



**KENTUCKY HOMEOWNERSHIP
PROTECTION CENTER**

www.ProtectMyKYHome.org

Kentucky's Unemployment Bridge Program

Program Manual
September 17, 2013

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Introduction

In August 2010, the U.S. Department of Treasury announced \$2 billion in funding to provide additional assistance targeted at unemployed homeowners in states with the highest unemployment rates. The Housing Finance Agency Innovation Fund for Hardest Hit Housing Markets (or HHF) gives housing finance agencies (HFAs) in designated states the opportunity to develop innovative programs to help unemployed homeowners avoid foreclosure. Each state is directed to use the funds to provide temporary assistance to homeowners by offering a standard unemployment bridge program that will pay the homeowner's mortgage payment while they are unemployed or experiencing a reduction in employment income.

Responsible families across the country have found themselves unable to pay their mortgages due to unemployment or reduction in employment income. The economic downturn has led to a record number of workers suffering from long-term unemployment, and millions more are working part-time because they cannot find full-time or otherwise adequate work. Homeowners who have experienced an involuntary loss of income are at a high risk of foreclosure, particularly in an environment of declining home values, and may benefit from short-term assistance to help bridge the gap until they have restored their income. The assistance was designed to help thousands of families stay in their homes until they can find work.

This additional funding for HHF is designed to provide targeted relief to unemployed and underemployed homeowners, while allowing HFAs to retain the flexibility to tailor the assistance to the needs of each participating state. This program will pay a homeowner's mortgage payments for a period to be determined by the HFA to allow a homeowner to secure employment.

Eighteen states and jurisdictions, including the Commonwealth of Kentucky, received this additional funding. These states were chosen because they have been significantly impacted by unemployment and/or steep home price declines in the economic downturn. Kentucky received \$148 million for the program.

HHF is an extension of the Troubled Asset Relief Program (TARP); therefore, all programs must satisfy funding requirements under the Emergency Economic Stabilization Act of 2008 (EESA). EESA purposes are to restore liquidity and stability to the financial system and to use TARP funds in a manner that among other things, protects home values, preserves homeownership, promotes jobs and economic growth, and provides public accountability.

To receive funding from HHF, a program must satisfy the requirements for funding under EESA. These requirements include that the recipient of funds must be a financial institution, as defined by EESA, and that the funds must be used to pay for a program designed to prevent avoidable foreclosures and other permitted uses under EESA.

KHC appreciates the opportunity to help homeowners avoid foreclosure using resources from the HHF. KHC is uniquely qualified to develop and administer programs to utilize HHF dollars, as it is a leader in designing and implementing programs to meet the housing needs of the Commonwealth of Kentucky.

Definitions

Affidavit: Written sworn notarized statement to determine eligibility under for the Unemployment Bridge Program.

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

Date of Closing: The date the homeowner executes the note and the mortgage.

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

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

Eligible Loan Area: All areas of the Commonwealth of Kentucky.

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

Forgiveness Period: The period of time designated by the Unemployment Bridge Program guidelines by which the UBP assistance is forgiven.

HCO: Home Counselor Online, KHC's system for pulling credit reports.

KHC: Kentucky Housing Corporation, the state housing finance agency, was 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.

LMP: Loss Mitigation Package is printed from the Protection Center Web site for clients/homeowners to complete.

Maximum Combined Unpaid Principal Balance Limit: The maximum amount of unpaid principal on mortgage liens, not to exceed the limitations described in the Unemployment Bridge 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 evidencing the obligation to repay a mortgage loan, payable to the order of an Originator, executed by a homeowner to evidence obligation to repay the mortgage loan.

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

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

Participating Servicer: A mortgage servicing bank or company that has agreed to participate in the Unemployment Bridge 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 (also known as Protection Center), 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 options, and make smart choices to avoid losing their homes. Homeowners interested in applying for the Unemployment Bridge Program 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 the Unemployment Bridge Program 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 HHF).

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

Reserved – After prescreening, if client is eligible for UBP – they are reserved in the system – this is when the client starts showing up on HHF reports. It also sets aside \$30,000 from our moneytracker.

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

Pend – After underwriting, if additional info is needed – underwriters change to pend status.

Approved – UBP approved by underwriting.

Denied – UBP denied by underwriting.

