

**FIRST-TIME HOMEBUYERS PROGRAM AGREEMENT BETWEEN
LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
AND
LEXINGTON HABITAT FOR HUMANITY**

THIS AGREEMENT, made and entered into on this 15th day of December 2017, by and between **LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT**, an urban county government pursuant to KRS Chapter 67A, and located at 200 East Main Street, Lexington, Fayette County, Kentucky 40507 (hereinafter referred to as "GOVERNMENT"), and **LEXINGTON HABITAT FOR HUMANITY**, a Kentucky non-profit corporation pursuant to KRS Chapter 273, and whose mailing address is 700 East Loudon Avenue, Lexington, Kentucky 40505 (hereinafter referred to as "SUBRECIPIENT".)

RECITALS

WHEREAS, the GOVERNMENT, in accordance with the regulations codified at 24 CFR 92.102 - 92.104 for the HOME Investment Partnership Program, has been designated a PARTICIPATING JURISDICTION by the U.S. Department of Housing and Urban Development;

WHEREAS, the GOVERNMENT has been awarded federal funds from the U.S. Department of Housing and Urban Development's (hereinafter referred to as "HUD") HOME Investment Partnerships Program (CFDA # 14.239);

WHEREAS, the GOVERNMENT'S 2017 Consolidated Plan provides for the allocation of \$50,000 in funds to the SUBRECIPIENT for the operation of a First-Time Homebuyer's Program for low-income families;

WHEREAS, the GOVERNMENT is responsible for ensuring that HOME funds are used in accordance with all program requirements; and,

WHEREAS, federal regulations require the PARTICIPATING JURISDICTION to enter into a written agreement with a SUBRECIPIENT ensuring compliance with all applicable federal regulations.

WHEREAS, the SUBRECIPIENT has established a program to assist low income families to become homeowners.

NOW THEREFORE, in consideration of the foregoing and mutually agreed upon promises, conditions, and covenants hereinafter set forth, the GOVERNMENT and the SUBRECIPIENT hereto agree as follows:

ARTICLE I

Use of HOME Funds:

The SUBRECIPIENT agrees to implement a First-Time Homebuyers Program in accordance with the HOME Investment Partnerships Program regulations as stated in 24 CFR Part 92, and in accordance with the guidelines adopted and approved by the GOVERNMENT, which are

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incorporated herein as Exhibit A, HOME First-Time Homebuyer Assistance Guidelines, dated May 2016, except as otherwise specified in this Agreement; and the Affiliate Operating Policies approved by the GOVERNMENT during the application process, which are incorporated herein as Exhibit B, updated November, 2016.

SUBRECIPIENT agrees to provide homebuyer down payment assistance to up to 3 households with these funds.

SUBRECIPIENT is prohibited from charging servicing, origination, processing, inspection, or other fees for the costs of administering a HOME program, except as permitted by § 92.214(b)(1).

Duration of the Agreement:

The terms of the Agreement shall expire on December 31, 2019.

Request for Disbursements of Funds:

The SUBRECIPIENT may not request disbursement of funds until the funds are needed for payment of eligible costs (i.e., down payment assistance). The SUBRECIPIENT agrees that it will submit the information as requested in Exhibit C, HOME Program Loan Approval Form, for the GOVERNMENT to approve a client file for HOME participation, at least 15 business days prior to date of closing. The GOVERNMENT retains the right to amend the form as needed with a 5 day notice. If additional clarifications or additional information is needed to approve the file, the approval will be delayed.

The amount of the request of HOME funds will be limited to the amount needed and must be reduced by the amount of any Program Income on hand.

Program Income:

The SUBRECIPIENT agrees to return all Program Income received within 10 days of receipt.

Maximum Per Unit Subsidy:

For eligible first time home buyers below 80% of median income, the maximum home purchase subsidy may be \$20,000 for 1 person households, \$25,000 for households of 2 and \$30,000 for households of 3 or more if needed. The HOME subsidy may be used to fund acquisition costs up to 106% of fair market value to include eligible closing costs. The minimum HOME subsidy cannot be less than \$1,000. All incomes shall be verified within six months of closing. The SUBRECIPIENT shall fully document the need for the subsidy.

Period of Affordability:

SUBRECIPIENT agrees that all housing assisted under the terms of this Agreement will meet the affordability requirements in accordance with 24 CFR Part 92.254. The period of affordability shall be a minimum of five years.

Determination of Income:

HOME Investment Partnerships Program regulations mandate that all HOME funds expended by a PARTICIPATING JURISDICTION must be invested in housing for low-income families, as defined at 24 CFR 92.2. Generally, this means families with incomes of 80 percent or less of the area median, as adjusted for family size.

SUBRECIPIENT agrees to determine the anticipated annual income of all adults in using the Part 5 definition of annual income as defined in 24 CFR 5.609.

Records, Retentions and Reports:

The SUBRECIPIENT shall maintain all records required by the federal regulations specified in 24 CFR Part 92.508 that are pertinent to the activities to be funded under this Agreement. Such records shall include but not be limited to the original HOME client files, counseling files, post-closing files, and servicing files.

The records must be available for review and maintained for a minimum of five years after the period of affordability has ended and be available when requested in advance by the GOVERNMENT, HUD, Comptroller General, and any of their duly authorized representatives.

SUBRECIPIENT agrees to report on an annual basis by July 30 of each calendar year, an Equal Employment Report and an Unserved Report, as incorporated in Exhibit D to this Agreement.

SUBRECIPIENT agrees to provide any additional reports as may be required by the GOVERNMENT.

Reversion of Assets:

If applicable, the SUBRECIPIENT shall transfer to the PARTICIPATING JURISDICTION any HOME funds on hand at the time of expiration and any accounts receivable attributable to the use of HOME funds upon expiration of the Agreement.

Additional Provisions:

SUBRECIPIENT shall be responsible (in the manner and to the extent permitted by law) for all lawfully proven claims, losses, actions, and expenses (including legal expenses), including claims against the GOVERNMENT, arising from the performance of SUBRECIPIENT of the terms of this Agreement in accordance with the requirements of the HOME Investment Partnerships Program but excepting any such claims, losses, causes of action and expenses arising as a result of fault on the part of the GOVERNMENT, its officers, agents and employees. SUBRECIPIENT is not responsible for negligent acts of the GOVERNMENT, its officers, agents, and employees.

SUBRECIPIENT shall insure that all potential recipients of HOME first-time homebuyer funds receive homeownership counseling, and a minimum of one year post-purchase counseling.

As stated in Section 92.254(a)(2)(iii) of the Final Rule published on July 24, 2013, HUD issues annual homeownership value limits for HOME PARTICIPATING JURISDICTIONS. Effective March 1, 2017, the SUBRECIPIENT shall insure that the maximum fair market value for a new unit does not exceed \$224,000 and the maximum fair market value of an existing unit shall not exceed \$152,000 for FY17. This limit remains in effect until HUD issues a new limit.

ARTICLE II: Other Program Requirements

Under any program funded in whole or in part with HOME funds, SUBRECIPIENT shall not exclude from participation in, deny the benefits of, or subject to discrimination any person in the United States on the grounds of race, color, national origin, religion, or sex.

Fair Housing and Equal Opportunity: SUBRECIPIENT agrees to comply with the requirements of the *Fair Housing Act* (42 U.S.C. 3601-3620) and implementing regulations at 24 CFR Part 100-115; *Equal Opportunity in Housing* (Executive Order 11063, as amended by Executive Order 12259) (3 CFR, 1958-1963 Comp., p. 652 and 3 CFR, 1980 Comp., p. 307) and implementing regulations at 24 CFR Part 107; *Title VI of the Civil Rights Act of 1964*, as Amended (42 U.S.C. 2000d et seq) (Nondiscrimination in Federally Assisted Programs) and implementing regulations issued at 24 CFR part 1; and *Age Discrimination Act of 1975*, as Amended (42 U.S.C. 6101-07) and implementing regulations at 24 CFR part 146.

Handicap Accessibility: SUBRECIPIENT agrees to comply with the requirements of the Americans with Disabilities Act (42 U.S.C. 12131; 47 U.S.C. 155, 201, 218, and 225); the requirements of *Section 504 of the Rehabilitation Act of 1973* (29 U.S.C. 794) and implementing regulations at 24 CFR part 8.

Employment and Equal Opportunity: SUBRECIPIENT agrees to comply with the requirements of *Equal Employment Opportunity, Executive Order 11246 as amended* (3 CFR 1964-65, Comp., p. 339) (Equal Employment Opportunity) and the implementing regulations issued at 41 CFR chapter 60; and, the requirements of *section 3 of the Housing and Urban Development Act of 1968* (12 U.S.C. 1701u).

Affirmative Marketing: As it may be applicable, SUBRECIPIENT agrees to comply with the *Affirmative Marketing Plan* as adopted by the GOVERNMENT and as approved by HUD. The Affirmative Marketing Plan is located in the consolidated plan/annual action plan.

Minority/Women-Owned Businesses: To the maximum extent possible, SUBRECIPIENT agrees to afford minority- and women-owned business enterprises the opportunity to participate in the performance of this Agreement. As used in this Agreement, the term "minority and female business enterprise" means a business at least fifty-one (51) percent owned and controlled by minority group members or women. For the purpose of this definition, "minority group members" are African-Americans, Spanish-speaking, Spanish surnamed or Spanish-heritage Americans, Asian-Americans, and American Indians.

Lead-Based Paint: SUBRECIPIENT agrees to comply with HUD Regulations governing Lead-Based Paint Poisoning Prevention Act (42 U.S.C. 4821-4846), the Residential Lead-Based Paint Hazard Reduction Act of 1992 (42 U.S.C. 4851-4856), and implementing regulations at part 35, subparts A, B, J, K, M and R of this title for all housing assisted with HOME funds. The SUBRECIPIENT agrees to provide the GOVERNMENT with copies of lead based paint tests, risk assessments, plans for corrections, proof of contractors' certifications of lead-based paint safe work practices training, and clearance tests for all pre-1978 houses being rehabilitated.

Environmental Review: The SUBRECIPIENT agrees to provide property addresses to the Government prior to commitment of HOME funds for purposes of completing environmental review requirements under 24 CFR Part 58.

Uniform Relocation Act: The SUBRECIPIENT agrees to comply with the requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) (42 U.S.C. 4201-4655) and 49 CFR part 24. Upon request, the SUBRECIPIENT agrees to provide documentation to the GOVERNMENT of previous occupancy of the property to include names of occupants, dates of occupancy, and circumstances of vacancy.

Conflict of Interest: The SUBRECIPIENT agrees to comply with the Conflict of Interest rules as identified in 24CFR 85.36 and 24 CFR 84.42, regarding written standards governing the performance of their employees engaged in awarding and administering contracts.

