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# Kentucky Housing Corporation

Research Report No. 350

*Prepared by*

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# Kentucky Housing Corporation

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# Foreword

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Robert Sherman
Director

Legislative Research Commission
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# Summary

On December 14, 2006, the Program Review and Investigations Committee directed staff to determine whether the Kentucky Housing Corporation allocates funds to the areas of the state with the highest need and to determine the extent to which the corporation distributes funding in an appropriate and efficient manner. The committee also instructed staff to review the corporation's relationships with public and private organizations.

## Major Conclusions

This report has seven major conclusions.

- There is significant unmet demand for housing assistance in Kentucky.
- Demand for the Kentucky Housing Corporation's mortgage and rental assistance programs exceeds the amount of resources the corporation receives from the federal and state governments to address housing needs. Federal housing assistance programs are not based on entitlement, so many families qualify for assistance but do not receive it.
- Federal housing policies have produced a compartmentalized system for providing assistance within which the corporation must work. The corporation does not administer all federal housing assistance in the state, and the areas in which the corporation has jurisdiction vary depending on the program.
- In the areas of the state in which the corporation has jurisdiction, it appears the corporation distributes funding appropriately and efficiently to areas with the greatest need and across the income groups the corporation is directed by statute to serve.
- The corporation has automated much of its time-sensitive business activities. Its efficiency has contributed positively to the amount of funding the corporation has available for its program initiatives.
- The corporation has programs in place that emphasize rural areas and special populations.
- Wherever possible, the corporation seeks community input and forms partnerships with federal, state, and local government entities; nonprofit organizations; private banking institutions; and developers.

## Purpose and Funding

The 1972 General Assembly created the Kentucky Housing Corporation as a government corporation and political subdivision of the Commonwealth. The corporation coordinates planning for housing assistance programs across the state, administers some federal rental assistance programs for low-income families, participates financially in projects increasing the state's affordable housing stock, and provides low-cost mortgages to families with low and moderate incomes. Within these housing initiatives, the corporation administers funding that targets specific populations, such as residents of rural areas; and single-parent, elderly, and disabled families. Most of these programs are funded directly through federal grants and tax credits. The General Assembly supplements these resources with the state Affordable Housing Trust Fund that provides a flexible source of funding from county clerks' fees to help projects and families through the system.

Opportunities for financial flexibility are important to the corporation because federal housing policies have produced a compartmentalized system for addressing housing needs. The various federal programs the corporation administers have different populations they target, different kinds of funding, and restrictions on the use of that funding. The families served by the various programs can have very different housing situations. Some families are not self-sufficient. Some are self-sufficient and able to purchase a home. Some live in a housing unit that does not meet their specific needs, such as affordability or mobility.

This situation is complicated from a planning perspective because the corporation has different jurisdictions depending on the programs it administers. Some local governments and consortia of local governments contract directly with the US Department of Housing and Urban Development to administer certain programs in their areas. There is significant disparity in need around the state. Some local governments and nonprofit organizations where there are high concentrations of housing needs contribute to the process of providing affordable housing in their areas, while others have more passive roles. The corporation has to account not only for the differences in needs across the state but also the differences in potential resources to address these needs.

Based on the demand for the corporation’s mortgage and rental assistance programs, the corporation’s current level of funding is insufficient to meet the need for affordable housing in the state. The corporation has implemented a wide range of housing initiatives to address these needs and has modified its activities to maximize the efficient distribution of its resources. The corporation collaborates with others that provide affordable housing to coordinate efforts and identify potential new sources of funding. While most rental assistance programs the corporation administers are funded with federal appropriations, the corporation’s mortgage programs are primarily funded by the corporation borrowing in the municipal bond market. The state limits the amount of money the corporation may borrow in the bond market to fund its mortgage programs.

The report has three recommendations.

**Recommendation 5.1**
**If it is the intent of the General Assembly for the Kentucky Housing Corporation to increase its mortgage activity, then the General Assembly may wish to consider directing the Kentucky Private Activity Bond Allocation Committee to allocate a larger portion of the state’s private activity bond cap to the corporation or to award the corporation a fixed percentage of the state’s private activity bond cap.**

**Recommendation 5.2**
**If it is the intent of the General Assembly for the Kentucky Housing Corporation to continue with its mortgage activities beyond the current fiscal year, the General Assembly may wish to consider amending KRS 198A.090 to increase the corporation’s limit on outstanding bonded indebtedness.**

**Recommendation 7.1**
**The General Assembly may wish to consider providing additional funding to the Kentucky Housing Corporation for the Affordable Housing Trust Fund to expand the availability of affordable housing to very low-income persons by partnering with nonprofit organizations and units of local government.**

# Chapter 1

## Overview and Major Conclusions

On December 14, 2006, the Program Review and Investigations Committee directed staff to determine whether the Kentucky Housing Corporation allocates funds to the areas of the state with the highest need, objectively awards and effectively monitors contracts, and ensures that funds are disbursed in a timely manner. Staff were also instructed to examine the allocation of funds between public and private organizations.

### Overview of the Report

Chapter 1 provides an overview of the report and describes the study's research methods and major conclusions.

Chapter 2 discusses how the corporation fits into a larger context of federal, state, and local participation in providing affordable housing. The corporation's responsibilities in administering state and federal programs are discussed.

Chapter 3 estimates the number of families in the state that need affordable housing and describes the distribution of these families among the state's area development districts. The chapter analyzes how the state's housing affordability needs have changed over the 5 years from 2002 to 2006. The housing affordability needs of elderly and single-parent families are examined.

Chapter 4 covers the major federal rental assistance programs the corporation administers, including tenant-based and project-based rental assistance. The chapter details the amount of funding used to provide rental assistance, the number of assisted housing units throughout the state, and the eligibility requirements of the families receiving this assistance.

Chapter 5 discusses the types of first and second mortgage loans the corporation makes to families of low and moderate incomes, funded primarily by issuing revenue bonds. The chapter explains how state and federal governments and bond market participants limit the types of mortgage loans the corporation may make and to whom. The chapter includes a calculation of the amount of the corporation's mortgage funding that has been utilized by different areas of the state, income groups, and specific populations.

Chapter 6 describes the resources the corporation provides to developers, nonprofit organizations, and local governmental entities to build and rehabilitate affordable housing in the state.

Chapter 7 identifies the flexible sources of funding the corporation has available to leverage other sources of funding as necessary to help projects move forward.

Chapter 8 provides information on relatively smaller sources of funding the corporation uses to target the housing needs of specific populations.

Appendix A is the response to this report by the Kentucky Housing Corporation. Appendices B and C contain supplemental information on federal rental assistance programs and income limits for certain mortgage funding sources.

## How This Study Was Conducted

The corporation's statutory mission, the programs the corporation administers, and the various limitations imposed upon how the corporation allocates its funding defined the scope of this study.

Program Review staff reviewed state and federal laws and regulations applicable to the corporation and its programs. Staff compared the corporation's multiyear planning and annual budget documents with laws and regulations.

Staff interviewed employees at various levels in the corporation, including the chief officers responsible for designing policies and employees responsible for implementing these policies. Staff requested and reviewed information related to

- the types and sources of state and federal funding the corporation administers;
- financial information regarding the corporation's activities in the bond market;
- the corporation's use of income it generates from operations; and
- the demographic, social, and economic characteristics of the households the corporation assists.

Staff analyzed microeconomic data from the American Community Survey conducted by the US Census Bureau, and compared income and housing cost information for the state and area development districts with information provided by the corporation.

The corporation partners with other government agencies in financial and administrative roles, including the Governor's Office for Local Development, the Cabinet for Health and Family Services, and the Department of Corrections. Staff interviewed or corresponded with representatives from these agencies regarding their work with the corporation.

## Major Conclusions

This report has seven major conclusions.

1. Kentucky has a significant unmet demand for housing assistance. Approximately 17 percent of the state's families have low incomes and housing costs that are unaffordable.

2. Demand for the Kentucky Housing Corporation's mortgage and rental assistance programs exceeds the amount of resources the corporation receives from federal and state governments to address housing needs. Much of the reason that the demand exceeds the supply of assistance is that federal grants are not entitlement grants. Many families qualify for assistance but do not receive it.

3. Federal housing policies have produced a compartmentalized system of housing assistance the corporation must work within. In this system, the US Department of Housing and Urban Development often contracts directly with local housing agencies to administer certain programs. Thus, the corporation does not administer housing assistance in all areas of the state; and the areas vary, depending on the program.

4. In areas of the state in which the corporation has jurisdiction, it appears the corporation administers funding appropriately and efficiently. The corporation's programs target families at different income levels and different stages of self-sufficiency. When the corporation's programs are taken in sum, and given the corporation's funding limitations, it appears the corporation distributes its resources to the areas of the state with the greatest need and evenly across the income levels the corporation is instructed by statute to serve.

5. With a substantial investment in its information technology systems, the corporation has automated much of its time-sensitive business activities. The corporation's efficiency contributes positively to the amount of funding the corporation has available for its programs.

6. The corporation has programs in place that emphasize populations with special needs and rural areas of the state. Some of these programs are funded by competitive federal grants, and others are funded by corporation resources. The corporation actively seeks additional funding to reduce the cost of housing through its relationships with federal government agencies.

7. The corporation forms partnerships and seeks community input wherever possible. Certain programs are designed to leverage local funds to improve the feasibility of housing assistance projects. Through the programs it administers, the corporation cooperates with federal, state, and local government entities, nonprofit organizations, private banking institutions, and developers.

# Chapter 2

## Affordable Housing and the Role of the Kentucky Housing Corporation

The Kentucky Housing Corporation was created by the 1972 General Assembly.

The Kentucky Housing Corporation was created by the 1972 General Assembly as a government corporation and political subdivision of the Commonwealth. As the state's housing finance agency, the corporation administers state and federal housing assistance programs for Kentuckians with low and moderate incomes. The governing statute is KRS Chapter 198A.

The corporation's major responsibilities include

- assessing the housing needs of all Kentuckians,
- administering rental housing assistance programs for low-income families,
- participating in the construction of new multifamily housing for low-income families,
- providing affordable mortgages to families with low and moderate incomes, and
- administering housing programs for special-needs populations.

Subsequent chapters of this report discuss each of these responsibilities in detail. The remainder of this chapter describes how the corporation fits into a broader context of federal, state, and local participation in providing affordable housing.

### Roles of Governments and Nonprofit Organizations

Different sources of funding impose various limitations on how the corporation can use its funds.

The corporation administers affordable housing programs that are funded with federal, state, or corporation funds, or a combination of these. With each program and each source of funding, different limitations apply regarding how funds may be used and which populations they may benefit. The corporation coordinates the use of available funding to satisfy specific policy objectives within these limitations. The corporation also collaborates with local governments and nonprofit organizations to achieve similar objectives. To understand the funding the corporation administers, it is important to understand the roles these participants play in providing housing assistance.

In general, the federal government plays an active role in funding, but a passive role in administering housing assistance. Conversely, Kentucky's state and local governments play an active role in administering, but a passive role in funding, housing assistance.

### Federal Role

The federal government provides most of the funding for housing assistance: providing rental housing assistance, increasing the supply of affordable housing, reducing home buyers' borrowing costs, and insuring single-family and multifamily housing loans.

Most federal funding for housing flows through the US Department of Housing and Urban Development (HUD), a cabinet-level federal agency. The federal government's housing assistance takes four forms: offsetting the cost of rent for low-income families, increasing the amount of rental housing stock available to low-income families, reducing home buyers' borrowing costs, and insuring single-family and multifamily housing loans.

Table 2.1 shows federally funded programs that offset rental costs for low-income families. Public housing is administered by local governments, and the corporation has no authority over their program administration. The Kentucky Housing Corporation administers the majority of Section 8 rental assistance for the state, as described in Chapter 4.

**Table 2.1**
**Federal Programs Offsetting Rental Costs**

| Program | Description |
|---|---|
| **Public Housing (established 1937)** | The federal government offers low-interest-rate loans to local housing agencies established in state legislation to construct and maintain affordable rental housing. |
| **Project-based Section 8 Rental Assistance (1974)** | The federal government (through a housing finance agency) contracts with private owners of multifamily rental housing to provide affordable housing to low-income families. The contract restricts the rent on designated units occupied by low-income families to 30 percent of the families' incomes. The government compensates the owners of rental housing for the difference between the rent paid and the fair market rent for the units. |
| **Tenant-based Section 8 Rental Assistance (1974)** | This program provides vouchers to low-income families that the families may use regardless of the particular rental units they occupy. The program requires families qualifying for this assistance to pay 30 percent of their incomes for rent. The government pays the difference between the fair market rent for the area and the amounts paid by the families, generally 30 percent to 40 percent of the families' income. |

Source: Compiled by Program Review staff with information from the US Department of Housing and Urban Development's *Affordable Housing Needs 2005: Report to Congress*.

Table 2.2 shows the federally funded programs that increase the amount of rental housing available to low-income families. These programs construct and rehabilitate housing in which the units will be reserved for low-income families.

**Table 2.2**
**Housing Production Programs**

| | |
|---|---|
| **Low Income Housing Tax Credit (established 1986)** | This program awards federal tax credits to states that they may then allocate to developers of affordable housing. The developers sell the tax credits to investors to raise equity to construct rental housing projects. The funding awarded to developers is based on the number of units in the project that will be reserved for low-income families and rent-restricted such that the rents charged to tenants cannot exceed 30 percent of the applicable area median income adjusted for family size. |
| **HOME Investment Partnerships (1990)** | HUD gives state and local housing finance agencies an annual block grant that they may apply to a wide range of projects providing affordable housing. The emphasis of this program is on creating and maintaining affordable housing. |
| **Housing Opportunities for Persons with AIDS (1992)** | This program provides a grant to state and local housing agencies and nonprofit organizations to assist primarily low-income households in which a member of the household has acquired immunodeficiency syndrome, or AIDS. |

Source: Compiled by Program Review staff with information from the US Department of Housing and Urban Development's *Affordable Housing Needs 2005: Report to Congress*.

The federal government supports the development of low-income housing through grants and tax exemptions.

The corporation administers the Low Income Housing Tax Credit program and part of the state's HOME Investment Partnerships Program grant funds and the Housing Opportunities for Persons with AIDS funds. The federal government also funds other programs for specific populations, such as elderly families, that the corporation does not administer.

The federal government allows state housing finance agencies to fund mortgage programs with a limited amount of tax-exempt revenue bonds.

The federal government also has programs that make purchasing a home more affordable for families with low and moderate incomes. The federal government participates in the mortgage market through revenue bonds and mortgage loans.

**Revenue Bonds.** The federal government allows states through their housing finance agencies to issue a limited amount of revenue bonds in which the interest income that investors receive is exempt from federal taxation. This exemption reduces the housing finance agencies' cost of capital, allowing the agencies to originate mortgage loans for low- and moderate-income home buyers at interest rates competitive with the commercial mortgage market. The housing finance agencies then make loans to families that would likely not be able to borrow at these rates elsewhere. By reducing the amount of interest that home buyers pay on their

mortgage loans, these families have more affordable monthly mortgage payments. This program is effectively a federal subsidy for low-and moderate-income families' mortgage costs because the federal government, through the interest exemption on the bonds that funded the loans, foregoes collecting additional tax revenue.

The corporation offers mortgage loans to low- and moderate-income families by issuing both tax-exempt and taxable bonds.

The federal government also operates mortgage insurance and guaranty programs for eligible home buyers.

**Mortgage Loans.** The federal government participates in the mortgage market through federal agencies and federally sponsored corporations that either insure or guarantee mortgage loans. The Kentucky Housing Corporation only makes mortgage loans that are insured or have sufficient down payments according to the terms of its bonds. For the borrowers that do not obtain private mortgage insurance or post sufficient collateral, there are three federal insurance or guaranty programs with which the Kentucky Housing Corporation also works. These insurance programs are summarized in Table 2.3.

**Table 2.3**
**Federal Insurance and Guaranty Programs**

| | |
|---|---|
| **Federal Housing Administration Mortgage Insurance** | The Federal Housing Administration is part of HUD. It is the largest mortgage insurance provider in the world, insuring mortgages for single- and multifamily residences, manufactured homes, and hospitals. The administration allows borrowers to make small down payments on their loans. It funds the insurance program by charging borrowers an insurance premium that is included in their mortgage payments. |
| **Veterans Administration Mortgage Guaranty** | The Veterans Administration will guarantee repayment up to a maximum amount based on the borrower's income and the value of the property being purchased. Veterans with honorable, active duty service in World War II and later conflicts, military personnel, Reservists, National Guard members, and spouses of deceased veterans are eligible. In most cases, no down payment is required. |
| **US Department of Agriculture, Rural Housing Mortgage Guaranty** | This program guarantees loans for low-income families in rural areas who have inadequate housing. No down payment is required on the loan. |

Source: Compiled by Program Review staff with information from the Federal Housing Administration, Veterans Administration, and US Department of Agriculture.

The corporation also makes conventional loans (mortgages not insured or guaranteed by the federal government or its agencies) both securitized by and independent of the Federal National Mortgage Association, which is typically referred to as Fannie Mae. Fannie Mae is a shareholder-owned corporation with a federal charter.

In fiscal year 2006, the corporation administered more than $117 million in federally funded rental assistance and federal tax credits that generated approximately $76 million in equity for developers of low-income housing. It administered $22.3 million in HOME Investment Partnerships funding. The corporation also administered approximately $13.6 million in funding for special-needs populations, including Emergency Shelter Grants for the homeless. Finally, in 2006, the corporation issued nearly $300 million in tax-exempt debt to fund a large part of its mortgage activities.

### State Role

While the state does not support housing assistance financially to the same degree as the federal government, the state plays an active role in administering the programs. The state's financial contribution to housing includes the Affordable Housing Trust Fund.

Relative to the federal government, the state plays a minor role in funding affordable housing programs. The state Affordable Housing Trust Fund was established in 1992 to serve Kentucky families with incomes below 60 percent of the area median income. The General Assembly passed legislation in 1998 providing unclaimed lottery prize winnings as a source of funding for the Affordable Housing Trust Fund in FY 2001 and FY 2002. The corporation no longer receives unclaimed lottery winnings but receives a portion of county clerks' fees. The trust fund has also included appropriations from the state's general fund, contributions from the Cabinet for Health and Family Services, and corporation income.

The fund is an important resource to help projects move forward because it gives the corporation flexibility in how the money is used and allows the corporation to leverage other sources of money as necessary. The fund has provided the corporation with approximately $25 million from FY 2002 to FY 2006. In FY 2007, the corporation received approximately $5.3 million from the Affordable Housing Trust Fund.

The state's primary role in addressing housing needs is administering federal funding, for which purpose the corporation was created. This role involves identifying the families with housing needs and coordinating assistance with local entities.

### Local Role

The role of local governments in providing housing assistance varies. Some local governments administer their own federally financed rental assistance programs. The Louisville Metro Government created a local Affordable Housing Trust Fund.

The role local governments play in addressing housing needs varies across the state. The corporation administers Section 8 tenant-based rental assistance in 87 counties and, through FY 2006, administered project-based rental assistance in 109 counties. The remaining counties contract directly with HUD, and local housing agencies administer the programs. Some local

governments also provide funding for affordable housing. The Louisville Metro Government created a local affordable housing trust fund seeded with $1 million to address area affordable housing needs (Martin).

### Role of Nonprofit Organizations

Housing-related nonprofit organizations work independently and partner with all levels of government.

Local nonprofit organizations work independently and partner with the federal, state, and local governments to address housing needs in their areas. These organizations receive government grants and private donations to fund their programs. Nonprofit organizations have partnered with the corporation to build new affordable housing, to provide counseling for Kentucky residents who want to purchase a new home or improve their financial situation, and to serve as a point of contact with borrowers in the mortgage process.

## Evaluating the Corporation's Effectiveness

To fully evaluate the corporation's effectiveness, it would be necessary to examine the specific contributions of local entities and others that administer their own housing programs. This study is limited to the areas of housing needs over which the corporation has jurisdiction.

In order to evaluate fully the corporation's effectiveness in administering the funding it is given and leveraging these funds to benefit the areas in the state with the most needs, it would be necessary to look at the total funding directed at providing affordable housing and the specific populations served. This means it would be necessary to conduct the same research for all local housing agencies that was conducted for the Kentucky Housing Corporation. It would also mean examining more closely the diverse contributions of nonprofit organizations. Where possible, this study includes information about the activities of these other organizations, for example, in providing estimates of the total assisted rental housing units in the state. However, examining these organizations in detail is beyond the scope of the study.

Different housing assistance programs target different populations.

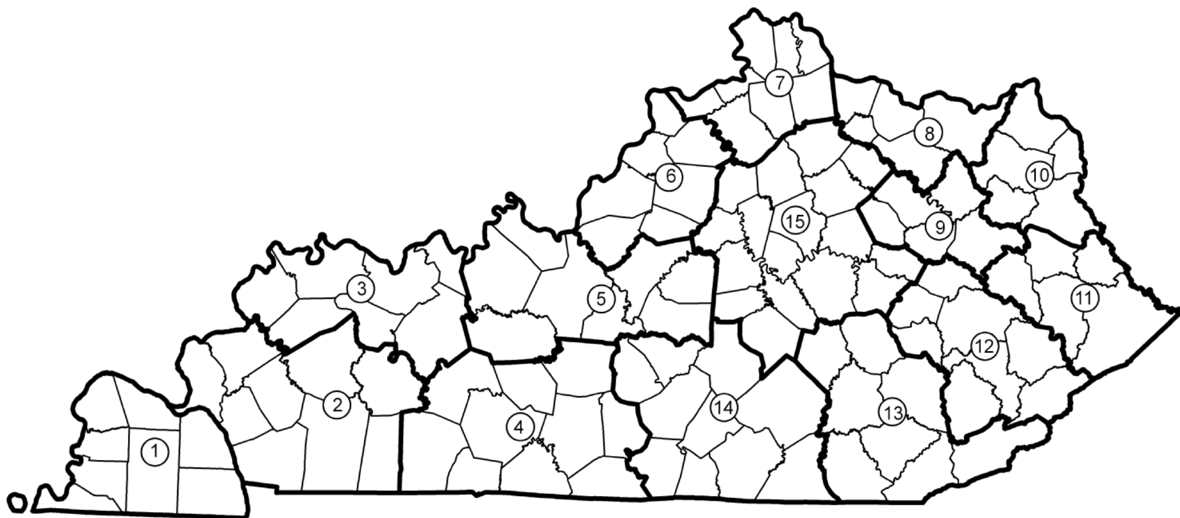
In evaluating the corporation's effectiveness in serving the areas of the state with the greatest needs, it is also important to recognize that the corporation operates within a compartmentalized system, in which most programs serve distinct populations. This situation is most evident with the income requirements for state and federal programs. Rental assistance programs emphasize the "worst case needs" populations, who are at or below 30 percent of the area median income. Housing production programs tend to target populations below 60 percent of the area median income. The mortgage programs offer a greater degree of flexibility in the income levels of families served, including moderate-income families of up to 140 percent of the area median income, depending on the geographic locations of borrowers.

# Chapter 3

## Estimating Housing Needs in Kentucky

This chapter describes how the number of families with housing costs defined as unaffordable has changed over time and how these families are geographically distributed by area development district. Staff used a methodology similar to that used by HUD to determine the families who would be eligible for housing assistance. Figure 3.A depicts Kentucky's area development districts.

**Figure 3.A**
**Kentucky's Area Development Districts**




Legend: 1 = Purchase; 2 = Pennyrile; 3 = Green River; 4 = Barren River; 5 = Lincoln Trail; 6 = KIPDA; 7 = Northern Kentucky; 8 = Buffalo Trace; 9 = Gateway; 10 = FIVCO; 11 = Big Sandy; 12 = Kentucky River; 13 = Cumberland Valley; 14 = Lake Cumberland; 15 = Bluegrass.

Data for the Buffalo Trace and Gateway Area Development Districts were combined for the purposes of statistical analysis.

In Kentucky, approximately 190,149 families have low incomes and high housing cost burdens.

Program Review staff estimate that in 2006 190,149 families in the state had low incomes and unaffordable housing cost burdens. Of these families, 95,491 rented and 94,658 owned their primary residence. The number of families with low incomes and unaffordable housing cost burdens represented approximately 17 percent of total families in the state.

The largest numbers in the state of renter and owner families with housing needs were in the KIPDA, Bluegrass, and Northern

Kentucky Area Development Districts. Low-income families with housing needs in FIVCO, Buffalo Trace/Gateway, Lake Cumberland, and Cumberland Valley represented relatively small percentages of the state's total number of families with housing needs; however, they comprised a large percentage of the total number of families in those area development districts. It would be expected then, to the extent that the corporation can direct its assistance to specific geographic areas, that these districts would receive more assistance than others in the state.

Of the total number of low-income families who rented their primary residence and had high housing cost burdens, 54 percent were headed by a female head of household with no husband present. The number of low-income single-parent households with high housing cost burdens appears to be increasing.

Most elderly families with unaffordable housing cost burdens own their primary residence.

## Defining Affordability

### Income Thresholds

The US Department of Housing and Urban Development (HUD) categorizes low-income families by percentages of the area median income. Low-income families have incomes at or below 80 percent of the area median. Very low-income families have incomes below 50 percent of the area median. Extremely low-income families have incomes at or below 30 percent of the area median. The higher income thresholds include the lower ones.

HUD describes families as "low income," "very low income," and "extremely low income" as defined by the United States Housing Act of 1937.

- Low-income families have family incomes at or below 80 percent of the area median family income.
- Very low-income families have family incomes at or below 50 percent of the area median family income.
- Extremely low-income families have family incomes at or below 30 percent of the area median family income.

The higher the threshold, the more inclusive it is. The 80 percent threshold includes the families counted at the 50 percent and 30 percent thresholds. Likewise, the 50 percent threshold includes the families counted at the 30 percent threshold.
These criteria are used in determining families' eligibility for federally funded rental assistance under the Section 8 program discussed in Chapter 4. HUD publishes area median family incomes annually for use in its programs.

### Housing Cost Thresholds

Low-income families are then distinguished by their housing cost burdens. A family has a high cost burden if more than 30 percent of the family's income pays for housing costs. A family has an extreme cost burden if more than 50 percent of the family's income pays for housing costs.

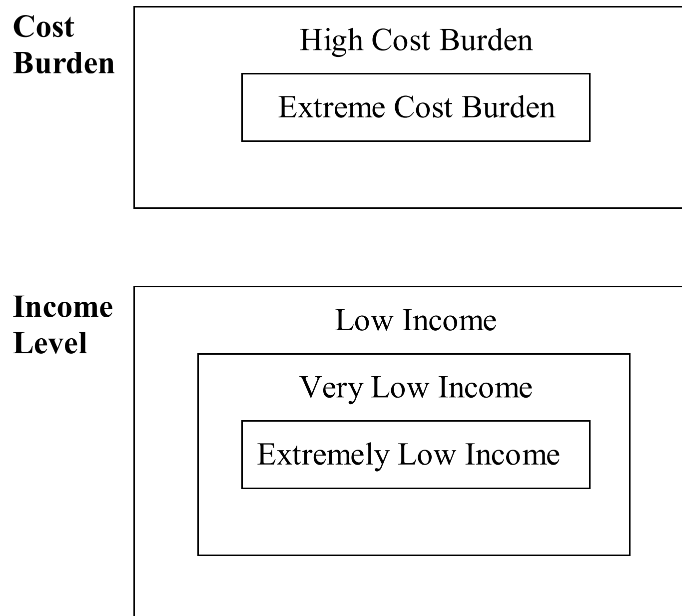
Low-, very low-, and extremely low-income families are then determined to have either high or extreme cost burdens according to the percentage of the family's income that pays for housing.

- A family has a high cost burden if more than 30 percent of the family's income pays for housing.
- A family has an extreme cost burden if more than 50 percent of the family's income pays for housing.

Families who are categorized as having an extreme cost burden are also counted in the high cost burden category. Housing costs that meet either threshold are considered unaffordable.

Figure 3.B illustrates how HUD's housing cost and income thresholds relate to each other.

**Figure 3.B**
**Inclusiveness of Income and Housing Cost Thresholds**




HUD also uses these categories in its annual report to Congress measuring the number of families with "worst case needs." Very low- and extremely low-income families using more than 50 percent of their incomes to pay for housing are considered to have worst case needs (US. Dept. of Housing. *Affordable* 7). These families are at the greatest risk of becoming homeless.

### Limitations of the Conventional Measurement Method

The limitations of defining housing needs based on income and costs have been explored in numerous studies of affordable housing. As Eric Belsky and his co-authors at the Harvard University Joint Center for Housing Studies explained in *Measuring the Nation's Rental Housing Affordability Problems*, this method of defining housing needs makes assumptions about families' preferences in deciding how much to spend on housing and the housing that is available. The following points summarize the limitations identified in that study.

HUD's measure of housing needs does not account for families' housing preferences.

**Families Make Tradeoffs in Deciding How Much To Spend on Housing.** HUD's measure of housing affordability does not account for the fact that some families will choose to pay more for housing in order to receive more benefits, such as a safer neighborhood or proximity to jobs, schools, and shopping. As a result, families who rank housing higher among their spending priorities may be classified as having unaffordable cost burdens because they choose to spend more on housing than is necessary given the family's alternatives.

On the other hand, some families may transfer some of the costs of housing to other areas of spending not accounted for in the conventional measure of affordability. For example, a family may choose to live outside a metropolitan area in order to pay less for housing. While the family pays less for housing, the cost of commuting, for example, may make that choice of housing less affordable.

HUD's measure of housing needs does not consider the quality and availability of affordable housing.

**Quality and Availability of Housing.** Providing assistance to low-income families based on their income and cost burden also assumes that quality housing would be available. In reality, the less-costly housing units may already be occupied by other families who can afford to pay more for housing but take the opportunity to pay less.

The quality of housing options available to low-income families may also affect which families are considered worst case needs. If a family can afford a particular housing option, but that option is substandard by lacking in kitchen facilities or plumbing, for example, the family would still have a housing need. By factoring only income and cost into a definition of housing needs, the other components of need are not considered.

These limitations indicate that the concept of affordability is one aspect of the more complex concept of need. Belsky and his co-authors concluded that, given the limitations of the conventional method of measuring housing affordability, the conventional method likely underestimates the actual number of families who have housing needs (v).