ServicerApproved – Servicer Liaison Team uses this status once they get approval notice from a servicer that the client has been approved by them and they agree to accept payments from KHC.

Servicing – File is closed and closed loan package has been received. Payments are being made.

Complete – Program funds have been 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 – If the client was reserved under UBP – then this status means that a client has either requested to stop the process and not close or they did not complete/provide required documentation. This removes loan from moneytracker. For HPC – it is used if client did not complete/provide required documentation.

Not Eligible – Once client is reserved under UBP – if a counselor verifies that they are not eligible for the program, they will change it to this status and select a reason. This process removes funds from moneytracker and switches loan 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.

LMP Received/To Closing/UnemploymentVerified – at this time, these two statuses are not being utilized due to process changes.

Recapture: A provision of the Unemployment Bridge Program which requires the homeowner to pay back all or a portion of the Unemployment Bridge Program assistance, under certain situations and circumstances, during the forgiveness period.

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

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

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.

UBP: The Unemployment Bridge Program is the program KHC developed using the \$148 Million Hardest Hit Funds.

Structure of the Unemployment Bridge Program

As part of the Kentucky Homeownership Protection Center (Protection Center), Kentucky Housing Corporation (KHC) will administer the Unemployment Bridge Program (UBP) to subsidize 100 percent of an eligible homeowner's current mortgage payments and all other mortgage-related expenses (including subordinate liens, if applicable) during their time of unemployment or underemployment. The assistance will not exceed a total of 18* consecutive monthly payments or \$30,000* per household. Payments will be made directly to the servicer(s) by KHC on a monthly basis. **Effective with closings on or after March 4, 2013.*

From the \$30,000* allowed, the UBP will provide an initial payment, not to exceed \$12,500, to a homeowner's servicer(s) to bring the homeowner current on their delinquent mortgage(s). If the total amount needed to bring the homeowner current on all existing mortgages exceeds \$12,500, the homeowner must work with their servicer(s) to resolve the balance. The servicer may reject the borrower for the Unemployment Bridge Program.

Homeowner Eligibility

Eligibility

To be eligible for the Unemployment Bridge (Loan) Program (UBP) for Kentucky assistance, the homeowner must have had a job loss or reduction in employment income **due to changing economic conditions, through no fault of their own**. The job loss or reduction in employment income must have occurred within the three (3) year period prior to the date of application. Job or income losses caused by divorce, death, or medical reasons do not qualify.

Note: For borrowers with multiple job or employment income losses during that 3-year period, the most recent event must be the qualifying event, and the event must be due to changing economic conditions and through no fault of their own. **Example:** A borrower who was laid off from job, found a 2nd job, but was subsequently terminated from the 2nd job would not qualify for UBP.

Identifying the UBP Borrower

Borrower and spouse can qualify for UBP loan if they occupy the home, experience a qualifying event, and are now going to be obligated on the UBP note and mortgage. It is no longer required that both have to be listed on the original first or second note and/or mortgage.

Unemployment Status

To qualify as an eligible homeowner, at least one eligible borrower must receive or be eligible to receive unemployment benefits from the state of Kentucky. Confirmation of the homeowner's continued unemployed status will be verified by Kentucky's Office of Employment and Training on a quarterly basis beginning in 2012.

Reduction in Employment Income

To qualify based on a reduction of employment income, borrower with the event must demonstrate they have experienced at least a 15 percent reduction in their employment income.

Occupancy

Homeowners must occupy the residence as their principal residence at the time of unemployment, after the closing, and throughout the forgiveness period.

Renting, Leasing, Assigning, or Transferring Residence

The homeowner cannot rent, lease, sell, assign, or transfer any interest in the residence to another party and will not 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, loan amount, loan term, and interest rate are specifically addressed. Prior approval is required by KHC and a recorded copy will be required prior to loan closing.

Loan Eligibility

Permitted Encumbrances

Homeowners who receive UBP assistance will execute a subordinate mortgage in favor of KHC. The loan will be interest-free and non-amortizing.

Affordability Period

UBP loans are forgiven over a five-year term at 20 percent per year. The UBP will end once funds have been totally disbursed or December 31, 2017, whichever comes first. Any recaptured or remaining funds will be returned to the U.S. Department of Treasury on or before December 31, 2017.