Accounting Standards and Cost Principles: The SUBRECIPIENT agrees to comply with 2 CFR 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" and agrees to adhere to the accounting principles and procedures required therein, use adequate internal controls, and maintain necessary source documentation for all costs incurred. Additionally, the SUBRECIPIENT shall administer its program in conformance with 2 CFR 200. These principles shall be applied for all costs incurred whether charged on a direct or indirect basis.

ARTICLE III

The GOVERNMENT agrees to reserve \$50,000 of its HOME funds allocation for use by eligible clients of SUBRECIPIENT in the implementation of a First-Time Homeownership Program.

The GOVERNMENT agrees to monitor the performance of SUBRECIPIENT to assure compliance with all applicable federal regulations; however, monitoring does not relieve SUBRECIPIENT of primary responsibility for compliance.

The GOVERNMENT agrees to prepare and submit any and all required reports to HUD.

The GOVERNMENT agrees to assist SUBRECIPIENT staff in interpreting HOME regulations, resolving eligibility and contract problems, and the inspection of properties to be purchased by prospective clients, to insure those homes meet local housing codes.

The GOVERNMENT agrees to fund approved first-time homebuyers in the form of repayable and non-repayable loans as described in the HOME First-Time Homebuyer Assistance Guidelines, dated May 2016. The Government will prepare and close all HOME loans for the SUBRECIPIENT. The HOME funds must be available at the closing.

ARTICLE IV

No right, benefit, or advantage inuring to SUBRECIPIENT and no burden imposed on SUBRECIPIENT hereunder may be assigned or otherwise transferred without the prior written approval of the GOVERNMENT.

This Agreement or any part hereof, may be amended from time to time hereafter only in writing executed by the GOVERNMENT and SUBRECIPIENT.

This Agreement, in accordance with 24 CFR 85.43 can be terminated if the SUBRECIPIENT fails to comply with any term of the Agreement. This Agreement may be terminated for convenience in accordance with 24 CFR 85.44 upon written notice by the PARTICIPATING JURISDICTION.

The failure to perform or comply with any of the covenants, warranties, terms or conditions as set forth in this Agreement shall constitute events of breach and default entitling the GOVERNMENT to take all action set out in this Agreement or as otherwise allowed by law, including an action for specific performance.

All notices hereunder shall be sufficiently given and shall be deemed given when delivered or mailed by certified mail, postage prepaid, return receipt requested, to the parties at their respective addresses as first set out herein.

IN WITNESS WHEREOF, the parties have executed this Contract at Lexington, Kentucky, the day and year first above written.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

BY: Jim Gray
Jim Gray, Mayor

DATE: 1-DEC-2017

ATTEST:

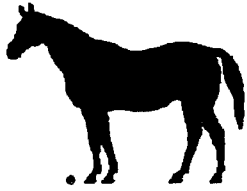
Deputy
Clerk of Urban County Council

LEXINGTON HABITAT FOR HUMANITY

BY: Rachel Smith Childress
Rachel Smith Childress, Executive Director

DATE: 11-28-17

Exhibit A
First Time Homebuyer Assistance Guidelines
May 2016



LEXINGTON

FIRST TIME HOMEBUYER ASSISTANCE GUIDELINES HOME Investment Partnership Program MAY 2016

INTRODUCTION

The Lexington-Fayette Urban County Government (LFUCG) will make HOME funds available to nonprofit corporations for the purpose of developing and operating first-time homeownership programs for low-income households. The government's primary objective in using part of its HOME allocation for first-time homeownership programs is to increase the number of affordable housing units in the community and to increase the opportunities for homeownership for low-income families in Fayette County. In general, the LFUCG will provide HOME funds to approved nonprofits for the purpose of purchasing or rehabilitating existing single-family houses; new construction of single family houses which will be marketed to eligible and qualified first-time homebuyers; and direct assistance to first-time homebuyers for the purchase of new or existing single-family houses. Assistance will be provided to eligible homebuyers under the recapture option.

These guidelines will serve as operational parameters within which the nonprofits can receive HOME funds and provide financial assistance to first-time homebuyers. Hereinafter in this document, nonprofits may be referred to as grantor agencies. In addition to these guidelines, all projects funded under the HOME Investment Partnerships Program are subject to the regulations codified at 24 CFR Part 92.

STATEMENT OF INTENT

The content of this document establishes the operating parameters for all Lexington-Fayette Urban County Government HOME funded first time homebuyer programs. It is the intent of the Lexington-Fayette Urban County Government to provide in each homebuyer case the smallest subsidy necessary to make the purchase possible. As the Lexington-Fayette Urban County Government provides funds for the first time homebuyer programs of several non-profits, it is the responsibility of each non-profit to attract other public and private funds and to minimize the use of HOME funds.

FAIR HOUSING

LFUCG administers a variety of HUD programs and is required to affirmatively further the purposes and policies of the Fair Housing Act, which is Title VIII of the Civil Rights Act of 1968. The Fair Housing Act not only prohibits discrimination, but in conjunction

with other statutes, directs LFUCG to take steps to proactively overcome historic patterns of segregation, promote fair housing choice, and foster inclusive communities for all.

Under Consolidated Plan regulations, LFUCG is required to undertake fair housing planning, which consists of the following: 1) an Analysis of Impediments (AI) to fair housing choice; 2) actions to address the identified impediments; and 3) maintenance of records to support the affirmatively furthering fair housing certification.

The Affirmative Marketing Plan is part of the 2015 Consolidated Plan which may be viewed on the LFUCG website at www.lexingtonky.gov.

ELIGIBLE FIRST-TIME HOMEBUYERS

All Applicants for homebuyer assistance must meet the following criteria:

- Be a first time homebuyer (Borrower cannot currently own or have owned a home for at least the last three years)
- Must occupy the home as its principal residence throughout the period of affordability
- Must not have at any time in the past received HOME funding for homebuyer assistance as provided by the LFUCG
- Must have completed 8 hours pre-purchase counseling and homebuyer education through a HUD-certified counseling agency as evidenced by a Certificate/Letter of Completion. In lieu of HUD-certified counseling, LFUCG may approve an alternate counseling program.
- Annual household income, as calculated by HUD regulations at 24 CFR Part 5, must not exceed 80% of the Area Median Income limit for the Lexington-Fayette MSA. The purchasing household must be low income at the time of approval by the Division of Grants and Special Programs, or at the time the HOME funds are invested, whichever is later. Verification of income is required and is good for a period of six months.

Funds are available for any low-income family that has been a resident of Fayette County Metropolitan Service Area for one (1) year which includes: Bourbon, Clark, Fayette, Jessamine, Scott and Woodford Counties. The assisted unit must be located in Fayette County.

ELIGIBLE ACTIVITIES

- New Construction
- Acquisition and rehabilitation of existing vacant single-family residential structures
- Acquisition of an existing unit that meets Housing Quality Standards and local property maintenance code

Nonprofits may use HOME funds to purchase and rehabilitate properties whose after-rehab appraised value is less than actual costs of production only with prior written

approval from the Division of Grants and Special Programs. In cases where the costs for acquisition and rehabilitation are greater than 120% of the after-rehab fair market value, the grantor agency shall document the reasons for excess costs and obtain written permission of the Lexington-Fayette Urban County Government's Division of Grants and Special Programs before proceeding with the project.

The Lexington-Fayette Urban County Government's Division of Grants and Special Programs will evaluate on a case-by-case basis each project in which costs are expected to exceed 120% of the fair market value of the property to determine an acceptable level of excess costs. The LFUCG Division of Grants and Special Programs will consider such factors as location, size, and environmental factors (Examples are presence of lead-based paint and lead-based paint hazards, presence of asbestos and historic preservation requirements) in its evaluation of each property.

INELIGIBLE ACTIVITIES

- Luxury improvements or improvements that exceed the neighborhood standard
Reconstruction of a unit that was not standing at least 12 months prior to the commitment of HOME funds
- Land acquisition or demolition that does not result in a unit of affordable housing

ELIGIBLE PROPERTIES

The property must be located in Fayette County. Effective May 2, 2016, the value of an existing home may not exceed \$149,000. The value of a new home may not exceed \$228,000. All properties must be appraised by a state licensed or certified appraiser in the Commonwealth of Kentucky prior to purchase.

PROPERTY STANDARDS

New construction of single family units (units that were constructed during the past 12 months) shall comply with the building codes adopted by the LFUCG Division of Building Inspection. Effective January 1, 2014, the 2013 KRC (2012 IRC with 2013 Kentucky Amendments) applies to construction of single family residential buildings.

An existing housing unit (twelve months or older) must meet the Section 8 Housing Quality Standards and the local property maintenance code. In addition, a home inspection is required for all existing homes, by a state licensed inspector. If the property requires rehabilitation LFUCG Building codes apply as well as rehabilitation standards adopted by the LFUCG Division of Grants and Special Programs.

The property type must be a single family property (one unit detached) and deeded as such. Condominiums and duplexes will not be considered.

FORM OF OWNERSHIP

For the purposes of the HOME program, homeownership means ownership in fee simple title.

PERIOD OF AFFORDABILITY

The HOME rule at §92.254(a)(3) requires that all HOME-assisted homebuyer housing be acquired by an eligible low-income family, and the housing must be the principal residence of the family throughout the period of affordability.

The following table outlines the required minimum affordability periods.

If the total HOME investment or direct subsidy in the unit is:	The period of affordability is:
Under \$15,000	5 years
Between \$15,000 and \$40,000	10 years
Over \$40,000	15 years

The mortgage documents and/or deed restrictions must include language detailing the affordability period and the recapture provisions.

AFFORDABILITY CRITERIA

All applicable ratios noted below are based on the Income of the qualifying applicant for a 30 year conventional mortgage. If the qualifying applicant is married, the income of both spouses will be included in determining the ratios even if only one applicant is the qualifying applicant. The monthly expenditure for Principal, Interest, Taxes, and Insurance (PITI) shall not be less than the percentage of gross household income indicated in the table below and shall not be more than 33% of the gross income at the time of loan approval. All applicants should only be provided gap financing based on the maximum amount of mortgage they can repay.

If the homebuyer receives a Housing Assistance Payment (HAP) from HUD's Section 8 Housing Program, the minimum percentages are not applicable for PITI.

Family Size	Minimum PITI %
1	20%
2	19%
3	18%
4	17%
5	16%
6	15%
7	14%
8	13%

The first-time homebuyer may not commit more than 41% of their gross income for total long-term debt. Long-term debt is defined as debt exceeding repayment for more than 6 months, or debt with an outstanding balance of more than \$3,000. The homebuyer will be required to commit to the financing of the purchase of the home, all cash reserves, to include checking and savings accounts, cash on hand, and certificates of deposit, which is in excess of six months of PITI unless pre-approved by the Division of Grants and Special Programs. There is no requirement that first-time homebuyers remain low income after they purchase the property. Increases or decreases in gross income or changes in PITI do not affect the eligibility of a family outside of the six-month period noted in the section on homebuyer eligibility. If homeowner association fees are required, then these will be considered as housing costs and counted along with PITI.