Although the conventional method does not account for the subjective aspects of need or the supply of housing, it does provide a way to compare families across large and geographically disparate populations while applying a uniform measure. Furthermore, the data used for this comparison are available from the decennial census and the American Community Survey administered by the US Census Bureau.

While the affordability of housing is only one aspect of the larger concept of need, this study focuses on the affordability aspect of housing needs for two reasons. First, the majority of the corporation's programs focus on providing affordable housing. Second, the federal agencies that determine how the corporation may use the majority of its resources—HUD and the Internal Revenue Service—use income and housing costs as criteria for families' eligibility to participate in rental assistance and mortgage programs. Rather than introduce a new method of defining need, this report evaluates the corporation's distribution of resources by the same measures that dictate its operations.

## Estimating the Need for Affordable Housing in Kentucky

### Past Studies

The corporation commissioned a study of housing needs in Kentucky from the University of Louisville Urban Studies Institute. The study tracked housing trends using the 1980, 1990, and 2000 decennial censuses.

The University of Louisville Urban Studies Institute submitted a *Kentucky Housing Needs Assessment: Phase I* report to the corporation in October 2001. Phase II of the report was presented in 2004 to reflect data from the 2000 decennial census as the corporation prepared its *2004-2008 Consolidated Plan*. HUD requires the corporation to submit a consolidated plan every 4 years measuring the need for affordable housing in Kentucky and detailing how the corporation intends to allocate certain federal grants it receives. The corporation factors the data provided in the assessments into policy decisions regarding the allocation of resources. The assessments compared the housing cost burdens for low-, very low-, and extremely low-income families across the 1980, 1990, and 2000 decennial censuses.

The authors' methodology attempts to replicate the methodology used by HUD in determining the populations with the most needs. One difference is how median income is calculated. HUD bases its income limits on the median family income over the last 12 months using the head of household and any members of the household over the age of 15 who are related to the head of household. The Urban Studies Institute calculates median household income over the last 12 months based on the income of the head of household and all other individuals in the household over age 15, regardless of whether they are related to the head of household. As a result, median household incomes would be higher than median family incomes. The institute's estimate of the number of Kentuckians with affordable housing using median household income would be higher than an estimate using the median family income.

According to the Urban Studies Institute, the numbers of low-income owner and renter families with unaffordable housing cost burdens were nearly equal in 2000. The number of families who owned their primary residences and had unaffordable housing cost burdens had risen 45 percent since 1990.

The institute's 2004 assessment found that the number of low-, very low-, and extremely low-income households with high cost burdens increased from 1980 to 1990 and again from 1990 to 2000. The number of low-, very low-, and extremely low-income households with extreme cost burdens also increased over the two decades. According to that report, in 2000, approximately 55 percent of low-income renters experienced high housing cost burdens, and approximately 27 percent had extreme cost burdens. Although the number of households with unaffordable housing costs had increased, these families as a percentage of all families in the state had decreased since the prior census (University. Urban. *Kentucky Housing Needs Assessment: Phase II* 48). The number of low-income owner households in 2000 had increased more than 45 percent from the prior census to nearly equal the number of renters with unaffordable housing cost burdens (xvii).

The *Kentucky Housing Needs Assessment* suggested that different conclusions could be drawn from looking at the number of low-income households with unaffordable cost burdens in each area development district in terms of absolute numbers or as percentages of the area development district's total number of households. Generally, the most populous areas in the state will have the highest count of low-income households with unaffordable housing cost burdens. By extension, these areas have the highest percentages of the state's total low-income families with unaffordable housing cost burdens. Rural counties, on the other hand, have the lowest count and generally the lowest percentages of the state's total. It is often the case, however, that low-income households with unaffordable housing cost burdens comprise a relatively large percentage of the total households in these area development districts.

According to the Urban Studies Institute report, in 2000, the area development districts with the highest ratio of low-income renter households with high cost burdens—the most inclusive measure of households with unaffordable housing costs—to each district's total renter households were Big Sandy (61.8 percent), Cumberland Valley (60.7 percent), and Barren River (59.6 percent). The area development districts with the highest percentage of the state's total low-income renter households with high cost burdens were KIPDA (25.7 percent), Bluegrass (21.5 percent), and Northern Kentucky (10.0 percent). These rankings were consistent over the prior two decades (University. Urban. *Kentucky Housing Needs Assessment: Phase II* 48, 50).

The area development districts with the highest ratio of low-income owner households with high cost burdens in 2000 were Barren River (51.4 percent), Lincoln Trail (48.7 percent), and Buffalo Trace/Gateway (47.7 percent). The area development districts with the highest percentage of the state's total low-income owner households were KIPDA (19.1 percent), Bluegrass (14.7 percent) and Cumberland Valley (8.8 percent) (University. Urban. *Kentucky Housing Needs Assessment: Phase II* 66, 68).

The Urban Studies Institute concluded that rental assistance funding did not meet the demand for assistance in 2000.

Both phases of the *Kentucky Housing Needs Assessment* suggested that rental housing assistance was inadequate relative to the number of renter households with affordability issues. The Phase II report estimated that 130,000 renter households in the state had excessive housing costs as of 2000 (University. Urban. *Kentucky Housing Needs Assessment: Phase II* 107).

**Methodology for This Study**

This Program Review and Investigations Committee report updates the information in the Urban Studies Institute's study by using data from the American Community Survey administered annually by the US Census Bureau.

This chapter builds on the University of Louisville Urban Studies Institute's analysis of housing affordability in the state. Whereas the institute used data from the last three decennial censuses, this chapter updates that information with the most recent US Census Bureau data available, which are from the American Community Survey. HUD now uses American Community Survey data as it calculates its income thresholds.

Historically, the Census Bureau's decennial census has included two questionnaires: the short form and the long form. The Census Bureau decided which households received the long form based on sampling criteria. Questions about housing-related topics were included on the long form.

The American Community Survey has replaced the long form of the decennial census and, unlike the decennial census, the Census

Bureau compiles American Community Survey data annually. The Census Bureau will still conduct a decennial census to determine the population of the United States, however.

This report cites state-level American Community Survey economic, social, demographic, and housing information since 2000. Information for Public Use Microdata Areas was first available in 2005. Public Use Microdata Areas are geographic areas designated for the collection of statistical information. They are smaller than Kentucky's area development districts, so it is possible to obtain housing information at the area development district level by aggregating Public Use Microdata Areas. The Public Use Microdata Areas did not match the Buffalo Trace and Gateway area development districts exactly, so for the purposes of statistical analysis, data on these districts were combined in this report. Because the two districts were combined in analyzing the state's housing needs, they are also combined throughout the report where the Kentucky Housing Corporation's information is provided at the area development district level.

This study estimates housing needs throughout the state by replicating much of HUD's methodology for setting Section 8 income limits for rental assistance. HUD calculates two median family incomes for each state: a median for metropolitan areas and a median for nonmetropolitan areas (US. Dept. of Housing, "Estimated" 1).

For statewide data cited in this chapter, only a statewide median family income could be calculated because the American Community Survey data were not available at the Public Use Microdata Area level from 2000 to 2004. Both metropolitan and nonmetropolitan medians were calculated when income data were provided at the area development district level.

**Table 3.1**
**Metropolitan and Nonmetropolitan Area Development Districts**

| Metropolitan | Nonmetropolitan |
|---|---|
| Green River | Purchase |
| Pennyrile | Lake Cumberland |
| Barren River | Buffalo Trace/Gateway |
| FIVCO | Big Sandy |
| Northern Kentucky | Kentucky River |
| Bluegrass | Cumberland Valley |
| Lincoln Trail | |
| KIPDA | |

Source: Prepared by Program Review staff from information obtained from the US Office of Management and Budget.

Metropolitan area development districts include at least one county that is considered by the federal Office of Management and Budget as a metropolitan county. Buffalo Trace/Gateway was considered nonmetropolitan. Buffalo Trace has one metropolitan county (Bracken County), but Gateway does not.

HUD modifies income data according to the size of the families included in its measurements, where a four-person family serves as the base for its calculations. In calculating the median family income, a modifier of 0.8 was applied to two-person families, 0.9 for three people, 1.0 for four, 1.08 for five, 1.16 for six, 1.24 for seven, and 1.32 for eight (US. Dept. of Housing. "Fiscal" 9). This modification accounts for larger families, in general, having higher expenses than smaller families. The American Community Survey data collected for this chapter include the same modifications.

Under the methodology used by HUD to determine affordability, only family-type households are included in the estimates.

HUD bases its affordability criteria on family income, so this analysis includes only family-type households. The Census Bureau defines a family-type household as a head of household (typically the person in whose name the dwelling is rented or owned) living with one or more individuals related to the head of household by birth, marriage, or adoption (US. Census. *American Community Survey 2006* 44).

The Census Bureau's definition of "income" includes income from a variety of sources:

- wage or salary income;
- net self-employment income;
- interest, dividends, or other income from estates and trusts;
- Social Security or railroad retirement income;
- Supplemental Security Income;
- welfare and other forms of public assistance; and
- retirement, survivor, or disability pensions (*American Community Survey 2006* 47).

The definition of low income does not account for a family's accumulated wealth. It is possible for a family, in this measure, to have a low income in a given year and have other resources that the family could apply to offset housing costs.

The US Census Bureau's definition of "income" is not synonymous with wealth, however. Some sources of wealth are not included in the Census Bureau's definition of income. These sources include capital gains; gains realized from selling property, unless a member of the family is in the business of selling property; in-kind payments; and lump-sum payments such as inheritances and insurance settlements (*American Community Survey 2006* 47). Thus, it is possible that a family could have relatively large amounts of such resources and still be considered low income. To the extent that such families are included in these data, the data may not suit a broader definition of need.

In determining families' housing costs for owner-occupied units, this report uses the Census Bureau's definition of "selected monthly owner costs." These costs include

- payments on all types of debt on the property, such as a first or second mortgage or home equity loan and related expenses;
- real estate property taxes;
- fire, hazard, and flood insurance;
- utilities and fuels; and
- if applicable, condominium- and mobile home-related fees (*American Community Survey 2006* 19).

Where this chapter refers to owner-occupied housing units, the category includes both homes in which there is a mortgage loan outstanding and homes that have been paid for in full.

For renter-occupied units, housing cost calculations include the Census Bureau's definition of "gross rent." Gross rent includes the contract rent paid on a unit plus utilities and fuel (*American Community Survey 2006* 9). The Census Bureau uses the actual cost of rent, regardless of whether the family pays the rent or another person or entity pays the rent on the family's behalf. This report includes only renter families who pay rent on a cash basis. This method excludes families who pay for housing with goods or services.

Public assistance is included in income calculations. Families who receive financial assistance for housing would not count as having unaffordable housing cost burdens using this measure.

Taking into account the Census Bureau's definition of income, which includes public assistance, renters who are counted as having unaffordable housing cost burdens are not currently served by a rental assistance program such as Section 8. If the family was receiving assistance, the assistance would supplement the family's income to the point at which housing became affordable. Thus, the number of families in this report who rent their primary residences and have unaffordable housing cost burdens approximates the unmet need for these programs.

However, unmet need is not an indication of the corporation's effectiveness or efficiency. The corporation has limited state and federal resources to allocate; therefore, it can only serve a limited number of families. Although the resources the corporation allocates reduce the number of families with affordable housing cost burdens, factors such as the economy, employment, and the housing market affect what families can afford. The corporation cannot control these factors.

Although the American Community Survey provides more up-to-date information than the decennial census, the survey involves a smaller sample size; therefore, it has a higher margin of error. The statistics provided in this chapter are estimates of the need for affordable housing in Kentucky. The statistics cited elsewhere in the report are actual representations of the populations served by the corporation's resources.

Low-income elderly individuals living alone and nonelderly adults with disabilities living alone are eligible for federal housing assistance but could not be estimated within a reasonable margin of error.

Some populations with housing needs could not be estimated with the American Community Survey data. Federal rental assistance serves certain types of nonfamily households, namely elderly individuals living alone and nonelderly adults living alone who have disabilities. The sample sizes for these populations were too small to estimate within a reasonable margin of error. These individuals are not included in the tables that follow.

A 2005 study estimated there were 19,411 homeless individuals in Kentucky at that time.

Homeless individuals are not counted in the American Community Survey. A report from the Kentucky Council on Homeless Policy estimated that there were 19,411 homeless persons in the state in 2005, of whom 2,470 were chronically homeless (3).

### Unaffordable and Inadequate Housing at the State Level

Of the more than 1.1 million family-type households in Kentucky in 2006, 22.4 percent rented, and 77.6 percent owned their primary residences. The numbers of families in both categories have remained relatively consistent since 2000.

Table 3.2 shows the total number of families in the state who rent and the number who own their primary residences. The numbers of families in both categories have remained relatively consistent since 2000. In 2006, 22.4 percent of families in the state rented, and 77.6 percent owned their primary residences.

**Table 3.2**
**Family-type Households in Kentucky by Type of Residence**
**2000 to 2006**

| Year | Renters | Owners | Total |
|---|---|---|---|
| 2000 | 249,000 | 854,000 | 1,103,000 |
| 2001 | 240,511 | 856,613 | 1,097,124 |
| 2002 | 251,899 | 862,632 | 1,114,531 |
| 2003 | 265,831 | 857,593 | 1,123,424 |
| 2004 | 270,811 | 871,470 | 1,142,281 |
| 2005 | 252,400 | 861,139 | 1,113,539 |
| 2006 | 247,159 | 858,114 | 1,105,273 |

Source: US. Census. American. "Public."

Table 3.3 shows the statewide median family incomes used in determining the number of families with unaffordable housing cost burdens from 2000 to 2006. The statewide median family income increased 23.6 percent over this period.

**Table 3.3**
**Kentucky Median Family Income**
**2000 to 2006**

| Year | Income |
|---|---|
| 2000 | $36,000 |
| 2001 | 35,380 |
| 2002 | 36,800 |
| 2003 | 36,000 |
| 2004 | 37,870 |
| 2005 | 42,120 |
| 2006 | 44,480 |

Source: US. Census. American. "Public."

The following series of tables begins with the number of low-income families with unaffordable cost burdens and then narrows in focus to families with the lowest income levels and greatest housing cost burdens.

The number of low-income families with high housing cost burdens has increased since 2000.

Table 3.4 shows the number of low-income families—those at or below 80 percent of the median family income—with high housing cost burdens—30 percent or more of the family's income pays for housing. The numbers of both low-income renter and owner families with high housing cost burdens have increased since 2000. The number of low-income renters with unaffordable housing cost burdens, however, has increased at a faster pace.

**3.4**
**Low-income Families in Kentucky With High Housing Cost Burdens**
**2000 to 2006**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| Renters | 76,500 | 79,230 | 77,829 | 89,119 | 99,922 | 94,688 | 95,491 |
| (% of Total Renter Families) | 30.7% | 32.9% | 30.9% | 33.5% | 36.9% | 37.5% | 38.6% |
| Owners | 90,000 | 85,706 | 86,355 | 89,516 | 89,092 | 96,216 | 94,658 |
| (% of Total Owner Families) | 10.5% | 10.0% | 10.0% | 10.4% | 10.2% | 11.2% | 11.0% |
| Total Renters and Owners | 166,500 | 164,936 | 164,184 | 178,635 | 189,014 | 190,904 | 190,149 |

Source: US. Census. American. "Public."

The number of low-income renters who have extreme housing cost burdens is increasing.

The *Kentucky Housing Needs Assessment: Phase II* indicated that the number of low-income renters and the number of low-income owners with high housing cost burdens were nearly equal. The data above suggest that situation has not changed since 2000.

Table 3.5 shows the number of low-income families in the state with extreme housing cost burden—50 percent or more of the family's income pays for housing. The number of renters in this category is increasing, and the number of owners in this category is lower than in 2000. The number of renters in this category comprises approximately one-fifth of the total renters in the state.

**Table 3.5**
**Low-income Families in Kentucky With Extreme Housing Cost Burdens**
**2000 to 2006**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| Renters<br>(% of Total Renter Families) | 42,500<br>17.1% | 43,169<br>17.9% | 37,492<br>14.9% | 47,895<br>18.0% | 53,713<br>19.8% | 51,282<br>20.3% | 51,237<br>20.7% |
| Owners<br>(% of Total Owner Families) | 45,000<br>5.3% | 42,285<br>4.9% | 42,122<br>4.9% | 42,938<br>5.0% | 43,999<br>5.0% | 46,785<br>5.4% | 42,890<br>5.0% |
| Total Renters and Owners | 87,500 | 85,454 | 79,614 | 90,833 | 97,712 | 98,067 | 94,127 |

Source: US. Census. American. "Public."

Table 3.6 shows the number of very low-income families—families at or below 50 percent of the median family income—with high housing cost burdens. Again, the number of renters in this category is increasing, and the number of owners is decreasing.

**Table 3.6**
**Very Low-income Families in Kentucky With High Housing Cost Burdens**
**2000 to 2006**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| Renters<br>(% of Total Renter Families) | 67,000<br>26.9% | 61,000<br>25.4% | 60,667<br>24.1% | 74,978<br>28.2% | 82,402<br>30.4% | 80,483<br>31.9% | 78,813<br>31.9% |
| Owners<br>(% of Total Owner Families) | 59,000<br>6.9% | 52,967<br>6.2% | 53,906<br>6.2% | 54,292<br>6.3% | 56,511<br>6.5% | 58,984<br>6.8% | 56,364<br>6.6% |
| Total Renters and Owners | 126,000 | 113,967 | 114,573 | 129,270 | 138,913 | 139,467 | 135,177 |

Source: US. Census. American. "Public."

Most low-income families with unaffordable housing cost burdens are at the lowest income levels.

Table 3.7 shows the number of very low-income families with extreme housing cost burdens. These data suggest that most of the low-income families with unaffordable housing costs are families at the lowest income levels.

**Table 3.7**
**Very Low-income Families in Kentucky With Extreme Housing Cost Burdens**
**2000 to 2006**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| Renters | 42,000 | 41,158 | 36,849 | 46,386 | 52,641 | 49,645 | 49,461 |
| (% of Total Renter Families) | 16.9% | 17.1% | 14.6% | 17.4% | 19.4% | 19.7% | 20.0% |
| Owners | 38,500 | 34,040 | 32,850 | 32,868 | 35,876 | 37,824 | 32,989 |
| (% of Total Owner Families) | 4.5% | 4.0% | 3.8% | 3.8% | 4.1% | 4.4% | 3.8% |
| Total Renters and Owners | 80,500 | 75,198 | 69,699 | 79,254 | 88,517 | 87,469 | 82,450 |

Source: US. Census. American. "Public."

Table 3.8 shows the number of extremely low-income families—those at or below 30 percent of the median family income—with high housing cost burdens. These families are at the lowest end of the range of incomes considered as having a need for affordable housing. Nearly 20 percent of families in the state that rent their primary residence fall into this category, compared to 3.3 percent who own.

**Table 3.8**
**Extremely Low-income Families in Kentucky With High Housing Cost Burdens**
**2000 to 2006**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| Renters | 41,500 | 38,466 | 38,285 | 45,177 | 46,826 | 51,274 | 49,114 |
| (% of Total Renter Families) | 16.7% | 16.0% | 15.2% | 17.0% | 17.3% | 20.3% | 19.9% |
| Owners | 38,000 | 24,891 | 26,596 | 29,295 | 28,747 | 32,713 | 28,741 |
| (% of Total Owner Families) | 4.4% | 2.9% | 3.1% | 3.4% | 3.3% | 3.8% | 3.3% |
| Total Renters and Owners | 79,500 | 63,357 | 64,881 | 74,472 | 75,573 | 83,987 | 77,855 |

Source: US. Census. American. "Public."

Table 3.9 shows the number of families with the worst case housing needs. These families have extremely low incomes and extreme housing cost burdens. Again, a larger percentage of renters, 15.8 percent, are in this category, compared to owners at 2.4 percent.

**Table 3.9**
**Extremely Low-income Families in Kentucky With Extreme Cost Burdens**
**2000 to 2006**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| Renters | 33,000 | 31,772 | 28,988 | 36,133 | 39,185 | 41,012 | 39,166 |
| (% of Total Renter Families) | 13.3% | 13.2% | 11.5% | 13.6% | 14.5% | 16.2% | 15.8% |
| Owners | 29,500 | 18,567 | 20,414 | 21,299 | 22,909 | 24,623 | 20,403 |
| (% of Total Owner Families) | 3.5% | 2.2% | 2.4% | 2.5% | 2.6% | 2.9% | 2.4% |
| Total Renters and Owners | 62,500 | 50,339 | 49,402 | 57,432 | 62,094 | 65,635 | 59,569 |

Source: US. Census. American. "Public."

Similar numbers of low-income renter and owner families have unaffordable housing cost burdens, but a greater number of renters have worst-case needs.

The statewide data from 2000 to 2006 indicate that, while similar numbers of low-income renter and low-income owner families have high housing cost burdens, more renters have what are considered worst case needs.

**Elderly Families**

The corporation has some programs that target elderly families in particular. The following tables depict the number of elderly families in the state who have unaffordable housing cost burdens.

Most elderly families in Kentucky own their own homes.

Table 3.10 shows the number of elderly families in the state who rent and the number who own their primary residences. In 2006, approximately 8 percent of elderly families rented their homes and approximately 92 percent owned their homes. The number of elderly families who rented their homes decreased from 2000 to 2006, and the number who owned their homes increased.

**Table 3.10**
**Elderly Family-type Households in Kentucky by Type of Residence**
**2000 to 2006**

| Year | Renters | Owners | Total |
|---|---|---|---|
| 2000 | 21,000 | 228,000 | 249,000 |
| 2001 | 17,203 | 221,325 | 238,528 |
| 2002 | 17,104 | 220,634 | 237,738 |
| 2003 | 17,643 | 230,768 | 248,411 |
| 2004 | 20,954 | 238,357 | 259,311 |
| 2005 | 18,497 | 226,095 | 244,592 |
| 2006 | 17,201 | 241,706 | 258,907 |

Source: US. Census. American. "Public."

Table 3.11 shows the number of elderly renter families in the state with unaffordable housing cost burdens. There are relatively few low-income elderly renter families with extreme housing cost burdens compared to those with high housing cost burdens.

**Table 3.11**
**Elderly Families in Kentucky Who Rent With Unaffordable Housing Cost Burdens**
**2000 to 2006**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| Low Income With High Cost Burden | 7,500 | 4,905 | 4,157 | 6,424 | 7,356 | 7,090 | 8,115 |
| Low Income With Extreme Cost Burden | 1,000 | 1,889 | 1,041 | 1,624 | 1,853 | 2,079 | 2,309 |
| Very Low Income With High Cost Burden | 7,000 | 3,645 | 3,516 | 4,904 | 5,655 | 5,554 | 5,823 |
| Very Low Income With Extreme Cost Burden | 1,000 | 1,508 | 1,041 | 1,298 | 1,853 | 1,627 | 2,036 |
| Extremely Low Income With High Cost Burden | 1,500 | 2,024 | 1,355 | 1,837 | 2,427 | 1,943 | 1,966 |
| Extremely Low Income With Extreme Cost Burden | 1,000 | 1,214 | 667 | 852 | 473 | 797 | 1,367 |

Source: US. Census. American. "Public."

Most of the elderly families in the state with unaffordable housing cost burdens own their own homes.

Table 3.12 shows the number of low-income elderly families in the state who own their homes and have unaffordable housing cost burdens. The number of elderly households who own and have unaffordable housing cost burdens is greater than the number of similarly situated elderly households who rent, but this is likely because the majority of elderly families in the state own their homes.

**Table 3.12**
**Elderly Families in Kentucky Who Own With Unaffordable Housing Cost Burdens**
**2000 to 2006**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| Low Income With High Cost Burden | 23,500 | 22,544 | 21,970 | 22,378 | 21,569 | 23,202 | 26,308 |
| Low Income With Extreme Cost Burden | 9,500 | 10,539 | 9,453 | 9,946 | 8,688 | 9,473 | 10,001 |
| Very Low Income With High Cost Burden | 15,000 | 15,755 | 14,276 | 15,932 | 14,592 | 14,346 | 16,678 |
| Very Low Income With Extreme Cost Burden | 8,500 | 8,928 | 7,806 | 7,926 | 7,200 | 7,446 | 7,609 |
| Extremely Low Income With High Cost Burden | 11,500 | 7,387 | 7,109 | 7,937 | 6,513 | 6,863 | 7,992 |
| Extremely Low Income With Extreme Cost Burden | 8,000 | 4,441 | 4,607 | 4,517 | 4,034 | 4,035 | 4,263 |

Source: US. Census. American. "Public."

These data suggest that assistance directed at elderly families might best be oriented toward offsetting selected monthly owner costs rather than toward rental assistance. The corporation does direct some of the mortgage resources it has available that are not restricted to first-time homebuyers to elderly households that need to reduce their housing costs.

### Single-parent Families

Since 2000, the number of single-parent families who rent increased by more than 30,000, and the number who own their primary residences increased by more than 10,000.

Table 3.13 shows how many single-parent families in the state rent and how many own their primary residences. Since 2000, both the number of single-parent families who rent and the number who own their primary residences have increased.

**Table 3.13**
**Single-parent Family-type Households in Kentucky by Housing Tenure 2000 to 2006**

| Year | Total Renters | Total Owners | Total Renters and Owners |
|---|---|---|---|
| 2000 | 113,500 | 138,000 | 251,500 |
| 2001 | 105,287 | 131,539 | 236,826 |
| 2002 | 121,286 | 144,190 | 265,476 |
| 2003 | 122,957 | 138,398 | 261,355 |
| 2004 | 126,134 | 143,597 | 269,731 |
| 2005 | 117,164 | 145,791 | 262,955 |
| 2006 | 145,791 | 148,639 | 294,430 |

Source: US. Census. American. “Public.”

Among low-income family-type households with unaffordable housing cost burdens, the largest group is female heads of household with no husband present.

Table 3.14 shows the number of single-parent families who rent their homes and have unaffordable housing cost burdens. Of the total number of low-income renter families in the state with unaffordable cost burdens, single-parent families are the largest group, particularly single-parent families with a female head of household. Of the total low-income renter families with high housing cost burdens in the state, approximately 57 percent had a female head of household with no husband present.

The table indicates that the number of low-income single-parent renter families with high housing cost burdens has grown from 52,500 in 2000 to 65,421 in 2006. Nearly half of those families fall into the worst needs category.

**Table 3.14**
**Single-parent Families in Kentucky Who Rent With Unaffordable Housing Cost Burdens**
**2000 to 2006**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| Low Income With High Cost Burden | 52,500 | 55,111 | 52,228 | 59,859 | 64,740 | 61,187 | 65,421 |
| Low Income With Extreme Cost Burden | 34,000 | 31,734 | 27,543 | 33,183 | 38,436 | 35,146 | 37,321 |
| Very Low Income With High Cost Burden | 49,500 | 43,189 | 41,691 | 51,009 | 55,272 | 53,534 | 55,658 |
| Very Low Income With Extreme Cost Burden | 33,500 | 29,921 | 27,262 | 32,342 | 37,704 | 34,827 | 36,764 |
| Extremely Low Income With High Cost Burden | 31,500 | 26,983 | 29,092 | 31,896 | 34,884 | 36,428 | 36,089 |
| Extremely Low Income With Extreme Cost Burden | 24,500 | 22,515 | 23,589 | 25,235 | 29,810 | 29,606 | 28,565 |

Source: US. Census. American. "Public."

The number of low-income single-parent families who have unaffordable housing cost burdens appears to be increasing.

Table 3.15 shows the number of low-income single-parent families who own their primary residences and have unaffordable housing cost burdens. The number of low-income single-parent families who own their homes and have affordability issues is lower than those who rent their homes, but this group does appear to be increasing. The corporation gives priority to single-parent families in both the corporation's rental assistance and mortgage programs.

**Table 3.15**
**Single-parent Families in Kentucky Who Own With Unaffordable Housing Cost Burdens**
**2000 to 2006**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| Low Income With High Cost Burden | 30,500 | 32,181 | 32,847 | 31,680 | 34,615 | 37,343 | 36,459 |
| Low Income With Extreme Cost Burden | 15,500 | 14,820 | 17,795 | 15,389 | 19,962 | 20,735 | 18,654 |
| Very Low Income With High Cost Burden | 21,000 | 20,524 | 22,391 | 21,834 | 24,630 | 25,374 | 25,585 |
| Very Low Income With Extreme Cost Burden | 14,000 | 12,523 | 14,822 | 12,856 | 16,815 | 17,837 | 16,144 |
| Extremely Low Income With High Cost Burden | 12,500 | 9,499 | 12,954 | 14,136 | 14,171 | 15,995 | 15,108 |
| Extremely Low Income With Extreme Cost Burden | 10,500 | 6,622 | 9,966 | 9,522 | 12,138 | 12,000 | 10,985 |

Source: US. Census. American. "Public."

Table 3.16 does not apply directly to affordability issues, but it does apply to housing needs in general. This table shows the number of occupied housing units in the state in 2006 that lack some basic facilities, including complete plumbing and kitchen facilities, and access to telephone service.

**Table 3.16**
**Occupied Housing Units in Kentucky Lacking Basic Facilities**
**2006**

| | Units | Percent of Total |
|---|---|---|
| Complete Plumbing Facilities | 1,640,733 | 99.3% |
| Incomplete Plumbing Facilities | 11,178 | 0.7 |
| Complete Kitchen Facilities | 1,642,876 | 99.5 |
| Incomplete Kitchen Facilities | 9,035 | 0.5 |
| Telephone in Unit | 1,518,412 | 91.9 |
| No Telephone in Unit | 133,499 | 8.1 |
| Total | 1,651,911 | |

Source: US. Census. American. "Public."

More than 99 percent of housing units in the state have complete plumbing and kitchen facilities and more than 90 percent have telephone service.

The Census Bureau describes a housing unit as having complete kitchen facilities when it has a sink with piped water, a range or cook top and an oven, and a refrigerator. A housing unit has complete plumbing facilities when it has hot and cold piped water, a flush toilet, and a bathtub or shower. A housing unit has telephone service available if it has a telephone in the house that occupants can use to make and receive calls. If the telephone service has been suspended, because the occupants did not pay the bill for service, for example, the unit does not have telephone service (US. Census. *American Community Survey 2006* 12, 16, and 20). Most of the housing units in the state have these standard facilities.