The loans will be repayable only if the homeowner sells the property before the forgiveness period expires and there is sufficient equity to pay all or part of the pro-rated balance of the loan, or if fraud is found. Repaid UBP funds will be re-invested back into new homeowner loans until December 31, 2017.

Types of Loans

FHA, USDA, VA, conventional, adjustable rate mortgages, and Habitat for Humanity loans are accepted.

Servicer(s)

To be eligible for UBP, the mortgage(s) must be with a participating servicer.

Exclusions

The homeowner must execute the Hardship Certification at time of underwriting that acknowledges that they have not been convicted within the last ten years of **any** of the following in connection with a mortgage or real estate transaction: (a) felony larceny, theft, fraud, or forgery; (b) money laundering; or (c) tax evasion.

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 borrower.

Bankruptcy

Borrowers must provide proof of bankruptcy discharge before proceeding with the Unemployment Bridge Program. No active bankruptcies are allowed.

Mortgages that were included in the bankruptcy and were discharged along with other debts, rather than be reaffirmed, do not qualify for the UBP, even if those mortgages were modified after the bankruptcy discharge. The only way to re-obligate a borrower to the loan is to reaffirm.

NOTE: Some applicants counter that they did not include the mortgage in the Chapter 7 filing and therefore have nothing to reaffirm. To clarify, Chapter 7 (No Asset) bankruptcies discharge ALL debts whether they were listed in the schedule of creditors or not. Omitting a creditor from that schedule simply means the creditor was never notified of the filing. However, in the eyes of the bankruptcy court, that debt has been discharged. Therefore, no exceptions will be made to the requirement of the reaffirmation.

Borrower(s) who file bankruptcy at any time during the 5 year forgivable period of the UBP will be in default.

Permanent Modifications

If a mortgage loan has been permanently modified, a homeowner who subsequently becomes unemployed may use the UBP to make monthly mortgage payments.

HAMP Trial Period

A homeowner in a Home Affordable Modification Program (HAMP) trial period may **not** use UBP to make his or her trial period payments. A homeowner who is currently in a HAMP trial period plan and becomes unemployed may seek consideration for UBP. If the homeowner is accepted into UBP, the homeowner's trial period plan must be terminated.

Forbearance

If a homeowner is currently in a forbearance payment arrangement with the servicer and is approved for UBP assistance, KHC must receive documentation from the servicer that they have cancelled the payment arrangement and will accept funds from UBP.

Reinstatement of Loans

KHC will provide up to \$12,500 (of the \$30,000 maximum) to reinstate a loan. 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 \$12,500, the homeowner must work with their servicer(s) on the remaining balance.

Property Eligibility

Eligible Loan Area

The eligible loan area shall be the entire geographic boundaries of the Commonwealth of Kentucky.

Qualifying Residences

Subject to certain limitations described below, all residences financed by the UBP must meet the following:

1. Manufactured homes: borrower must own both the land and the permanently attached manufactured home.
2. Detached single-family houses, consisting of no more than one dwelling unit;
3. Attached single-family houses or townhomes;
4. Units of a “condominium” or units within a “planned unit development” as defined in the Fannie Mae Guide.
5. Must be borrower’s principle residence. No other residential property may be owned.

Ineligible Properties

Mobile or manufactured homes **not** affixed to a permanent foundation, rental properties, or properties sold by a seller providing mortgage financing to the homeowner in the way of a private mortgage **are not** eligible for UBP.

Manufactured Homes

If a residence is a manufactured home, borrowers must certify the following on the Manufactured Home Notice:

Borrowers own both the land and the manufactured home; and

The manufactured home has been permanently attached to the land.

NOTE: Manufactured home and land must be tax as real estate (documented with a copy of county tax assessment from local Property Value Administrator (PVA));

Maximum Number of Mortgage Liens

No more than two mortgage liens are allowed on the property. No other liens are included in this equation, unless the total amount of any additional liens (i.e. tax liens, judgments, etc.) exceeds \$25,000. If the cumulative total of any additional liens and/or judgments exceed \$25,000, the borrower is not eligible for the UBP.

Maximum Combined Principal Balances

The maximum combined unpaid principal balance may not exceed \$275,000. The unpaid principal balance is based upon the total of all outstanding mortgages on the property.