All variances in calculating the required percentages noted above must have prior written approval from the Division of Grants and Special Programs.

Borrower Criteria and Credit Worthiness

Of all criteria used to evaluate the credit worthiness and capacity of a low- and moderate-income borrower, the individual borrower's credit must be the driving determinant factor. Each household will be evaluated on a case-by-case basis in order to determine credit-worthiness.

Income must have a history, be verifiable in the present and be able to be relied upon in the future. Income history must cover at least cover a twelve-month period. It must be verifiable in writing through traditional sources and/or tax returns. Tax returns are only acceptable verification for self-employed persons.

Definition of Household Size and Members: The Household is comprised of ALL individuals who will be occupying the home over the next or upcoming twelve months. The following individuals are not counted as part of the household: foster children, unborn children, children who live with the applicant (parent) less than 50% of the time, children being pursued for legal custody or adoption who are not yet living with the household at the time of application, and non-family care-takers. A child who resides with the household at least 50 percent of the time and receives over 50% of the care from the applicant, can be counted as a household member.

FORMS OF SUBSIDY

- A. *Principal Reduction.* In order to make the monthly carrying cost of PITI affordable to the homebuyer, the Urban County Government will allow HOME funds to be used by the grantor agencies to subsidize units by providing "gap" financing or principal reduction to make up the difference between the market value of the property and a sales price that renders the monthly PITI affordable. A **second** mortgage shall be placed upon the property by the grantor agency or the Lexington-Fayette Urban County Government. The second mortgage shall provide for the **RECAPTURE** of the HOME subsidy in the event that the homebuyer sells the property, is foreclosed upon by another mortgagee, or ceases to occupy the property as the principal residence.

- B. *Amount of Subsidy.* For eligible first time home buyers below 80% of median income, the maximum home purchase subsidy may be \$20,000 for 1 person households, \$25,000 for households of 2 and \$30,000 for households of 3 or more if needed. The HOME subsidy may be used to fund acquisition costs up to 106% of fair market value to include eligible closing costs. The minimum HOME subsidy cannot be less than \$1,000.
- C. *Development Subsidy.* In the event the total development costs exceed the appraised value, the house may not sell for more than the appraised value. The difference between the total development costs and the appraised value is development subsidy. LFUCG permits eligible grantor agencies to use HOME funds as development subsidy with a minimum of \$1,000 provided as a direct subsidy to the homebuyer. Eligible grantor agencies will be required to submit documentation to LFUCG to support the necessity of a development subsidy. This may include but is not limited to an appraisal and a detailed final cost breakdown.

TERMS

The buyer will be required to invest at least \$500 in cash at the time of closing. The remaining funds needed for closing costs, downpayment, or principal reduction will be provided in the following forms:

- 1) 2% repayable loan for homebuyers between 71% and 80% of median income with a term of 20 years.
- 2) 1% repayable loan for homebuyers between 61% and 70% of median income with a term of 20 years.
- 3) A non-repayable loan for homebuyers at or below 60% of area median income with a term of 20 years. Beginning in year 11, 10% of the loan amount will be forgiven each year.

The monthly repayment amount for any repayable HOME loan will be included in the cap of 33% of gross income for PITI. The Urban County Government will take loan servicing responsibility for repayable loans in the form of receiving and documenting payments, unless otherwise approved in a written agreement. The requirements of private lenders and government regulations must prevail if the terms of the direct loan would violate said requirements and regulations. Any deviations from the terms stated above will require justification and prior approval from the Division of Grants and Special Programs.

Example:

For a 3-person household, the maximum amount of income to be eligible for the HOME Program is \$49,100. The family has two parents who work at jobs earning minimum wage which is currently set at \$7.25 an hour. Their total combined family income is \$30,160. Their PITI must be at least 18% of \$30,160 which is \$452.40 per month.

100% of the area median income for a family of 3 is \$61,375. At \$30,160, the family is making approximately 49% of the Area Median Income. Because the family is below

60% AMI, the family is eligible for a nonrepayable loan that is forgiven starting in year 11.

The family has found a 3-bedroom house listed at \$140,000. A typical mortgage will have a term of 30 years and an interest rate of 4.0%. The base payment is \$668.38 with an additional \$200 a month for taxes and insurance that raises the total payment to \$868.38. The family has met their minimum PITI ratio but has exceeded the maximum PITI ratio of 33%. Therefore, the family has a gap that can be filled with HOME funding. The amount of gap that will be provided will depend on several factors such as the amount of debt. In this scenario, the family has financial obligations of \$250 each month which gives them a back-end ratio of 44.5%, which is well above the maximum of 41%. This family is eligible for up to \$30,000 in HOME funding. If they are given a grant of \$25,000, they now have a base payment of \$549 plus \$200 in taxes and insurance for a total of \$749.03 which is 29.8% of their income. With other financial obligations totaling \$250, their back-end ratio is now reduced to 39.75% which puts them within the allowable financial ratios.

SUBORDINATION

The grantor agency may provide for subordination of the mortgage(s) securing the HOME subsidy only if as identified: (1) if there is no change in the government's mortgage position, total encumbrances cannot exceed 106% of the appraised value of the property; (2) if there is a change to the government's position, third position is the lowest acceptable, and total encumbrances do not exceed 90% of the appraised value (appraiser subject to approval by the LFUCG) and the total long-term debt as defined previously does not exceed 41% of the households and the reason for the subordination is capital improvements for the subject property. The government reserves the right to decline the subordination requests if the terms of the new mortgage are determined to negatively impact the homeowner's financial position.

VIOLATION OF RESTRICTION ON PRINCIPAL RESIDENCE

In the event that the homebuyer ceases to occupy the HOME-subsidized unit as his principal residence during the required period of affordability, the Mortgagee shall provide for foreclosure of the mortgage which secures the HOME subsidy.

INSURANCE REQUIREMENTS

Grantor agencies are responsible for ensuring that HOME units are properly insured during the construction/rehab process. Grantor agencies should also ensure through mortgages that the assisted property remains insured throughout the affordability period. At a minimum, the policy must be in an amount sufficient to cover the HOME investment. If HOME is subordinate to another mortgage, the policy must cover both mortgages. For all home buyer units, either the LFUCG or the grantor agency must be listed as a loss payee on the insurance policy. LFUCG shall contract with a loan servicing agency that has the capacity to purchase forced placed insurance in the event that homeowner fails to maintain coverage.

SECURITY

All properties developed under a HOME-assisted first-time homebuyer program, whether or not the first-time purchaser receiving a repayable or non-repayable loan as described above, will be considered to be HOME-assisted and therefore are subject to all HOME restrictions.

All HOME restrictions regarding the period of affordability and use of property as principal residence during the period of affordability shall be included in the loan agreement, mortgage, and mortgage note, made in favor of the grantor agency or the Lexington Fayette Urban County Government; however, if the unit only receives a Developer's subsidy, then a recorded Deed of Restriction is also required.

The Lexington Fayette Urban County Government must approve all loan agreements, mortgages, mortgage notes, and deed of restrictions (if applicable) for properties assisted under the provisions of these guidelines prior to a grantor beginning a program.

If and when possible, the LFUCG will encourage participating private lenders to include all pertinent HOME requirements in the loan and mortgage documents for the private financing.

ASSUMABILITY OF SUBSIDY

No HOME subsidy mortgage may be assumed during the period of affordability.

USE OF RECAPTURED HOME SUBSIDY

Any HOME funds recaptured by the grantor agency under the provisions of these guidelines shall be returned to the Lexington-Fayette Urban County Government within ten days of receipt, unless otherwise noted in a written agreement.

PROGRAM INCOME

All program income must be reported and returned to the LFUCG within 10 days of receipt, unless otherwise noted in a written agreement.

REPORT TO THE LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

The grantor agency shall report all pending property sales, all pending foreclosures (pertaining to events during the period of affordability), and violations of restrictions on use of HOME-assisted properties as principal residences of homebuyers to the Lexington-Fayette Urban County Government within five working days of their knowledge of the action.

HOME RELOCATION REQUIREMENTS

A HOME-assisted homeownership project is subject to relocation requirements under the Uniform Relocation Act (URA). In order to avoid the costs of relocation and to avoid the displacement of persons, the Urban County Government requires that nonprofits purchase only vacant properties or properties which are owner-occupied and are being publicly marketed. An owner-occupant who sells a property is not eligible for relocation assistance under the URA as long as the seller, prior to sale is informed in writing: (1) of the fair market value of the property; and (2) that the buyer does not have the power

of eminent domain and, therefore, will not acquire the property if negotiations fail to result in an amicable sales agreement. The nonprofit will be required to document all steps of the acquisition. If vacant units are purchased, the government will evaluate whether or not the seller removed tenants in order to sell a "vacant" building.

CONFLICT OF INTEREST

All grantor agencies must establish a Conflict of Interest policy that adheres to 24 CFR Part 84.84, and 2 CFR 200, as applicable. Potential conflicts of interest may arise from many situations. Some of the more common examples are:

- Requests for program assistance from employees, families of employees or board members, or families of board members of recipients or sub-recipients
- Recipients or sub-recipients contracting with or procuring materials from employees, families of employees or board members, or families of board members of recipients or sub-recipients.

All HOME grantor agencies are responsible for identifying situations in which a conflict of interest, whether real or perceived, may exist. If a conflict of interest is identified, the grantor agency must seek an exemption before proceeding with the project.

LEAD-BASED PAINT (For all pre-1978 units)

Per 24 CFR Part 35, sellers must disclose to the purchaser or lessee the presence of any known lead-based paint and/or lead-based paint hazards; provide available records and reports; provide the purchaser or lessee with a lead hazard information pamphlet; give purchasers a 10-day opportunity to conduct a risk assessment or inspection; and attach specific disclosure and warning language to the sales or leasing contract before the purchaser or lessee is obligated under a contract to purchase or lease target housing.

All grantor agencies shall ensure that these regulations are followed.

APPLICATION FOR HOMEOWNERSHIP ASSISTANCE

Each grantor agency must develop and use a standard program application form. Each household must complete the standard application form. If necessary, the grantor agency will provide assistance in preparing the form, especially to the elderly, handicapped, limited-English speaking persons and persons who are unable to read and/or write. A Uniform Residential Loan Application is not considered a program application and cannot be used as such under this program.

Each grantor agency shall comply with Title VI of the Civil Rights Act, ensuring that no person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Federal financial assistance. Each grantor agency shall implement a language assistance program for persons who have limited English proficiency.

HOME INCOME LIMITS

Annual household income must be calculated based on HUD regulations at 24 CFR Part 5 and compared to the most recent HUD Income limits based on HUD estimates of median family income, with adjustments based on family size.

BENEFICIARY AGREEMENT

All prospective first-time homebuyers will receive counseling on the obligations, terms, and conditions associated with a HOME funded property. This counseling will cover how the first-time homebuyer program works and require the potential homebuyer to sign acknowledgement of program guidelines.