### Housing Needs by Area Development District

The statistics in this section provide a snapshot of housing needs in the different areas of the state in 2006. As American Community Survey data are made available at the level of Public Use Microdata Area, it will be possible to analyze trends for how housing needs are changing in these areas.

Table 3.17 shows the total number of families who rent and own their primary residence by area development district. More families own than rent their homes in every area development district.

**Table 3.17**
**Family-type Households Per Area Development District by Type of Residence**
**2006**

| Area Development District | Renters | Owners | Total |
|---|---|---|---|
| Purchase | 10,605 | 44,065 | 54,670 |
| Pennyrile | 15,593 | 43,234 | 58,827 |
| Green River | 11,349 | 46,411 | 57,760 |
| Barren River | 16,066 | 54,933 | 70,999 |
| Lincoln Trail | 16,390 | 50,749 | 67,139 |
| KIPDA | 53,138 | 179,890 | 233,028 |
| Northern Kentucky | 21,263 | 86,626 | 107,889 |
| Buffalo Trace/Gateway | 7,341 | 28,479 | 35,820 |
| FIVCO | 6,531 | 29,589 | 36,120 |
| Big Sandy | 9,101 | 34,959 | 44,060 |
| Kentucky River | 5,407 | 23,457 | 28,864 |
| Cumberland Valley | 13,728 | 49,459 | 63,187 |
| Lake Cumberland | 11,724 | 43,558 | 55,282 |
| Bluegrass | 48,923 | 142,705 | 191,628 |
| Kentucky | 247,159 | 858,114 | 1,105,273 |

Source: US. Census. American. “Public.”

Different median incomes were used for metropolitan and nonmetropolitan area development districts.

In 2006, the median income for metropolitan area development districts was $45,070. The median income for nonmetropolitan area development districts was $31,760. These medians were used in determining whether a family meets HUD’s income thresholds. They are adjusted based on family size.

### Families Who Rent Their Primary Residences

The highest concentrations of low-income families who rent their primary residences and have high cost burdens are in the KIPDA, Bluegrass, and Northern Kentucky Area Development Districts.

Table 3.18 shows the number of low-income renter families with high housing cost burdens by area development district in 2006. Of the 96,204 low-income renter families in the state with unaffordable housing costs, the largest concentrations are in KIPDA (24,010), Bluegrass (18,818), and Northern Kentucky (9,962). However, the number of renters in this category as a percentage of total renters in each area development district is highest in FIVCO (59.6 percent), Northern Kentucky (46.9 percent), and KIPDA (45.2 percent).

**Table 3.18**
**Low-income Families Who Rent With High Housing Cost Burdens by Area Development District 2006**

| Area Development District | Families | % State | % District |
|---|---|---|---|
| Purchase | 3,888 | 4.0% | 36.7% |
| Pennyrile | 3,868 | 4.0 | 24.8 |
| Green River | 2,918 | 3.0 | 25.7 |
| Barren River | 5,606 | 5.8 | 34.9 |
| Lincoln Trail | 5,611 | 5.8 | 34.2 |
| KIPDA | 24,010 | 25.0 | 45.2 |
| Northern Kentucky | 9,962 | 10.4 | 46.9 |
| Buffalo Trace/Gateway | 3,058 | 3.2 | 41.7 |
| FIVCO | 3,894 | 4.0 | 59.6 |
| Big Sandy | 2,844 | 3.0 | 31.2 |
| Kentucky River | 1,507 | 1.6 | 27.9 |
| Cumberland Valley | 5,418 | 5.6 | 39.5 |
| Lake Cumberland | 4,802 | 5.0 | 41.0 |
| Bluegrass | 18,818 | 19.6 | 38.5 |
| Kentucky | 96,204 | 100.0% | |

Note: % State is the number of families in the area development district in this category as a percentage of all renter families in the state in the same category. % State may not add to 100.0 percent due to rounding. % District is the number of families in the area development district in this category as a percentage of the total renter families in the district.
Source: US. Census. American. “Public.”

In comparing these data with the *Kentucky Housing Needs Assessment*, it appears that the population of renters with affordability issues in the metropolitan area development districts has increased as a percentage of the total renters in these districts.

The same area development districts have the largest concentrations of renter families with extreme cost burdens. In Buffalo Trace/Gateway and Lake Cumberland, a large percentage of the families have extreme cost burdens.

Table 3.19 shows the number of low-income renter families with extreme cost burdens by area development district in 2006. Again, the largest numbers of renters in this category are in the most populous area development districts: KIPDA (13,189), Bluegrass (9,883), and Northern Kentucky (5,519). The districts with the largest number of renter families in this category as a percentage of the district's total renter families are Buffalo Trace/Gateway (29.3 percent), Lake Cumberland (26.7 percent), and Northern Kentucky (26.0 percent). Pennyrile (8.0 percent) and Barren River (11.2 percent) are lowest.

**Table 3.19**
**Low-income Families Who Rent With**
**Extreme Housing Cost Burdens by Area Development District**
**2006**

| Area Development District | Families | % State | % District |
|---|---|---|---|
| Purchase | 2,182 | 4.3% | 20.6% |
| Pennyrile | 1,246 | 2.4 | 8.0 |
| Green River | 1,870 | 3.6 | 16.5 |
| Barren River | 1,796 | 3.5 | 11.2 |
| Lincoln Trail | 3,295 | 6.4 | 20.1 |
| KIPDA | 13,189 | 25.7 | 24.8 |
| Northern Kentucky | 5,519 | 10.8 | 26.0 |
| Buffalo Trace/Gateway | 2,151 | 4.2 | 29.3 |
| FIVCO | 1,675 | 3.3 | 25.6 |
| Big Sandy | 1,177 | 2.3 | 12.9 |
| Kentucky River | 1,308 | 2.6 | 24.2 |
| Cumberland Valley | 2,868 | 5.6 | 20.9 |
| Lake Cumberland | 3,128 | 6.1 | 26.7 |
| Bluegrass | 9,833 | 19.2 | 20.1 |
| Kentucky | 51,237 | 100.0% | |

Note: % State is the number of families in the area development district in this category as a percentage of all renter families in the state in the same category. % State may not add to 100.0 percent due to rounding. % District is the number of families in the area development district in this category as a percentage of the total renter families in the district.
Source: US. Census. American. "Public."

For low-income families with high and extreme cost burdens, the Northern Kentucky Area Development District is among the highest ranked in terms of need, whether it is in terms of population or as a percentage of the total revenues in the district.

The largest numbers of renters who are very low income with high housing cost burdens are in the most populous area development districts. As a percentage of the total renters in each district, FIVCO, Buffalo Trace/Gateway, and KIPDA are highest.

Table 3.20 shows the number of very low-income renter families with high housing cost burdens by area development district in 2006. The largest numbers of renters in this category are in the most populous area development districts. As a percentage of the total renters in each district, FIVCO (51.8 percent), Buffalo Trace/Gateway (39.3 percent), and KIPDA (39.1 percent) are highest. Pennyrile remains relatively lower than the other districts.

**Table 3.20**
**Very Low-income Families Who Rent With**
**High Housing Cost Burdens by Area Development District**
**2006**

| Area Development District | Families | % State | % District |
|---|---|---|---|
| Purchase | 3,189 | 4.0% | 30.1% |
| Pennyrile | 2,792 | 3.5 | 17.9 |
| Green River | 2,704 | 3.4 | 23.8 |
| Barren River | 4,834 | 6.0 | 30.1 |
| Lincoln Trail | 4,453 | 5.6 | 27.2 |
| KIPDA | 20,761 | 25.9 | 39.1 |
| Northern Kentucky | 7,650 | 9.6 | 36.0 |
| Buffalo Trace/Gateway | 2,888 | 3.6 | 39.3 |
| FIVCO | 3,380 | 4.2 | 51.8 |
| Big Sandy | 2,513 | 3.1 | 27.6 |
| Kentucky River | 1,507 | 1.9 | 27.9 |
| Cumberland Valley | 4,467 | 5.6 | 32.5 |
| Lake Cumberland | 3,993 | 5.0 | 34.1 |
| Bluegrass | 14,875 | 18.6 | 30.4 |
| Kentucky | 80,006 | 100.0% | |

Note: % State is the number of families in the area development district in this category as a percentage of all renter families in the state in the same category. % State may not add to 100.0 percent due to rounding. % District is the number of families in the area development district in this category as a percentage of the total renter families in the district.
Source: US. Census. American. “Public.”

Table 3.21 shows the number of very low-income renter families with extreme housing cost burdens in 2006. The highest numbers of renters in this category are in the KIPDA, Bluegrass, and Northern Kentucky Area Development Districts. As a percentage of the total renters in each area development district, Buffalo Trace/Gateway, FIVCO, and KIPDA are highest.

**Table 3.21**
**Very Low-income Families Who Rent With**
**Extreme Housing Cost Burdens by Area Development District**
**2006**

| Area Development District | Families | % State | % District |
|---|---|---|---|
| Purchase | 2,182 | 4.4% | 20.6% |
| Pennyrile | 1,246 | 2.5 | 8.0 |
| Green River | 1,870 | 3.7 | 16.5 |
| Barren River | 1,732 | 3.5 | 10.8 |
| Lincoln Trail | 3,192 | 6.4 | 19.5 |
| KIPDA | 12,988 | 26.0 | 24.4 |
| Northern Kentucky | 5,120 | 10.3 | 24.1 |
| Buffalo Trace/Gateway | 2,151 | 4.3 | 29.3 |
| FIVCO | 1,675 | 3.4 | 25.6 |
| Big Sandy | 1,025 | 2.1 | 11.3 |
| Kentucky River | 1,308 | 2.6 | 24.2 |
| Cumberland Valley | 2,868 | 5.7 | 20.9 |
| Lake Cumberland | 2,827 | 5.7 | 24.1 |
| Bluegrass | 9,764 | 19.5 | 20.0 |
| Kentucky | 49,948 | 100.0% | |

Note: % State is the number of families in the area development district in this category as a percentage of all renter families in the state in the same category. % State may not add to 100.0 percent due to rounding. % District is the number of families in the area development district in this category as a percentage of the total renter families in the district.
Source: US. Census. American. "Public."

Table 3.22 shows extremely low-income renter families with high housing cost burdens by area development district in 2006. As a percentage of total renters in each district, the highest were FIVCO (36.5 percent), Buffalo Trace/Gateway (32.1 percent), and Lake Cumberland (25.3 percent).

**Table 3.22**
**Extremely Low-income Families Who Rent With High Housing Cost Burdens by Area Development District 2006**

| Area Development District | Families | % State | % District |
|---|---|---|---|
| Purchase | 1,920 | 4.0% | 18.1% |
| Pennyrile | 1,550 | 3.2 | 9.9 |
| Green River | 2,279 | 4.8 | 20.1 |
| Barren River | 2,782 | 5.8 | 17.3 |
| Lincoln Trail | 2,563 | 5.3 | 15.6 |
| KIPDA | 11,952 | 24.9 | 22.5 |
| Northern Kentucky | 3,935 | 8.2 | 18.5 |
| Buffalo Trace/Gateway | 2,357 | 4.9 | 32.1 |
| FIVCO | 2,382 | 5.0 | 36.5 |
| Big Sandy | 1,536 | 3.2 | 16.9 |
| Kentucky River | 1,071 | 2.2 | 19.8 |
| Cumberland Valley | 2,754 | 5.7 | 20.1 |
| Lake Cumberland | 2,964 | 6.2 | 25.3 |
| Bluegrass | 7,873 | 16.4 | 16.1 |
| Kentucky | 47,918 | 100.0% | |

Note: % State is the number of families in the area development district in this category as a percentage of all renter families in the state in the same category. % State may not add to 100.0 percent due to rounding. % District is the number of families in the area development district in this category as a percentage of the total renter families in the district.
Source: US. Census. American. "Public."

KIPDA, Bluegrass, and Northern Kentucky have the highest concentration of renter families with worst-case housing needs.

Table 3.23 shows the renter families with the worst-case needs by area development district. KIPDA, Bluegrass, and Northern Kentucky have the largest number of families in this category. As a percentage of the total renters in the area development district, Buffalo Trace/Gateway, FIVCO, and Lake Cumberland are highest. More than a quarter of the families who rent their homes in Buffalo Trace/Gateway have worst-case housing needs.

**Table 3.23**
**Extremely Low-income Families Who Rent With Extreme Housing Cost Burdens by Area Development District 2006**

| Area Development District | Families | % State | % District |
|---|---|---|---|
| Purchase | 1,663 | 4.3% | 15.7% |
| Pennyrile | 1,246 | 3.2 | 8.0 |
| Green River | 1,779 | 4.6 | 15.7 |
| Barren River | 1,328 | 3.4 | 8.3 |
| Lincoln Trail | 2,169 | 5.6 | 13.2 |
| KIPDA | 10,658 | 27.6 | 20.1 |
| Northern Kentucky | 3,372 | 8.7 | 15.9 |
| Buffalo Trace/Gateway | 2,041 | 5.3 | 27.8 |
| FIVCO | 1,588 | 4.1 | 24.3 |
| Big Sandy | 738 | 1.9 | 8.1 |
| Kentucky River | 946 | 2.5 | 17.5 |
| Cumberland Valley | 2,353 | 6.1 | 17.1 |
| Lake Cumberland | 2,493 | 6.5 | 21.3 |
| Bluegrass | 6,181 | 16.0 | 12.6 |
| Kentucky | 38,555 | 100.0% | |

Note: % State is the number of families in the area development district in this category as a percentage of all renter families in the state in the same category. % State may not add to 100.0 percent due to rounding. % District is the number of families in the area development district in this category as a percentage of the total renter families in the district.
Source: US. Census. American. "Public."

It appears that the most populous area development districts have the largest numbers of renter families with affordability issues and the largest numbers of families with worst-case needs. Some area development districts in eastern Kentucky, such as FIVCO and Lake Cumberland, have the largest percentages of renters who have affordability issues.

It appears that the most populous area development districts have the largest numbers of renter families with affordability issues and the largest numbers of families with worst-case needs. If the objective of providing rental assistance is to serve the most families with worst-case needs, the corporation might best direct a relatively greater amount of its resources for this purpose to these areas. On the other hand, some area development districts in eastern Kentucky, such as FIVCO and Lake Cumberland, have the largest percentages of renters who have affordability issues. These areas might also benefit from a relatively greater amount of rental assistance. It might be more difficult logistically to provide affordable multifamily rental assistance in these areas, which have less dense populations than districts like KIPDA and Bluegrass.

Overall, renter families in western Kentucky seem to have the least affordability issues.

### Families Who Own Their Primary Residences

KIPDA, Bluegrass, and Northern Kentucky Area Development Districts have the highest numbers of low-income owner families with high housing cost burdens. As a percentage of families who own their primary residences, Buffalo Trace/Gateway, Lincoln Trail, and Cumberland Valley are highest.

Table 3.24 shows the number of low-income owner families with high housing cost burdens by area development district in 2006. KIPDA (19,849), Bluegrass (14,753), and Northern Kentucky (10,001) have the highest numbers of families in this category. As a percentage of families who own their primary residences, Buffalo Trace/Gateway (15.8 percent), Lincoln Trail (14.7 percent), and Cumberland Valley (13.5 percent) are highest.

**Table 3.24**
**Low-income Families Who Own With**
**High Housing Cost Burdens by Area Development District**
**2006**

| Area Development District | Families | % State | % District |
|---|---|---|---|
| Purchase | 4,474 | 4.6% | 10.2% |
| Pennyrile | 3,444 | 3.5 | 8.0 |
| Green River | 6,046 | 6.2 | 13.0 |
| Barren River | 6,246 | 6.4 | 11.4 |
| Lincoln Trail | 7,448 | 7.6 | 14.7 |
| KIPDA | 19,849 | 20.3 | 11.0 |
| Northern Kentucky | 10,001 | 10.2 | 11.5 |
| Buffalo Trace/Gateway | 4,499 | 4.6 | 15.8 |
| FIVCO | 3,666 | 3.8 | 12.4 |
| Big Sandy | 3,027 | 3.1 | 8.7 |
| Kentucky River | 2,305 | 2.4 | 9.8 |
| Cumberland Valley | 6,692 | 6.9 | 13.5 |
| Lake Cumberland | 5,235 | 5.4 | 12.0 |
| Bluegrass | 14,753 | 15.1 | 10.3 |
| Kentucky | 97,685 | 100.0% | |

Note: % State is the number of families in the area development district in this category as a percentage of all owner families in the state in the same category. % State may not add to 100.0 percent due to rounding. % District is the number of families in the area development district in this category as a percentage of the total owner families in the district.
Source: US. Census. American. "Public."

It is still the case that the numbers of low-income renter and owner families with unaffordable housing cost burdens are approximately equal.

The total number of low-income owner families with affordability issues is close to the number of low-income renter families with affordability issues. These data appear to confirm the same finding as in the *Kentucky Housing Needs Assessment*. More families in the state own their homes, however, so a higher percentage of renters have affordability issues.

Table 3.25 shows the number of low-income families with extreme housing cost burdens by area development district in 2006. The largest numbers of families in this category are in KIPDA, Bluegrass, and Northern Kentucky. As a percentage of the total owner families in each district, the districts fall within a close range of one another.

**Table 3.25**
**Low-income Families Who Own With**
**Extreme Housing Cost Burdens by Area Development District**
**2006**

| Area Development District | Families | % State | % District |
|---|---|---|---|
| Purchase | 2,431 | 5.6% | 5.5% |
| Pennyrile | 1,568 | 3.6 | 3.6 |
| Green River | 2,160 | 5.0 | 4.7 |
| Barren River | 2,665 | 6.2 | 4.9 |
| Lincoln Trail | 3,498 | 8.1 | 6.9 |
| KIPDA | 9,237 | 21.4 | 5.1 |
| Northern Kentucky | 4,333 | 10.1 | 5.0 |
| Buffalo Trace/Gateway | 1,750 | 4.1 | 6.1 |
| FIVCO | 1,477 | 3.4 | 5.0 |
| Big Sandy | 1,462 | 3.4 | 4.2 |
| Kentucky River | 875 | 2.0 | 3.7 |
| Cumberland Valley | 3,884 | 9.0 | 7.9 |
| Lake Cumberland | 2,360 | 5.5 | 5.4 |
| Bluegrass | 5,394 | 12.5 | 3.8 |
| Kentucky | 43,094 | 100.0% | |

Note: % State is the number of families in the area development district in this category as a percentage of all owner families in the state in the same category. % State may not add to 100.0 percent due to rounding. % District is the number of families in the area development district in this category as a percentage of the total owner families in the district.
Source: US. Census. American. "Public."

KIPDA, Bluegrass, and Cumberland Valley have the largest numbers of low-income families who own their homes and have extreme housing cost burdens.

Table 3.26 shows the number of very low-income owner families with high housing cost burdens by area development district in 2006. The largest numbers of families in this category are in KIPDA (8,425), Bluegrass (7,578), and Cumberland Valley (5,882). Cumberland Valley also has the highest number of families in this category as a percentage of the total owner families in the district (11.9 percent), followed by FIVCO (9.9 percent), and Buffalo Trace/Gateway (8.6 percent).

**Table 3.26**
**Very Low-income Families Who Own With**
**High Housing Cost Burdens by Area Development District**
**2006**

| Area Development District | Families | % State | % District |
|---|---|---|---|
| Purchase | 2,608 | 4.7% | 5.9% |
| Pennyrile | 2,416 | 4.4 | 5.6 |
| Green River | 3,806 | 6.9 | 8.2 |
| Barren River | 3,554 | 6.4 | 6.5 |
| Lincoln Trail | 3,707 | 6.7 | 7.3 |
| KIPDA | 8,425 | 15.3 | 4.7 |
| Northern Kentucky | 4,826 | 8.8 | 5.6 |
| Buffalo Trace/Gateway | 2,452 | 4.4 | 8.6 |
| FIVCO | 2,923 | 5.3 | 9.9 |
| Big Sandy | 1,870 | 3.4 | 5.3 |
| Kentucky River | 1,724 | 3.1 | 7.3 |
| Cumberland Valley | 5,882 | 10.7 | 11.9 |
| Lake Cumberland | 3,338 | 6.1 | 7.7 |
| Bluegrass | 7,578 | 13.8 | 5.3 |
| Kentucky | 55,109 | 100.0% | |

Note: % State is the number of families in the area development district in this category as a percentage of all owner families in the state in the same category. % State may not add to 100.0 percent due to rounding. % District is the number of families in the area development district in this category as a percentage of the total owner families in the district.
Source: US. Census. American. "Public."

Table 3.27 shows the number of very low-income families with extreme housing cost burdens by area development district in 2006. Once more, the highest numbers are in KIPDA (6,108), Bluegrass (4,145), and Cumberland Valley (3,560). As a percentage of the total owner families in the area development district, Cumberland Valley stands out as the highest, with 7.2 percent of all owner families falling into this category.

**Table 3.27**
**Very Low-income Families Who Own With Extreme Housing Cost Burdens by Area Development District 2006**

| Area Development District | Families | % State | % District |
|---|---|---|---|
| Purchase | 1,410 | 4.4% | 3.2% |
| Pennyrile | 1,396 | 4.3 | 3.2 |
| Green River | 1,878 | 5.8 | 4.0 |
| Barren River | 1,729 | 5.4 | 3.1 |
| Lincoln Trail | 2,278 | 7.1 | 4.5 |
| KIPDA | 6,108 | 19.0 | 3.4 |
| Northern Kentucky | 3,088 | 9.6 | 3.6 |
| Buffalo Trace/Gateway | 1,315 | 4.1 | 4.6 |
| FIVCO | 1,314 | 4.1 | 4.4 |
| Big Sandy | 1,148 | 3.6 | 3.3 |
| Kentucky River | 690 | 2.1 | 2.9 |
| Cumberland Valley | 3,560 | 11.1 | 7.2 |
| Lake Cumberland | 2,110 | 6.6 | 4.8 |
| Bluegrass | 4,145 | 12.9 | 2.9 |
| Kentucky | 32,169 | 100.0% | |

Note: % State is the number of families in the area development district in this category as a percentage of all owner families in the state in the same category. % State may not add to 100.0 percent due to rounding. % District is the number of families in the area development district in this category as a percentage of the total owner families in the district.
Source: US. Census. American. "Public."

Table 3.28 shows the number of extremely low-income families with high housing cost burdens by area development district in 2006. KIPDA (4,309), Bluegrass (3,088), and Cumberland Valley (2,965) have the highest numbers in this category. At 6 percent, Cumberland Valley also has the highest percentage of owner families in the district who are extremely low income with high housing cost burdens.

**Table 3.28**
**Extremely Low-income Families Who Own With High Housing Cost Burdens by Area Development District**
**2006**

| Area Development District | Families | % State | % District |
|---|---|---|---|
| Purchase | 1,060 | 3.8% | 2.4% |
| Pennyrile | 1,246 | 4.5 | 2.9 |
| Green River | 1,963 | 7.0 | 4.2 |
| Barren River | 1,493 | 5.3 | 2.7 |
| Lincoln Trail | 2,518 | 9.0 | 5.0 |
| KIPDA | 4,309 | 15.4 | 2.4 |
| Northern Kentucky | 2,587 | 9.3 | 3.0 |
| Buffalo Trace/Gateway | 1,149 | 4.1 | 4.0 |
| FIVCO | 1,484 | 5.3 | 5.0 |
| Big Sandy | 1,335 | 4.8 | 3.8 |
| Kentucky River | 802 | 2.9 | 3.4 |
| Cumberland Valley | 2,965 | 10.6 | 6.0 |
| Lake Cumberland | 1,934 | 6.9 | 4.4 |
| Bluegrass | 3,088 | 11.1 | 2.2 |
| Kentucky | 27,933 | 100.0% | |

Note: % State is the number of families in the area development district in this category as a percentage of all owner families in the state in the same category. % State may not add to 100.0 percent due to rounding. % District is the number of families in the area development district in this category as a percentage of the total owner families in the district.
Source: US. Census. American. "Public."

KIPDA, Bluegrass, Cumberland Valley, and Northern Kentucky have the highest numbers of owner families with worst-case housing needs.

Table 3.29 shows extremely low-income owner families paying more than 50 percent of their incomes for housing by area development district in 2006. The highest numbers are in KIPDA (3,695), Cumberland Valley (2,745), and Bluegrass (2,215). About 5.6 percent of all owner families in Cumberland Valley are in this worst-case needs category.

**Table 3.29**
**Extremely Low-income Families Who Own With Extreme Housing Cost Burdens by Area Development District 2006**

| Area Development District | Families | % State | % District |
|---|---|---|---|
| Purchase | 607 | 2.9% | 1.4% |
| Pennyrile | 941 | 4.6 | 2.2 |
| Green River | 1,437 | 7.0 | 3.1 |
| Barren River | 827 | 4.0 | 1.5 |
| Lincoln Trail | 1,698 | 8.2 | 3.3 |
| KIPDA | 3,695 | 17.9 | 2.1 |
| Northern Kentucky | 1,725 | 8.3 | 2.0 |
| Buffalo Trace/Gateway | 873 | 4.2 | 3.1 |
| FIVCO | 1,005 | 4.9 | 3.4 |
| Big Sandy | 834 | 4.0 | 2.4 |
| Kentucky River | 508 | 2.5 | 2.2 |
| Cumberland Valley | 2,745 | 13.3 | 5.6 |
| Lake Cumberland | 1,549 | 7.5 | 3.6 |
| Bluegrass | 2,215 | 10.7 | 1.6 |
| Kentucky | 20,659 | 100.0% | |

Note: % State is the number of families in the area development district in this category as a percentage of all owner families in the state in the same category. % State may not add to 100.0 percent due to rounding. % District is the number of families in the area development district in this category as a percentage of the total owner families in the district.
Source: US. Census. American. "Public."

# Chapter 4

## Major Federal Rental Assistance Programs

### Overview of Rental Assistance Programs

The need for affordable rental housing in the Commonwealth has been reported in two studies conducted for the Kentucky Housing Corporation by the University of Louisville. The 2001 study *Kentucky Housing Needs Assessment: Phase I* stated: "There is a large and growing unmet need for affordable rental housing in Kentucky" (123). The 2004 study *Kentucky Housing Needs Assessment: Phase II* stated: "[T]he primary housing need in Kentucky is affordable rental housing" (107).

The corporation is one of many housing agencies that administer rental assistance programs to low-income Kentuckians. To understand the role of the corporation in rental assistance programs, it is necessary to know the major types of federal rental assistance programs and the corporation's role in administering them. Federal programs include but are not limited to public housing and Section 8.

Public housing programs are administered by local housing agencies, not the corporation. The corporation administers Section 8 rental assistance in some counties.

Public housing in Kentucky is administered by local housing agencies, such as the Lexington-Fayette Urban County Housing Authority, which owns and manages the rental units. Such local housing agencies contract directly with HUD to provide this type of assisted housing. The corporation does not administer public housing in Kentucky and has no authority over the operations of the local housing agencies that do.

Section 8 housing has two categories: project based and tenant based. In the project-based rental assistance programs, low-income families live in specifically designated Section 8 housing units. The rent subsidy generally is tied to a specific unit and does not go with the family when it moves. In the tenant-based rental assistance program, the rent subsidy is not tied to a specific housing unit. The subsidy goes with the family when it moves to another property

Through FY 2006, the corporation administered the Section 8 project-based program in 109 counties. Starting in FY 2007, the corporation administers project-based assistance in all counties. The corporation administers the tenant-based program in 87 counties. Local housing agencies administer the Section 8

programs in the counties not administered by the corporation. The public housing and Section 8 programs administered by local agencies are not within the scope of this report.

However, to provide a context in which to understand the operations of the corporation in relation to local housing agencies, Table 4.1 shows the results of a point-in-time count of all assisted rental units, including public housing and Section 8 programs administered by local housing agencies. The table shows, by area development district, assisted rental units administered by the corporation and by local agencies. The information was compiled by the corporation between June 1, 2004, and December 31, 2004, and is the most recent available.

**Table 4.1**
**Assisted Rental Housing Units Per Area Development District**
**June 1, 2004, to December 31, 2004**

| | Units Administered by | | |
|---|---|---|---|
| **Area Development District** | **Kentucky Housing Corporation** | **Local Housing Agencies** | **Total** |
| Purchase | 893 | 3,567 | 4,460 |
| Pennyrile | 549 | 2,679 | 3,228 |
| Green River | 542 | 3,367 | 3,909 |
| Barren River | 934 | 3,374 | 4,308 |
| Lincoln Trail | 687 | 2,586 | 3,273 |
| KIPDA | 2,130 | 14,295 | 16,425 |
| Northern Kentucky | 1,106 | 5,079 | 6,185 |
| Buffalo Trace/Gateway | 107 | 969 | 1,076 |
| FIVCO | 345 | 1,849 | 2,194 |
| Big Sandy | 643 | 2,058 | 2,701 |
| Kentucky River | 258 | 1,236 | 1,494 |
| Cumberland Valley | 1,229 | 3,832 | 5,061 |
| Lake Cumberland | 698 | 2,539 | 3,237 |
| Bluegrass | 2,084 | 11,020 | 13,104 |
| Kentucky | 12,406 | 59,655 | 72,061 |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

The corporation administers approximately 17 percent of the assisted rental housing units in the state. Local housing agencies administer 83 percent.

Of the total assisted rental housing units in the Commonwealth in 2004, the corporation administered approximately 17 percent, and local housing agencies administered approximately 83 percent.

At the time the information was collected for assisted rental units, Kentucky also had approximately 30,000 tenant-based rental vouchers. The vouchers were not included in the unit count because they are not associated with a particular rental unit. Rather, the vouchers are associated with a tenant who may use it at any property that accepts Section 8 vouchers.

## Overview of Section 8 Rental Assistance Programs

This chapter focuses primarily on the two basic types of Section 8 rental assistance: project based and tenant based. HUD allocates the Section 8 grants to its field office areas based on

- the renter population;
- the number of renter households with annual incomes at or below the poverty level;
- the number of renter-occupied housing units with an occupancy ratio of 1.01 or more persons per room;
- the number of renter housing units that would be required to maintain vacancies at levels typical of balanced market conditions;
- the number of housing units built before 1940 and occupied by renter households with annual incomes at or below the poverty level (referred to by HUD as substandard housing); and
- other objectively measurable conditions, such as data indicating potential need for rental housing assistance—the number of renter households with incomes below specified levels and paying a gross rent more than 30 percent of household income, for example.