Underwriting Guidelines

Documenting Reason and Date of Job Loss or Reduction in Income

Job Loss/Unemployment

The homeowner must receive or be eligible to receive unemployment compensation and demonstrate a need for assistance. The homeowner should bring their Monetary Determination Letter from the unemployment insurance office and proof of receipt of funds, such as a check stub or bank statement showing the direct deposit. The date of unemployment must have occurred within the three (3) year period prior to the date of application.

Reduction in Employment Income

The homeowner must be able to document that the use of the UBP money should result in alleviating the temporary situation and the mortgage should be sustainable after the UBP funds are provided.

The reduction of employment income must be 15 percent or greater.

Acceptable documentation includes:

- Pay stubs that show pay or hour reduction in the timeframe the homeowner is stating the under-employment occurred.
- Can use previous year's tax returns. W-2s have to show higher income as compared to current documented income.
- Possible correspondence from the employer to document circumstances, if needed.

Reduction in Income Resulting from Furloughs

KHC has determined that furloughs alone do not qualify for UBP for the reasons detailed below:

- In order to qualify for the program as "under-employed," applicants must demonstrate that they have lost 15% of their income--not that they anticipate losing the income. Therefore, they would have to be well into their furloughs before they could apply and then the furlough would have to continue.
- Furlough is a temporary situation--not an indefinite loss of job or income.
- One example of a letter received from a federal agency detailed the furlough as 88 hours over 11 weeks. If they work 40 hours/week and 52 weeks a year then the 88 hours out of 2080 hours represents only 4.2% reduction in their annual income. Applicants would have to lose 312 out of 2080 hours before they would demonstrate a 15% reduction in their income and by the time most would, the furlough period would be over.
- Intermittent furloughs are ineligible for unemployment benefits as the unpaid leave is typically a day or two each pay period, not an extended amount of time.

Self-Employed and Contract Workers

The homeowner must be able to document loss of income by providing two years personal federal tax returns with all schedules plus a year-to-date profit and loss statement reflecting gross income minus expenses. Tax returns from the year prior to the event will be required to document the reduction of income. For self-employed homeowners using Schedule C, the net business income figure will be used to determine whether or not the homeowner has experienced a reduction in income. The year-to-date- profit and loss statement will be required after the first quarter of the year.

Documenting and Calculating a Need for Assistance

The applicant must demonstrate a **need** for assistance. Counselors must clearly document and calculate current and pre-event incomes for qualification purposes. For uniformity, KHC averages income by weeks.

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.

For applicants who receive maximum unemployment benefit of \$415 per week, income 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. Counselors will average by the number of weeks worked in that year.

**Earnings are calculated gross, not net.

Pre-event Income Examples

Counselors may use a variety of methods to document pre-event income of an applicant. If an applicant worked the entire previous year at the job lost, the previous year w-2 for that job may be used.

If a borrower 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 a borrower 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 borrower 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.

To be eligible applicants must fall into 1 of 2 categories: unemployed or underemployed.

Unemployed applicants have not yet regained employment following their original qualifying job loss event. They may still be receiving unemployment benefits or benefits have ended. Unemployed applicants demonstrate a need for assistance when their PITI* exceeds 31% of their gross monthly income OR when they demonstrate their current income is at least 15% less than their pre-event income.

Underemployed applicants have experienced a qualifying job loss but have found another job that pays significantly less—or they never lost their job, but hours or salaries were reduced due to economic reasons. These applicants demonstrate a need for assistance when they have experienced at least a 15% reduction in their employment income.

* *Housing-related expenses (mortgage payments, taxes, insurance, homeowners association dues) **divided** by gross monthly income = front-end DTI.*
(Example: Homeowner's total gross monthly income is \$2,500. Current principal, interest, taxes, and insurance, including first- and second-mortgages, is \$875. $\$875$ divided by $\$2,500 = 35$ percent. The homeowner is eligible because the front end exceeds 31 percent.)

Acceptable Sources to Verify Homeowner's 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 for the most recent 30 days. (Cannot be more than 120 days old.)	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>Retirement, Social Security, VA Benefits, Disability</i>	Copy of the current award letter.	One month of the most current bank statement showing an automated deposit from identifiable source.
<i>Alimony or Child Support Income</i> **Only needed if qualifying with 31% calculation. (Clarified 9/17/13)	If disclosed by homeowner to be used as income, need proof of payment; for example, court printout.	Decree and property settlement agreement if applicable.
<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 UBP assistance, the homeowner's property must be classified as **real** property and have a value determined for reporting purposes to U.S. Department of Treasury.