Revision History:

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Revised March 2007

Revised October 2007

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Revised April 28, 2011

Revised April, 25, 2013

Revised February 25, 2014

Revised May2016

Exhibit B
Lexington Habitat for Humanity
Affiliate Operating Policies
November 2016

**AFFILIATE OPERATING POLICIES
AS APPROVED BY THE BOARD OF DIRECTORS**

PERSONNEL

EMPLOYMENT

Lexington Habitat for Humanity complies with all applicable Federal, State, and local laws related to employment. In the absence of an express contract to the contrary, Kentucky law provides that a person's employment is for no specific term and may be ended at-will.

Hiring Policies

A job description shall be written for each position prior to the onset of the hiring process. The Management Team develops job descriptions for positions in their departments. The Executive Committee develops the job description for the CEO.

All employment for LHFH shall be made through formal application or submission of a résumé, including references. A letter confirming the terms and conditions of employment shall be provided for all employees of LHFH.

All potential employees will be checked against the Sex Offender Registry. Persons who appear on the registry will not be offered employment.

All potential employees will be required to submit to a urine drug screen test at an approved medical testing facility. Persons who test positive for illegal substances will not be offered employment.

A driver's license and driving record check will be performed for any potential employee who may drive an Affiliate vehicle.

Potential employees for positions which have physical requirements will be subject to a pre-employment physical examination.

Criminal background checks will be conducted on all potential employees prior to employment. Should a prospective employee have a record, the Management Team will determine whether or not the person should be hired.

Employment of Relatives

Family members may not report to each other.

Family members may not be in positions where they are making decisions that affect their own family members.

Family members may not be in positions where opportunities exist to approve financial transactions.

Family members may not both be in significant management positions.

Those who obtain “family member” status while employed are treated in accordance with these guidelines. If, in the opinion of LHFH, a conflict or an apparent conflict arises, one of the employees will be expected to resign at the earliest practicable time or, failing that, will be dismissed.

Unless otherwise noted, this policy applies to volunteers and all categories of employment, including regular, temporary, flexible, and part-time classification, but may not include other short-term or contractual labor, depending on the situation.

Performance Appraisals

The work of each employee shall be reviewed at least annually by his/her direct supervisor. The Board President will initiate the annual review of the CEO. Copies of the written appraisal are maintained in the employee’s personnel file.

Should a staff member disagree with all or part of the appraisal, his/her remarks shall be duly noted and attached to the appraisal. The staff member may elect to present any disagreements up the chain of command through the CEO, Board President and the Executive Committee.

Disciplinary Actions

LHFH reserves the right to take any disciplinary action deemed appropriate under the circumstances, including verbal warning, written warning, demotion, suspension or dismissal.

If an employee believes an action is not justified, the employee is entitled and encouraged to freely discuss the situation with the CEO. If an employee wishes to appeal an adverse action, a written appeal may be addressed to the President of the Board who will direct the Executive Committee to hear the appeal. Appeals must be made within ten days of the adverse action.

LHFH may dismiss any employee, with or without prior notice, for any reason. Dismissal may or may not be preceded by other disciplinary actions.

Compliance with the Law

Every employee and volunteer shall obey all applicable laws and regulations of any government, government agency, or regulatory body while engaging in work on behalf of the Affiliate. Should any employee or volunteer break the law while on affiliate business or in reference to the affiliate, the Executive Committee may elect to press criminal charges.

Days and Hours of Work

The normal workweek is 40 hours, excluding a non-paid lunch. Affiliate office hours and ReStore operating hours shall be determined by the CEO.

Harassment, Offensive Behavior

Lexington Habitat for Humanity complies with all applicable Federal, State, and local laws related to employment, including those relating to nondiscrimination and sexual misconduct in the workplace. In the absence of an express contract to the contrary, Kentucky law provides that a person's employment is for no specific term and may be ended at-will.

Lexington Habitat for Humanity is committed to ensuring a work environment that is free from harassment and discrimination. LHFH does not tolerate harassment or discrimination of any kind in its offices, stores, work sites or in any other setting related to the work of the Affiliate, including, but not limited to, business trips, meetings, and social events. All employees must avoid offensive or inappropriate behavior at work and are responsible for ensuring that the workplace is free from harassment at all times. Any harassment and/or discrimination on the basis of a protected status (disability, race, sex, religion, color, national origin, age, tobacco-smoking status, sexual orientation or gender identity, genetic information, pregnancy, marital status, or veteran's status, or any other status protected by law) is both unlawful and contradictory to the values of LHFH.

Alcohol or Drugs

Use, possession of, or being under the influence of intoxicating substances or illegal drugs is not permitted during work hours at any LHFH work site, in affiliate vehicles or while in the conduct of LHFH business.

Investigations and Drug Testing: All employees must cooperate with any substance abuse investigation. An investigation may include and require an employee to submit to a urine drug screen test. All employees will have the opportunity to list all drugs (prescription, over-the-counter, or other) and to explain the circumstances surrounding the use of such drugs. All records containing medical information will be maintained in accordance with applicable law.

An employee who refuses to sign a release or authorization to submit to any drug screen test, who refuses to undergo such a test, or refuses to permit the medical facility to provide the results to the Affiliate will be considered the same as admission of being under the influence of drugs.

Types of Drug Testing: LHFH will test employees on a pre-employment, and "reasonable cause" basis only. The CEO or designee has the authority to authorize a drug test for "reasonable cause."

Weapons

Illegal or concealed deadly weapons (without license) are not allowed at any LHFH work site, in affiliate vehicles or while in the conduct of LHFH business.

Whistle Blower

If any employee reasonably believes that some policy, procedure, practice, action or activity of LHFH or any person associated with LHFH (staff, contractors, suppliers, volunteers, etc.) is in violation of law, affiliate policies, practices or procedures or would reflect negatively on the affiliate, a report must be filed by that employee with the CEO, the Board President or any member of the Executive Committee. The complaint may be in person or in writing, including electronic communication.

It is the intent of LHFH to adhere to all laws, regulations, procedures, practices and policies that apply to the organization. Every employee has an obligation to comply with such laws, policies, etc. and to report any incident or behavior that is contrary to this policy. An employee is protected from personal negative consequences if the employee brings the alleged activity, action, policy, or practice to the attention of LHFH and provides a reasonable opportunity to investigate and correct the alleged activity.

LHFH will not retaliate against an employee who, in good faith, has made a protest or raised a complaint against some practice of LHFH or any person associated with LHFH, on the basis of a reasonable belief that the practice is in violation of law, policy or could reflect negatively on the affiliate. Disciplinary action will be taken against employees who retaliate or attempt to retaliate against an employee who has made a report. Disciplinary action will also be taken against employees who have knowledge of such an activity and do not report it.

COMPENSATION AND BENEFITS

LHFH shall provide all compensation and benefits required by law as well as those described herein.

Insurance

Worker's Compensation

LHFH fulfills its legal obligations for injury to employees as provided under the Kentucky Workers' Compensation Act.

Unemployment

LHFH provides unemployment insurance as prescribed by Kentucky laws.

Health and Dental

LHFH may pay 100% of the premium for basic employee health and dental coverage for regular, full-time employees. Coverage will be effective on the first day of employment. Should an employee elect to purchase additional coverage or to cover a spouse or family, the additional premium will be paid by the employee through payroll deduction. Coverage will end on the last day of employment.

Life and Disability Coverage

LHFH may provide term life insurance, accidental death and dismemberment, and short and long term disability policies for all regular, full-time employees on the first day of the month after 90 days of employment.

Retirement

LHFH will provide a retirement plan for regular employees working more than 1000 hours per year. The Affiliate will contribute an amount equal to five percent of the eligible employee's gross wages beginning the first of the month following twelve months of employment, provided the employee has worked a minimum of 1000 hours in that twelve month period. Additionally, any employee who is scheduled to work more than 1000 hours per year may elect to make salary reduction contributions to the retirement plan beginning the first of the month following twelve months of employment, provided the employee has worked a minimum of 1000 hours in that twelve month period.

Optional Benefits

LHFH may provide the opportunity for employees to purchase additional benefits via payroll deduction.

Continuation of Coverage

LHFH complies with the Consolidated Omnibus Budget Reconciliation Act (COBRA) or KY State Continuation regulations regarding workers and their families who lose their health benefits under certain circumstances.

Time off

Holidays

The following holidays shall be observed and the LHFH offices will be closed. Additional holidays may be designated by the Executive Committee. The ReStore may be open on holidays, as determined by the store management. When a holiday falls on a Saturday or Sunday, the holiday is generally observed on a Monday or Friday, as determined by management.

- New Year's Day
- Martin Luther King Day
- Memorial Day
- Fourth of July

- Labor Day
- Thanksgiving Day
- Day After Thanksgiving
- Christmas Eve
- Christmas Day

Regular, full-time employees will be paid their normal rate for an eight-hour day. If an employee works on a day which is an observed holiday, the employee will be granted a floating holiday to be used at a time determined by management.

Paid Time Off (PTO)

Regular Full-time Executive:

Years 1-4 27 days (216 hours)
At 5th year 32 days (256 hours)
At 10th year 37 days (296 hours)

Regular Full-time Management:

Years 1-4 22 days (176 hours)
At 5th year 27 days (216 hours)
At 10th year 32 days (256 hours)

Regular Full-time Staff:

Years 1-4 17 days (136 hours)
At 5th year 22 days (176 hours)
At 10th year 27 days (216 hours)

Increases in accrual rate will be effective in the appropriate year on the anniversary of the date the employee was hired into the position. Hours spent employed at LHFH full-time, part-time or in an AmeriCorps or VISTA position will count toward an employee's length of-service if that employee is subsequently re-hired.

Part time employees will accrue pro-rated PTO hours according to their hours worked, beginning with the 6 month anniversary of employment.

PTO is accrued each pay period and may be used as accrued, as approved by the immediate supervisor. PTO can be taken with pay in advance of actually earning it if the employee's department director gives approval. Should the employee leave the Affiliate before the advanced PTO is accrued, the amount in arrears will be deducted from the final paycheck. The President of the Board of Directors will approve PTO for the CEO.

There will be no limit on an employee's PTO bank during the calendar year. At the end of the year, a maximum of 320 hours may be carried to the next year. If the employee has more than

320 hours in the bank at the end of the year, the amount over 320 hours will be lost. As leave is taken in the current year, it will reduce the bank.

Payment will be made for up to 200 hours of any unused PTO at separation, with the following exceptions:

- Payments will not be made to employees terminated for cause.
- Payments will be held pending award of Unemployment Insurance benefits for employees otherwise involuntarily terminated. If UI benefits are not awarded, PTO will not be paid.

Parental Leave

Parental leave is defined as the time which employees are absent from work due to the birth, adoption, or appointment of foster care/guardianship of a child. Parental leave is available to both “parents.”