Section 8 programs are designed to provide rental assistance to low-income families. HUD characterizes the family income limits for Section 8 as low, very low, and extremely low. The income characteristics help determine the amount of Section 8 rental assistance for which an eligible family qualifies. HUD calculates the Section 8 income limits, which are based on the family's income in relation to the median income in the area in which the family lives. HUD also calculates the area median incomes and approved rents for the area. Adjustments are made for various family sizes. The Section 8 income limits are shown in Table 4.2.

**Table 4.2**
**Section 8 Income Limits**

| Family Income Characteristic | Annual Income Does Not Exceed |
|---|---|
| Low income | 80 percent of the area median income |
| Very low income | 50 percent of the area median income |
| Extremely low income | 30 percent of the area median income |

Source: 24 CFR 5.603.

By definition, low-income families also include very low-income and extremely low-income families.

The difference between the approved rent for a unit and the amount the family must pay is the assistance payment to the property owner. The corporation makes payments to the owners from HUD Section 8 grants.

The difference between the approved rent for a unit and the amount the family must pay is the assistance payment to the property owner. The corporation makes payments to the owners from HUD Section 8 grants.

The remainder of this chapter provides an overview of the responsibilities of HUD and those of the corporation in administering Section 8 rental assistance programs in the applicable counties. The responsibilities of property owners, applicants for rental assistance, and tenants are also discussed.

## Project-based Rental Assistance

The corporation is one of 40 state housing finance agencies that administer project-based rental assistance. The program subsidizes specific rental units in a project.

The Kentucky Housing Corporation is one of 40 state housing finance agencies that administer project-based rental assistance (National Council 23-25). The state housing agencies that do not administer project-based assistance are Alabama, Arkansas, Georgia, Mississippi, Nebraska, Nevada, Texas, Utah, Washington, and Wyoming.

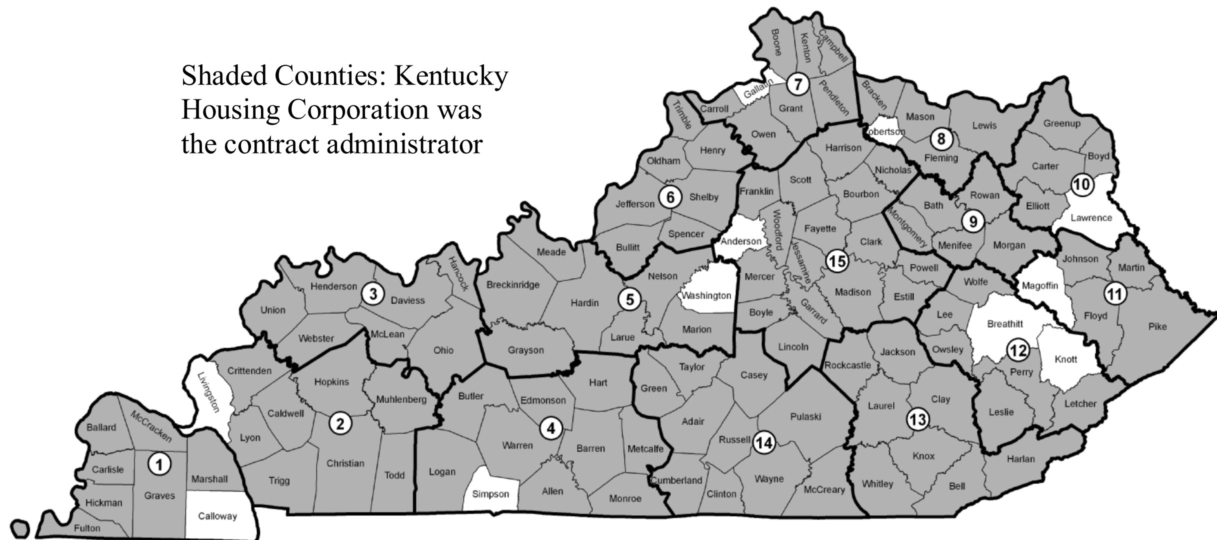
In the project-based rental assistance programs, low-income families live in specifically designated Section 8 housing units. The rent subsidy generally is tied to a specific unit and does not go with the family when it moves. However, a project-based voucher is somewhat portable. After living in the unit for 1 year, the tenant may move out and receive a tenant-based voucher for other comparable rental assistance. As a general rule, the family's share of the rent and utilities is no more than 30 percent of the family's adjusted monthly income.

### The Kentucky Housing Corporation's Role in Project-based Rental Assistance

Until FY 2007, 11 counties in the state administered their own project-based rental assistance programs.

Through FY 2006, the corporation was the HUD contract administrator for project-based rental assistance in 109 of Kentucky's 120 counties. In the remaining 11 counties, local public housing agencies were the administrators. The corporation now administers project-based assistance in all counties. In Figure 4.A, the counties in which the corporation was the project-based administrator prior to FY 2007 are shaded. Bold lines within the map depict area development district boundaries.

**Figure 4.A**
**Counties in Which the Kentucky Housing Corporation Was the Contract Administrator for Project-based Rental Assistance (Through Fiscal Year 2006)**




Area Development Districts: 1 = Purchase; 2 = Pennyrile; 3 = Green River; 4 = Barren River; 5 = Lincoln Trail; 6 = KIPDA; 7 = Northern Kentucky; 8 = Buffalo Trace; 9 = Gateway; 10 = FIVCO; 11 = Big Sandy; 12 = Kentucky River; 13 = Cumberland Valley; 14 = Lake Cumberland; 15 = Bluegrass.
Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

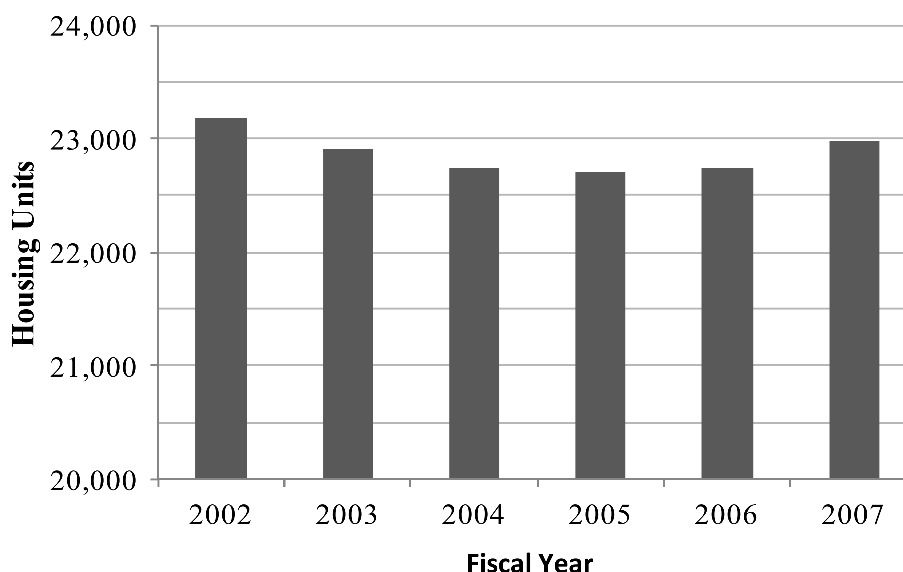
### Project-based Housing Units Administered by the Corporation

The number of subsidized units in counties administered by the corporation decreased slightly since 2002.

In the 109 counties in which the corporation administered project-based rental assistance, the number of rental units available to low-income families had decreased by 216 units since 2002. The decrease was caused by project owners declining to renew their housing assistance payments contracts with HUD.

Figure 4.B shows the number of project-based rental units administered by the corporation in FY 2002 to FY 2007.

**Figure 4.B**
**Project-based Housing Units Administered by the Corporation**
**Fiscal Year 2002 to Fiscal Year 2007**




Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

All units administered by the corporation serve families at or below 60 percent of the area median income. Of 22,972 available units, an average of 20,812 were occupied.

The corporation did not calculate the area median incomes of the families receiving project-based rental assistance. However, information on actual incomes was available. Families served in this program must have incomes at or below 60 percent of area median income, many are at 30 percent, and some have no income. In project-based assistance, the owner of the property determines a family's financial eligibility for the program. Corporation staff monitor owners' compliance with the eligibility requirements (McQuady. "Reports").

In FY 2007, of the 22,972 available project-based rental units, an average of 20,812 were occupied. Table 4.3 shows the number of units occupied and the family income characteristics by area development district and in total for the Commonwealth.

**Table 4.3**
**Project-based Housing Units and Family Income Characteristics by Area Development District**
**Fiscal Year 2007**

| Area Development District | Units | Family Income | | | Families With No Income |
|---|---|---|---|---|---|
| | | Average | Maximum | Minimum | |
| Purchase | 1,251 | $6,850 | $9,525 | $4,640 | 2 |
| Pennyrile | 964 | 7,121 | 10,356 | 4,107 | 0 |
| Green River | 1,400 | 7,041 | 12,445 | 3,346 | 1 |
| Barren River | 1,230 | 8,122 | 11,931 | 4,808 | 3 |
| Lincoln Trail | 964 | 7,611 | 10,859 | 4,758 | 1 |
| KIPDA | 4,452 | 7,818 | 13,712 | 3,613 | 6 |
| Northern Kentucky | 1,426 | 8,617 | 12,324 | 5,652 | 1 |
| Buffalo Trace/Gateway | 556 | 7,743 | 11,062 | 4,852 | 0 |
| FIVCO | 770 | 6,684 | 8,859 | 5,199 | 0 |
| Big Sandy | 745 | 8,051 | 16,243 | 3,278 | 2 |
| Kentucky River | 487 | 7,843 | 12,010 | 2,999 | 0 |
| Cumberland Valley | 1,773 | 7,260 | 11,246 | 4,465 | 1 |
| Lake Cumberland | 1,022 | 7,841 | 11,099 | 5,385 | 1 |
| Bluegrass | 3,772 | 7,034 | 11,351 | 3,668 | 7 |
| Kentucky | 20,812 | $7,545 | $11,644 | $4,341 | 25 |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

### Project-based Assistance Payments Disbursed and Fees Earned

No funding is available for construction of new projects.

The major source of funding for Section 8 project-based assistance is the HUD New Construction and Substantial Rehabilitation grant. However, since 1983, only projects that are already constructed and placed in service are eligible for project-based rental assistance. The grant now funds contract renewals but no new construction or substantial rehabilitation.

Both nonprofit and for-profit project owners may participate in the project-based assistance program.

The corporation serves as HUD's fiscal agent and disburses monthly rental payments to property owners under a housing assistance payments contract. A property owner may be a for-profit or nonprofit entity. The owner, with oversight from the corporation, is responsible for ensuring that all program requirements are satisfied, including managing the waiting list of applicants.

The corporation has three staff groups that monitor the project-based program.

- The Management and Occupancy Review staff perform annual on-site visits to each property and perform monthly desk reviews.

- The Housing Assistance Payment staff reviews and approves monthly payments to owners.
- The Asset Management staff works with owners to renew their Section 8 contracts, adjusts rents, and reviews utility allowances.

The corporation earns fee income for administering the project-based assistance program.

The corporation earns administrative and audit fees for administering and overseeing the project-based assistance program. Table 4.4 shows the housing assistance payments disbursed to project owners and the fees earned under the contracts in FY 2002 to FY 2006.

**Table 4.4**
**Project-based Rental Assistance Payments Disbursed and Fees Earned by the Kentucky Housing Corporation Fiscal Year 2002 to Fiscal Year 2006**

| Fiscal Year | Payments Disbursed | Fees Earned |
|---|---|---|
| 2002 | $91,290,315 | $4,402,287 |
| 2003 | 92,977,656 | 4,775,902 |
| 2004 | 93,642,169 | 4,884,398 |
| 2005 | 94,525,897 | 4,924,586 |
| 2006 | 96,817,527 | 5,021,386 |
| Total | $469,253,564 | $24,008,559 |

Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

Fees not used for administrative operations are used in affordable housing initiatives.

The corporation uses part of the fees it earns to fund administrative operations. The remainder is used to support various housing programs in the Commonwealth.

### Tenant-based Rental Assistance

The tenant-based program provides eligible families with vouchers to offset rental costs. The vouchers are portable if a family decides to relocate to another unit.

The Section 8 tenant-based rental assistance program is known as the Housing Choice Voucher Program. In this program, the rent subsidy is not tied to a specific housing unit as it is in the project-based program. Instead, the voucher is portable and goes with the family when it moves to another property. After approving the tenancy, the corporation enters into a contract with the property owner to make payments to the owner to subsidize occupancy by the family. If the family moves out of the leased unit, the contract with the owner terminates. The family may move to another unit with continued assistance if the family complies with program requirements. In the tenant-based program, the family's share of

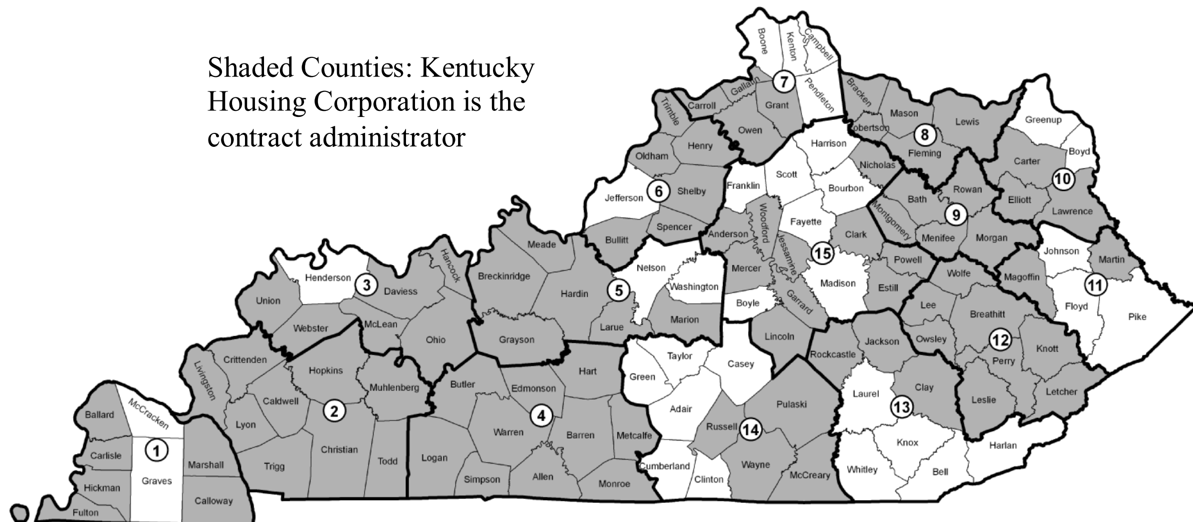
the rent and utilities may be higher than 30 percent of the family's adjusted monthly income because HUD allows the owner to charge more as long as the corporation and the tenant consider the rent to be reasonable. Corporation staff stated in an October 17, 2007 memo that the 2007 maximum is 110 percent of fair market rent for each county based on number of bedrooms.

### The Kentucky Housing Corporation's Role in Tenant-based Rental Assistance

Thirty-three counties administer their own tenant-based programs. The corporation is the HUD contract administrator for tenant-based assistance in 87 counties.

The corporation is the HUD contract administrator for tenant-based assistance in 87 counties. In the remaining 33 counties, local public housing agencies are the administrators. In Figure 4.C, the counties in which the corporation is the tenant-based administrator are shaded. Bold lines within the map depict area development district boundaries.

**Figure 4.C**
**Counties in Which the Kentucky Housing Corporation Is the Contract Administrator for Tenant-based Rental Assistance**




Area Development Districts: 1 = Purchase; 2 = Pennyrile; 3 = Green River; 4 = Barren River; 5 = Lincoln Trail; 6 = KIPDA; 7 = Northern Kentucky; 8 = Buffalo Trace; 9 = Gateway; 10 = FIVCO; 11 = Big Sandy; 12 = Kentucky River; 13 = Cumberland Valley; 14 = Lake Cumberland; 15 = Bluegrass.
Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

### Tenant-based Housing Units Administered by the Corporation

The corporation is one of only 18 state housing financing agencies that administer the tenant-based Housing Choice Voucher program (National 23-25). The others are in Alaska, Arizona, Delaware, Georgia, Hawaii, Idaho, Maine, Maryland, Michigan, Montana, New Hampshire, Rhode Island, South Carolina, Tennessee, Texas, Virginia, and Wisconsin.

The corporation administers more than 4,000 vouchers in the 87 counties in which it administers tenant-based rental assistance. The vouchers are used in more than the 87 counties

The corporation administers more than 4,000 vouchers in the 87 counties in which it administers tenant-based rental assistance. However, the vouchers are used in more than the 87 counties. The portability feature enables a family to use a corporation voucher in a local housing agency's jurisdiction in certain circumstances. The corporation collaborates with Jefferson and Fayette Counties to use corporation vouchers in those areas, as needed, even though those two counties' programs are not administered by the corporation.

Table 4.5 shows a point-in-time count of the number of households occupying tenant-based rental units by area development district and for the state. The table shows the total number of households; the average time the households have received assistance; average total rent, amount paid by the tenant, and assistance payment; and the number of households designated as "hard to house," which includes very large families and families with a disabled person.

**Table 4.5**
**Section 8 Tenant-based Rental Assistance Units by Area Development District**
**March 20, 2007, Point-in-time Count**

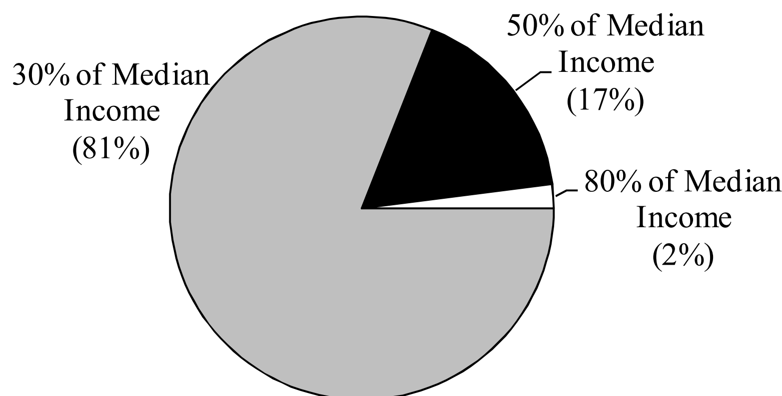
| | | Average | | | | Households |
|---|---|---|---|---|---|---|
| **Area Development District** | **Households** | **Days Receiving Assistance** | **Total Rent** | **Amount Paid by Tenant** | **Assistance Payment** | **Designated as "Hard to House"** |
| Purchase | 136 | 2,040 | $393 | $54 | $236 | 42 |
| Pennyrile | 184 | 1,115 | 402 | 103 | 246 | 95 |
| Green River | 515 | 1,254 | 423 | 106 | 262 | 251 |
| Barren River | 250 | 1,334 | 408 | 110 | 265 | 132 |
| Lincoln Trail | 424 | 1,343 | 397 | 113 | 271 | 155 |
| KIPDA | 465 | 1,483 | 456 | 119 | 332 | 192 |
| Northern Kentucky | 57 | 2,042 | 431 | 129 | 325 | 22 |
| Buffalo Trace / Gateway | 257 | 3,293 | 401 | 101 | 249 | 99 |
| FIVCO | 79 | 927 | 324 | 71 | 325 | 27 |
| Big Sandy | 77 | 1,134 | 422 | 104 | 241 | 20 |
| Kentucky River | 251 | 1,627 | 426 | 91 | 278 | 91 |
| Cumberland Valley | 85 | 2,045 | 422 | 79 | 249 | 38 |
| Lake Cumberland | 130 | 1,707 | 410 | 81 | 238 | 49 |
| Bluegrass | 1,328 | 1,285 | 440 | 99 | 346 | 571 |
| Kentucky Total | 4,238 | | | | | 1,784 |
| Kentucky Average | | 1,509 | $410 | $97 | $274 | |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

Eighty percent of the families participating in the tenant-based program have extremely low incomes, according to HUD's definition.

In tenant-based assistance, in the applicable 87 counties, the corporation determines a family's financial eligibility for the program. Information on a family's income level is recorded in the corporation's database. The corporation provides the majority of assistance to families with extremely low and very low incomes. From July 2006 to December 2006, more than 80 percent of the families receiving tenant-based rental assistance had median incomes of 30 percent or below the area median income. The percentages of families at the low-, very low-, and extremely low-income levels are shown in Figure 4.D. Families at 80 percent of median family income are designated by HUD as low income, families at 50 percent are designated as very low income, and families at 30 percent are designated as extremely low income.

**Figure 4.D**
**Income Levels of Families Receiving Tenant-based Rental Assistance**
**July 2006 to December 2006**




Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

**Tenant-based Assistance Payments Disbursed and Fees Earned**

The corporation maintains a waiting list of families applying for this assistance in the applicable counties.

The major source of funding for Section 8 tenant-based assistance is the Section 8 Housing Choice Voucher Program. The corporation has offices in Frankfort, West Liberty, and Madisonville to administer the voucher program. Responsibilities include ensuring that all program requirements are satisfied and managing a waiting list of applicants.

The corporation earns administrative and audit fees for administering and overseeing the tenant-based program as it does for the project-based program. Table 4.6 shows the housing assistance payments disbursed to project owners and the fees earned under the contracts in FY 2002 to FY 2006.

The corporation uses part of the fees it earns to fund administrative operations; the remainder is used to support housing programs.

**Table 4.6**
**Tenant-based Rental Assistance Payments Disbursed and Fees Earned**
**Fiscal Year 2002 to Fiscal Year 2006**

| Fiscal Year | Payments Disbursed | Fees Earned |
|---|---|---|
| 2002 | $15,586,742 | $2,834,440 |
| 2003 | 17,451,789 | 3,033,502 |
| 2004 | 20,014,900 | 2,836,145 |
| 2005 | 17,886,686 | 2,569,283 |
| 2006 | 17,624,936 | 3,073,264 |
| Total | $88,565,053 | $14,346,634 |

Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

### Definition of a Family for Rental Assistance

The size of a housing unit the family may rent with HUD assistance is determined by family size.

HUD regulations define a family as one or more persons living together. A family can include one or more live-in aides. Table 4.7 summarizes HUD's definitions of a family in Section 8 rental assistance programs.

The definition of a family determines the family size. The family size, in turn, determines size of the rental unit, measured by the number of bedrooms, for which the family qualifies if the family satisfies the eligibility requirements. With certain exceptions, the guidelines in Table 4.7 apply.

**Table 4.7**
**HUD Definitions of a Family in Section 8 Rental Assistance Programs**

| Type of Family | Description |
|---|---|
| With or without children | Temporary absences of a child from the home due to placement in foster care are not considered in determining family composition or size |
| Elderly | A family whose head, spouse, or sole member is a person who is at least age 62; two or more persons at least age 62 living together; one or more persons at least age 62 living with one or more live-in aides |
| Near elderly | A family whose head, spouse, or sole member is at least age 50 but younger than 62; two or more persons at least age 50 but younger than 62 living together; one or more persons at least age 50 but younger than 62 living with one or more live-in aides |
| Disabled | A family whose head, spouse, or sole member is a person with disabilities; two or more persons with disabilities living together; one or more persons with disabilities living with one or more live-in aides |
| Displaced | A family in which the sole member or each member is displaced by governmental action or whose dwelling has been extensively damaged or destroyed as a result of a federal disaster |
| Remaining member | The remaining member of a tenant family whose composition has changed so that only one person remains |
| Single person | One person who is not elderly, displaced, a person with disabilities, or the remaining member |

Source: 24 CFR 5.403.

In tenant-based rental assistance, the corporation uses the number of people in a family to determine the appropriate size of the rental unit. In project-based rental assistance, the property owner determines the size of the unit.

In tenant-based rental assistance, the corporation uses the number of people in a family to determine the appropriate size of the rental unit. In project-based rental assistance, the property owner determines the size of the unit. The family size and number of bedrooms for which the family qualifies are shown in Table 4.8.

**Table 4.8**
**Family Size and Number of Bedrooms for Which the Family Qualifies**

| Family Members | Bedrooms |
|---|---|
| 1 | 0 or 1 |
| 2 | 1 |
| 3 or 4 | 2 |
| 5 or 6 | 3 |
| 7 or 8 | 4 |
| 9 or 10 | 5 |
| 11 or 12 | 6 |
| 13 or 14 | 7 |
| 15 | 8 |

Source: 24 CFR 983.5(b).

## Financial Eligibility for Rental Assistance

A family's income is determined in accordance with HUD regulations to determine eligibility for rental assistance.

Financial eligibility for rental assistance is based on a family's annual income as defined by HUD, which includes unearned income; earned income; and income from assets, less specific exclusions. In addition, in the tenant-based program, the value of "imputed welfare income" is included in the calculation. Imputed welfare income arises when a family member would receive a cash benefit except that the benefit has been reduced because of welfare fraud or noncompliance with the Family Self-Sufficiency program. That program helps voucher families obtain employment that will lead to economic independence and self-sufficiency.

### Annual Income

Unearned income consists of periodic benefits, payments in lieu of earnings, welfare assistance, and periodic and determinable allowances. Types of earned income are employment, business and self-employment, and military pay. Income from assets includes interest and dividends.

Certain types of income are required to be excluded from the annual income calculation. Common exclusions are income of children under the age of 18, payments received for the care of foster children or foster adults, and reimbursement of medical expenses.

Detailed explanations of the types of income and the exclusions are provided in Appendix B.

### Adjusted Annual and Monthly Income

The family's income for determining eligibility for Section 8 rental assistance has been determined by adding unearned income and earned income and then excluding specific items. The next step is to calculate adjusted annual income by deducting mandatory items. Examples of mandatory deductions are

- $480 for each family member who is younger than 18, a person with a disability, or a full-time student, except foster children and foster adults (other than the family head or spouse);
- $400 for any family whose head, spouse, or sole member is a person with a disability or is at least age 62; and
- reasonable child care expenses so that a family member can be employed or enrolled in an educational program, up to the amount earned by the family member.

Mandatory deductions are described in more detail in Appendix B. The family's adjusted annual income is divided by 12 to calculate the adjusted monthly income. This income generally is used to determine the amount the family must pay in rent and the amount of the HUD rent subsidy each month.

### Additional Eligibility Requirements

Applicants for and recipients of rental assistance must disclose and submit documentation to verify their Social Security numbers.

Only US citizens and resident aliens are eligible for assistance. Registered sex offenders and users of illegal drugs are not eligible for assistance.

Applicants' US citizenship or eligible immigrant status must be verified. When some family members are eligible and some are not, prorated assistance is available in certain circumstances.

A family is ineligible for rental assistance if any member of the household is subject to a lifetime registration requirement under a state sex offender registration program. In screening applicants, the corporation or the owner must perform necessary criminal history background checks in the state in which the housing is located and in other states in which the family is known to have lived.

A family is ineligible for rental assistance if any household member uses illegal drugs, or it is reasonable to believe that a household member's illegal drug use or pattern of use harms other residents.

A family generally is ineligible if any member has been evicted from federally assisted housing for drug-related criminal activity. The period of ineligibility is 3 years from the date of eviction. However, the family may be admitted in two circumstances:

- The evicted household member who engaged in the drug-related criminal activity has successfully completed an approved supervised drug rehabilitation program.
- The circumstances leading to the eviction no longer exist, for example, the family member has died or is imprisoned.

A family is ineligible if there is reason to believe that a family member's abuse or pattern of abuse of alcohol harms other residents.

### Eligibility for the Rental Unit or Project

Even though a family satisfies the eligibility requirements for rental assistance, it may not be eligible to reside in the specific rental unit or project because of HUD requirements and owner preferences.

#### HUD Requirements

Of units that become available in a fiscal year for project-based assistance, 40 percent must be made available to extremely low-income families and 75 percent for very low-income families. At least 75 percent of families admitted to tenant-based units must be extremely low-income families.

As a general rule, in the project-based program, at least 40 percent of the assisted rental units in a project that become available in a fiscal year must be made available to extremely low-income families, and at least 75 percent must be made available to very low-income families. At least 75 percent of the families admitted to the tenant-based program during the fiscal year generally must be extremely low-income families.

Owners select families for occupancy of a unit based on the income-eligibility and income-targeting requirements. HUD regulations at 24 CFR 5.655 require the owner to adopt a written tenant-selection plan. The following requirements apply:

- The owner may not select a family for occupancy of a project or unit in an order different from the order on the owner's waiting list for the purpose of selecting a relatively higher income family. However, an owner may select a family for occupancy of a project or unit based on its income to satisfy the income-targeting requirements.
- In selecting a family to occupy a particular unit, the owner may match family characteristics with the type of unit available, for example, number of bedrooms. If a unit has special accessibility features for persons with disabilities, the owner must first offer the unit to families which include with persons with disabilities who require such features.
- A single person who is not an elderly or a displaced person, a person with disabilities, or the remaining member of a resident family may not be provided a housing unit with two or more bedrooms.

#### Owner Preferences

Property owners may adopt preferences for serving families with certain characteristics.

In addition to federally mandated preferences, such as victims of a federal disaster, the property owner may adopt preferences for tenant admission. According to 24 CFR 5.655, "[t]he owner must inform all applicants about available preferences and must give applicants an opportunity to show that they qualify for available preferences." Subject to specified limits, the same regulation

allows the owner to adopt preferences for admission for families who reside in a specified geographical area; families in which the head, spouse, or sole member is employed; families who include a person with a disability; and families who include victims of domestic violence.[1] The owner may also adopt preferences for admission that favor single persons who are elderly, displaced, homeless, or persons with a disability, over other single persons.

## Fair Market Rent, Family Rent, and Rent Subsidy

HUD regulations define and specify the calculation of fair market rent for the area, the amount of that rent the family must pay, and the associated rent subsidy to be paid by HUD.

### Fair Market Rent

HUD determines fair market rents for its Section 8 programs to standardize the amount of assistance it provides.

"Fair market rent" is defined as

> the rent, including the cost of utilities (except telephone) … for units of varying sizes (by number of bedrooms), that must be paid in the market area to rent privately owned, existing, decent, safe, and sanitary rental housing of modest (non-luxury) nature with suitable amenities (24 CFR 888.111(b)).

Fair market rents are generally set at the 40th percentile rent, which is the dollar amount below which the rent for 40 percent of standard quality rental housing falls. HUD publishes the fair market rents annually in the Federal Register.