One of the following documentation types is required:

- Tax assessment reflecting value of real property.
- Appraisal (no time limit).
- Zillow.com or other Web site 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.

Borrowers 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 UBP loan approval.

Maximum Combined Principal Balances on Primary Residence

To be eligible for UBP assistance, the homeowner's first- and second-mortgage unpaid principal balance(s) cannot exceed \$275,000.

Documentation Reviewed to Determine Principal Balance

- Credit report
- Direct verification from servicer

Owner Occupancy and Primary Residence

To receive assistance from the UBP, the homeowner must certify that the property for which they are requesting assistance is their primary or 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 has recently acquired the property and their most recent tax returns show a different address, a copy of HUD 1 must be provided to show the purchase occurred after the most recent filing of tax returns or an appraisal showing “owner occupied” must be supplied with the application.

Applicants who own more than one residence are ineligible for UBP assistance.

Credit Report

KHC will pull a tri-merged credit report on each applicant. The counseling agency can access this report through Fannie Mae’s *Home Counselor Online*. The purpose of the credit report is to verify the existing liens on the property. KHC is not reviewing for a satisfactory credit history. Outstanding delinquent debts, judgments, and collections will not be considered for this loan program except as they relate to total outstanding liens addressed above. Credit reports may not be older than 120 days when submitted to Underwriting. Credit documents expire 60 days from UBP loan approval.

UBP Participating Counseling Agencies may pull tri-merged credit reports using their internal systems. However, KHC will not pay for those credit reports.

Second Occurrence Allowance

If the homeowner has unused or undrawn funds from the initial closed loan, they are able to reapply for a second “event” of a job loss or reduction in income. This second event must occur during the five-year term of the note and mortgage and is subject to the availability of funds.

Second Lien Omission

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

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 UBP assistance. Any draws made on the line of credit during that time will terminate UBP assistance.

Counseling Agency Partnerships

KHC partners with counseling agencies throughout the Commonwealth. Agencies who participate in the UBP will be paid \$550 for each “Approved” UBP loan. Payment is made directly to each participating agency each month for the previous month’s “Approved” UBP loans.

To participate, agencies must be HUD approved as housing counselors. We will accept agencies certified in pre-purchase counseling at least, but preferably approved for Loss Mitigation as well to provide complete assistance to applicants. Agencies must complete the Unemployment Bridge Program Counseling Agreement, with all exhibits and UBP Personnel Profile Sheets. Participating agencies will receive a user ID and password to access the Protection Center Web-based system. Participating agencies agree to meet with prospective

