

Underwriting Guidelines for the Unemployment Bridge Program for Kentucky

1. Program Eligibility

To be eligible for Kentucky's Unemployment Bridge Program (UBP), the applicant must have experienced a loss of income due to unemployment or a reduction in income due to substantial underemployment in the previous three-year period or a qualifying disability which occurred or was awarded after the first mortgage note date. Job or income losses caused by divorce, death, or short-term disability do not qualify.

Applicants must demonstrate a need for assistance, defined as having at least a 15 percent reduction in current income (employment, unemployment, or disability benefits) when compared to pre-event employment income.

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

2. Documenting the Qualifying Event

To be eligible applicants must fall into 1 of 3 categories: unemployed, underemployed, or a qualifying disability.

Job Loss/Unemployment

Unemployed applicants have not yet regained employment following their original qualifying job loss event. They may still be receiving unemployment benefits or benefits have ended. The applicant must receive or be eligible to receive unemployment compensation and demonstrate a need for assistance. The applicant should provide their Monetary Determination Letter from the unemployment insurance office and proof of receipt of funds, such as a check stub or bank statement showing the direct deposit.

Reduction in Employment Income/Underemployed

Underemployed applicants have experienced a qualifying job loss but have found another job that pays significantly less—or they never lost their job, but hours or salaries were reduced due to economic reasons.

Acceptable documentation includes:

- Pay stubs that show pay or hour reduction in the timeframe the applicant is stating the underemployment occurred.
- Previous years' tax returns. W-2s showing higher income as compared to current documented income.
- Possible correspondence from the employer to document circumstances, if needed.

Note: Reduction in Income Resulting from Furloughs

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

- In order to qualify for the program as "underemployed," applicants must demonstrate that they have lost 15 percent of their income--not that they

anticipate losing the income. Therefore, they would have to be well into their furloughs before they could apply and then the furlough would have to continue.

- Furlough is a temporary situation--not an indefinite loss of job or income.
- Intermittent furloughs are ineligible for unemployment benefits as the unpaid leave is typically a day or two each pay period, not an extended amount of time.

Example: One example of a letter received from a federal agency detailed the furlough as 88 hours over 11 weeks. If they work 40 hours/week and 52 weeks a year then the 88 hours out of 2080 hours represents only 4.2 percent reduction in their annual income. Applicants would have to lose 312 out of 2080 hours before they would demonstrate a 15 percent reduction in their income and by the time most would, the furlough period would be over.

Self Employed and Contract Workers

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

Qualifying Disability

Applicants who have lost employment income due to an event that left them unable to continue working or has a dependent, disabled child whose disability left them unable to continue employment, and demonstrate a need for assistance. The applicant must receive long-term or permanent disability income. The applicant should provide their original long-term or permanent disability award letter or other official documentation (occurring after mortgage origination).

NOTE: KHC will allow borrowers to qualify if the job loss was caused by an event requiring more extensive care for the disabled, occupying dependent. A full explanation will be required on the Hardship Application. The event date in this scenario would be the date requiring more extensive care, not date originally awarded disability.

3. Identifying the UBP Applicant

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

Note: Servicers require that the Third Party Authorization be signed by their obligated mortgagor (the person(s) listed on that servicer's mortgage note). The servicers do not have issue with extra signatures at this time. Therefore, the non-borrowing spouse may or may not sign the form.

4. Documenting and Calculating a Need for Assistance

Applicants must demonstrate a need for assistance, defined as having at least a 15 percent reduction in current income (employment, unemployment, or disability benefits) when compared

to pre-event employment income. There are a variety of methods to document current and pre-event income. For uniformity, KHC averages income by weeks.

Current Income Examples

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

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

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

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

Pre-event Income Examples

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

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

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

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

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

Documenting Income:

Acceptable Sources to Verify the Income	Primary Source of Verification	Secondary Source of Verification
<i>Unemployment Benefits</i>	<ul style="list-style-type: none"> • Copy of check stub/bank statement (from applicant) • Copy of Monetary Determination Letter (from OET, if available) 	N/A
<i>Payroll</i>	Pay stubs for the most recent 30 days; cannot be more than 120 days old.	Current payroll ledger showing employer and employee name, signed and dated by the employer.
<i>Self-Employment Income</i>	Copy of signed federal tax return including all schedules and W-2s, including 1099, and ytd profit/loss.	N/A
<i>Disability Income</i>	Copy of the original award letter—date of original award must be within the previous three-year window.	One month of the most current bank statement showing direct deposit of funds from identifiable source.
<i>Non-Taxable Income</i>	Pay stub or award letters.	Two consecutive months of recent bank statements showing automated deposit from identifiable source.
<i>Temporary Income</i>	In most cases, this is not used as qualifying income.	N/A

5. Eligible Properties

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

Documentation Required for Proof of Value

- Tax assessment reflecting value of real property.
- Appraisal (no time limit).
- Zillow.com or other Web site verifying value and real property.
- Copy of deed from purchase.