Parental leave is granted from PTO and unpaid leave not to exceed 90 calendar days from the birth/acceptance of the child(ren).

Medically related absences associated with a normal or complicated pregnancy shall be treated as any other medically related absence.

Bereavement Leave

LHFH provides paid leave to attend the funeral and attend to other matters related to bereavement according to the following:

- Up to ten days – spouse, child
- Up to five days -- parent, sibling, other for whom the employee is directly responsible
- Up to three days – grandparent, grandchild, in-law
- One-half day - other relatives, friends, associates

Jury Duty

Employees are granted time off with pay to serve on a jury panel or as a court witness when subpoenaed. Any pay received from the court service belongs to the employee.

Military Reserve Leave

LHFH fully supports employees who serve in the Reserve component of any branch of the U.S. Armed Forces or the National Guard. Accordingly, such employees are granted five additional PTO days per calendar year for the purposes of required annual training. These days may not be carried over from one year to another if not used. If the employee leaves LHFH and has not used these PTO days, the employee will not be paid for them. Time granted under this policy will be managed by the employee’s department director.

For up to five additional days of annual training, such employee will be paid the differential, if any, between the military base pay, special pay and allowances and LHFH gross pay, if the LHFH amount is greater than the military amount

If the employee is ordered to involuntary active duty, the employee/service member will be paid the differential, if any, between the military base pay, special pay and allowances and LHFH gross pay, if the LHFH amount is greater than the military amount. Such differential pay will be paid for up to one calendar year, but will terminate on the date the employee/service member is released from active duty.

The employee must give his/her director notice of the training dates or active duty orders as soon as that information is available. The director will advise the Director of Finance and Administration and the CEO. LHFH will advise the employee of documentation required to obtain these benefits. If there are changes to the military base pay rate, special pay or allowances during the period of active duty, the employee must advise LHFH so that the differential pay may be adjusted.

Benefits paid by LHFH, such as health insurance, will be suspended during this active duty period if they are made available by the military service. If the employee wishes to retain such benefits through LHFH, he/she may do so at the then-current rate.

Differential pay will be paid on the normal payroll schedule. PTO will continue to be accrued during the time of military service. The employee will retain job re-instatement rights, as specified in federal law.

Leave Without Pay

Regular, full-time employees may be granted leave without pay for special circumstances not provided for in the foregoing leave allowances. The President may grant this for the CEO and the CEO may grant for all other staff, in consultation with the immediate supervisor, for periods up to three months.

OPERATIONAL

GRIEVANCE/APPEALS

Individuals who are unable to work out difficulties among themselves must document their positions, concerns, and issues in writing.

The matter should then be brought to the attention of the director(s) of the parties involved.

If the grievance involves an employee and director, or the director(s) cannot resolve the matter, the CEO shall be notified and attempt resolution. If the parties fail to amicably resolve the grievance, the CEO shall provide a written directive, within three business days, to resolve the

grievance. The parties may accept the resolution or may, within three business days, appeal to the Executive Committee in writing.

The Executive Committee shall meet with the parties within no more than ten business days to learn of the details of the grievance. The Executive Committee shall subsequently have five working days to provide the parties a written directive to resolve the dispute. There shall be no further appeal, other than those authorized by law.

CONFLICT OF INTEREST

All members of the Board of Directors, employees, committee members and regular volunteers, unless otherwise noted, shall annually read and sign the affiliate's Conflict of Interest policy and fully disclose any potential conflicts.

GIFT ACCEPTANCE

Personal acceptance of gifts from any of LHFH's constituents: donors, volunteers, contractors, families, etc., may be perceived as a conflict of interest. No gifts shall be personally accepted by employees unless they are:

- Not cash – no cash gifts may be accepted under any circumstances. Should a constituent want to make a cash gift to an employee, it shall be made clear that the gift will be turned in as a donation.
- Not excessive in value – no more than \$50.
- Could not be construed as a bribe or pay-off.
- Does not violate any law, regulation or other LHFH policy.

USE OF AFFILIATE RESOURCES

All Affiliate resources are the sole property of Lexington Habitat for Humanity.

All computers, phones, servers, or other technology hardware provided for use by employees and volunteers are the sole property of LHFH. All software packages on the area network, e-mail and Internet systems are the sole property of LHFH. All information transmitted by, received in or from, or stored in these systems are the sole property of LHFH.

Hardware and software that are donated to LHFH become the sole property of LHFH and may be allocated according to Affiliate needs (i.e. designated for another user, sold, and/or stripped for parts).

Requests to Use Tools/Equipment

LHFH allows staff, board members and key volunteers to borrow tools and/or equipment (including vehicles) on an occasional basis for personal use. A written request to use the item must be made in advance and approved by the director of the department responsible for the

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item. The CEO approves requests from the director of the department responsible for the item. The Board President must approve requests by the CEO. By signing the written request, the borrower releases LHFH from all liability related to the item or its use. LHFH makes no representations about the condition of the tools or equipment or about the fitness for use of the tools or equipment.

Items/vehicles taken for which there is not approved use will be considered stolen.

AFFILIATE PROPERTIES

Gambling

Gambling (other than Affiliate initiated programs) is not permitted at any work site.

Smoking

LHFH buildings, including houses under construction and vehicles are non-smoking. Smoking is limited to designated outside areas of the office and ReStore locations and appropriate break times. In addition, care must be taken to not smoke around others at any location or work sites.

INCLEMENT WEATHER

The CEO decides when the office will be closed due to inclement weather and notifies the department directors.

INTERNAL OPERATIONS

Expenses

Employees shall be reimbursed for legitimate business expenses requested on the EXPENSE REPORT form and supported with appropriate documentation and supervisory approval.

Credit Card

Use of a LHFH Affiliate credit card is limited to work related expenses. All charges must have an itemized receipt and supervisor approval or the employee will be required to reimburse the affiliate.

Hiring of Subcontractors

All sub-contractors of LHFH must present an insurance certificate verifying general liability and workers compensation coverage and a W-9 form prior to execution of a contract and/or beginning work.

Retention and Confidentiality of Files

All Affiliate records must be kept so that an accurate, auditable record of all transactions is maintained in accordance with generally accepted accounting principles. No entries may be
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made to intentionally hide or disguise the true nature of any transaction or to create funds to be used for other purposes.

Information recorded and submitted to other parties – whether inside or outside the Affiliate – must be accurate, timely and complete. Reports cannot be used to mislead those who receive them or to conceal anything. This accuracy requirement applies to both financial and non-financial records such as workers' compensation claims, safety statistics and other reports. Records must be maintained in accordance with any applicable records management policy and/or records retention schedule.

LHFH keeps essential records which include but are not limited to the following. All records are maintained for a minimum of seven years. As space allows and need dictates, records are retained indefinitely.

- Articles of Incorporation
- By-laws
- Board of Directors and Committee meeting minutes
- Contracts
- Deeds
- Publications
- Correspondence
- Financial Records
- Audits
- ReStore daily reports
- Receipts
- Invoices
- Purchase agreements
- Tax information
- Applicant and partner family files
- Personnel Records

Files containing confidential material, including personnel files, will be accessible only by those with a work related need to know. Essential files are kept in fire-proof storage. Public files are accessible.

Sexual Offender Registration

LHFH shall check the Sexual Offender database for the names of all potential partner families, employees, Board members and key volunteers as follows:

- Potential employees – prior to offering the position
- Employees – annually
- Board Members, key volunteers – prior to the start of service and annually

- Partner Families – upon acceptance into the Partner Family program and prior to home closing

If a person from one of these groups appears on the registry, that person will not be hired/approved or will be dismissed from the position/program. Notification will be in writing.

Distinctive Signs

All uses of the Lexington Habitat for Humanity and Habitat for Humanity® logos and signs must be in accordance with HFHI policies which can be found on MyHabitat. The use of the term Habitat for Humanity® must include the registration mark as shown.

SAFETY

Children

Children under the age of 16 are not allowed on construction and deconstruction sites while work is in progress.

Children ages 16 and 17 may be on work sites when accompanied by an adult who has accepted legal responsibility for the child by signing the waiver, but may not participate in “ultra hazardous” construction activities which include but are not limited to: use of power tools or motor vehicles, demolition, roofing or working from a height of six feet or more or excavation operations. There must be a 1-4 adult-child ratio at the work site. Adults must be persons age 21 or older and do not include LHFH staff.

If there are no other restrictions, such as on-site workers from Dismas Charities, children ages 14 and 15 may work in the ReStore when accompanied by an adult who has accepted legal responsibility for the child by signing the waiver, but may not participate in “ultra hazardous” activities which include but are not limited to: use of power tools or motor vehicles, demolition, roofing or working from a height of six feet or more.

Construction and Deconstruction Sites

Each supervisor at a work site must:

- Conduct on-site safety training for all volunteers each new volunteer work-day.
- Ensure “Injury Action Plan” information is clearly visible and accessible at each work site.
- Monitor the work site’s safety status by personally conducting daily safety inspections and initiating needed corrective action.
- Complete an incident report for all accidents and injuries.
- Conduct accident investigations to analyze the causes and formulate recommendations for corrective and preventative action.
- Monitor the safety performance of all subcontractors to ensure compliance with the affiliate’s safety standards.

Each volunteer, future homeowner, and non-supervising staff at a build site must:

- Comply with all safety rules and regulation.
- Report all accidents and injuries immediately.
- Obtain the proper tools and personal protective equipment for the job at hand.
- Report all unsafe conditions to the supervisor in charge.
- Know to call 911 in case of emergency.
- Help maintain a safe and clean work area.

Management will annually review and appropriately update staff training requirements and work site safety procedures based on current OSHA guidelines and recommendations from HFHI, our insurance provider, or other qualified work-site safety organizations.

HABITAT FOR HUMANITY INTERNATIONAL RELATIONSHIP

The LHFH Board of Directors signs a Covenant Agreement with HFHI annually. As part of that Covenant, LHFH agrees to abide by certain policies and procedures as outlined in HFHI Core Documents, Core Tenants, and Vision and Mission Statements. The Affiliate endeavors to do so. Changes to policy resulting from the relationship with HFHI must be approved by the Board of Directors.

LHFH will pay an annual U.S. Stewardship and Organizational Sustainability Initiative (US-SOSI) fee as required by HFHI.

FINANCIAL POLICIES

INDEPENDENT AUDIT

The Affiliate shall annually contract with an independent Certified Public Accounting (CPA) firm to perform a full audit of the books as required by Habitat for Humanity International. The audit will cover the fiscal year July 1 through June 30. The auditors will test accounting mechanisms in accordance with generally accepted accounting standards for non-profit organizations and as contractually required by funding sources. A formal written report of the audit will be presented to Lexington Habitat for Humanity's Board of Directors for final approval.

The CPA firm will produce and file IRS form 990 and any other IRS required forms as necessary. The form 990 will be presented to the Board of Directors for approval after review by the Finance Committee and Treasurer.