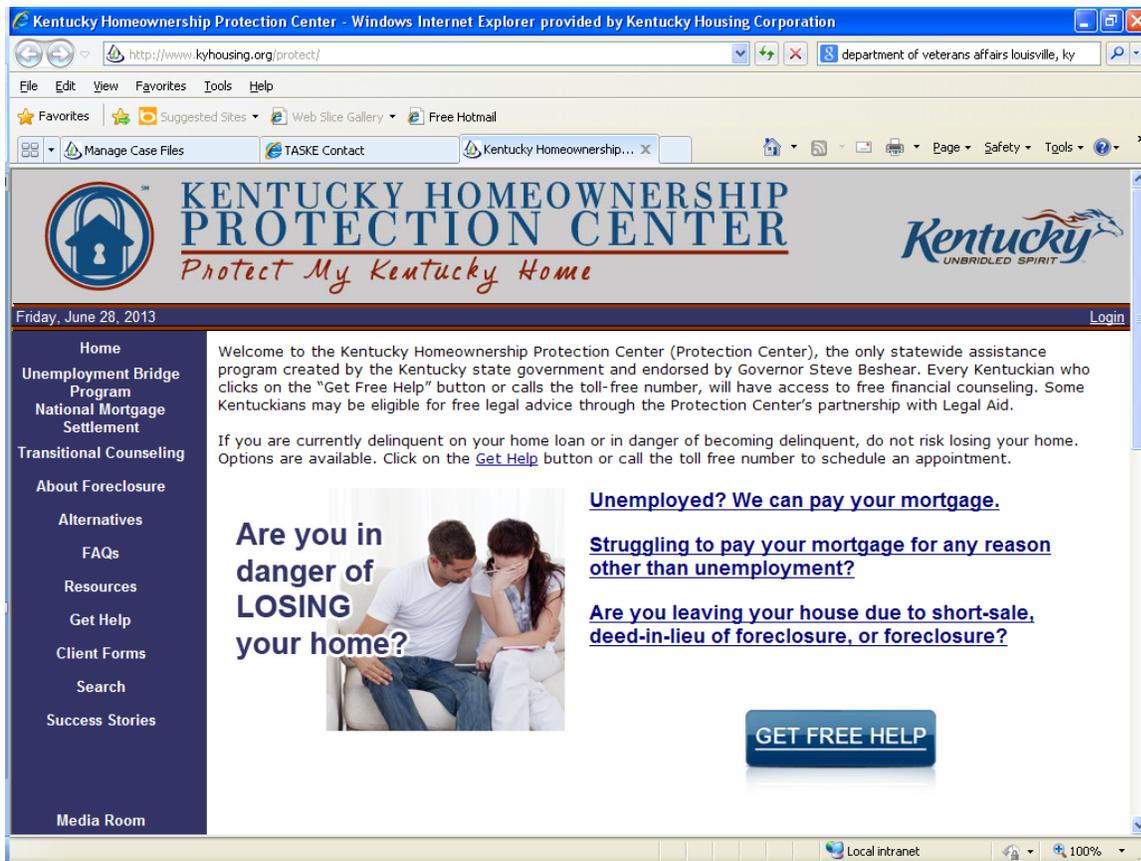
clients, reserve the UBP loan, submit the UBP loan file to KHC in checklist order, and maintain pipelines in the Protection Center system.

Agencies will receive client referrals automatically from the Protection Center system. These referrals will be Kentucky homeowners with loans that **are not** serviced by KHC. KHC clients will be referred automatically to KHC's internal counseling team.

UBP Workflow

Referral

Homeowners will access the Protection Center by visiting www.ProtectMyKYHome.org and selecting "Get Free Help," or by calling toll-free (866) 830-7868. Homeowners will complete a one-screen intake and will be referred to a participating agency. They will also be directed to "Client Forms," where they will print a full Loss Mitigation Package. Once they complete the package, they will contact their agency to schedule an appointment.



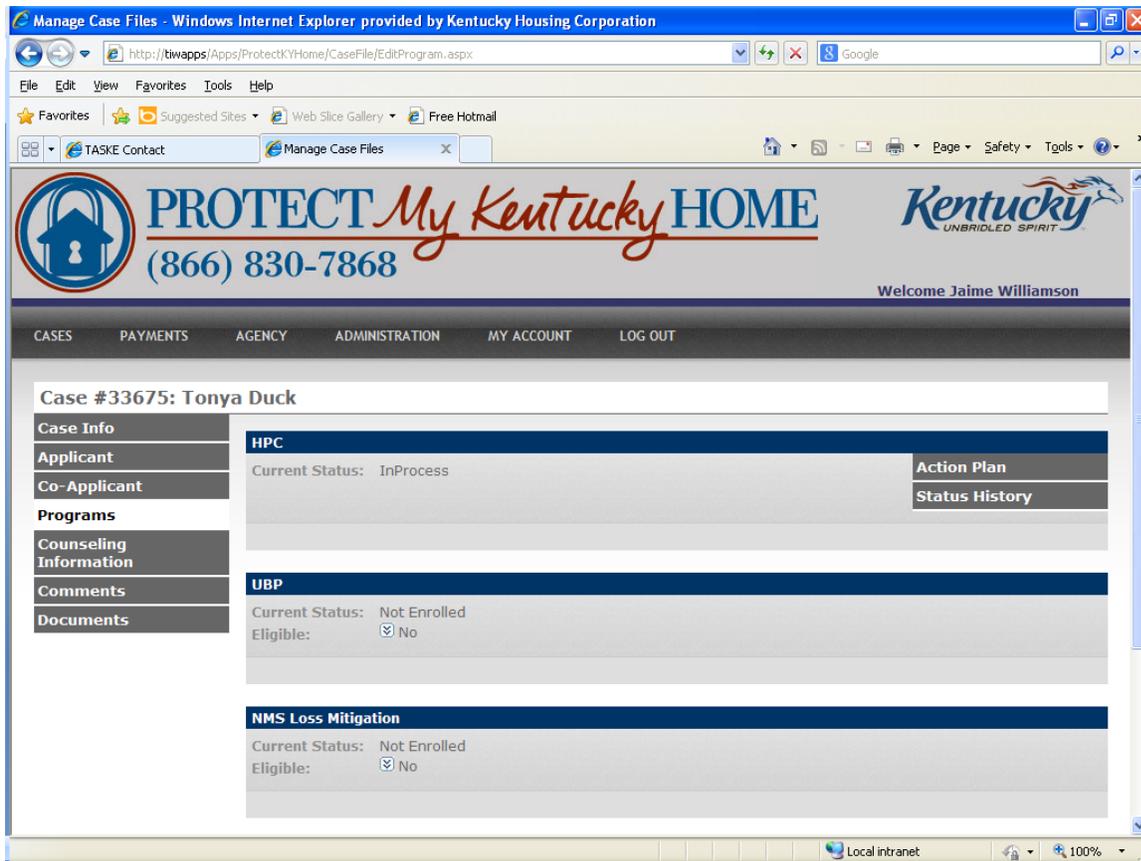
Homeowners who call (866) 830-7868 will complete the intake on the phone. They may receive the Loss Mitigation Package by e-mail or mail. Once they receive and complete the package, they will contact their agency to schedule an appointment.