In the project-based program, the fair market rent is based on the *Section 8 Renewal Policy* guide for contracts between HUD and property owners. In the tenant-based program, fair market rent is used to determine the payment standard, which is the maximum assistance payment for a family. The Kentucky Housing Corporation has the authority to establish payment standards generally between 90 percent and 110 percent of the fair market rent.

[1]An owner's preferences based on residency must be approved by HUD. An applicant must be given the same preference as a working family if the head, spouse, or sole member is age 62 or older or is disabled.

### Family Rent

HUD regulations use different terms between the project-based and tenant-based programs for the amount the family must pay. In this report, that amount is referred to as the family rent.

In the project-based rental assistance program, the family rent is the amount a family must pay the owner of a rental unit based on the family's level of income or welfare assistance. In the tenant-based rental assistance program, the minimum rent is negotiated between the tenant and the owner .

In the project-based rental assistance program, the family rent is the amount a family must pay the owner of a rental unit. The family rent is the highest of three amounts, rounded to the nearest dollar:

- 30 percent of adjusted monthly income,
- 10 percent of monthly gross income after subtracting income exclusions, or
- the portion of welfare assistance specifically designated for housing costs.

In the tenant-based rental assistance program, the minimum rent is negotiated between the tenant and the owner. The corporation must approve a higher rent as reasonable.

If the cost of utilities (excluding telephone) is not included in the rent but is the responsibility of the family, then the family rent is reduced by a utility allowance. The utility allowance is an amount estimated by the owner and approved by the corporation for an energy-conservative household of modest circumstances. In the tenant-based program, a person with a disability may qualify for a higher utility allowance as a reasonable accommodation. For example, more electricity may be needed for special equipment.

With certain exceptions, the family must pay a minimum monthly rent. In the project-based program, the minimum is $25. In the tenant-based program, the minimum may be up to $50.

### Rent Subsidy

The HUD rent subsidy is the difference between the fair market rent (in the project-based program) or the negotiated rent (in the tenant-based program) and the amount of rent the family must pay.

### Housing Choice Voucher to Homeownership Program

The tenant-based Section 8 program has a homeownership option that allows participants to purchase a home with their rental assistance voucher rather than rent a housing unit. In FY 2006, $2.7 million in mortgage loans were made to program participants in Kentucky.

The tenant-based Housing Choice Voucher program has a homeownership option. The homeownership program permits current eligible participants in the program the option of purchasing a home with their rental assistance rather than renting. The program also includes counseling services, self-sufficiency training, and support.

To qualify, one or more family members must be employed full time for at least 1 year unless the family is considered elderly or disabled. Other requirements are that the family must

- satisfy credit requirements,
- hold a valid Housing Choice Voucher,
- complete counseling before and after the purchase, and
- be a first-time home buyer.

In FY 2006, homeownership voucher loans were closed in five counties. The number and total amounts of loans are shown in Table 4.9.

**Table 4.9**
**Homeownership Housing Choice Voucher Loans**
**Fiscal Year 2006**

| County | Loans | Total Amount |
|---|---|---|
| Bell | 1 | $55,419 |
| Clark | 2 | 143,700 |
| Fayette | 6 | 537,472 |
| Jefferson | 24 | 1,973,206 |
| Total | 33 | $2,709,797 |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

Of the $2.7 million in mortgage loans, the voucher subsidy applied to mortgage payments was $31,374.

## Family Self-Sufficiency

Families receiving tenant-based Section 8 assistance may participate in the Family Self-Sufficiency program. This program credits funds to families who become gainfully employed and independent of assistance in 5 years.

The Family Self-Sufficiency program was enacted in the National Affordable Housing Act of 1990. The primary goal is to provide a participating family with housing assistance in the form of a Housing Choice Voucher, case management, and support services to enable the family to become gainfully employed and independent of welfare assistance within a 5-year contract period.

As a participant in the Housing Choice Voucher program, the family's obligation to pay a portion of its monthly rent is based on family size and income. As a general rule, when the family's income increases, so does its portion of monthly rental cost. However, when a family participates in the Family Self-Sufficiency program, the increased income does not increase the family's rent. Instead, the Kentucky Housing Corporation or local housing agency gives the family credit for the increased income and continues to pay the original rent subsidy. The credited funds are held in escrow and disbursed to the family when it successfully completes the program.

### Eligible Applicants

The Family Self-Sufficiency program is voluntary. While participating in the program, families must adhere to all Housing Choice Voucher program guidelines. If a family is disqualified from the Housing Choice Voucher program, it is also disqualified from the Family Self-Sufficiency program and any credited funds are forfeited.

A family has 5 years to complete agreed-upon goals in its contract. Contracts are extended on a case-by-case basis.

### Program Funding

The corporation receives funding under a competitive grant from HUD that offsets some of the costs of administering the program. Table 4.10 shows the amount the corporation has received from the grant in FY 2002 to FY 2006.

**Table 4.10**
**Family Self-Sufficiency Grant Funds**
**Received by the Kentucky Housing Corporation**
**Fiscal Year 2002 to Fiscal Year 2006**

| Fiscal Year | Amount Received |
|---|---|
| 2002 | $0 |
| 2003 | 148,818 |
| 2004 | 150,307 |
| 2005 | 146,500 |
| 2006 | 147,905 |
| Total | $593,590 |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

The corporation cannot dictate how families use funds received from the Family Self-Sufficiency program, although the corporation encourages families to use the funds to reduce debt, resolve credit issues, and purchase a home.

HUD does not allow the corporation to dictate how the credited funds are to be used by participants, and the corporation does not track how the family spends the money. However, corporation staff encourage families to reduce debt, resolve credit problems, and purchase a home. Of the 237 families who graduated from the program, 60 have reported that they purchased homes. The amounts dispersed to families ranged from $146 to $20,563.

Participating families do not have to complete the program to use their credited funds.

Participating families do not have to complete the program to use their credited funds. If the family is following program guidelines, it is allowed to withdraw money for specific uses that will help the family members become self-sufficient, such as paying expenses for a car for work purposes, reducing debt, or paying educational expenses. Table 4.11 shows the amount disbursed to participants in the program in FY 2002 to FY 2006.

**Table 4.11**
**Disbursements to Family Self-Sufficiency Participants**
**Fiscal Year 2002 to Fiscal Year 2006**

| Fiscal Year | Amount Disbursed |
|---|---|
| 2002 | $149,676 |
| 2003 | 112,568 |
| 2004 | 142,535 |
| 2005 | 170,676 |
| 2006 | 135,065 |
| Total | $710,520 |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

# Chapter 5

## Single-family Mortgage Programs

Through the Kentucky Housing Corporation, low- and moderate-income home buyers can purchase a home with relatively little investment and still receive interest rates that are competitive with the commercial mortgage market. The corporation is able to provide this service to eligible borrowers for three reasons. The corporation borrows its own funds in the bond market at relatively low interest rates. The corporation works with federal and private mortgage insurance companies that insure these kinds of loans. And finally, the corporation has its own and federal resources to provide down payment assistance to borrowers. This chapter discusses how state and federal governments and bond market participants limit the types of mortgage loans the corporation may make and to whom. The distribution of the corporation's mortgage funding throughout the state and to specific populations is then compared with the need for affordable housing in certain areas.

### Funding of First Mortgage Programs and Its Constraints

The corporation funds its first mortgage loan programs by issuing tax-exempt and taxable revenue bonds. A first mortgage loan is senior to other loans against the property in the event of a default.

The corporation funds its first mortgage loan business by issuing revenue bonds as authorized in KRS 198A.090. A first mortgage loan is senior to all other loans against the same property in the event of a default.[1] The corporation borrows money from investors in the bond market and uses the borrowed funds to originate first mortgage loans. The corporation then uses the monthly mortgage payments it receives from home buyers to repay the bondholders, with interest, the amount it has borrowed.

The tax-exempt funds allow the corporation to originate mortgages at low interest rates relative to the commercial mortgage market.

The corporation issues both tax-exempt and taxable revenue bonds. The tax status of the bonds issued determines whether the corporation will be able to originate mortgages at interest rates that are competitive with the commercial mortgage market. As a

[1]A mortgage loan is in default when the borrower fails to make the required principal and interest payments or otherwise fails to comply with the mortgage contract. Foreclosure becomes a possibility when a mortgage has been in default for multiple payment cycles, and the borrower has not arranged a remedy with the lender. Foreclosure is a legal process whereby the borrower's property rights are terminated. Typically, the property is sold and the proceeds are applied to the borrower's outstanding mortgage debts. A first mortgage has first claim. If the borrower had a second mortgage loan, any remaining proceeds after payment of the first mortgage would be applied toward that debt.

political subdivision of the Commonwealth, the corporation may issue a limited amount of tax-exempt bonds in which the interest income that bondholders receive for lending the corporation their money is exempt from federal income taxation. Because bondholders expect to receive this tax benefit, they will accept a lower interest rate than they would if the interest income was taxable. Commercial mortgage lenders pay higher rates because they do not receive this tax exemption. The corporation is able to borrow at a lower cost than commercial mortgage lenders, so it is able to offer competitive interest rates on mortgages.

**Tax-exempt Bonds**

To be able to issue tax-exempt bonds, the corporation must receive an allocation of the state's private activity bond cap and make loans to borrowers who meet eligibility criteria. The Kentucky Private Activity Bond Allocation Committee determines the amount of the state's private activity bond cap that the corporation receives.

To be able to issue bonds on a tax-exempt basis, the corporation must receive an allocation of the state's annual private activity bond cap, and make mortgage loans to home buyers who meet eligibility criteria.[2] Section 146 of the US Internal Revenue Code—the tax code—establishes a private activity bond cap limiting the amount of tax-exempt private activity bonds that may be issued in a state in a calendar year based on the state's population and adjusted for inflation. With private activity bonds, the proceeds are applied to a private business use instead of a governmental use. The Kentucky Housing Corporation's mortgage activities meet the Internal Revenue Code's definition of a private business use.

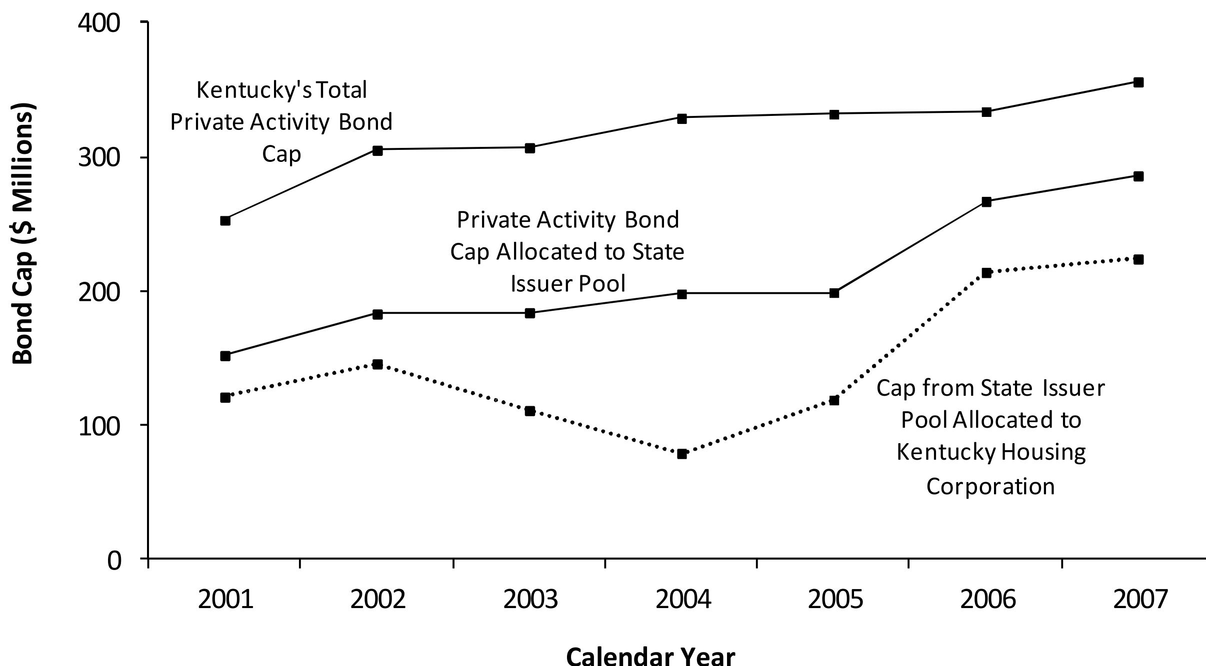
The US tax code allows states to allocate their private activity bond cap according to the state's own priorities. Kentucky's private activity bond cap is allocated by the Kentucky Private Activity Bond Allocation Committee pursuant to KRS 103.286. The committee's regulations at 200 KAR 15:010 specify that 80 percent of the cap is allocated to state debt issuers such as the Kentucky Housing Corporation and the Kentucky Higher Education Student Loan Corporation. The remaining 20 percent is allocated to local debt issuers, primarily for economic development purposes. Unused allocations are reallocated according to a lottery process.

[2]Most private activity bonds, including some bonds issued by the corporation, are subject to the Alternative Minimum Tax requirements of the US Internal Revenue Code. If a bondholder meets the criteria of the Alternative Minimum Tax, the interest income earned from holding the bonds may be incorporated into the process of determining the bondholder's overall tax liability.

The amount of bond cap the corporation received has increased since 2002.

Figure 5.A shows the corporation's allocation since 2001 by dollar amount in comparison to the total bond cap for all state issuers and for the state as a whole.

**Figure 5.A**
**Kentucky Housing Corporation's Share of Kentucky's Annual Private Activity Bond Cap**
**2002 to 2007**




Source: Prepared by Program Review staff from information obtained from the Finance and Administration Cabinet's Office of Financial Management.

The lowest annual allocation to the corporation was $79 million in FY 2004. Allocations have since increased to more than $200 million each year in FY 2006 and FY 2007. The corporation's lowest share of the total private activity bond cap was 24 percent in FY 2004. Its share has increased to more than 60 percent in FY 2006 and FY 2007.

The amount of existing mortgage loans that are prepaid in a year may be used to increase the amount of tax-exempt debt the corporation may issue.

The US tax code allows the corporation to add a portion of bonds being redeemed with mortgage prepayments to the total amount of tax-exempt debt the corporation may issue in a given year. (Home owners prepay their mortgages when they refinance their loans, for example.) These additional funds are referred to as "replacement refundings." For calendar year 2006, the corporation increased its tax-exempt bond issuance by $79.1 million in replacement refundings (Humble).

### Taxable Bonds

The corporation's tax-exempt bonding authority has not been sufficient to meet the demand for its mortgage loans. As a result, the corporation also has begun to issue taxable bonds. The corporation blends the interest rates on bond proceeds.

Although the share of the state's private activity bond cap that the corporation received in the past 2 years increased, the corporation's capacity to issue tax-exempt bonds has been insufficient to meet the demand for the corporation's mortgage loans. To meet this demand, the corporation has issued taxable bonds in addition to the maximum amount of tax-exempt bonds it can issue. With taxable bonds, the interest income that bondholders receive is subject to federal income taxation, and bondholders consequently charge a higher interest rate to borrow their funds than they do with tax-exempt bonds.

In 2006, the corporation closed approximately $515 million in mortgage loans. Of the $526.8 million of single-family housing revenue bonds it issued that year, $297.2 million, or 56 percent, were tax-exempt; and $229.6 million, or 44 percent, were taxable (Humble).[3]

The corporation uses blended rates to keep its mortgage interest rates competitive with commercial market rates. A blended rate results when the corporation issues some of the total tax-exempt bonds it may issue in a year with its taxable bonds and blends the interest rates on these bonds. To illustrate how a blended rate is achieved using an actual bond issue, consider the corporation's $75 million Kentucky Housing Corporation Housing Revenue Bonds 2007 Series G, H, I, and J issued in June 2007. The interest rate on the $41.25 million tax-exempt portion of this issue was 4.84 percent, and the interest rate on the $33.75 million taxable portion of the issue was 5.50 percent. The rate the corporation was able to achieve from blending these interest rates was about 5.12 percent (Humble).

If the corporation was able to address the demand for its mortgages with tax-exempt bonds only, it would be able to borrow funds to make mortgages at an interest cost lower than the blended rate. However, the blended rate is lower than the interest rate the corporation would have to pay if it acquired capital on an entirely taxable basis, like commercial market participants. Thus, the corporation is still able to pass a savings on to its borrowers.

[3]The amount of mortgages closed and the total amount of debt issued will not match exactly because the corporation uses some bond proceeds for other purposes. These purposes include paying for the cost of issuing the bonds and providing for a debt service reserve fund to pay debt service on the bonds temporarily if the mortgage payments it receives are insufficient to make a given debt service payment.

### Profitability of Mortgage Activity

The return the corporation expected to earn on the mortgage loans made from the above bond transaction was 6.15 percent. The 1.03 percent difference between the 6.15 percent interest rate on the mortgages and the 5.12 percent blended interest rate of the bonds represents the corporation's gross profit on this transaction. The US tax code limits the gross profits that the corporation may earn from mortgage activities financed through the sale of tax-exempt bonds to 1.125 percent.

Any profit that exceeds this threshold must be either rebated to the federal government or blended into the interest rates on future transactions, a practice called "buying down" the cost of funds. The Kentucky Housing Corporation, in this event, typically chooses the latter option (Humble). Although the US tax code does not restrict the profitability of mortgage activity funded exclusively with taxable bonds, in blended transactions, the profit is limited and must be distributed proportionately to the tax-exempt and taxable components.

The US tax code limits the profitability of the corporation's mortgage activities. The corporation uses the profits to pay for the mortgage programs' operating costs and for servicing the loans.

The corporation generally earns the maximum profit permissible on the tax-exempt component of bond issues; it generally breaks even or earns a narrow profit on the taxable component (Humble). Of the permissible 1.125 percent gross profit, 0.375 percent pays for servicing the loans originated and the remainder offsets the operating costs of the corporation's mortgage activities (McQuady and Clare. Personal. Oct. 15, 2007).[4]

If the corporation received a larger amount of private activity bond cap, it could serve a larger number of home buyers.

If the corporation received a larger share of the state's private activity bond cap, which would increase the amount of tax-exempt bonds the corporation could issue, it would be able to provide competitive loans for more eligible home buyers. However, allocating a larger share of the state's private activity bond cap to the Kentucky Housing Corporation would mean that other entities that receive an allocation from the cap, such as the Kentucky Higher Education Student Loan Corporation and local issuers, would have to receive a smaller allocation or no allocation at all.

[4]The corporation also generates income from certain administrative fees charged in the lending process. Fees not used for operating costs are used for other affordable housing program initiatives.

**Recommendation 5.1**

Recommendation 5.1

**If it is the intent of the General Assembly for the Kentucky Housing Corporation to increase its mortgage activity, then the General Assembly may wish to consider directing the Kentucky Private Activity Bond Allocation Committee to allocate a larger portion of the state's private activity bond cap to the corporation or to award the corporation a fixed percentage of the state's private activity bond cap.**

**Limit on Outstanding Debt**

The corporation will soon reach its statutory debt limit, which will significantly constrain its mortgage business. The 2005 General Assembly increased the statutory debt limit of the Kentucky Higher Education Student Loan Corporation, which operates on a similar model.

While the corporation is limited in the amount of tax-exempt bonds it may issue in a calendar year by its allocation of the state's annual private activity bond cap, the corporation is also limited in the cumulative amount of its outstanding debt. KRS 198A.090 states that the corporation may not have more than $2.5 billion of debt outstanding at one time. As of July 3, 2007, the corporation had $2.05 billion of bonds outstanding. Given the corporation's present level of mortgage activity, the corporation will require additional capacity to issue debt if it is to continue its lending practices beyond this fiscal year.

The Kentucky Higher Education Student Loan Corporation, which is similar to the Kentucky Housing Corporation in that it issues revenue bonds to make student loans, had a statutory limit on its debt outstanding of $1.95 billion. The 2005 General Assembly raised its debt limit to $5 billion.

The corporation's debt is supported by mortgage payments and not state appropriations. It is a moral obligation of the state.

Debt in the Commonwealth's General Fund, Agency Fund, and Road Fund is supported by state appropriations; the debt of the Kentucky Higher Education Student Loan Corporation and the Kentucky Housing Corporation is not. Some debt of the Student Loan Corporation and all the debt of the Kentucky Housing Corporation are considered a moral obligation of the Commonwealth. "Moral obligation" means that bond documents indicate that the entities will request financial assistance from the state in the event that they are unable to make the principal and interest payments owed on the bonds they have issued. However, under KRS 198A.070, the bond documents of the Kentucky Housing Corporation must state that the debt is not an obligation of the state. Market participants acknowledge that there may be political or other pressure for the state to assist the corporation if it becomes financially troubled. Thus, the corporation's debt may indirectly factor into the state's own capacity to issue additional debt.

**Recommendation 5.2**

Recommendation 5.2

**If it is the intent of the General Assembly for the Kentucky Housing Corporation to continue with its mortgage activities beyond the current fiscal year, the General Assembly may wish to consider amending KRS 198A.090 to increase the corporation's limit on outstanding bonded indebtedness.**

**Market Expectations**

The corporation's bond ratings affect the interest rate the corporation pays on its bonds and, consequently, the rates it charges mortgage borrowers. The corporation's bonds carry the highest bond ratings possible. The corporation was the first state housing finance agency to achieve these ratings.

Bond market participants also limit the amount of debt the corporation may issue and the corporation's profitability through their role in determining the interest cost of its bonds. Bonds are valued differently based on their tax status. In addition, bond market participants develop perceptions of a debt issuer's willingness and ability to repay what it borrows. If they perceive they are taking a higher risk in loaning their money to an issuer relative to other investment options, they will demand a higher interest rate. If they perceive they are taking less of a risk, they will demand a lower interest rate. Credit rating agencies, such as Moody's Investors Service and Standard and Poor's, provide investors with ratings or opinions about an issuer's willingness and ability to repay what it borrows. The interest rates debt issuers receive in the bond market are correlated with the issuers' ratings.

Since 1991, the corporation's debt has carried the highest ratings possible, Aaa from Moody's and AAA from Standard and Poor's (McQuady and Clare. Personal. Oct. 23, 2007). These ratings indicate that the rating agencies perceive the corporation to have the lowest level of risk relative to other municipal debt issuers. The corporation was the first among all state housing finance agencies to achieve these ratings. Having the highest ratings possible allows the corporation to borrow from investors at minimal interest cost relative to other debt issuers in the market. Borrowing at lower interest rates allows the corporation to provide loans to mortgage borrowers at competitive rates and maximize the profitability of its mortgage programs, which contributes to the corporation's independence from state assistance.

The corporation's mortgage loans must be insured or guaranteed by the federal government. The corporation also services 91 percent of the loans in its portfolio.

In justifying their ratings, Moody's and Standard and Poor's have noted the corporation's conservative loan portfolio and loan servicing practices. Substantially all of the corporation's mortgage loans must be insured or guaranteed. The corporation works with the Federal Housing Administration; the Veterans Administration, Rural Housing Services; and the Federal National Mortgage Association, or Fannie Mae, loan programs with private mortgage

insurance to fulfill this requirement. In order for its loans to be eligible for these insurance programs, the corporation must employ standard underwriting criteria and cannot engage in subprime lending.[5] The corporation also services approximately 91 percent of the loans in its portfolio, which allows the corporation to identify homeowners at risk for default who might benefit from its counseling programs (Flores; Parsons).

If the corporation's statutory debt limit is not raised, however, the corporation's ongoing mortgage lending activities would be restricted. This situation could potentially affect the rating agencies' perceptions of the corporation's creditworthiness.

## Eligibility for First Mortgage Loan Programs

The corporation's mortgage loans are available on a first-come, first-served basis. Because of the time sensitivity of the bond and mortgage markets, the corporation needs to make loans expediently and has automated this process.

All of the corporation's single-family first mortgage programs are available on a first-come, first-served basis, as long as there are funds available. The corporation uses a network of nonprofit organizations and approved lenders at banks around the state to market its mortgage programs and to serve as the point of contact with borrowers throughout the mortgage process. Funds may be reserved by an approved lender on a borrower's behalf through the corporation's online reservation system.

Making funds available on a first-come, first-served basis is both a method for distributing funds fairly and a product of the corporation's financial operations. Because interest rates in the bond and mortgage markets are always in flux, the corporation's financial operations are time sensitive. The corporation is unable to hold bond proceeds for long periods of time to ensure certain groups are represented in its lending practices. For this reason, the programs the corporation has available to make mortgage loans only to specific populations are not funded with new bond money.

[5]Subprime lending involves making mortgage loans to borrowers with poor credit histories.

The corporation works with for-profit lenders and nonprofit organizations.

Table 5.1 shows the number of loans originated by the Kentucky Housing Corporation by the borrower's point of contact with the corporation, either a nonprofit organization or an approved lender. Most of the corporation's loans are made through its network of approved lenders.

**Table 5.1**
**First Mortgage Loans Originated by Borrower's Point of Contact**
**2002 to 2006**

| Calendar Year | Nonprofit Organization | Approved Lender |
|---|---|---|
| 2002 | 19 | 3,118 |
| 2003 | 6 | 2,439 |
| 2004 | 6 | 2,929 |
| 2005 | 29 | 3,776 |
| 2006 | 43 | 5,175 |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

The tax code specifies the types of households that may benefit from tax-exempt bond-funded mortgages.

Because the mortgages are largely funded with tax-exempt bond proceeds, the corporation is limited in the populations it may serve by specific provisions of the US tax code (Internal Revenue Code, Section 103). Although the corporation or policy makers may identify other populations that would benefit from this service, the source of funding determines who the corporation may serve.

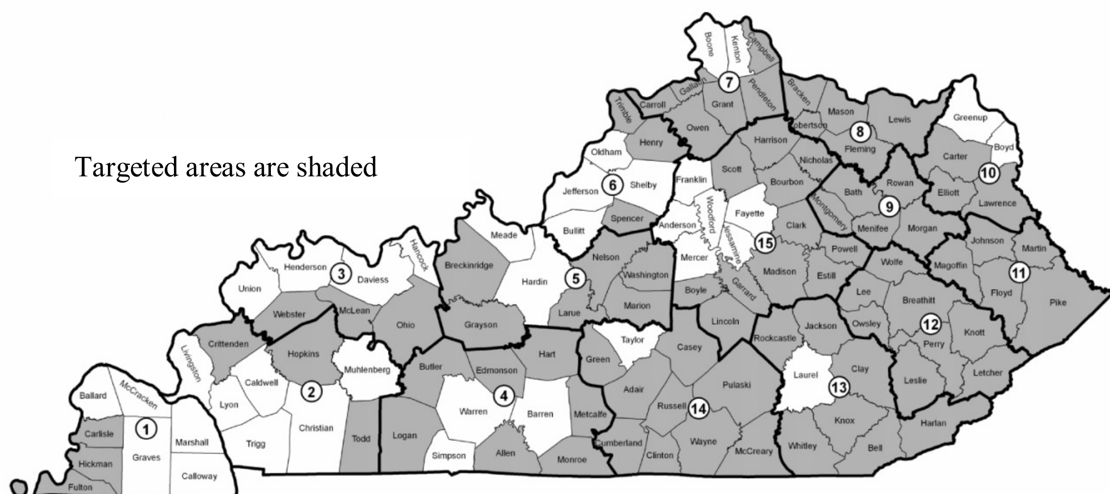
### Geographic Requirements

Twenty percent of new bond proceeds must be used to make loans to households in targeted areas. In a targeted area, at least 70 percent of the families have incomes at or below 80 percent of the area median family income.

The US tax code requires the corporation to set aside a minimum of 20 percent of all new bond proceeds for 1 year to use in targeted areas. A targeted area is a census tract where, in the most recent decennial census, 70 percent or more of the families have incomes at or below 80 percent of the median family income. However, the amount made available does not need to exceed 40 percent of the average total principal amount of single-family mortgages the corporation made during the previous 3 calendar years.

The counties in Kentucky that are considered targeted areas are shown in Figure 5.B. The targeted areas are shaded. Of mortgages made from the corporation's new bond money in FY 2006, 73 percent were for borrowers in nontargeted areas and 27 percent were for borrowers in targeted areas. In FY 2005, 67 percent were for borrowers in non-targeted areas and 33 percent were for borrowers in targeted areas (Davidson. "LRC").

**Figure 5.B**
**Counties That Are Targeted Areas**




Note: A targeted area is a census tract in which 70 percent or more of the families have incomes of 80 percent or less of the median family income.
Area Development Districts: 1=Purchase; 2=Pennyrile; 3=Green River; 4=Barren River; 5=Lincoln Trail; 6=KIPDA; 7=Northern Kentucky; 8=Buffalo Trace; 9=Gateway; 10=FIVCO; 11=Big Sandy; 12=Kentucky River; 13=Cumberland Valley; 14=Lake Cumberland; 15=Bluegrass.
Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

### Purchase Price Requirements

The US tax code limits the purchase price of homes financed with new bond money.

The US tax code likewise limits the price of the residence that may be funded with new bond money. For first mortgages generally, the purchase price of the financed residence must not exceed 90 percent of all single-family residential sales in that statistical area in the last 12 months. For targeted areas, the purchase price is limited to 110 percent of the average area purchase price. Table 5.2 below shows the average purchase price of the mortgages originated in the past 5 years.

**Table 5.2**
**Average Purchase Price of First Mortgage Loans Originated 2002 to 2006**

| Calendar Year | Average Purchase Price |
|---|---|
| 2002 | $80,140 |
| 2003 | 86,687 |
| 2004 | 90,520 |
| 2005 | 97,498 |
| 2006 | 103,940 |

Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

## Income Requirements

The US tax code also limits the incomes of home buyers who qualify for a mortgage made from new tax-exempt bond proceeds. If the corporation funded its mortgages with taxable bonds only, it would not be subject to the US tax code's income limits. However, KRS 198A.010(13) incorporates the US tax code's income limits into the definition of who the corporation may serve. Therefore, the US tax code's income limits apply to all the corporation's mortgages regardless of funding source.

Eligible borrowers must have incomes at or below 115 percent of the area median family income. One-third of mortgages may be made to residents in targeted areas regardless of the families' incomes. If this requirement is met, the remaining families may have incomes of up to 140 percent of the area median.