CASH DISBURSEMENT POLICY

Expenditures and Invoice Authorization

LHFH Finance and Administration staff will ensure that all costs paid are “arm’s length” transactions, which do not deviate from established practices of the organization. An arm’s length transaction is a transaction between two related or affiliated parties that is conducted as if unrelated, so that there is no question of conflict of interest.

A cost will be considered reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

All expenditures must be documented in writing via invoice from vendor, LHFH credit card itemized receipt and statement, request for reimbursement with receipts, or detailed check-request form. All expenditures must be approved, as evidenced by signature or initials, by a department director. Expense reimbursement requests and LHFH credit card charges from department directors must be approved by the CEO. Those from the CEO must be approved by the Board President.

Due to volume and complexity, Lowe’s construction invoices will be reviewed and initialed by two members of the Construction staff or one member of the construction staff and a second person from the management team.

The act of approving an invoice authorizes the disbursement of funds from the Affiliate’s accounts. The approver will ensure that all conditions and specifications on the contract or order have been satisfactorily fulfilled.

Except for the purchase of lots (in accordance with the budget) and contracted items (such as rent, title payments, loan payments, etc.), all checks greater than \$10,000 must be signed by one of the authorized staff (CEO or Family Services Director) and either the Treasurer or President of the Board of Directors.

Checks

All checks will be pre-numbered.

All checks will be signed by persons authorized by the Board of Directors.

INSURANCE

Reasonable, adequate coverage will be maintained to safeguard the assets of LHFH. Such coverage will include property, general liability, worker’s compensation, builders risk, directors and officers, auto, volunteer accident, employee/staff dishonesty as well as other insurance deemed necessary.

Minimum insurance coverage as required by HFHI will be maintained as follows:

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General Liability - \$2,000,000

Builders risk - \$2,000,000

Volunteer accident

 Volunteer Accidental Death & Disability - \$5,000

 Excess Medical Expense - \$250,000

 Medicare or Eligible Medicaid - \$10,000

Directors & Officers Liability - \$1,000,000

In addition, the following insurance is maintained:

 Auto Liability - \$1,000,000

 Excess umbrella - \$1,000,000

 Workers Compensation - \$1,000,000

Property and equipment is individually insured based upon actual or determined value. Additional policies may be purchased as deemed appropriate by CEO and DFA in consultation with a qualified insurance agent.

The Finance and Administration department will maintain insurance files.

INTERNAL REPORTING

An annual budget will be prepared by the Finance and Administration department from information provided by each department director. The budget will be reviewed by the Finance Committee, Executive Committee and approved by the Board of Directors.

LOANS

All loans with a re-payment period of more than 1 year will be approved by the Board of Directors.

The initial establishment of a revolving line of credit will be approved by the Board of Directors. Ongoing use and repayment of such will be directed by the CEO.

LHFH PAT SMITH ENDOWMENT FUND

The Affiliate maintains an endowment fund governed by an endowment agreement and investment policy approved by the Board of Directors.

The annual distribution from the Fund will be used to support local and international service projects.

MORTGAGES

Lexington Habitat for Humanity will comply with the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA) provisions for mortgage origination, as well as all other applicable federal, state, and local laws regarding mortgage origination.

Lexington Habitat for Humanity mortgages will be based on the following criteria:

- The mortgage will be for the full appraised value minus grant-funding sources requiring and providing principal reduction.
- The term of the mortgage will range between 15-30 years.
- Mortgage payments, including principal, taxes and insurance, will be calculated using 16%-23% of the family's gross monthly income as a base.
- The debt to income ratio (including LHFH mortgage payment) cannot exceed 43%.
- The first note will equal the appraised value minus any grant subsidy, other subsidy, down payment assistance, down payment, or other source of principal reduction.
- A silent, forgivable note will be written, if necessary, to further reduce the first note balance such that repayment will be within the Board-approved mortgage term range with monthly payment within the Board-approved percentage range of the family's gross monthly income.
- Silent, forgivable notes shall be forgiven at the rate of 10% per year for years six through fifteen (ten years).
- Total encumbrances will not exceed fair market value of the property.

Lexington Habitat for Humanity will transfer title of each completed house to approved applicant upon occupancy, or on a specific time frame as soon as practical thereafter.

If early pay off occurs in association with the sale, transfer of title or refinancing of the first mortgage, the second note, shared appreciation, and any deed restrictions apply as written in the mortgage, unless otherwise negotiated by the CEO.

Mortgage Management Policy

LHFH will comply with the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA) provisions for mortgage servicing, as well as all other applicable federal, state, and local laws regarding mortgage servicing. For the efficient collecting and recording of mortgage payments, LHFH may choose to outsource the servicing of mortgages to a third party that fully complies with applicable laws, the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA). Mortgage servicer will keep homeowners' escrow funds in an FDIC insured checking account that is separate from all other funds. Servicer will reconcile each escrow account annually and provide every homeowner a statement of taxes, insurance, and payments and mortgage balance.

The homeowner will receive a duplicate or original of all documents executed at closing. LHFH or its servicer will retain all original, recorded closing documents. The original, recorded closing documents must be provided to the homeowner once returned from the real estate records.

In the event of late or missed payments, LHFH will notify the homeowner in writing of the delinquency and the timeframe in which the homeowner must resolve the delinquency in order to prevent further adverse action.

LHFH will consult with a local attorney to adequately protect the affiliate's interests and comply with Kentucky foreclosure law when sending delinquency and default notices.

Foreclosure/Deed-in-Lieu of foreclosure may be initiated at any time a family defaults on the terms of the mortgage. Federal law requires that the first notice or filing required to foreclose cannot be made unless a consumer's mortgage loan is more than 120 days delinquent.

Foreclosure proceedings may be suspended when a delinquent homeowner agrees to and follows a payment arrangement approved by the CEO.

Terms of a deed-in-lieu will be set by the CEO.

The CEO may extend the mortgage period up to 24 months. Any further extension must have the approval of the full Board.

Underwriting Criteria

All homebuyer applicants will formally apply for a mortgage loan no more than 90 days prior to loan closing, after appraisal and purchase price are determined. In order for a homebuyer applicant to process with loan closing, all income and debts will be re-verified and selection criteria must be met to ensure that the homebuyer applicant can afford the Habitat mortgage. If a potential homebuyer's creditworthiness has declined below the ability to pay the mortgage and other obligations, an adverse action notice must be provided to the homebuyer applicant within 30 days of deciding to de-select.

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RESTORE POLICIES

Donation Acceptance Guidelines

Specific donation acceptance guidelines are to be determined by store management. The acceptance criteria for items picked-up by ReStore staff or acquired through the Deconstruction program may differ from what will be accepted as a drop-off at the store's location.

Pricing

All merchandise must have a marked price visible to the customers and volunteers.

Pricing is supervised by the store manager.

A 20% discount will be provided to the following:

- Habitat staff
- Habitat volunteers (excluding board members)
- Partner families/Homeowners:

In compliance with HFHI recommendations, board members are not eligible for discounts.

Deconstruction staff may offer a 20% discount to persons at deconstruction sites who want to purchase items and take them directly from the site.

No price may be altered at a customer's request unless authorized by both the store manager *and* director or CEO. Any price override must be documented in the Daily Store Log, noting the customer's name, item discounted, and reason for discount. No other price negotiation by staff is permitted. Store managers will determine markdowns, and such discounts will be clearly marked on merchandise and available to all customers.

Staffing

At least three trained people must be on duty at all times. This may be any appropriate combination of staff and/or volunteers.

Donation pick-ups must be performed by at least two people. This may be any appropriate combination of staff and/or volunteers.

Staff/Volunteer Purchases

Per HFHI recommendations staff and volunteers may only purchase items that have been on the sales floor, priced and available for sale to the general public for at least three business days. No staff members or volunteers may participate in pricing an item that they intend to purchase.

Customer Purchases

All purchases must be made in full. No partial payments or lay-a-ways accepted.

Acceptable forms of payment will be determined by store management in consultation with the DFA and clearly posted for customers to read.

Store management has the authority to determine “hold for pick-up” and return policies.

Deconstruction

All safety policies currently in place for LHFH will be followed. Contracts will be signed by the property owner and a Lexington Habitat representative prior to working on any property not owned by Lexington Habitat for Humanity. Deconstruction will sub out any skilled trades for which LHFH is unlicensed (i.e., electrical, plumbing, etc.).

Cash Handling

No person may handle cash without approval of a store manager or the store director.

Cash supplies will be counted by a store manager or designee and a witness and appropriately documented.

RESOURCE DEVELOPMENT POLICIES

Donor Privacy Policy

Lexington Habitat for Humanity is committed to respecting the privacy of our donors. All departments within Lexington Habitat will treat donor information as safely and securely as is reasonably possible. Therefore, anyone who contributes to Lexington Habitat will:

- Be assured the donation will be used for the purposes for which it was given.
- Receive appropriate acknowledgment and recognition unless the donor requests the gift be anonymous.
- Be assured that information about the donation is handled with respect and confidentiality to the extent provided by the law.
- Receive answers to any questions relative to the donation.
- Be assured that Lexington Habitat for Humanity does not sell, lease, rent or share its donor lists.

Employee and volunteer access to donor information is limited and is based solely on job function. Donor information will be viewed only by staff and volunteers who understand the confidential nature of the information.

Gift Acceptance Policy

Use of Legal Counsel

Lexington Habitat shall seek the advice of legal counsel in matters relating to acceptance of gifts when deemed appropriate under the sole and absolute discretion of the Board of Directors of Lexington Habitat. Review by counsel is recommended for:

- review of closely held stock transfers that are subject to restrictions or buy-sell agreements
- review of documents naming Lexington Habitat as Trustee
- review of all gifts involving contracts, such as bargain sales or other documents requiring Lexington Habitat to assume an obligation
- review of all transactions with potential conflict of interest that may invoke IRS sanctions

Conflict of Interest

All prospective donors shall be strongly urged to seek the assistance of personal legal and financial advisors in matters relating to their gifts and the resulting tax and estate planning consequences.

Restrictions on Gifts

Lexington Habitat will accept unrestricted gifts, and gifts for specific programs and purposes, provided that such gifts are consistent with Lexington Habitat's stated mission, purposes, and priorities. Lexington Habitat will not accept gifts that are too restrictive in purpose. Decisions on the restrictive nature of a gift, and its acceptance or refusal, shall be made by the CEO subject to review by the Executive Committee and Board of Directors of Lexington Habitat.

Gifts Acceptance Review Process

The CEO shall report all extraordinary gifts accepted or rejected to the Executive Committee. If a majority of the Executive Committee disagrees with the decision of the CEO regarding the accepted or rejected gift, the issue shall be put to the Board of Directors for a vote.

