHDO to the low-income community and must be adhered to as outlined in the CHDO’s bylaws.
   a. In what ways was the low-income advisory process implemented in the past year and what were the results? Please be specific.

   b. How have the low-income residents and program beneficiaries in your service area been involved with the CHDO to advise on policies and procedures, program design, site location(s), development and management of affordable housing? Please provide specific examples.

   c. Are there any unique approaches you have taken to obtain feedback from the low-income such as the formation of neighborhood advisory councils, tenant committees, etc.?

   d. Discuss any challenges you have encountered in obtaining feedback from the low-income residents and what measures will be pursued to overcome these obstacles.

8. Describe the Fair Housing activities that were undertaken by your organization during the past 12 months.

9. Describe any training or technical assistance that your board or staff members participated in that increased your capacity to develop affordable housing.

10. Please identify any technical assistance or training needs that your organization needs to increase your capacity to develop affordable housing.

11. Provide a narrative detail of the CHDO’s three-year strategic business plan.
   • The business plan must be delineated by year, for the next three years. A new, updated document must be submitted with each recertification.
   • It must contain specific, measurable goals regarding affordable housing unit production and number of households to be assisted, as well as other long-range organizational and community development goals of the CHDO.
• It must identify the funding sources anticipated to accomplish the stated goals. Include the three-year strategic business plan as Attachment C.

► “Measurable” goals are ones to which the CHDO can hold itself accountable and easily determine at the end of the year whether or not the goal was accomplished.
I certify on behalf of ________________________________ that the organization meets the Community Housing Development Organization (CHDO) regulatory requirements as established in 24 CFR §92.2 including but not limited to legal structure, independence, accountability to the low income community, and capacity. Additionally, the organization has a project that meets the project eligibility requirements of 24 CFR §92.300 for a reservation of CHDO set-aside funds.

I certify on behalf of the organization that there have not been any changes within the organization that affect the organization’s CHDO status. I certify that the organization understands that in the event of changes that affect any regulatory requirements (CFR §92.2) that it is our duty to inform Kentucky Housing Corporation of such change(s) and submit the required documentation for review to successfully fulfill the CHDO regulatory requirements to maintain CHDO status.

The certification is made with the Project Set-Up for the following:

Household Name: ____________________________________________________________

Unit Address: ______________________________________________________________

The certification is submitted and authorized on behalf of the organization by:

Signature: _____________________________________ Date: __________________________

Name: _______________________________ Title: ________________________________