Eligible borrowers must have a family income of 115 percent or less of the median family income for their area. As with purchase price requirements, the US tax code makes certain adjustments as the corporation makes loans to home buyers in targeted areas. One-third of the mortgages may be made to residents of targeted areas regardless of income limitations. If one-third of the mortgages are made to residents of targeted areas, the corporation may make the remaining two-thirds of mortgages to families at or below 140 percent of the area median family income. Thus, the US tax code allows the corporation to make loans to families at higher incomes as it makes more loans to families in targeted areas.

The tax code specifies that the area median family incomes produced by HUD in accordance with Section 8 regulations must be used in the above calculations. These medians are included in Appendix C. This requirement ensures that both subsidized rental and mortgage programs allocate their resources to families based on the same demographic information. However, the income requirements for tax-exempt bond financed mortgages target a

wider range of incomes than does Section 8 rental assistance. Whereas only low-income families are eligible for Section 8 rental assistance, both low- and moderate-income households are eligible for subsidized first mortgages.

Table 5.3 depicts the total first mortgage loans originated by the corporation since 2002 by the home buyers' family income as a percentage of the area median family income applying to that home buyer. The income ranges used in the table correspond to HUD's definition family income:

- low—80 percent or less of area median,
- very low—50 percent or less of area median, and
- extremely low—30 percent or less of area median.

Families with incomes above 80 percent of the area median, but below the US tax code's income limits for mortgage eligibility, are considered moderate-income families.

**Table 5.3**
**First Mortgage Loans by Family Income of Home Buyer**
**2002 to 2006**

| | Home Buyers' Income as % of Area Median Family Income | | | | |
|---|---|---|---|---|---|
| | 0-30% | 31-50% | 51-80% | > 80% | Total |
| **Calendar Year** | **Dollar Value of Loans** | | | | |
| 2002 | $3,600,017 | $14,903,436 | $90,139,821 | $135,707,420 | $244,350,694 |
| 2003 | 979,666 | 11,074,312 | 70,882,655 | 125,452,543 | 208,389,175 |
| 2004 | 1,263,119 | 11,310,808 | 83,169,313 | 162,113,745 | 257,856,985 |
| 2005 | 2,220,374 | 14,757,861 | 119,260,854 | 221,756,804 | 357,995,894 |
| 2006 | 4,414,591 | 17,490,672 | 138,570,777 | 354,717,834 | 515,193,875 |
| | **Annual Percentage Change** | | | | |
| 2003 | -72.8% | -25.7% | -21.4% | -7.6% | -14.7% |
| 2004 | 28.9 | 2.1 | 17.3 | 29.2 | 23.7 |
| 2005 | 75.8 | 30.5 | 43.4 | 36.8 | 38.8 |
| 2006 | 98.8 | 18.5 | 16.2 | 60.0 | 43.9 |
| **Average Growth Rate** | 5.2% | 4.1% | 11.3% | 27.2% | 20.5% |
| | **Percentage of Total Available Resources** | | | | |
| 2002 | 1.5% | 6.1% | 36.9% | 55.5% | 100.0% |
| 2003 | 0.5 | 5.3 | 34.0 | 60.2 | 100.0 |
| 2004 | 0.5 | 4.4 | 32.3 | 62.9 | 100.0 |
| 2005 | 0.6 | 4.1 | 33.3 | 61.9 | 100.0 |
| 2006 | 0.9 | 3.4 | 26.9 | 68.9 | 100.0 |
| **Average Share** | 0.7% | 4.6% | 32.5% | 61.7% | |

Note: Percentages of Total Annual Resources may not total to 100.0 percent due to rounding.
Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

As the corporation's total mortgage resources have increased, the number of loans made to families with moderate incomes has increased at the fastest pace. Families with moderate incomes receive the largest share of the corporation's mortgage resources.

The data show that as the total resources available to the corporation have increased, loans made to moderate-income families have increased at a higher rate than the loans made to families with low, very low, and extremely low incomes. The total dollar amount of mortgages made to moderate-income families grew at an average rate of 27.2 percent. This growth rate is higher than the average growth rate for mortgage loans in total. The average growth rate for low-income families is the second highest at 11.3 percent. The average growth rate for extremely low-income families was higher than that of very low-income families. However, the growth in general was weighted toward the families with higher incomes.

The table also shows the trend in terms of the income groups' changing share of the corporation's total first mortgage resources. The resources allocated to low-, very low-, and extremely low-income families as a percentage of total resources available decreased overall from FY 2002 to FY 2006. The resources allocated to moderate-income families as a percentage of the total resources available, on the other hand, have been increasing. The majority (61.7 percent) of available resources has been used to make loans to moderate-income families. As the income ranges decrease as a percentage of the area median family income, the groups' share of total resources also decreases.

The corporation allocates its mortgage resources as required by state and federal laws and regulations. While low-income and extremely low-income families receive a smaller share of the corporation's mortgage resources, when the amount of rental assistance received by these families is taken into consideration, the corporation's use of its total resources appears evenly balanced across the various income levels.

Three things are important to note in reviewing the data. First, while it does appear that a disproportionate amount of the corporation's resources serves families at higher income levels, all of these families meet the income criteria of the US tax code and state law, which define the types of families the corporation serves. Second, the corporation does not have any particular policy in place that may be responsible for this trend. Mortgages are available on a first-come, first-served basis through an automated system. Third, aside from down payment assistance, the corporation does not have other programs directed at serving moderate-income families. The corporation's mortgage activities constitute about half of the corporation's business. The other half is the administration of rental assistance to low-, very low-, and extremely low-income families. Although these families may not receive the largest share of the corporation's mortgage resources, they do receive a proportionate share of the corporation's total resources. These families also receive assistance from local agencies outside the corporation's jurisdiction.

### First-time Homebuyer Requirement

Borrowers must be first-time home buyers unless they are in a targeted area or previously owned a manufactured home. The corporation has used some funds not subject to this requirement to assist elderly and disabled families in unsuitable homes.

Borrowers receiving loans from new bond money must be first-time home buyers. A first-time home buyer is a person who has not had an ownership interest in his or her principal residence during the 3 years prior to the loan's closing date.

There are circumstances whereby the corporation may lend to home buyers who do not meet this requirement:

- The requirement does not apply if the borrower is in a targeted area or if the borrower previously owned a manufactured home.
- The requirement does not apply to the resources the corporation has from home buyers prepaying loans—as when home buyers refinance an existing loan—made from bonds issued prior to 1980.
- The US tax code allows the corporation to make loans to home buyers who do not meet the first-time home buyer requirement with up to 5 percent of the corporation's tax-exempt bond proceeds.
- The requirement does not apply to loans made exclusively from taxable bond proceeds.

Table 5.4 shows the percentage of the corporation's total first mortgage loans made to first-time homebuyers for 2002 to 2006. The percentage of first-time home buyers decreased during the period, but this trend is atypical for the corporation and may be attributed to temporary conditions. As interest rates in the market declined to historic lows, a large number of the corporation's borrowers with existing loans predating 1980 refinanced their mortgages. The corporation gave priority in the use of these funds to groups the corporation typically has fewer resources to serve. These groups included elderly and disabled families who already owned a home, but the home did not match their needs because of affordability or mobility problems. The corporation also made a greater number of conventional loans with exclusively taxable bond proceeds (McQuady and Clare. Personal. Oct. 18, 2007).

**Table 5.4**
**First Mortgage Loans to First-time Homebuyers as a Percentage of Total Loans**
**2002 to 2006**

| Calendar Year | First-time Homebuyers |
|---|---|
| 2002 | 93% |
| 2003 | 91 |
| 2004 | 87 |
| 2005 | 83 |
| 2006 | 81 |

Source: Prepared by Program Review staff with information provided by the Kentucky Housing Corporation.

### Other Requirements

Other requirements are as follows:
- All loans must be insured or guaranteed.
- Borrowers must be United States citizens or resident aliens.
- The financed property must be the borrower's principal residence within 60 days of closing.
- The financed property must be a single-family dwelling, either attached or detached.
- The mortgage loan must be a new mortgage loan. Refinancings of existing loans are not eligible (Davidson. "LRC").

## Special First Mortgage Programs

The corporation has special programs funded by earnings on its debt service reserve fund to assist single-parent, disabled, and elderly households.

The corporation created two special first mortgage programs to address the needs of specific populations: the New Construction Program for Single-Parent, Disabled, and Elderly Households and the Coming Home program. Both programs are funded from the corporation's bond indenture trust fund. Each bond issue must have a trustee to act as a fiduciary on behalf of bondholders regarding the custody of bond proceeds. The trustee ensures that bond proceeds are directed to the purpose stated in the bond indenture. A bond indenture is a legal contract between the issuer of the bonds, in this case, the Kentucky Housing Corporation, and the trustee regarding the appropriate use of bond proceeds.

In addition to originating mortgage loans meeting the corporation's eligibility criteria, an appropriate use of bond proceeds is funding the Debt Service Reserve Fund. This fund exists to pay the corporation's required principal and interest payments on its bonds

in the event the corporation does not have sufficient money to do so. The bond indenture requires the corporation to keep a specific amount of money in the reserve fund relative to the corporation's amount of outstanding bonded indebtedness. As the corporation retires outstanding bonds and earns income from the investment of the money held in the fund, the fund may have more money in it than is required. When the money in this reserve fund is above the required level, the corporation transfers the surplus from the Debt Service Reserve Fund to the corporation's bond indenture trust fund, where they can be used to originate loans under these special programs.

Table 5.5 shows the dollar amount of mortgages originated from the bond indenture trust fund for FY 2002 to FY 2006.

**Table 5.5**
**Special First Mortgage Programs**
**Fiscal Year 2002 to Fiscal Year 2006**

| Fiscal Year | Total Special First Mortgages |
|---|---|
| 2002 | $6,012,831 |
| 2003 | 7,899,709 |
| 2004 | 5,953,894 |
| 2005 | 2,221,338 |
| 2006 | 2,316,112 |

Source: Prepared by Program Review staff with information provided by the Kentucky Housing Corporation.

**New Construction Program for Single-parent, Disabled, and Elderly Households**

Households eligible for this program are single parents with at least one dependent who is younger than age 18, households in which one of the buyers is age 62 or older, and households in which one member has a permanent disability and receives disability income. The interest rates on these loans range from 1 percent to 6 percent.

Other requirements are that
- the gross annual income for all household occupants over age 18 cannot exceed $28,000 for households of one or two people and $33,000 for households with three or more people,
- the property must be new construction property, and
- the purchase price of the property cannot exceed $115,000.

In 2007, the corporation created a Mortgage Revenue Bond Trust Fund to set aside a portion of the funds available for this program for use only by nonprofit organizations that have partnered with the corporation to originate single-family mortgage loans. Loans made from the Mortgage Revenue Bond Trust Fund have the same eligibility requirements as the New Construction program. The only difference between the two programs is that the home buyer works with the corporation through a nonprofit organization and not through the corporation's network of approved lenders. The corporation anticipates that this set-aside program will increase its service to households in rural areas (Davidson. "LRC").

**Coming Home Program**

The Coming Home program serves the same single-parent, disabled, and elderly households as the above program, but it provides funds for existing property as opposed to new construction. This program has the same income, purchase price, and credit requirements as the above program. Coming Home mortgages likewise have rates ranging from 1 percent to 6 percent.

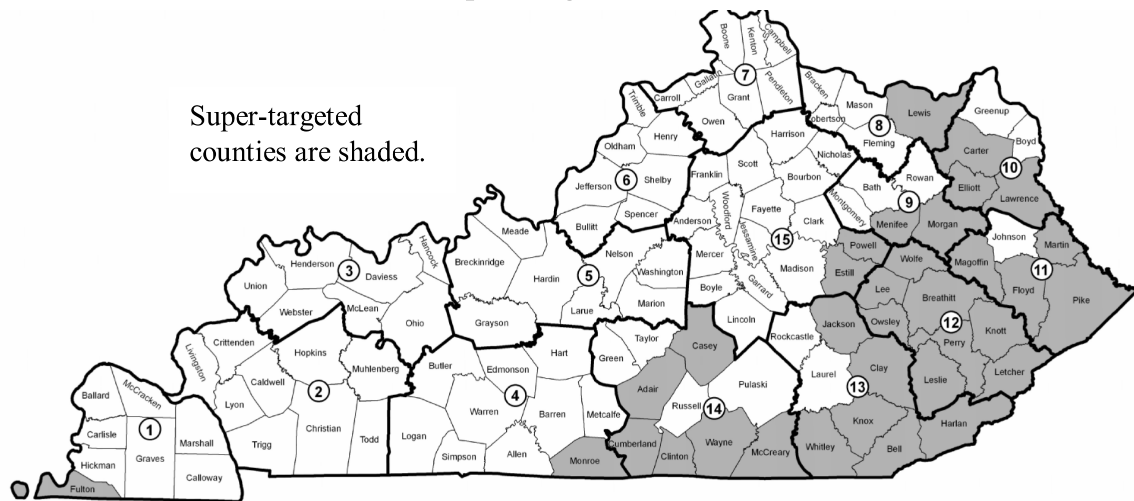
**Super-targeted County Designation**

The corporation has designated 35 rural counties as super-targeted counties; it reduces the interest rates for loans in those areas by 1 percent.

The corporation introduced a super-targeted county designation in 2007 akin to the targeted county designation delineated in the US tax code. The new designation applies to 35 rural Kentucky counties that have poverty rates greater than 20 percent. Households in these areas applying for first mortgages are eligible for a 1 percent reduction in the interest rate on their loans.

Figure 5.C shows the counties the corporation designated as super-targeted. From October 2005 to September 2006—the year before the corporation initiated the program—150 loans were made to residents in super-targeted areas. From October 2006 to September 2007—the year after the corporation initiated the program—289 loans were made to residents in super-targeted areas (McQuady. Personal).

**Figure 5.C**
**Super-targeted Counties**




Note: The 35 super-targeted counties are rural and have poverty rates of greater than 20 percent. Area Development Districts: 1=Purchase; 2=Pennyrile; 3=Green River; 4=Barren River; 5=Lincoln Trail; 6=KIPDA; 7=Northern Kentucky; 8=Buffalo Trace; 9=Gateway; 10=FIVCO; 11=Big Sandy; 12=Kentucky River; 13=Cumberland Valley; 14=Lake Cumberland; 15=Bluegrass.
Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

The corporation made 66 percent more loans in 2006 than it did in 2002. The total dollar amount of loans made by the corporation in 2006 was 111 percent higher than in 2002.

Table 5.6 shows the total number and the total dollar amount of first mortgage loans made by the corporation from 2002 to 2006. The number of loans made by the corporation in 2006 was 66 percent higher than the number made in 2002. The total dollar amount of loans made by the corporation in 2006 was 111 percent higher than in 2002. This change was due to increased overall demand for mortgages, the corporation's use of taxable bonds to supplement its tax-exempt borrowing capacity, and the corporation's increasingly automated underwriting practices.

**Table 5.6**
**First Mortgage Loans**
**2002 to 2006**

| Calendar Year | Loans | Amount |
|---|---|---|
| 2002 | 3,137 | $244,350,694 |
| 2003 | 2,445 | 208,389,176 |
| 2004 | 2,935 | 257,856,985 |
| 2005 | 3,805 | 357,995,893 |
| 2006 | 5,218 | 515,193,874 |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

The Bluegrass, KIPDA, and Northern Kentucky Area Development Districts have received the largest shares of the corporation's mortgage funding, which corresponds to the areas of the state with the largest concentrations of families with unaffordable housing cost burdens.

Table 5.7 shows the total dollar amount of mortgages from 2002 to 2006 by area development district. The Bluegrass district received the highest amount of funding each year, followed by KIPDA and Northern Kentucky. These are the most populous areas in the state and have the highest numbers of renters with unaffordable housing cost burdens who would benefit from a competitive-rate mortgage. Although KIPDA is the state's most populous district and has the most residents with unaffordable housing costs, the Bluegrass Area Development District received more funding.

**Table 5.7**
**Dollar Amount of First Mortgage Loans Per Area Development District**
**2002 to 2006**

| Area Development District | Calendar Year | | | | | Average Annual Rate of Change |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | |
| Purchase | $3,118,553 | $2,056,251 | $3,422,109 | $3,747,682 | $4,854,168 | 11.7% |
| Pennyrile | 9,709,197 | 8,185,385 | 9,903,430 | 12,058,005 | 14,858,039 | 11.2 |
| Green River | 4,015,308 | 3,005,907 | 4,592,271 | 7,119,362 | 14,428,912 | 37.7 |
| Barren River | 14,606,245 | 11,617,045 | 13,668,332 | 17,856,071 | 25,869,949 | 15.4 |
| Lincoln Trail | 17,535,591 | 18,683,191 | 21,513,995 | 28,731,652 | 30,764,007 | 15.1 |
| KIPDA | 82,189,558 | 62,551,482 | 78,768,667 | 106,752,683 | 149,183,932 | 16.1 |
| Northern Kentucky | 15,917,410 | 18,732,763 | 23,264,080 | 35,929,636 | 60,685,135 | 39.7 |
| Buffalo Trace/Gateway | 2,521,501 | 3,664,461 | 3,502,657 | 6,480,661 | 9,519,226 | 39.4 |
| FIVCO | 3,248,464 | 2,074,723 | 2,663,680 | 2,461,422 | 2,117,296 | -10.1 |
| Big Sandy | 2,756,224 | 2,012,577 | 1,303,478 | 1,760,334 | 1,977,486 | -8.0 |
| Kentucky River | 1,164,106 | 333,316 | 327,219 | 473,574 | 1,072,725 | -2.0 |
| Cumberland Valley | 5,462,595 | 3,626,262 | 5,439,973 | 4,321,968 | 5,250,534 | -1.0 |
| Bluegrass | 70,518,211 | 63,543,882 | 80,819,894 | 118,944,754 | 183,596,710 | 27.0 |
| Kentucky | $244,350,694 | $208,389,176 | $257,856,985 | $357,995,893 | $515,193,874 | 20.5% |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

The Kentucky River Area, Big Sandy, and FIVCO Area Development Districts receives the least amount of mortgage resources.

The Kentucky River Area Development District receives the least amount of mortgage resources, followed by Big Sandy and FIVCO. The eastern, and particularly southeastern, Kentucky area development districts receive lower shares of the total mortgage resources. These areas have the lowest number of people with unaffordable housing costs, but they also have smaller populations.

The FIVCO Area Development District stands out in terms of its housing demographics. The district's number of renters with unaffordable housing cost burdens is one of the lowest in the state. However, its number of renter families with unaffordable cost burdens as a percentage of total renter families in the district ranks highest in the state. Approximately 60 percent of the total renter-occupied units in the district are rented by families with incomes below 80 percent of the area median who are spending more than 30 percent of their incomes on rent.

From 2002 to 2006, the Northern Kentucky, Buffalo Trace/Gateway, and Green River Area Development Districts had their total amount of mortgage loans increase at the highest rates.

From 2002 to 2006, the Northern Kentucky, Buffalo Trace/Gateway, and Green River Area Development Districts had their total amount of mortgage loans increase at the highest rates. Conversely, the total amounts of mortgage loans decreased in FIVCO, Big Sandy, Kentucky River, Lake Cumberland, and Cumberland Valley Area Development Districts, all in eastern and southeastern Kentucky.

Table 5.8 further illustrates how the percentage share of the corporation's total resources for each area development district has changed. On average, the largest shares of the total mortgage funds have been used by Bluegrass, KIPDA, and Northern Kentucky. Both the Bluegrass and Northern Kentucky Area Development Districts have had an increasing share of the corporation's total mortgage resources. While KIPDA receives one of the largest shares, its share has decreased since 2002. Eight other area development districts have decreasing shares of the corporation's total mortgage activity.

**Table 5.8**
**Area Development Districts' Percentage Shares of First Mortgage Resources**
**2002 to 2006**

| Area Development District | Calendar Year | | | | | 5-year Average |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | |
| Purchase | 1.3% | 1.0% | 1.3% | 1.0% | 0.9% | 1.1% |
| Pennyrile | 4.0 | 3.9 | 3.8 | 3.4 | 2.9 | 3.6 |
| Green River | 1.6 | 1.4 | 1.8 | 2.0 | 2.8 | 1.9 |
| Barren River | 6.0 | 5.6 | 5.3 | 5.0 | 5.0 | 5.4 |
| Lincoln Trail | 7.2 | 9.0 | 8.3 | 8.0 | 6.0 | 7.6 |
| KIPDA | 33.6 | 30.0 | 30.5 | 29.8 | 29.0 | 30.6 |
| Northern Kentucky | 6.5 | 9.0 | 9.0 | 10.0 | 11.8 | 9.1 |
| Buffalo Trace/Gateway | 1.0 | 1.8 | 1.4 | 1.8 | 1.8 | 1.5 |
| FIVCO | 1.3 | 1.0 | 1.0 | 0.7 | 0.4 | 0.8 |
| Big Sandy | 1.1 | 1.0 | 0.5 | 0.5 | 0.4 | 0.6 |
| Kentucky River | 0.5 | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 |
| Cumberland Valley | 2.2 | 1.7 | 2.1 | 1.2 | 1.0 | 1.6 |
| Lake Cumberland | 4.7 | 4.0 | 3.4 | 3.2 | 2.1 | 3.4 |
| Bluegrass | 28.9 | 30.5 | 31.3 | 33.2 | 35.6 | 31.8 |
| Kentucky | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Note: Percentages may not add to 100.0 due to rounding.
Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

The number of loans originated in FIVCO, Big Sandy, Kentucky River, Cumberland Valley, and Lake Cumberland has been decreasing even as the total number of loans made in the state has been increasing.

Table 5.9 shows that most loans were made in the Bluegrass, KIPDA, and Northern Kentucky Area Development Districts. This would suggest that higher purchase prices in these more populous areas were not responsible for the higher total amount of resources these districts utilize. The number of loans originated in the FIVCO, Big Sandy, Kentucky River, Cumberland Valley, and Lake Cumberland Area Development Districts is decreasing.

**Table 5.9**
**First Mortgage Loans Per Area Development District**
**2002 to 2006**

| Area Development District | Calendar Year 2002 | 2003 | 2004 | 2005 | 2006 | Average Annual Growth Rate |
|---|---|---|---|---|---|---|
| Purchase | 53 | 34 | 55 | 58 | 72 | 8.0% |
| Pennyrile | 160 | 129 | 150 | 174 | 208 | 6.8 |
| Green River | 64 | 46 | 65 | 101 | 176 | 28.8 |
| Barren River | 206 | 151 | 182 | 215 | 303 | 10.1 |
| Lincoln Trail | 225 | 228 | 255 | 320 | 338 | 10.7 |
| KIPDA | 1,004 | 698 | 859 | 1,087 | 1,470 | 10.0 |
| Northern Kentucky | 190 | 209 | 244 | 358 | 587 | 32.6 |
| Buffalo Trace/Gateway | 33 | 49 | 43 | 82 | 110 | 35.1 |
| FIVCO | 53 | 32 | 39 | 32 | 29 | -14.0 |
| Big Sandy | 40 | 28 | 19 | 24 | 23 | -12.9 |
| Kentucky River | 18 | 5 | 5 | 7 | 11 | -11.6 |
| Cumberland Valley | 80 | 50 | 69 | 55 | 61 | -6.6 |
| Lake Cumberland | 168 | 117 | 118 | 142 | 135 | -5.3 |
| Bluegrass | 843 | 669 | 832 | 1,150 | 1,695 | 19.1 |
| Kentucky | 3,137 | 2,445 | 2,935 | 3,805 | 5,218 | 13.6% |

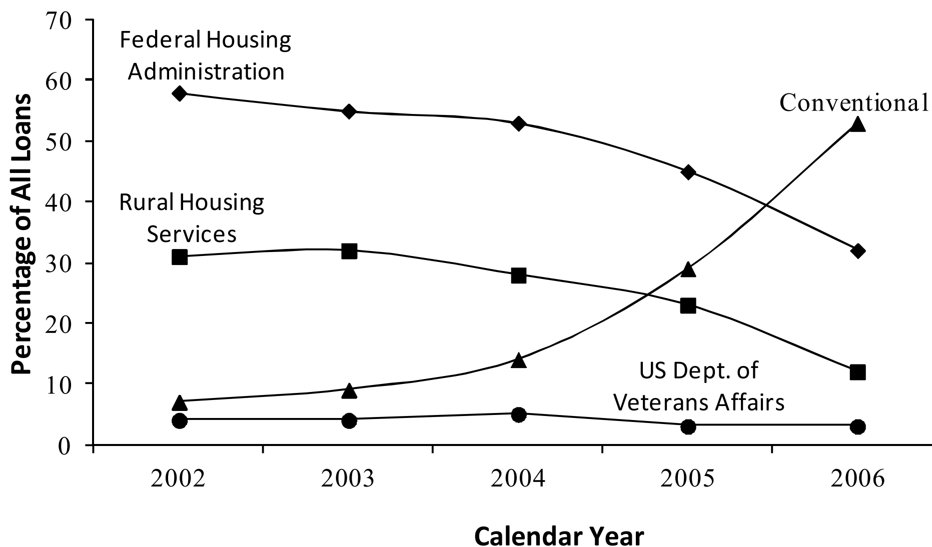
Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

Whether the trends demonstrated in mortgage funding across the area development districts indicate that the areas with the greatest need are receiving the most funding depends on how need is defined. The areas with the largest populations with unaffordable housing cost burdens are receiving the most resources. However, the eastern and southeastern regions of the state, where high percentages of the population have unaffordable housing cost burdens, are receiving less funding over time. Because funds are available on a first-come, first-served basis, this trend may be due to difficulty in marketing the mortgage loans in a rural environment. These populations may not have access to the network of approved lenders the other areas have. It is also possible that the corporation's mortgage products, while available at below-market rates, are still unaffordable to residents in these areas. If this is true, the corporation's new super-targeted county designation may increase the mortgage resources in eastern Kentucky.

The amount of conventional loans the corporation makes has increased since 2002.

Figure 5.D shows how the types of first mortgage loans the corporation makes have shifted since 2002. The number of loans guaranteed by the US Department of Veterans Affairs has remained relatively stable. However, the number of loans backed by the Federal Housing Administration has decreased from 58 percent of total loans in 2002 to 38 percent in 2006. Likewise, the number of loans backed by Rural Housing Services has decreased from 31 percent of total loans in 2002 to 12 percent in 2006. The number of conventional loans with private mortgage insurance, on the other hand, has increased from 7 percent of total loans in 2002 to 53 percent in 2006. Whereas the majority of the loans the corporation made in 2002 were insured through the Federal Housing Administration, the majority in 2006 were privately insured.

**Figure 5.D**
**First Mortgage Loans by Insurance/Guarantee Type**




Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

The corporation had made conventional loans to borrowers through certain programs offered by Fannie Mae. Beginning in June 2005, the corporation increased its conventional loan marketing through its “Ready Rate” program. The corporation promoted conventional loans as being faster and easier for borrowers than their alternatives. Fannie Mae has also added new options to its conventional loans, including 100 percent financing and allowing certain types of second mortgages. Under some circumstances, Fannie Mae decreased the private mortgage insurance requirements on its loans. This reduces the borrower’s costs

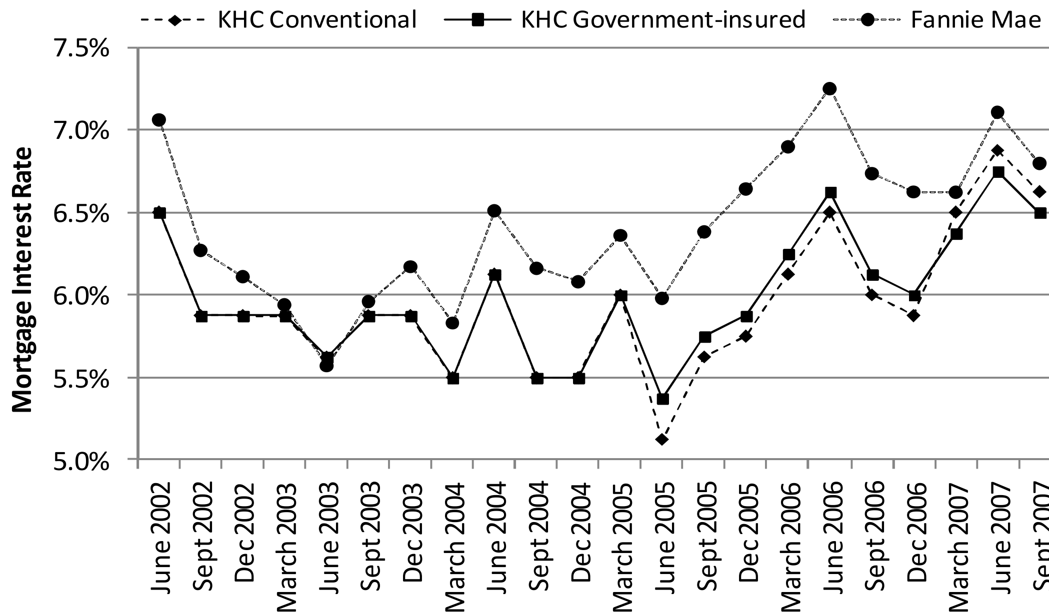
associated with the mortgage and makes the mortgage program more attractive in the marketplace. Fannie Mae has also made changes that negatively impact the profitability of its products for commercial mortgage lenders. As these changes do not apply to state housing finance agencies, the corporation is able to offer Fannie Mae's programs at lower interest rates than commercial lenders can offer, which has increased the demand for the corporation's mortgage programs (McQuady. "Super").

The mortgage activity is a small component of the overall market in comparison to commercial lenders.

Although the corporation competes in the market as it offers these types of loans, its mortgage activity is a small component of the overall market in comparison to commercial lenders. According to a recent study from the US Government Accountability Office, federally insured or guaranteed mortgages comprise approximately 3 percent of total mortgage originations in the United States (*Information* 2).

Figure 5.E shows the interest rates on corporation loans insured by the Federal Housing Administration and on corporation and Fannie Mae conventional loans with private mortgage insurance. Through March 2005, the corporation's conventional and government-insured loans had the same interest rates. Since then, interest rates on the two types of loans have differed by 0.1 to 0.3 percentage points. The interest rate for Fannie Mae conventional loans has typically been higher than for the other two types. The largest difference was .7 percentage points in 2005. In 2007, the differences in interest rates among the types of loans have been smaller.