Types of Gifts

The following gifts are acceptable unless otherwise determined to be unacceptable in a case by case basis in the sole and absolute discretion of the Board of Directors of Lexington Habitat:

- Cash
- Tangible Personal Property
- Securities
- Real Estate
- Remainder Interests in Property

- Oil, Gas, and Mineral Interests
- Bargain Sales
- Life Insurance
- Charitable Gift Annuities
- Charitable Remainder Trusts
- Charitable Lead Trusts
- Retirement Plan Beneficiary Designations
- Bequests
- Life Insurance Beneficiary Designations

EMERGENCY RESPONSE PLAN

Introduction

Lexington Habitat for Humanity, Inc. will establish and maintain an Emergency Response Plan designed to manage the consequences of natural disasters or other emergencies that may place employees, visitors and clients in danger or disrupt the organization's ability to function normally. A current plan (reviewed annually by the CEO and Management Team) will be part of the Employee Handbook and will be accessible to all employees, volunteers, and Board members at all times electronically.

Leadership and Communication

Activation of this Emergency Response Plan shall be the responsibility of the CEO in consultation with the Board President, should time for consultation exist. Should the CEO be unable to fulfill these responsibilities (due to personal evacuation or loss of property, etc.) the Board President shall assume leadership. Until such time as the Board President can assume direct responsibility, the Director of Finance and Administration will take on that responsibility.

All current insurance policies and valuable papers shall be maintained in the Lexington Habitat for Humanity main office in a fire safe cabinet. Computer and data files are backed-up daily and stored off-site.

Aftermath

The CEO will coordinate post-emergency/disaster plans and policies with the Board President and communicate those plans to all employees through the management team.

Emergency Public Communication

In the event LHFH is directly affected by an emergency or disaster, it is likely that the commercial media will solicit comments or information. Only individuals designated to speak on behalf of LHFH should do so. These individuals, in order, are:

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-Operating_Policies_as_approved_by_Board_Nov_2016.doc

First	CEO
Second	Resource Development Director
Third	Board President
Fourth	Board Vice President
Fifth	Board Secretary

FAMILY SERVICES

EQUAL HOUSING OPPORTUNITY POLICY

Lexington Habitat for Humanity prohibits discrimination because of race, religion, sex, age, ethnic background, color, national or local origin, creed, ancestry, status with regard to public assistance, marital or familial status, disability, military service, sexual orientation or other characteristic protected by law.

SELECTION REQUIREMENTS

Current Household Status and House Size

The applicant family must currently be a household (living together as a family) at the time of application.

The house will be built based on the family composition and size at approval. House size cannot be increased after approval, but can be decreased if family size decreases. We will plan to build for unborn children if, prior to lot selection, an applicant brings us documentation of pregnancy, with due date, from a doctor.

- Two persons or a couple with an additional person: Two Bedroom
- Three persons or a couple with two additional persons: Three Bedroom
- All larger families: Four Bedroom

Residency

Lexington Habitat for Humanity will approve for home ownership only persons who are legal residents of the United States, eligible for home ownership. All potential adult Partner Family members must provide proof of U.S. citizenship or legal residency through birth certificate, passport, resident alien documentation, or other valid proof issued by the U.S. government. Applicants with one or more adults who are legal residents may continue through the partnership process if they meet all other qualifications. Only legal residents may be listed on the applicable deed and note. Applicants without at least one legal resident may not be granted a deed for Habitat-provided property.

The applicant family must have lived continuously in Fayette County for one complete year prior to application or worked continuously in Fayette County for one complete year prior to application.

Verification of Identification and SDN List

As part of our Anti-Money Laundering policies and procedures, all adult applicants must provide the following verifiable information: Name, address, date of birth (via an unexpired government-issued identification evidencing nationality or residence and bearing a photograph or similar safeguard), and government-issued identification number. If an applicant refused to provide the information or appears to have intentionally provided misleading information, we will not proceed with the application and may file a Suspicious Activity Report. Records of identifying information must be retained for at least five (5) years following termination of the customer relationship or dormancy of an account.

LHFH will check to ensure that an applicant does not appear on the United States Department of the Treasury's OFAC Specifically Designated Nationals and Blocked Persons List (the "SDN List") and is not from, or engaging in transactions with people or entities from, countries and regions subject to economic sanctions or embargo that are listed on the OFAC website (*see* www.treas.gov/offices/enforcement/ofac/sdn/index.html).

Sex Offender Status

All adult household members are checked for listing in the Kentucky Sex Offender Registry (<http://kspsor.state.ky.us/>) and the National Sex Offender Public Registry (www.nsopr.gov). If an adult household member listed on the application appears on either registry, the applicant family will be denied.

Income

The applicant family must have a current gross monthly income of at least \$1200 for new construction, remodels, and LHFH recycles; All income from the household expected to continue for at least five years is counted toward the qualifying monthly income. In the event a family has funds, such as from savings or a down payment assistance program, the minimum income limit may be reduced if the funds reduce the mortgage to an amount the family can pay.

The applicant family's gross monthly income cannot have fallen below \$1000 per month in the two years (24 months) preceding the date of pre-application for new construction, remodels, or recycles.

Applicants must have two years of continuous work income or one year of continuous employment with their current employer for new construction or recycles. Applicants must have the same source of consistent income for one year (ex. job, Social Security, Disability) for owner-occupied remodels.

The applicant family's gross annual qualifying and non-qualifying income cannot exceed 60% of the median income for similar sized families in Fayette County as determined by HUD for new and recycles.

Assets

Applicant families who have assets exceeding six months of gross monthly income will be denied through the financial screening process, unless they use the excess as a down payment. If a family with more than six months of gross monthly income in assets has collection debt that, if paid, would take the balance of their cash reserves to less than six months of gross monthly income, the application will be reconsidered once collection debt is paid and assets are reevaluated.

Assets include real property (at fair market value divided by deeded owners), stocks, bonds, certificates of deposit, shares in mutual funds, savings accounts, checking accounts, cash, etc. This excludes personal vehicles, 401K, pension, IRA, and other retirement accounts as restricted by IRS regulations.

An exception can be made for real property that can be utilized to build a Habitat home if the applicant family is determined to be in need of a decent, affordable place to live.

If it is determined an asset cannot be liquidated within 120 days from application completion, the asset will not be considered.

Note: Real property is valued at the fair market value regardless of encumbrances against the property.

Collection and Charge-off Debt

The sum of the applicant's and co-applicant's collection and charge-off debt cannot exceed \$3,000 as reported at the pre-application stage. Any outstanding liens will be treated as collection or charge-off debts.

Bankruptcy

Bankruptcy filings must have been discharged at least 12 months prior to the date of pre-application.

Debt Ratio

The applicant family's current long term debt ratio (including projected Habitat house payment) must fall at or below 43% of their qualifying gross monthly income.

Board Approval

The Director of Family Services submits to the Board:

- Sources of income

- Household members' ages
- Current housing conditions

Applicant families approved by the Board will receive a letter stating they have been selected for partnership, and that a required orientation will be scheduled.

Applicant families denied at any stage of the selection process must be informed by letter stating the reason for denial.

SWEAT EQUITY REQUIREMENT

Applicant families with one adult in the household must complete a total of 250 sweat equity hours. 100 of those hours must be construction. Applicant families with more than one adult must complete a total of 500 sweat equity hours. 100 of those hours must be construction.

Applicant families may recruit friends and family who do not live in their household to contribute up to 20% of their sweat equity hours. Sweat equity hours from recruited friends and family who do not live in the applicant family's household cannot count toward the required 100 hours of construction on the applicant family's home.

Sweat Equity requirements may be modified by management for unusual circumstances, such as elderly or disabled persons or pilot projects.

DESELECTION

Partner families may be deselected for:

- Provision of false information
- Failure to maintain application criteria
- Demonstration of unwillingness to partner, including but not limited to:
 - three unexcused absences from class
 - two late payments

LOVE YOUR NEIGHBORHOOD

OWNER-OCCUPIED REPAIR PROGRAM POLICY

Clean-Up – Trash pick-up, curb painting, minor yard work

Home Preservation – Exterior work that includes painting, patching, minor repair, landscaping, and replacement of exterior building materials for maintaining good or sound condition

Critical Home Repair – Extensive interior or exterior work performed to address health and safety issues or code violations. Critical home repair includes such activities as a change to, or repair of, materials or components; a reconfiguration of space; a modification for accessibility; or installation or extension of plumbing, mechanical, or electrical systems on an existing structure. The Critical Home Repair program is intended to assist homeowners with necessary home repairs; however, the program is not intended to assist homeowners with projects that would result in a complete home rehabilitation.

Need:

- Under 80% AMI
Verification of income through pay checks, tax returns, third party verification of employment, benefit award letters, and other third party verifications as applicable.
- Assets must total less than \$10,000. These assets include real property (at fair market value divided by deeded owners), stocks, bonds, certificates of deposit, shares in mutual funds, savings accounts, checking accounts, cash, etc. This excludes their principal residence, personal vehicles, 401K, pension, IRA, and other retirement accounts as restricted by IRS regulations.
 - If it is determined an asset cannot be liquidated within 120 days from application completion, the asset will not be considered.
 - Real property is valued at the fair market value regardless of encumbrances against the property.
- Visual assessment by Habitat staff for Home Preservation
- Visual assessment by Habitat staff for Critical Home Repair. Family Selection Committee will perform home visit with applicant if requested by Habitat staff.

Willingness to Partner:

- 10 hours of Sweat Equity required. Reasonable accommodations will be made for those with limitations.

Ability to Pay:

- No minimum income requirement
- No credit or debt to income ratio requirement
- Must be current with existing mortgage or show proof of a payment plan
- Must be current with property taxes
- Must have homeowner's insurance policy in place
- Recapture:
 - Total repayment set at 5% of estimated or actual hard costs (whichever is less)
 - If not paying in full at completion, Partner Family to sign a note and monthly payment to be set at up to 5% of gross monthly income

Critical Home Repair and Home Preservation applicants must be approved by the Board of Directors. Family Selection Committee will receive a monthly report of approved Critical Home Repair and Home Preservation applications.

Exemptions to the above policies can be made in cases of street-wide Neighborhood Preservation projects where the goal is to work with as many homeowners as possible in a targeted area for the purpose of neighborhood revitalization.

ANTI-MONEY LAUNDERING POLICY

Lexington for Humanity (“LHFH”) is committed to a comprehensive anti-money laundering (“AML”) program. It is the policy of LHFH to comply fully and completely with all applicable governmental requirements that have been designed to prohibit and prevent both actual and potential money laundering, as well as other activities that facilitate money laundering and the funding of terrorists and/or other criminal activity, including mortgage fraud.

Detailed AML procedures and the designation of the LHFH Compliance Officer shall be contained in the Finance & Administration Department Procedures manual.