Pre-Screening

The assigned counselor from the participating agency will complete a UBP Pre-Screening with the homeowner to determine their eligibility for the program. Ineligible homeowners will have the opportunity to pursue other loss mitigation/foreclosure intervention counseling. Counselors will proceed to the Protection Center system to reserve the UBP loan for eligible homeowners.

Reservation

Counselors will log in to the Protection Center system and complete the Case Info and applicant screens. In the Programs screen, enroll in UBP. Then complete Loan Information and click on Print Client Forms. Once the UBP file has been reserved, they will print the Underwriting Checklist, Reservation Confirmation, Counseling Certification, and Income Worksheet.



UBP Processing

Counselors will then put the UBP loan file in underwriting checklist order on single-sided paper, fastening in a folder and sending the file to KHC by secured mail to the following address:

Kentucky Housing Corporation
Attn: UBP Loans
1231 Louisville Road
Frankfort, KY 40601

UBP 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 may fax to (502) 564-7664, mail, or e-mail corrections to ubploans@kyhousing.org. Once “pending” items have been submitted to KHC, the final decision will be made and the counselor will receive the decision via e-mail.

UBP Servicer Approval

Once KHC has approved a UBP loan, KHC’s servicer liaison will submit necessary documents to the participating servicer(s) for their final approval of the homeowner. The file is then passed

on to the Closing Team to order title update. Once the file has been “servicer approved,” the counselor will be notified by e-mail.

Communication to Borrowers

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

Closing

KHC’s loan closer will order the deed to the property. Once the deed has been returned to KHC, the closer will coordinate the closing with all parties and will prepare the closing instructions and forms for the attorney. The closing forms are the Promissory Note, Mortgage, and Terms and Conditions.

Post-Closing

Once the closed UBP file is returned to KHC, the post closer will review for completion and imaging. Once complete, the file status will change to “To servicing,” and the loan is ready for payments to begin to the participating servicer(s) each month.

Mortgage Payments to Servicers

Re-instatement Fee

Within ten (10) business days following loan closing, up to \$12,500 can be made to the servicer(s) to re-instate the loan, if needed. The re-instatement payment will be applied to the first mortgage first. Any remaining funds will then be applied to the second mortgage, if needed.

Monthly Mortgage Payments to Servicers

Monthly mortgage payments will begin the month following loan 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.

Payment to Participating Agencies

Each month, around the 15th, KHC will pull reports on “approved” UBP loans for each participating agency. Agencies are paid \$550 for each “approved” UBP loan. KHC will then issue payment to each participating agency for their previous month’s production.

Loan Administration

KHC will administer the UBP loan, including payoff requests and deeds of release.

Payoff Requests

A mortgage loan payoff will be issued by KHC upon request to show the recapture amount due.

Lien Release

A lien release will be completed on every UBP loan that is paid in full or has reached the end of the affordability period.