**Figure 5.E**
**Interest Rates for Kentucky Housing Corporation Loan Programs**
**June 2002 to September 2007**




Note: KHC=Kentucky Housing Corporation. Rates may vary depending on borrowers' characteristics. The dotted line representing the corporation's conventional loans is obscured by the solid line representing government-insured loans through March 2005 because the two types of loans had the same interest rates.
Source: Kentucky Housing Corporation.

Table 5.10 shows four underwriting statistics relating to the corporation's first mortgage portfolio as a whole from 2002 to 2006. The average dollar amount of loans increased 27 percent since calendar year 2002. The average ratio of the loan amount to property value decreased slightly. Loans with down payment assistance also decreased. The average credit score improved by 15 points.

**Table 5.10**
**Underwriting Statistics**
**2002 to 2006**

| Calendar Year | Average Loan Amount | Average Ratio of Loan Amount to Property Value | % of Loans With Down Payment Assistance | Average Credit Score |
|---|---|---|---|---|
| 2002 | $77,885 | 96% | 48% | 678 |
| 2003 | 85,231 | 97 | 51 | 681 |
| 2004 | 87,856 | 97 | 48 | 680 |
| 2005 | 94,076 | 96 | 46 | 686 |
| 2006 | 98,706 | 95 | 40 | 693 |

Source: Prepared by Program Review staff with information provided by the Kentucky Housing Corporation.

Most of the corporation's mortgage loans are for existing properties.

Table 5.11 shows the percentage of loans from 2002 to 2006 for newly constructed and existing properties. More than 80 percent of the corporation's mortgage funds were used to finance existing properties.

**Table 5.11**
**First Mortgage Loans by Property Type**
**2002 to 2006**

| Calendar Year | Percentage of Total: Existing Properties | Percentage of Total: New Construction |
|---|---|---|
| 2002 | 81% | 19% |
| 2003 | 82 | 18 |
| 2004 | 84 | 16 |
| 2005 | 86 | 14 |
| 2006 | 87 | 13 |

Source: Prepared by Program Review staff with information provided by the Kentucky Housing Corporation.

Since 2002, the percentage of loans made to single parents has slightly decreased. The percentage of loans made to elderly and disabled families has increased.

Table 5.12 shows the percentage of total loans made to single-parent, elderly, and disabled households from 2002 to 2006. It appears that the percentage of loans made to single-parent households has slightly decreased relative to the total number of loans made. The percentage of loans made to elderly households has remained steady, while the percentage to disabled households has slightly increased.

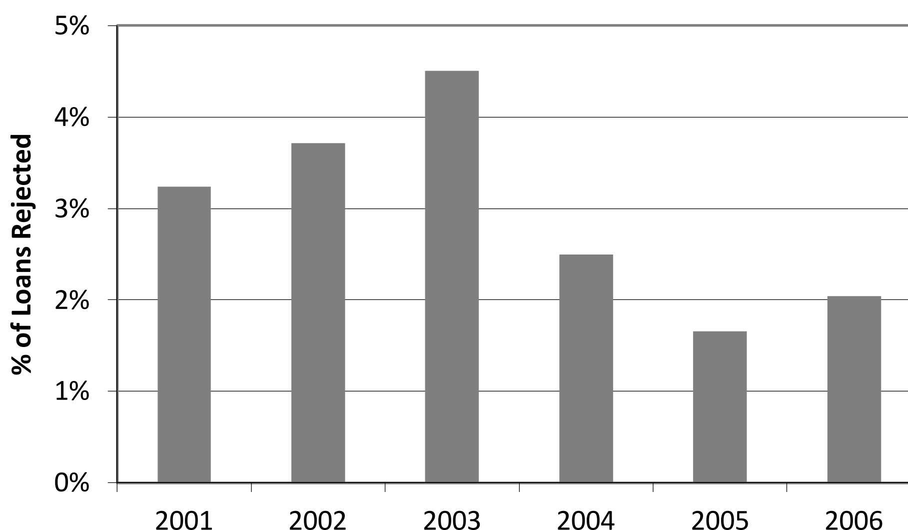
**Table 5.12**
**First Mortgage Loans to Single-parent, Elderly, and Disabled Households**
**2002 to 2006**

| Calendar Year | Percentage of Total: Single-parent | Percentage of Total: Elderly | Percentage of Total: Disabled |
|---|---|---|---|
| 2002 | 26% | 2% | 3% |
| 2003 | 23 | 1 | 2 |
| 2004 | 23 | 2 | 4 |
| 2005 | 22 | 2 | 4 |
| 2006 | 21 | 2 | 4 |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

Figure 5.F shows the number of applications for first mortgage loans that were rejected as a percentage of the total loans underwritten. Fewer than 5 percent of applications per year have been rejected since 2001. This measure appears to be decreasing; only 2 percent of applications were rejected in 2006. This may indicate that the corporation's network of approved lenders and nonprofit organizations and homeownership counseling programs is more effectively identifying families who are eligible for the corporation's mortgage programs.

**Figure 5.F**
**Loan Applications Rejected as a Percentage of Loans Underwritten**
**2001 to 2006**




Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

From FY 2002 to FY 2006, defaults on the corporation's mortgage loans increased by 49 percent, but the total number of loans the corporation made increased by 66 percent.

Defaults on the corporation's first mortgage loans rose from 179 in FY 2002 to 267 in FY 2006, an increase of 49 percent. The number of first mortgage loans made over the same period, however, increased 66 percent.

Defaults on mortgages in 2005 and 2006 increased 28 percent nationwide, and foreclosures increased 55 percent. Approximately two-thirds of the defaults in the United States during this period were subprime mortgages, or mortgages made to borrowers with negative credit issues (US. Government. *Information* 4). Because the corporation cannot originate subprime mortgages according to the terms of its bond indenture, the corporation has not been affected by this trend beyond any related effect the trend may have on interest rates in the bond and mortgage markets.

The corporation has initiated a loss mitigation program with a focus on loan modifications to help financially distressed families retain home ownership. Borrowers who apply for loan modification must demonstrate a need by supplying financial records and a letter detailing the circumstances that created the financial hardship.

Depending on the circumstances, a loan modification can be a 3-year or a permanent reduction in the interest rate of the mortgage. The interest rate reduction results in more affordable payments for the family. Delinquent payments are added to the remaining principal to bring the loan to current status. The new monthly payment is then calculated on the revised amount.

Before receiving a loan modification, the borrower must enter into a payment plan of at least 4 months to gauge its ability to make the new required payment amount. During this period, the borrower is also required to attend a minimum of three budget counseling sessions that are provided free.

### Second Mortgage Programs

The corporation offers second mortgage loans to help families make down payments on their first mortgage loans. These loans are funded by the corporation and from the state's HOME Investment Partnerships Program block grant from HUD.

The corporation has four types of second mortgage programs to assist first mortgage applicants with the down payments required on their loans. A second mortgage loan is subordinate to the first mortgage loan on the same property in the event the borrower defaults. Funding for the corporation's second loan programs comes from two sources, depending on the program. The Regular Down Payment Assistance Program is funded from the corporation's Housing Assistance Fund. The HOME Down Payment Assistance, HOME Family, and HOME Special programs are funded from the state's block grant from HUD under the HOME Investment Partnerships Program.

Table 5.13 shows the funding the corporation had available to make second mortgages from FY 2002 to FY 2006.

**Table 5.13**
**Funding Available for Second Mortgage Programs by Fund Source**
**Fiscal Year 2002 to Fiscal Year 2006**

| Fiscal Year | Regular | HOME |
|---|---|---|
| 2002 | $1,443,836 | $2,786,528 |
| 2003 | 2,466,735 | 3,449,939 |
| 2004 | 1,972,829 | 4,064,562 |
| 2005 | 2,330,631 | 4,736,826 |
| 2006 | 3,202,946 | 5,519,829 |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

### Regular Down Payment Assistance Program

The Regular Down Payment Assistance program provides second mortgage loans up to $5,000 based on need; the amount the home buyer plans to borrow in the first mortgage loan must be the maximum amount that the home buyer can afford given the corporation's standard underwriting ratios. Applicants must fall under the corporation's income limits, and the purchase price of the property cannot exceed $200,000. The loans bear interest at 6 percent for a term of 10 years and are not forgivable. In FY 2006, the corporation made 923 loans in this program (Davidson. "LRC").

### HOME Down Payment Assistance Program

Unlike the corporation's Regular Down Payment Assistance program, HOME Down Payment Assistance is structured as a forgivable loan, in which no monthly payment is required and the loan is forgiven over 5 years. All HOME second mortgage loans are for financing existing property only, and borrowers must have gross annual incomes of 80 percent or less of the area median income. The purchase price of the property cannot exceed $200,000. Finally, like the corporation's first mortgage programs and Regular Down Payment Assistance program, borrowers must meet standard underwriting criteria (Davidson. "LRC").

The standard HOME second mortgage is available to all families meeting the income requirement. These loans provide between $1,000 and $4,500 based on need.

HOME Family loans are for first-time homebuyers with at least one dependent child younger than 18. These loans provide between $4,600 and $10,000 based on need.

HOME Special loans are for permanently disabled or elderly households. These loans provide between $4,600 and $10,000 based on need.

If borrowers' first mortgages fall under the corporation's two special first mortgage programs—New Construction for Single Parents, Disabled, and Elderly Households and Coming Home—the borrower will only qualify for a Regular Down Payment Assistance second mortgage (Davidson. "LRC").

Table 5.14 shows the average family income for households receiving assistance from the corporation's second mortgage programs. Family income for regular down payment assistance loans is significantly higher than for the other types of loans. The only loan type for which family income was lower in 2006 than in 2002 is HOME Special.

**Table 5.14**
**Average Family Income for Second Mortgage Programs**
**2002 to 2006**

| Type of Loan | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Regular Down Payment Assistance | $40,919 | $43,881 | $44,745 | $45,904 | $47,543 |
| HOME Down Payment Assistance | 29,715 | 29,476 | 30,076 | 30,140 | 30,405 |
| HOME Family | 23,941 | 17,476 | 29,424 | 30,249 | 30,686 |
| HOME Special | 24,243 | 22,093 | 21,476 | 22,653 | 20,502 |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

## Counseling Programs

The corporation offers financial counseling to potential and current homeowners free of charge.

The corporation provides both group educational classes and one-on-one counseling to assist Kentucky families interested in purchasing a home. The counseling programs cover themes such as the process of purchasing a home, budgeting, techniques for improving credit scores, and predatory lending. These services are provided free to potential home buyers and borrowers who are having difficulty repaying an outstanding mortgage loan.

Funding for counseling programs comes from federal grants and the corporation, as depicted in Table 5.15. The corporation works with 55 counseling agencies, 39 of which are paid with federal grant money and 16 of which are paid with corporation funds (Davidson. "LRC").

**Table 5.15**
**Sources of Funding for Counseling Programs**
**Fiscal Year 2002 to Fiscal Year 2006**

| Fiscal Year | Federal Funds | Kentucky Housing Corporation Funds |
|---|---|---|
| 2002 | $27,648 | $34,537 |
| 2003 | 97,826 | 54,360 |
| 2004 | 141,896 | 88,189 |
| 2005 | 218,253 | 93,981 |
| 2006 | 330,936 | 139,260 |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

Most of the participants in the corporation's counseling programs are very low-income families.

The corporation provided counseling services to 3,162 participants from October 1, 2006, to September 30, 2007. Table 5.16 depicts the income of participants receiving these services as a percentage of the applicable area median income. Most of the participants benefiting from these services have incomes below 50 percent of the area median.

**Table 5.16**
**Income Levels of Counseling Program Participants**

| Income Level (As % of Area Median Income) | Participants |
|---|---|
| Less than 50% | 2,082 |
| 50 to 79% | 756 |
| 80 to 100% | 194 |
| More than 100% | 111 |
| Chose not to respond | 18 |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

As of March 2007, 47 of these participants had purchased a home and 93 were within 90 days of doing so. An additional 109 received foreclosure prevention assistance, resulting in the modification of 27 mortgages and 31 participants entering into a

forbearance agreement.[6] The corporation uses counseling programs to reduce defaults. In FY 2006, 173 counseling participants were referred to counseling services by the corporation (Davidson. “LRC”).

## Conclusion

In allocating available resources to originate single-family mortgages, the Kentucky Housing Corporation must balance 1) the objectives specified in statute that define the populations the corporation serves with 2) the federal government’s stipulations as to how the corporation may use certain resources and 3) what is required for the corporation to maintain its financial strength. As a result, the corporation is limited in the policy decisions it may make on how to direct the funds it has to originate mortgage loans.

The corporation has historically used a large portion of its mortgage resources to make loans to moderate-income families relative to low-, very low-, and extremely low-income families. Because its mortgages are available on a first-come, first-served basis to households that meet the eligibility criteria, there is no corporation policy to which this trend may be attributed. However, when this trend is considered alongside the resources the corporation administers in its other programs, it appears these groups receive a proportionate share of the corporation’s resources.

The corporation recently introduced new mortgage programs to target specific populations with housing needs, such as single-parent, elderly, and disabled families.

It appears that most of the corporation’s mortgage resources are used in the most populous regions of the state, which is consistent with the areas that have larger numbers of households with housing needs. The corporation recently introduced mortgage programs that target rural and relatively impoverished areas in the state, which are less populous but have high percentages of their populations with housing needs.

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[6]Under a forbearance agreement, the lender will modify the terms of a mortgage loan (for example, suspending or reducing the amount of the required principal and interest payments due) on a temporary basis, generally to avoid the foreclosure process.

# Chapter 6

## Increasing Low-income Housing Stock in the State

This chapter describes the Kentucky Housing Corporation's programs that offset developers' costs in producing multifamily and low-income residences. The chapter explains how these programs are funded and the types of entities the corporation works with to increase the state's supply of housing for families with low and moderate incomes.

### Multifamily Mortgage Loans

The corporation has offered mortgage loans to developers of affordable multifamily housing.

In the past, the corporation has issued tax-exempt bonds, as part of the corporation's allocation of the state's private activity bond cap, or used corporation funds to make mortgage loans to developers that construct new or rehabilitate existing low-income multifamily housing. As of July 2007, the corporation had 88 multifamily mortgage loans in its housing revenue bond indenture with an outstanding principal balance of $60 million (Kentucky Housing. *$50,000,000* 32).

Approximately $24.4 million of the multifamily mortgage loans in the corporation's bond indenture is insured through the Federal Housing Administration's Risk-sharing program. Under this program, the Federal Housing Administration insures the mortgage loans and receives an insurance premium from the borrowers. The Kentucky Housing Corporation shares the risk and the insurance premium.

Approximately $24.4 million of the multifamily mortgage loans in the corporation's bond indenture is insured through the Federal Housing Administration's Risk-sharing program. Under this program, the Federal Housing Administration insures the mortgage loans and receives an insurance premium from the borrowers. By insuring the repayment of the loan, the Federal Housing Administration assumes the risk that the borrowers may not repay what they borrow. The corporation and the Federal Housing Administration agree to share that risk. The corporation agrees to share 25 percent of potential losses incurred on the loans and in return for taking that risk, receives 25 percent of the insurance premium (32).

Fannie Mae has taken an investment role in some additional multifamily mortgages made by the corporation by purchasing a 100 percent interest in the loans. The corporation remains ultimately responsible for the repayment of the debt on these loans (Davidson. "LRC"). All but three of the risk-sharing loans have received an allocation of housing tax credits, resulting in significant equity investment in the developments and, therefore, a low loan-to-value ratio. A low loan-to-value ratio minimizes the corporation's risk of loss on the loans.

Developers are required to meet several criteria to be eligible for a mortgage insured under the risk-sharing program. The program only assists housing projects that will house families at or below 60 percent of the area median income. If a developer receives a mortgage loan from the program, housing units in the financed property will be income and rent restricted. These restrictions remain in place for up to 40 years, based on the term of the loan (Davidson. "LRC"). Thus, when a housing project is financed through this program, it will remain part of the state's low-income housing stock in the long term.

Both nonprofit and for-profit private developers are eligible for this financing, in addition to units of local government. The program does not have any geographic restrictions (Davidson "LRC").

The corporation made a policy shift from offering multifamily mortgage loans to issuing tax-exempt conduit bonds on a developer's behalf.

Table 6.1 shows the funding available for these loans by fiscal year; it does not reflect the total number of risk-sharing loans the corporation has outstanding. Funding was highest—nearly $8 million—in FY 2005. Fannie Mae did not fund risk-sharing loans in FY 2006 but has agreed to resume the loans. The corporation therefore will offer risk-sharing loans in future years.

**Table 6.1**
**Risk-sharing Loans Issued by the Kentucky Housing Corporation Fiscal Year 2002 to Fiscal Year 2006**

| Fiscal Year | Total Amount Of Loans Made |
|---|---|
| 2002 | $1,205,226 |
| 2003 | $860,000 |
| 2004 | $6,525,000 |
| 2005 | $7,982,306 |
| 2006 | 0 |

Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

## Conduit Multifamily Housing Program

The corporation is not responsible if a developer fails to repay the amount borrowed under a conduit bond issue.

Conduit financing is another way the corporation funds multifamily housing developments. Under conduit financing, the corporation issues bonds on behalf of a developer of low-income multifamily housing using the corporation's limited tax-exempt bonding authority. Because the developer is able to raise the capital to construct or rehabilitate a housing project on a tax-exempt basis, the developer's interest cost for borrowing the funds is reduced. The developer, not the corporation, has sole responsibility for repaying the debt. Bond documents are required by statute to state that the debt is neither a debt of the corporation nor the Commonwealth of Kentucky.

In 2004, the corporation set aside $79.2 million of its private activity bond cap allocation to provide conduit financing for the development of multifamily housing projects. As shown in Table 6.2, the initial $79.2 million of bond cap was used to finance the construction or rehabilitation of eight projects,. The total low-income housing units produced or maintained was 1,582.

**Table 6.2**
**First Set-aside for Conduit Bonds**

| Project Name | Location | Amount Issued | Units | Type of Project |
|---|---|---|---|---|
| Village Manor | Louisville | $8,930,492 | 251 | Rehabilitation |
| Florence Christian I, II, and III | Florence | 9,887,765 | 215 | Rehabilitation |
| Gleneagles | Lexington | 10,000,000 | 184 | Rehabilitation |
| Clarksdale I | Louisville | 13,450,000 | 148 | New construction |
| Shalom Towers | Louisville | 6,700,000 | 150 | Rehabilitation |
| Woodside Village | Louisville | 6,715,000 | 158 | Rehabilitation |
| Arbors of Glasgow/ Madisonville | Glasgow, Madisonville | 2,100,000 | 100 | Rehabilitation |
| Canterbury Apartments | Southgate | 13,880,000 | 230 | New construction |
| Total | | $79,177,479 | 1,582 | |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

The corporation set aside another $38.6 million of its bond cap in 2007, which was issued for the six projects shown in Table 6.3. These projects will fund a total of 959 housing units. The corporation anticipates setting aside an additional $40 million in 2008 (McQuady. "Two").

**Table 6.3**
**Second Set-aside for Conduit Bonds**

| Project Name | Location | Amount Issued | Units | Type of Project |
|---|---|---|---|---|
| Liberty Green III | Louisville | $3,485,778 | 146 | New Construction |
| City Wide Housing | Newport | 11,000,000 | 103 | New construction, Rehabilitation |
| Alco Properties | Georgetown, Munfordville, Stanford | 4,325,000 | 186 | Rehabilitation |
| Overlook Terraces | Louisville | 10,000,000 | 148 | New Construction |
| Bellarmine University | Louisville | 4,000,000 | 100 | Rehabilitation |
| The Housing Partnership | Louisville | 5,750,000 | 276 | Rehabilitation |
| Total | | $38,560,778 | 959 | |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

The corporation requires potential conduit borrowers to submit a physical-needs assessment and market study prepared by a marketing research firm.

Although the corporation does not bear the risk of the financing, it still requests detailed information on the project, the development team and its qualifications, and whether there is a market for the project. A licensed engineer prepares a physical needs assessment that is submitted by the applicant. A marketing research firm prepares a market study, which must include a site evaluation that takes into account other development in the area, a definition of the developer's target market, and demographic data. The same study must determine what the market rent will be for the units that will be constructed or rehabilitated and the incomes of the families within the developer's target market. These findings must be based on HUD's rent and income criteria. The marketing research firm must assume that no family will devote more than 35 percent of its gross income toward rent; no elderly household will devote more than 40 percent. From this information, the market study arrives at an estimate of the demand for the project (Kentucky Housing. *Tax-Exempt* 11-16).

Before conduit bonds are issued, they are reviewed twice by the corporation's board of directors. A process of review and oversight beyond that conducted by the corporation must also take place. An advertised public hearing must be held in accordance with the Tax Equity and Fiscal Responsibility Act of 1982 (Kentucky Housing. *Tax-Exempt* 7).

Conduit bond issues must be reviewed by the State Property and Buildings Commission and the Capital Projects and Bond Oversight Committee before going to market. Public hearings must be held, and policy makers in the area must be notified.

The bond issue must be reviewed by the State Property and Buildings Commission and the Capital Projects and Bond Oversight Committee of the Kentucky Legislative Research Commission. The State Property and Buildings Commission is established in statute and acts as a clearinghouse for debt issued by state agencies and political subdivisions. It considers a resolution authorizing the bond transaction that is part of the legal process required for the bonds to be legitimate (Kentucky Housing. *Tax-Exempt* 7).

The Capital Projects and Bond Oversight Committee considers the bonds for approval. The committee worked with the Kentucky Housing Corporation in 2004 to establish guidelines for conduit bond issues. The guidelines adopted by the committee require developers to notify certain local officials, including legislators, that they intend to build or rehabilitate housing in the area to serve low-income families; to provide a letter of support from the applicable mayor or county judge/executive; to provide a copy of the physical needs assessment and market study; and to provide verification that the project meets applicable planning and zoning laws (Kentucky Housing. *Tax-Exempt* 7).

Among the advantages of conduit bonds is that the corporation does not carry any of the risk of the project failing to produce enough revenue to repay the debt. A disadvantage is that the conduit financing mechanism limits the kinds of developers that will use the resource.

There are trade-offs associated with the corporation choosing to support multifamily housing through conduit bonds as opposed to multifamily mortgage loans. The primary advantage of conduit bonds is that the corporation does not carry any of the risk of the project failing to produce enough revenue to repay the debt. The only cost to the corporation associated with this funding mechanism if the project fails is the corporation's opportunity cost in not having applied its bond cap resources to a successful project. Another advantage is that the corporation conducts a limited review of the viability of the project. This type of financing is advantageous for the developer as well. Developers receiving conduit financing automatically receive 4 percent housing tax credits, resulting in equity investments in the development and a reduced need for debt financing.

Most of these bond issues are for projects in populous areas.

A disadvantage is that the conduit financing mechanism limits the kinds of developers that will use the resource and, by extension, the locations where multifamily housing projects will be constructed or rehabilitated. The developer has to pay the costs of issuing the bonds, which include preparing legal documents, reviewing the issue by rating agencies, and underwriting the transaction by an investment bank. These costs can be significant. In general, a developer would issue bonds for a large project and take out a loan for smaller projects. As a result, the developers that

would be attracted to this type of financing would undertake projects in populous areas, or they would undertake projects in multiple areas where the developer could realize economies of scale in the financing.

Conduit bonds and single-family mortgage loans use the same resource: the corporation's allocation of the state's private activity bond cap. The corporation has to make a policy decision whether to use this resource to subsidize low-income rental housing or to originate single-family mortgage loans because the corporation does not receive sufficient tax-exempt bonding authority to meet the demand for its services.

### Low-income Housing Tax Credits

By formula, the federal government allocates tax credits to states to distribute to developers of affordable housing. The developers sell the credits to raise equity for the project.

The Low-income Housing Tax Credit program was created by the Tax Reform Act of 1986 (codified as Section 42 of the Internal Revenue Code). Each state is allocated a dollar amount of tax credits annually that it may distribute to developers of rental housing that will serve low- to moderate-income families. The dollar amount of credit a state receives is based on a per capita amount, $1.95 in 2007, which is adjusted annually for inflation, multiplied by the state's population.

The developer generates equity from investors who purchase the credits, and those funds are used for new construction or substantial rehabilitation of existing property. Investors purchasing the credits receive a reduction in their federal tax liability for 10 years.

The amount of equity generated from the sale of the tax credits is approximately 0.9 times the value of the tax credit over 10 years. For example, in FY 2006, the corporation administered $8,461,106 in tax credits. The tax credits represent a dollar-for-dollar reduction in the investor's tax liability. Thus, the value of the credits over 10 years is $84,611,060. The amount of equity raised by these tax credits would be approximately $76,149,954. The price investors are willing to pay for the tax credits changes over time.

Housing units funded by the sale of these credits are income restricted and rent restricted.

A project is eligible for this subsidy if it either 1) has a minimum of 20 percent of its units occupied by households with incomes less than 50 percent of the area median income, or 2) has 40 percent of its units occupied by households with incomes less than 60 percent of the area median income. The units financed with equity generated by the sale of these credits are rent restricted so that

residents do not pay more than 30 percent of the area median income adjusted for family size for rent. The rent is adjusted by unit size, and the income limits are adjusted by family size. Tenant incomes and rents are published annually by HUD.

Table 6.4 shows the dollar amount of tax credits the corporation had available to distribute in FY 2002 to FY 2006.

**Table 6.4**
**Housing Credits Allocated by the Kentucky Housing Corporation Fiscal Year 2002 to Fiscal Year 2006**

| Fiscal Year | Amount |
|---|---|
| 2002 | $7,961,458 |
| 2003 | 8,841,246 |
| 2004 | 9,025,413 |
| 2005 | 8,607,605 |
| 2006 | 8,461,106 |

Note: Amounts do not include tax credits awarded for conduit bond issues that do not count against the state's annual allocation of housing tax credits.
Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

Credits are allocated to projects based on eligible costs or a basis amount determined by the number of income- and rent-restricted units the development will include. Depending on the source and use of funds included in the project, the credit is allocated as either a 4 percent or 9 percent credit. Specifically, 4 percent credit rates are used for building acquisition costs and for projects in which other federal resources are also used. Nine percent credits are available for eligible construction and rehabilitation costs.

In addition, 4 percent credits may be awarded to multifamily projects that are financed through the corporation's conduit bond program in which a portion of the state's private activity bond cap allocation is used for multifamily developments. These 4 percent credits do not count against the state's allocation of housing credits and are only limited by the eligible basis associated with the development of the project.

Projects funded with these credits must provide affordable housing for at least 30 years.

The Internal Revenue Code requires that the units subsidized with housing credits remain income- and rent-restricted for 15 years. The tenants are protected for an additional 3 years beyond that point, such that the owner of the property cannot evict tenants as soon as the status of the project changes. The Kentucky Housing Corporation adds another 15 years, such that projects funded in the state with housing tax credits preserve low-income housing stock for 30 years (Kentucky Housing. *2007* 3).

The housing credit subsidy is limited to $9,200 per unit it funds. However, projects located in a qualified census tract or areas in the state designated as difficult-to-develop areas by HUD have a higher limit of $10,400. For example, if a project includes 10 units and is not in either a qualified census tract or a difficult-to-develop area, the project would be eligible for a maximum annual housing credit allocation of $92,000 (Davidson. "LRC").

The Kentucky Housing Corporation divides its annual allocation into competitive and noncompetitive pools and set-asides. All applicants for housing credits are scored and prioritized based on the benefits the projects will provide.

**Competitive Pools and Set-asides**

The corporation divided its housing credit allocation into two competitive pools: one for urban areas and one for rural areas.

The corporation created two competitive pools for housing credit projects: the Competitive Urban Pool and the Competitive Rural Pool. For 2007, the amount of housing credits given to each pool is $1,377,750. Eleven counties are considered urban counties, and projects in these counties may apply for housing credits in the urban pool: Boone, Boyd, Campbell, Christian, Daviess, Fayette, Henderson, Jefferson, Kenton, McCracken, and Warren. The remaining 109 counties are considered rural and may apply for housing credits in the rural pool.

The corporation has set aside tax credits for nonprofit organizations, rural development, and facilities to help single parents achieve self-sufficiency.

The corporation created three competitive set-asides: the Non-Profit Pool Set-Aside, 2) the Rural Development Set-Aside, and the Scholar House Set-Aside. The corporation set aside approximately $700,000 for nonprofit organizations acting as the developer and general partner of low-income housing projects. Any funds remaining in this pool that are not used by nonprofit organizations will be used for Kentucky Domestic Violence Association and Distressed Appalachian Counties projects.

Approximately $200,000 was set aside at the 4 percent rate for projects that have received Rural Development funding (Kentucky Housing. *2007* 3-6).

Approximately $4 million of housing credits was set aside for Scholar House projects: $2 million to be used in 2007 and $2 million to be used in 2008. The Scholar House program helps parents working on their education. The corporation has combined funds from its Section 8 rental assistance programs and housing credits to construct and operate five projects that will create 56 two-bedroom housing units. While living in a Scholar House facility, parents will receive rental assistance and child care, and will attend workshops on work and parenting skills.

**Noncompetitive Set-asides**

The corporation has set aside tax credits for projects assisting domestic violence victims, distressed Appalachian counties, and specific major public housing projects.

The corporation set aside housing credits for three programs that are available on a noncompetitive basis. Approximately $450,000 in tax credits was set aside for the Kentucky Domestic Violence Association to construct about 50 housing units around the state to serve domestic violence victims. It is anticipated that another 50 units will be constructed in 2008. The corporation will work with the association to identify a developer for these projects.

Another $450,000 in housing credits were set aside for the Scattered Site Rental Program for Distressed Appalachian Counties. The housing credits will be used to construct about 50 units in eastern Kentucky. It is anticipated that another 50 units will be constructed in 2008.