Designation of Compliance Officer

As required under the Bank Secrecy Act (“BSA”) (1970), the USA PATRIOT Act (2001), and FinCEN’s Anti-Money Laundering (“AML”) Program and Suspicious Activity Report Filing Requirements for Residential Mortgage Lenders and Originators, LHFH hereby designates an AML Compliance Officer (the “Compliance Officer”) for LHFH. The Compliance Officer, or any of his or her authorized designees (hereinafter, a “Designee”), is responsible for ensuring (1) LHFH’s ongoing compliance with all state and federal AML laws, including monitoring compliance by the LHFH’s employees and designated volunteers with their obligations under LHFH’s AML program; (2) that LHFH’s AML Program is updated as necessary; and (3) that all non-construction employees and designated volunteers receive training on AML requirements before conducting business on behalf of LHFH and, thereafter, on an ongoing basis as needed.

The Compliance Officer will report directly to the CEO.

Risk Assessment

LHFH will conduct an AML/BSA/OFAC risk assessment of its business, customers, products, and the geographic location in which it operates, in accordance with a standard risk assessment methodology, at least every 18 months or whenever material changes occur that would materially impact the risk assessment. Any new product or sales activity or new line of business must undergo an AML risk assessment. The results of the risk assessment and any recommendations for control improvements must be provided to senior management for review and approval. Results of the money laundering risk assessment, the methodology, the analysis, and any supporting documentation of each will be maintained for at least three years.

Comparison with Government Provided Lists of Terrorists, Other Criminals and Debarred or Excluded Individuals

LHFH may receive notice that a federal government agency has issued a list of known or suspected terrorists. Within a reasonable period of time after receipt, we will determine whether a customer appears on any such list of known or suspected terrorists or terrorist organizations issued by any federal government agency and designated as such by U.S. Department of the Treasury. We will follow all federal directives issued in connection with such lists.

We will comply with OFAC rules prohibiting transactions with certain foreign countries or their nationals.

Monitoring for Suspicious Activity

We will monitor a sufficient amount of mortgage loan origination activity to permit identification of suspicious activity. The Compliance Officer or Designee will be responsible for this monitoring, will document when and how it is carried out, and will report suspicious activities to the appropriate authorities. We will create employee guidelines with examples of suspicious money laundering activity and conduct an appropriate investigation before a SAR is filed.

Filing a SAR

LHFH will file SARs (Suspicious Activity Reports) for any activity conducted or attempted through a LHFH location involving (or in the aggregate) \$5,000 or more of funds where we suspect, or have reason to suspect, that

- the transaction involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;
- the transaction is designed, whether through structuring or otherwise, to evade the requirements of the BSA regulations;
- the transaction has no apparent business or lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and, after examining the background, possible purpose of the transaction, and other facts, we have found no reasonable explanation for the transaction; or
- the transaction involves the use of LHFH to facilitate criminal activity.

LHFH will report suspicious transactions by completing a SAR, and we will collect and maintain supporting documentation as required by the BSA regulations. We will file a SAR no later than thirty (30) calendar days after the date of the initial detection of the facts that constitute

a basis for filing a SAR. If no suspect is identified on the date of initial detection, we may delay filing the SAR for up to an additional thirty (30) calendar days, or a total of sixty (60) days after the date of initial detection of the facts, pending identification of a suspect.

We will retain copies of any SAR filed and any supporting documentation for at least five (5) years from the date of filing. We will identify and maintain supporting documentation and make such information available to FinCEN, any other appropriate law enforcement agencies, or federal or state regulators, upon request.

Training Programs

Under the leadership of the Compliance Officer, we will develop and provide ongoing training of our employees and any volunteers who perform administrative duties. Training will occur on at least an annual basis. New hire non-construction employees/volunteers shall receive AML training within 60 days of commencing employment with LHFH.

Independent Audit of AML Program

Independent testing of our AML program will be performed by an outside, independent, qualified third-party or internally by a qualified member of our staff who is totally independent from LHFH's AML compliance team. If an outside party is chosen, we will conduct the necessary due diligence to select the company that will perform the audit. The independent testing will test compliance with this Policy, the BSA/AML regulations and SAR requirements.

Upon completion of the audit, the auditor will issue a report of all findings to the Compliance Officer, and that report will be shared with LHFH's senior management and board of directors. LHFH will address and respond to each of the resulting recommendations.

Vendor Management

At this time, LHFH utilizes outsourcing arrangements relating to, among other things, loan servicing. LHFH will (a) require, by contract, that service providers have policies and procedures designed to detect, prevent, and mitigate the risk of money laundering, terrorist financing or other crimes, such as mortgage fraud; and (b) require, by contract, that service providers review LHFH's AML Policy and Program Procedures and report any Red Flags to the Compliance Officer or Designee.

Monitoring Employee Transactions

Employees' transactions will be subject to the same AML policies and procedures as are applicable to non-employee customers.

Exhibit C
LFUCG HOME Program Loan Approval Form
November 2016

**LFUCG - DIVISION OF GRANTS AND SPECIAL PROGRAMS
FIRST-TIME HOMEBUYERS LOAN APPROVAL
Part 1 – Homebuyer Eligibility**

Name of Borrower _____ SS # _____

Name of Co-Borrower _____ SS # _____

Address of home to be purchased _____, Lexington KY 405 _____

Subsidized Housing _____ Residency _____ Comment _____

Credit _____ Counseling _____ Income Verified _____ Income: Month \$ _____ Year \$ _____

Income Calculation _____

Family Size _____ AMI _____ %

Min PITI _____ % Min PITI \$ _____

HOME Program Requirements: First Time Home Buyer Affidavit _____ Terms of Agreement _____

REHAB Disclosure _____ Beneficiary Agreement _____

The HOME Deferred Loan and/or Repayable Loan application meets all Lexington-Fayette Urban County Government Program Requirements and is approved to proceed with home selection.

ADMINISTRATIVE SPECIALIST PRINCIPAL

DATE

GRANTS MANAGER

DATE

**LFUCG - DIVISION OF GRANTS AND SPECIAL PROGRAMS
FIRST-TIME HOMEBUYERS LOAN APPROVAL
Part 2 – Loan and Closing**

Name of Borrower _____ SS # _____

Name of Co-Borrower _____ SS # _____

Address of home to be purchased _____, *Lexington KY 405* _____

Prime Lender _____ Loan Estimate _____ Commitment _____ Loan Type _____

HOME Program Requirements: URA Waiver (Pre-Contract Agreement) _____

Purchase Price \$ _____ Contract to Purchase _____ Appraisal _____ Amount \$ _____

1st Mortgage Amount \$ _____ New or Existing Home _____ Energy Star? _____ 1st PITI \$ _____

2nd Mortgage Amount \$ _____ 2nd Mortgage term _____ Rate: _____% Monthly Payment \$ _____

Sum of all Mortgages \$ _____ Amount exceeds appraised value by \$ _____ = _____% (Can't exceed 106%)

PITI Between _____% & 33% Of Gross Income? _____ Amount \$ _____ Housing Ratio _____%
(KHC 29% to include third mortgage)

Debt Info _____ = _____

Long Term Debt 41% or Less of Gross Income? _____ Amount \$ _____ DTI Ratio _____%

\$500 Min. Investment? _____ Bank Acct Balance \$ _____ Comments: _____

Code Inspection Date _____ Meets Minimum Code? _____ Comments: _____

Home Inspection Date _____ Borrower Signed? _____ Comments: _____

Environmental Date _____ Title Opinion _____ Comments: _____

SUMMARY

HOME LOAN AMOUNT \$ _____

HOME LOAN MONTHLY PAYMENT AMOUNT \$ _____

COMMENTS: _____

Check Needed by: _____ *Contract Closing Date:* _____

The HOME Deferred Loan and/or Repayable Loan meets all Lexington-Fayette Urban County Government Program Requirements and is approved for closing.

ADMINISTRATIVE SPECIALIST PRINCIPAL

DATE

GRANTS MANAGER

DATE

GRANTS MANAGER

DATE

IDIS Activity #: _____

Project/Grant: HOME_ _____

Exhibit D
LFUCG Reporting Forms
-Equal Opportunity Report
-Unserved Persons

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
DIVISION OF GRANTS AND SPECIAL PROGRAMS
EQUAL OPPORTUNITY REPORT FOR UNSERVED PERSONS**

YEAR ENDING: _____
AGENCY REPORTING: _____
CONTACT PERSON & PHONE: _____
DATE REPORTED: _____
PROGRAM NAME: _____

NUMBER OF PERSONS THAT APPLIED FOR ASSISTANCE BUT WERE NOT SERVED: _____

RACE OF PERSONS: (Must select one, cannot use other)

- _____ *WHITE*
- _____ *BLACK or AFRICAN-AMERICAN*
- _____ *ASIAN*
- _____ *AMERICAN INDIAN or ALASKAN NATIVE*
- _____ *NATIVE HAWAIIAN or OTHER PACIFIC ISLANDER*
- _____ *AMERICAN INDIAN or ALASKA NATIVE and WHITE*
- _____ *BLACK or AFRICAN-AMERICAN and WHITE*
- _____ *ASIAN and WHITE*
- _____ *AMERICAN INDIAN or ALASKA NATIVE and BLACK OR AFRICAN AMERICAN*

ETHNIC CATAGORIES: (These should total the same number reported under Race of Persons)

- _____ *HISPANIC OR LATINO*
- _____ *NOT HISPANIC OR LATINO*

NUMBER OF SINGLE-HEADED HOUSEHOLDS: _____

NUMBER OF ABOVE HOUSEHOLDS THAT HAVE MALE HEAD OF HOUSEHOLD: _____

NUMBER OF ABOVE HOUSEHOLDS THAT HAVE FEMALE HEAD OF HOUSEHOLD: _____

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
DIVISION OF GRANTS AND SPECIAL PROGRAMS
EQUAL OPPORTUNITY REPORT**

YEAR ENDING: _____
AGENCY REPORTING: _____
CONTACT PERSON & PHONE: _____
DATE REPORTED: _____
PROGRAM NAME: _____

GRANT RECIPIENT AGENCY

NUMBER OF EMPLOYEES: _____

RACE OF EMPLOYEES: (Must select one, cannot use other)

- _____ *WHITE*
- _____ *BLACK or AFRICAN-AMERICAN*
- _____ *ASIAN*
- _____ *AMERICAN INDIAN or ALASKAN NATIVE*
- _____ *NATIVE HAWAIIAN or OTHER PACIFIC ISLANDER*
- _____ *AMERICAN INDIAN or ALASKA NATIVE and WHITE*
- _____ *BLACK or AFRICAN-AMERICAN and WHITE*
- _____ *ASIAN and WHITE*
- _____ *AMERICAN INDIAN or ALASKA NATIVE and BLACK OR AFRICAN AMERICAN*

ETHNIC CATAGORIES: (These should total the same number reported under Race of Employees)

- _____ *HISPANIC OR LATINO*
- _____ *NOT HISPANIC OR LATINO*

SEX OF EMPLOYEES: _____ FEMALE _____ MALE

ANY EMPLOYEES WITH A DISABILITY? _____ YES OR _____ NO
_____ HOW MANY?