Appeals

If KHC’s Underwriting team denies a file for UBP eligibility, counselor and/or borrowers may appeal the decision by writing a letter of explanation, requesting reconsideration for the program

and explaining why the denial reasons do not apply. Borrowers/counselors should also gather any additional documentation to support the appeal. Counselors will submit the appeal to ubploans@kyhousing.org. The subject line of the email should read: "Appeal of UBP Loan Denial—then note borrower(s) last name and case file #. KHC's Underwriter will review new information and notify the counselor of the decision by changing the status of the case file in the Protection Center System.

Re-Evaluation

If a homeowner becomes re-employed or has increased income, the participating agency will complete the Re-evaluation Checklist and Invoice. The counselor will determine if the homeowner still demonstrates a need for assistance, as detailed in the underwriting guidelines. If the homeowner is still eligible for the program, UBP payments will continue uninterrupted. If the homeowner is found to no longer be eligible for UBP 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 UBP assistance ended early due to re-employment or increase in employment income but experienced a second employment event within the five-year forgivable period, the counselor may complete the Re-evaluation Checklist and Invoice for that client to see if they qualify to access the remaining funds of their original UBP loan. Participating agencies will be paid \$100 for each re-evaluation.

Counseling Agency Pipeline Maintenance

Counseling Agencies must maintain their pipelines in Kentucky's Homeownership Protection Center system. KHC staff will send monthly reports on HPC and UBP pipelines for follow-up.

HPC Pipeline

HPC cases are the initial referrals in Kentucky's Protection Center System that have not yet been reserved for the Unemployment Bridge Program. Borrowers are instructed to complete their paperwork, gather documents, and then contact their agency within seven (7) days. Counseling 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 UBP 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.

UBP Pipeline

Once a HPC case file has been reserved for the Unemployment Bridge Program, the case file will then be moved to the UBP Pipeline. UBP loans 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 UBP Pipelines for any case files reserved for thirty days or more but no file has been sent to KHC and also for pending loan files older than thirty (30) days with no movement.

Miscellaneous Policies

Online Marketing

Agencies are encouraged to market the Unemployment Bridge Program on their Web sites. Because the risk of online scammers and copycat websites is a significant threat to consumers seeking assistance with retaining their homes, KHC has provided specific guidelines for online marketing of the UBP.

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

- Links to the official US Treasury websites (www.financialstability.gov and www.treasury.gov);
- A statement that UBP funding with Hardest Hit Funds[®] (“HHF”) assistance is free of charge;
- 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 for the Troubled Asset Relief Program (SIGTARP) hotline if fraud, waste, abuse, mismanagement or misrepresentations affiliated with HHF is suspected.

Agencies are prohibited from the following when marketing online:

- Using the Unemployment Bridge Program to solicit other business;
- Making false statements and claims about the HHF/UBP 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

UBP Personnel must abstain from any conflict of interests or appearance of conflicts of interest in regard to the counseling of applicants. The purpose of this is to protect all of the parties involved including, but not limited to the applicants, the counselors and the Unemployment Bridge Program, funded with Hardest Hit Funds[®]. KHC considers a conflict of interest to exist when UBP 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 UBP 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 other 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 Unemployment Bridge Program.

Fraud Policy

Kentucky Housing Corporation 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 Kentucky Housing's Board of Directors and management to institute and clearly communicate the fraud prevention policy to both internal and external customers, vendors and partners.

Kentucky Housing 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 Kentucky Housing employees and officers. Additionally, this policy covers all Kentucky Housing vendors, customers and partners to the extent that any Kentucky Housing 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
- 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
- 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 concerns they have 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 Kentucky Housing. 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

- 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 Internal Audit staff and/or the Legal Department. If deemed necessary, Kentucky Housing 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 Kentucky Housing Disciplinary Committee for action. The Disciplinary Committee is composed of Kentucky Housing Corporation'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

Kentucky Housing has established internal controls, policies and procedures in an effort 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. Kentucky Housing 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 Commonwealth of Kentucky. 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 Kentucky Housing will contain a provision prohibiting fraudulent or corruptive acts and will include information about reporting fraud and corruption.

Kentucky Housing 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 the Corporation will be treated equally regardless of their position or years of service with Kentucky Housing. Determinations will be made based on a finding of facts in each case, actual or potential damage to the Corporation, 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 Kentucky Housing, Kentucky Housing will pursue recovery of losses.