Property Types Allowed

- Single-family detached homes.
- Condominiums/planned unit developments.
- Townhomes.
- Mobile home or manufactured home affixed to a **permanent** foundation. **(See Section 6 Manufactured Homes for complete details.)**

Property Types NOT Allowed

- Mobile or manufactured homes **not** affixed to a permanent foundation.
- Properties sold by a seller providing mortgage financing to the applicant in the way of a private mortgage, i.e., land contract or contract for deed.

6. Manufactured Homes

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

- Applicants own both the land and the manufactured home; and
- The manufactured home has been permanently attached to the land.

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

7. Asset Statements

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

Applicants must provide all statement pages for every account. Account Statements may not be older than 120 days when submitted to Underwriting. Credit documents expire 60 days from UBP loan approval.

8. Maximum Combined Principal Balances on Primary Residency

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

Documentation Reviewed to Determine Principal Balance

- Credit report

- Direct verification from servicer

9. Additional Liens

The cumulative total of any additional non-mortgage liens, i.e., tax liens, judgments, mechanical liens, etc., on the property cannot exceed \$25,000. Lien totals will be verified using a tri-merged credit report and/or the title report.

10. Owner Occupancy and Primary Residence

To receive assistance from the UBP, the applicant must certify that the property for which they are requesting assistance is their primary or principal residence, which is defined as “the property occupied by the applicant and located in Kentucky.” “Owner” is determined by the General Warranty Deed and land sale agreements, where applicable.

To determine that the current property is “owner occupied,” the home address on the applicant’s last year’s tax return and/or their current bank statement should match. If the applicant has recently acquired the property and their most recent tax returns show a different address, a copy of HUD 1 must be provided to show the purchase occurred after the most recent filing of tax returns or an appraisal showing “owner occupied” must be supplied with the application.

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

11. Credit Report

The counseling agency will pull a tri-merged credit report on each applicant. The purpose of the credit report is to verify the existing liens on the property. KHC is not reviewing for a satisfactory credit history. Outstanding delinquent debts, judgments, and collections will not be reviewed for this loan program. The report cannot be more than 120 days old at the time loan is submitted to Underwriting. Credit documents expire 60 days from UBP loan approval.

12. Bankruptcy

Applicants must be discharged from their Chapter 7 or 13 bankruptcies to participate in UBP.

13. Felony

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

14. Reinstatement Allowance

For allowable loans, KHC will pay up to \$15,000, upfront, to reinstate the applicant’s delinquent balance, to include late fees, penalty interest, taxes, insurance, and protective advances. Applicants that use the entire \$15,000 toward reinstatement will not qualify for monthly mortgage assistance. Any remaining funds after full reinstatement will be used for monthly mortgage payments.

Note: Servicers may deny applicants if the maximum assistance amount (\$15,000) will not fully reinstate the mortgage.

****\$15,000 is effective with new reservations on or after Monday, May 16, 2016.**

15. Second Occurrence Allowance

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

16. Second Lien Notice

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

17. Home Equity Lines of Credit (HELOCs)

Applicants who have Home Equity Lines of Credit (HELOC) must agree to not withdraw additional funds from the line of credit while UBP assistance is being received. Applicants will sign a **HELOC Notice** and acknowledge that any draws from the line of credit will terminate UBP assistance.

18. Identifying Who MUST Be on UBP Note: (re-added 8/03/16)

In order to have an enforceable loan on a property, the owner must sign the mortgage. Those parties listed as owner on the deed of record have ownership interest and therefore must be on the UBP mortgage only. They do NOT have to be an applicant (unless they are the party with the event).

Other examples include:

- If owner (borrower) is married and spouse is on deed: both are on UBP mortgage.
- If owner (borrower) is married but spouse is NOT on the deed, spouse must be on the mortgage due to dower rights, not ownership interest.
- If owner's mother was on the deed, then she would have to sign the UBP mortgage.

Underwriting will only make note of this if the information is available at the time of review. The closing team will ultimately be responsible for this determination, in participation with the contracted UBP Attorney, as deeds come back prior to closing.