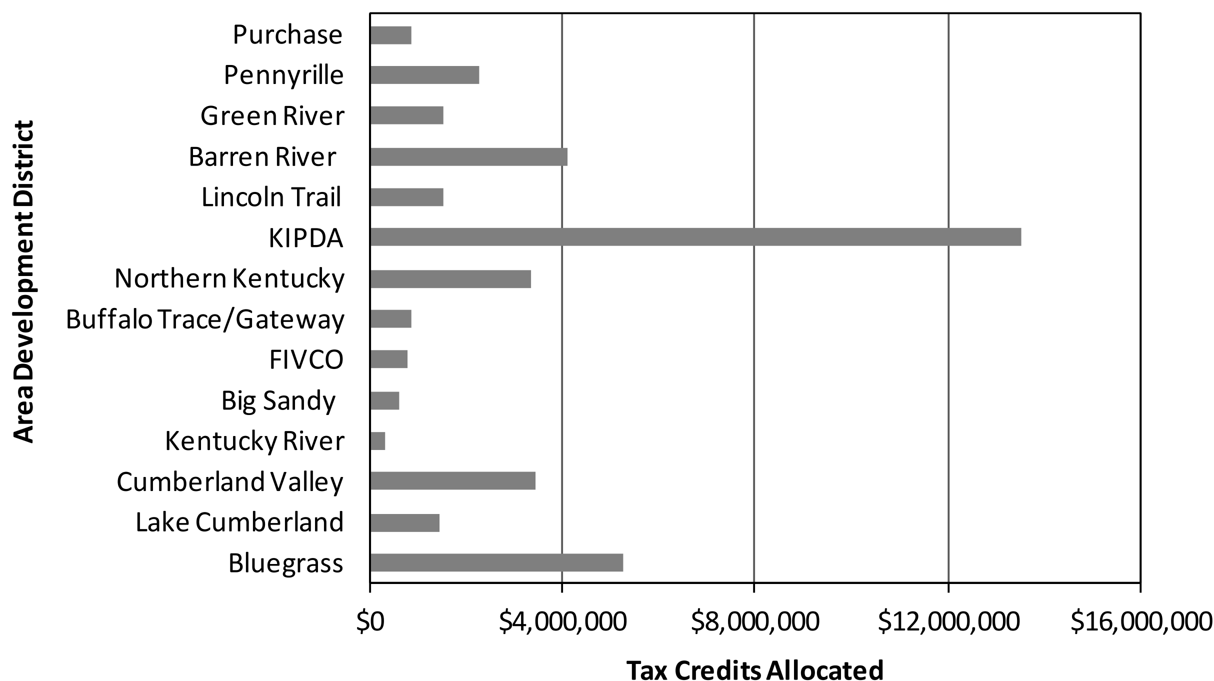
The corporation's third noncompetitive set-aside is $800,000 for HOPE VI projects, which are designed to revitalize the most distressed public housing. The corporation will divide these funds equally between Lexington and Louisville (Kentucky Housing. *2007* 3-6).

### Allocation of Tax Credits Per Area Development District

The KIPDA Area Development District received the largest allocations of tax credits from FY 2002 to FY 2006.

Figure 6.A depicts the amount of tax credits allocated to projects in each area development district from FY 2002 to FY 2006. KIPDA received the most housing credits, more than twice as much as Bluegrass, which received the second-highest amount. Overall, area development districts in eastern Kentucky received the least amount of credits. The areas are likely to benefit from the funds the corporation has set aside on their behalf, however.

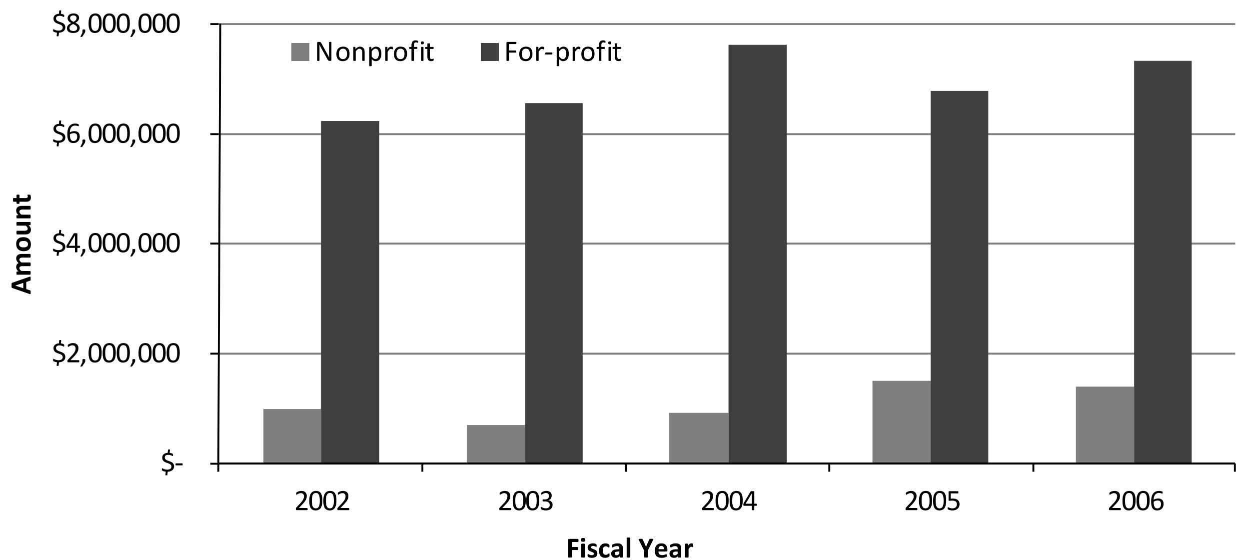
**Figure 6.A**
**Allocation of Housing Credits Per Area Development District**
**Fiscal Year 2002 to Fiscal Year 2006**




Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

Figure 6.B shows the amount of housing credits allocated to nonprofit and for-profit entities from FY 2002 to FY 2006. The amount of funds allocated to nonprofit entities increased from less than $1 million in FY 2002 to nearly $1.4 million in FY 2006. However, the amount of credits allocated to for-profit entities was more than $6 million each year.

**Figure 6.B**
**Housing Credits Allocated to Nonprofit and For-profit Entities**
**Fiscal Year 2002 to Fiscal Year 2006**




Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

### Small Multifamily Affordable Loan Program

The corporation has a low-interest loan program for developers of small multifamily housing projects. This program promotes the development of affordable housing in rural areas.

The corporation's Small Multifamily Affordable Loan program allows developers of low-income housing to borrow funds for small rental housing projects in rural areas. Eligible borrowers include nonprofit organizations, for-profit developers, and local government entities. Borrowers must use loan proceeds to acquire, construct, or undertake the substantial rehabilitation of housing with 11or fewer units.

The program has its own rent limits, but generally the rent is not to exceed 30 percent of the applicable area median income adjusted for family size. The project must provide low-income housing for a minimum of 30 years (Davidson. "LRC").

Table 6.5 shows the funding provided by this program from FY 2002 to FY 2006.

**Table 6.5**
**Small Multifamily Affordable Loan Program**
**Fiscal Year 2002 to Fiscal Year 2006**

| Fiscal Year | Amount |
|---|---|
| 2002 | $1,507,612 |
| 2003 | 1,545,881 |
| 2004 | 3,747,478 |
| 2005 | 4,000,000 |
| 2006 | 1,195,650 |

Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

### Nonprofit Housing Production and Repair Program

The corporation has a low-interest loan program for associations of nonprofit organizations undertaking housing projects.

This program allows groups of nonprofit housing organizations to borrow funds at low interest to improve housing for low- and moderate-income families. The nonprofits have to spend more than $1,000 per housing unit they assist. Nonprofits providing emergency shelter or medical, mental health, and substance abuse treatment are not eligible for funding through this program, but they are eligible for other forms of assistance from the corporation.

Funds may be used to assist with down payment and closing costs, acquisition of housing, minor and emergency repairs, and rehabilitation and new construction. All residents served by this program must have incomes below the area median income, and at least 60 percent of the residents served must have incomes at or below 60 percent of the area median income (Davidson. “LRC”).

Table 6.6 shows the amount of corporation funds that have been administered through this program from FY 2002 to FY 2006.

**Table 6.6**
**Nonprofit Housing Production and Repair Program Funds**
**Fiscal Year 2002 to Fiscal Year 2006**

| Fiscal Year | Amount |
|---|---|
| 2002 | $2,490,000 |
| 2003 | 2,500,000 |
| 2004 | 2,500,000 |
| 2005 | 2,000,000 |
| 2006 | 2,000,000 |

Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

### Kentucky Appalachian Housing Program

The corporation administers grants funded by the Appalachian Regional Commission for projects in distressed Appalachian counties.

The corporation administered $500,000 in grants from the Appalachian Regional Commission each year from FY 2002 to FY 2006. These grants are for nonprofit, limited dividend, and cooperative organizations to pay for up to 10 percent of the costs of constructing new low- and moderate-income housing. Costs for related infrastructure are also eligible.

Improvements must be in areas within what the commission calls "pockets of distress." These areas have per capita incomes of 67 percent or less of the US average, poverty rates of at least 150 percent of the US average, and 3-year unemployment rates of at least 150 percent of the United States average. The cost of the improvements must be more than what residents and local governments can afford (Davidson. "LRC").

Table 6.7 shows the counties that are eligible for this source of funding.

**Table 6.7**
**Counties in Pockets of Distress**

| | | | |
|---|---|---|---|
| Adair | Estill | Lee | Owsley |
| Bath | Floyd | Leslie | Perry |
| Bell | Garrard | Letcher | Pike |
| Breathitt | Hart | Lewis | Powell |
| Carter | Green | Lincoln | Pulaski |
| Casey | Harlan | McCreary | Rockcastle |
| Clay | Jackson | Magoffin | Rowan |
| Clinton | Johnson | Martin | Russell |
| Cumberland | Knott | Menifee | Wayne |
| Edmonson | Knox | Monroe | Whitley |
| Elliott | Lawrence | Morgan | Wolfe |

Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

The corporation has some flexible sources of funding that can be used for housing production and other purposes.

# Chapter 7

## Flexible Sources of Funding

The rental assistance, mortgage, and housing production programs discussed thus far require the Kentucky Housing Corporation to administer funding within relatively narrow limitations. The corporation has some flexible sources of federal, state, and its own funding. The corporation may use funding from the federal HOME Investment Partnerships Program and the state Affordable Housing Trust Fund, for example, to supplement other sources of funding to help a project move forward. The corporation uses surplus fee and other income in various program initiatives.

### HOME Investment Partnerships Program

The federal government provides an annual block grant to state and local governments to address housing needs in general.

The HOME Investment Partnerships Program, established by the Cranston-Gonzalez National Affordable Housing Act of 1990, provides state and local governments an annual block grant to address housing needs in their areas. In 2003, the American Dream Downpayment Act expanded the program and added funding to help home buyers pay down payment, closing, and necessary home rehabilitation costs. The corporation is one of 46 state housing finance agencies that receive HOME funds (National 165-166).

HUD uses a needs-based formula from census data to allocate the HOME block grant among the state and local entities that contract directly with HUD to administer the program in their areas. In general, HUD allocates part of Kentucky's HOME funds directly to the Lexington-Fayette Urban County Government; the Louisville Metro Government; the city of Owensboro; and a consortium consisting of the cities of Covington, Ludlow, Bromley, Newport, Bellevue, and Dayton. The corporation expects to use some HOME funds for down payment and tenant-based rental assistance programs that serve the state as a whole. Through the competitive application process, the corporation monitors HOME funds to help ensure an equitable distribution throughout the state (Kentucky Housing Corporation and Governor's 88).

The corporation administers the remaining portion of the state's HOME grant. HUD regulations require the corporation to distribute HOME funds throughout the state by partnering with local governments, nonprofit organizations, and for-profit organizations. In the areas in which the corporation administers the

HOME program, corporation staff stated that they monitor distributions to ensure that funds are awarded equitably, although no specific geographic constraints are imposed (Davidson. "Additional").

**Eligible Uses of Funds**

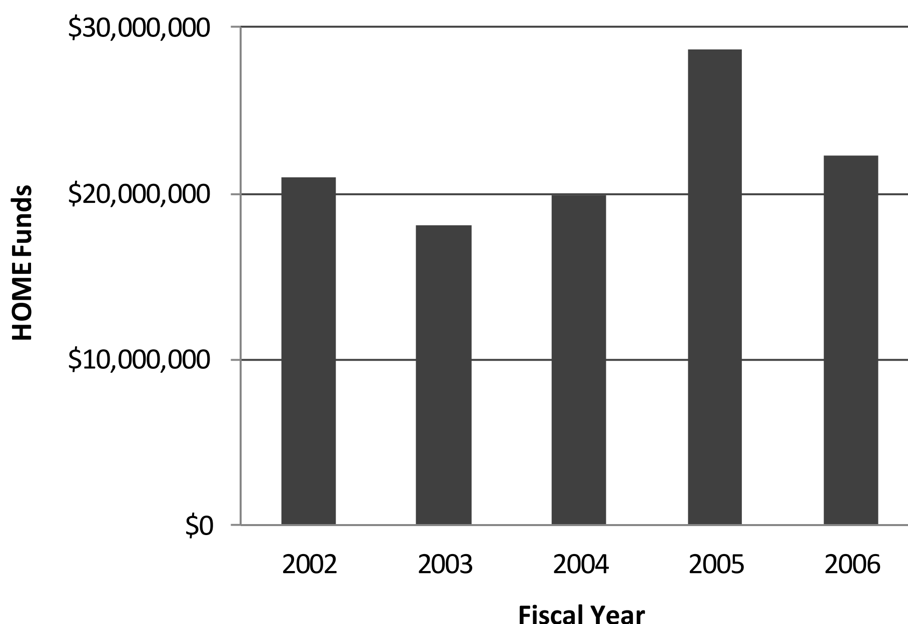
The block grant may be used for rental assistance, down payment assistance, and housing production.

The HOME program is a flexible funding source that can be used for multiple purposes according to local housing needs, including

- construction and rehabilitation of single-family and multifamily housing;
- mortgage assistance to home buyers;
- site acquisition, site improvements, demolition, relocation, and other necessary and reasonable activities related to the development of nonluxury housing; and
- emergency tenant-based rental assistance (US. Dept. of Housing. *Programs* 16).

Because of its flexibility in satisfying local needs, the HOME program is mentioned as a funding source throughout this report. Figure 7.A shows the total amount of HOME funds administered by the corporation for all eligible activities in FY 2002 to FY 2006.

**Figure 7.A**
**HOME Funds Administered by the Kentucky Housing Corporation**
**Fiscal Year 2002 to Fiscal Year 2006**




Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

### Eligible Families for HOME Assistance

HOME funds target families at or below 80 percent of area median income for home ownership activities. Rental activities are targeted at families at or below 60 percent of area median income.

The targeted population of the HOME program's home ownership activities, including down payment assistance, is low-income families, those whose incomes are at or below 80 percent of the area median income, as determined using the Section 8 income levels.

Eligible families for HOME rental assistance and rental housing projects must have incomes at or below 60 percent of the area median. The 60 percent income level is not used in the Section 8 program. Rental housing projects consisting of five or more HOME-assisted units must reserve 20 percent of those units for families with very low incomes, those at or below 50 percent of the area median.

Table 7.1 shows the disbursement of HOME funds for single-family home owner and multifamily rental property unit production and rehabilitation by family income level for FY 2002 to FY 2006. It does not include other uses, such as down payment assistance for home buyers.

**Table 7.1**
**Disbursement of HOME Funds by Family Income Level**
**Fiscal Year 2002 to Fiscal Year 2006**

| | | Units for Families at | | | | |
|---|---|---|---|---|---|---|
| **Fiscal Year** | **Funds Disbursed** | **0-30% of AMI** | **31-50% of AMI** | **51-60% of AMI** | **61-80% of AMI** | **Total** |
| 2002 | $14,842,344 | 427 | 445 | 257 | 504 | 1,633 |
| 2003 | 16,928,351 | 486 | 505 | 326 | 589 | 1,906 |
| 2004 | 22,531,947 | 1,058 | 620 | 406 | 786 | 2,870 |
| 2005 | 16,508,558 | 880 | 516 | 477 | 913 | 2,786 |
| 2006 | 12,535,696 | 1,165 | 431 | 482 | 905 | 2,983 |
| Total | $83,346,896 | 4,016 | 2,517 | 1,948 | 3,697 | 12,178 |

Note: AMI is area median income using the income levels specified in the HOME and Section 8 programs.
Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

HOME funding has been evenly distributed among families of low, very low, and extremely low incomes.

Annual fluctuations in the amount of funds disbursed are caused mainly by differences between the time the HOME funds are committed to housing projects and the time they are disbursed for production activities. Table 7.1 shows that 12,178 housing units, including home owner and rental units, were constructed or rehabilitated using HOME funds during the 5-year period. Overall, 33 percent of the units served families at the lowest income level,

37 percent served families at the middle income levels, and 30 percent served families at the highest income level.

**Eligible Applicants for HOME Funds**

Both private and nonprofit developers are eligible for HOME funds. More than 75 percent of funds have been awarded to nonprofit organizations.

Eligible applicants for loans and grants from the corporation generally are private and nonprofit developers, units of local government (except those that contract directly with HUD), faith-based organizations, and specialized nonprofit groups referred to as community housing development organizations. HUD regulations require that at least 15 percent of HOME funds be set aside for the community housing development organizations.

Of the amount distributed over the 3-year period from FY 2004 to FY 2006, 77 percent was awarded to nonprofit organizations, 16 percent to units of local government, 6 percent to for-profit organizations, and 1 percent to an area development district.

**Additional Federal Requirements**

Before a property can be built or rehabilitated with HOME funds, an environmental review must be conducted following the National Environmental Policy Act of 1969. The review assesses the impact of the project on and from the surrounding environment. Corporation staff conduct the reviews in areas in which the corporation administers the HOME program for all organizations except units of local government. Local government recipients are required to conduct their own reviews.

The federal Davis-Bacon Act wage requirements apply to any contract to build houses or rental properties that include 12 or more HOME-assisted units. The Davis-Bacon Act requires that workers receive no less than the prevailing wages being paid for similar work in the locality. Prevailing wages are calculated by the US Department of Labor.

People living in properties acquired or rehabilitated using HOME funds are covered by the federal Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970. The Act provides relocation assistance to eligible families who must move because of the acquisition or rehabilitation of the property. For example, if a developer purchases a tenant-occupied rental property that is for sale on the open market, the existing tenants who are forced to move may be eligible for relocation benefits.

## Awarding of HOME Funds

The corporation resumed a competitive application process for HOME funds in 2005 and 2006.

HOME funding has been awarded on a competitive basis, and then on a first-come, first-served basis beginning in January 2003. The competitive application process resumed in the fall of 2005 for production of single-family homes and late in 2006 for production of multifamily rental housing. The corporation announces the availability of HOME funds by posting relevant information to its Web site and by e-mail.

The evaluation criteria include program design, financial design, readiness to proceed with the project, capacity to undertake the project, and community need. The corporation calculates the community's housing need based on census data. The purpose of the evaluation is to determine whether the applicant is capable of using the HOME funds to produce the housing within the allowable time frames.

Applicants for HOME funds to build or rehabilitate houses and rental properties must submit all required application documents. Corporation staff review applications within 60 days of receipt. At the end of the review period, the corporation announces the projects to be funded through a news release and a letter to each recipient.

Once the projects are approved, the corporation or local government, as applicable, conducts the required environmental review, which takes approximately 45 days. Concurrent with the environmental review, recipients that are constructing or rehabilitating single-family housing have 60 days to submit additional documentation to the corporation; recipients that are constructing or rehabilitating multifamily rental housing have 90 days to submit the documentation.

Corporation staff review the additional documentation for applicability, required information, and thoroughness. When the review is finished, the corporation executes a funding agreement with the recipient, noting the funding amount, eligible uses, and applicable time frames for completing the project.

Federal regulations require HOME funds to be spent within 5 years. However, the corporation requires HOME funds to be spent within 2 years, or the funds must be returned to the corporation. Exceptions are granted on a case-by-case basis.

### Production of Multifamily Rental Housing

The corporation uses HOME funds to participate in building and rehabilitating multifamily rental housing. In addition to the eligible applicants noted above, public housing agencies may apply for HOME funds for this purpose.

The corporation limits the amount of funds a county may receive based on the number of assisted units in the county.

Applicants for HOME multifamily rental housing production assistance are constrained by subsidy limits published by the corporation. The HOME funds limit for each county is multiplied by the number of HOME-assisted units in the county to determine the maximum request allowable.

Projects receiving HOME funding must maintain the units as low-income housing for a pre-determined period based on the amount of assistance the project receives.

Multifamily rental projects funded by the HOME program must provide assistance to low-income families for a specified time, based on the type of assistance and the dollar amount funded, as follows:

- Projects that receive rehabilitation funding of less than $15,000 per unit must make the units available to low-income families for 5 years;
- Projects that receive rehabilitation funding of $15,000 to $40,000 must make the units available to low-income families for 10 years;
- Projects that receive rehabilitation funding of more than $40,000 must make the units available to low-income families for 15 years; and
- Projects that are newly constructed or acquired must make the units available to low-income families for 20 years.

### Production of Single-family Housing

HOME funds can be used to build or rehabilitate single-family housing. Eligible applicants include all those noted above except public housing agencies. HOME funds are awarded on a competitive basis to eligible organizations up to $400,000 per application.

A family cannot receive more than $20,000 of HOME assistance to help it buy a home. Allowable uses for assistance include site development, land acquisition, construction financing, rehabilitation assistance up to $10,000, principal reduction, down payment and closing costs, and permanent financing.

A family cannot receive more than $30,000 of HOME assistance to help it rehabilitate a home. Allowable activities include rehabilitation costing more than $10,000, demolition and reconstruction, and permanent financing but not refinancing.

The amount of assistance a family may receive is limited to $40,000.

Regardless of the above limits, the maximum amount of HOME financing per unit that can be requested for one family is $40,000.

A family must be at or below 80 percent of area median income to qualify for home buyer or rehabilitation assistance under the HOME program. In addition, the structure must be used as the principal residence of the assisted family.

The HOME subsidy provided to a home buyer is a zero percent 10-year incrementally forgivable loan. The HOME funds are secured by a recorded mortgage and a promissory note that places a lien on the property for all HOME funds invested in a property. One-tenth of the original loan amount is forgiven annually until the loan matures, at which time the loan is forgiven and the lien is released, provided the home buyer satisfies all requirements. If the home is sold, leased, refinanced, or no longer used as the primary residence of the assisted family, and the net proceeds are sufficient to repay the HOME investment, the corporation recaptures the net proceeds. Otherwise, the loan is forgiven.

**Focus Communities**

The corporation has committed a block of the state's portion of the HOME grant to assist revitalization projects in eight cities.

The corporation created the Focus Community program to provide HOME funds to small cities for neighborhood revitalization activities such as eliminating deteriorating housing conditions, creating neighborhoods, and providing affordable housing opportunities for residents.

In 2005, eight cities were selected to participate in this program: Ashland, Bowling Green, Elizabethtown, Frankfort, Henderson, Hopkinsville, Paducah, and Richmond. The cities were required to have a population greater than 21,000 and/or to be an entitlement community under the Community Development Block Grant. Other factors considered in the selection process included average homeownership rate, poverty rate, and number of households with high housing-cost burdens.

The corporation has committed $3 million in HOME funds for the Focus Community program, which amounts to approximately $375,000 per city.

Each city selected one or more small neighborhoods for its housing revitalization activities using HOME funds. The cities of Ashland, Bowling Green, Elizabethtown, Henderson, and Hopkinsville receive a direct allocation of Community Development Block Grant funds under the small cities entitlement community program. Each is committed to using its Community Development Block

Grant funds in these neighborhoods to help leverage HOME funds and other local resources.

The cities of Frankfort, Paducah, and Richmond do not receive a direct allocation under the small cities entitlement community program. The corporation is working with the Governor's Office for Local Development for these cities to receive Community Development Block Grant funding. That funding will be blended with HOME funds and other local resources.

The status of the community projects as of October 23, 2007, is shown in Table 7.2.

**Table 7.2**
**Status of Focus Community Projects as of October 23, 2007**

| City | Status |
|---|---|
| Ashland | One new single-family home is complete; four single-family homes are being rehabilitated. |
| Bowling Green | Twelve new single-family homes are complete. |
| Elizabethtown | HOME funds have been committed, and the city is identifying the households to assist. |
| Frankfort | The city has submitted an application to the corporation, but HOME funds have not been committed. |
| Henderson | The city has not submitted an application to the corporation. |
| Hopkinsville | HOME funds have been committed, and the city is identifying the households to assist. |
| Paducah | The city has submitted an application to the corporation, but HOME funds have not been committed. |
| Richmond | HOME funds have been committed; construction on three single-family homes has started. |

Source: Prepared by Program Review staff from information provided by the Kentucky Housing Corporation.

The requirements include family income eligibility; principal residence; subsidy limits; time periods for assistance to low-income families; and deed, mortgage, or promissory note restrictions in case the home is sold, leased, refinanced, or no longer used as the primary residence of the assisted family.

### Tenant-based Rental Assistance

HOME funds may be used to provide emergency rental assistance.

The corporation uses HOME funds to provide tenant-based vouchers for emergency rental assistance to families who have an emergency housing need, such as loss of a home from fire, tornado, or flood.[1] In addition, the corporation operates a competitive program in which HOME tenant-based funding is awarded to local organizations that serve special-needs populations.

[1]These vouchers are different from the Section 8 tenant-based vouchers discussed in Chapter 4.

## Affordable Housing Trust Fund

In 1992, the General Assembly created the Affordable Housing Trust Fund to address housing needs generally.

The Affordable Housing Trust Fund is a state-funded program established by the General Assembly in 1992. KRS 198A.715 names the corporation as the administering agency for the trust fund and authorizes it to make loans and grants to create new sources of funding or to supplement existing sources of funding for eligible activities. The fund is not to be used to replace existing or available funding.

The legislation established the fund to help very low-income individuals or families meet their basic housing needs. It defines "very low-income" as the income of individuals or families that is below 60 percent of the area median income as determined by HUD. This definition differs from that used in the Section 8 program but is consistent with the definition for families getting rental assistance under the HOME program.

Eligible activities for funding include

- providing matching funds for federal housing money that requires a state or local match,
- acquiring housing units for preservation or conversion as housing for people with very low incomes,
- building or rehabilitating housing units for people with very low incomes,
- matching funds for technical assistance directly related to providing housing to people with very low incomes, and
- administrative costs for housing assistance programs of eligible applicants if the grants or loans will substantially increase the recipient's access to other housing funds.

The corporation makes both grants and loans from the fund, depending on what the applicant can afford.

The corporation makes a loan from the Affordable Housing Trust Fund if the applicant is capable of paying back the money. It makes a grant if the applicant is not capable of repaying the money. Table 7.3 shows the total amount of grants and loans made by the corporation for FY 2002 to FY 2006.

**Table 7.3**
**Grants and Loans From the Affordable Housing Trust Fund**
**Fiscal Year 2002 to Fiscal Year 2006**

| Fiscal Year | Grants | Loans | Total |
|---|---|---|---|
| 2002 | $2,442,762 | $684,231 | $3,126,993 |
| 2003 | 4,078,825 | 1,108,274 | 5,187,099 |
| 2004 | 3,873,519 | 2,096,006 | 5,969,525 |
| 2005 | 4,766,862 | 654,907 | 5,421,769 |
| 2006 | 3,868,521 | 1,461,469 | 5,329,990 |
| Total | $19,030,489 | $6,004,887 | $25,035,376 |

Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

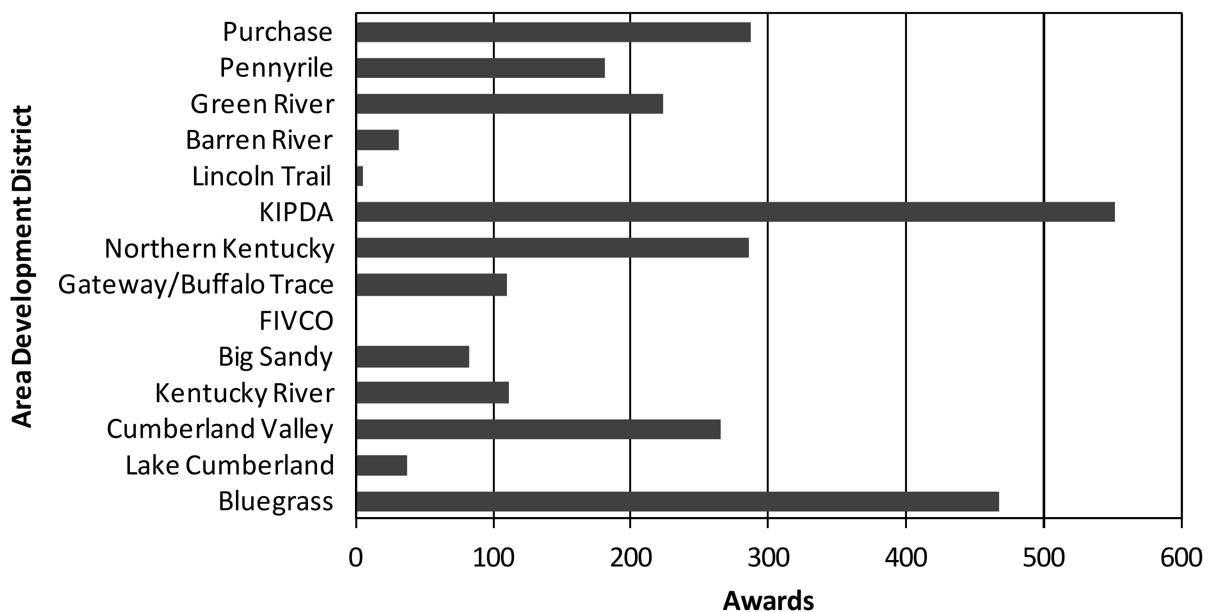
Some of the awards assisted projects in multiple area development districts. Most of the award funding went to entities providing affordable housing within a single area development district.

From FY 2002 to FY 2006, the corporation awarded $19.9 million in grants and loans from the fund to entities providing affordable housing in individual area development districts. This was 73 percent of the total awarded. Twenty-seven percent of the funds, $7.3 million, was awarded to entities providing affordable housing in more than one area development district. Included in the awards to multiple area development districts was $3.7 million awarded on a statewide basis to modify and/or rehabilitate housing for the elderly.

The KIPDA and Bluegrass Area Development Districts received the most awards from the funds.

Figure 7.B shows the number of awards, by district, made to entities that provide housing in individual area development districts. KIPDA and Bluegrass received the most awards, followed by Purchase, Northern Kentucky, and Cumberland Valley. These data are consistent with the areas of the state determined in Chapter 3 to have the highest number of families with affordable housing needs.

**Figure 7.B**
**Awards to Individual Area Development Districts**
**Fiscal Year 2002 to Fiscal Year 2006**



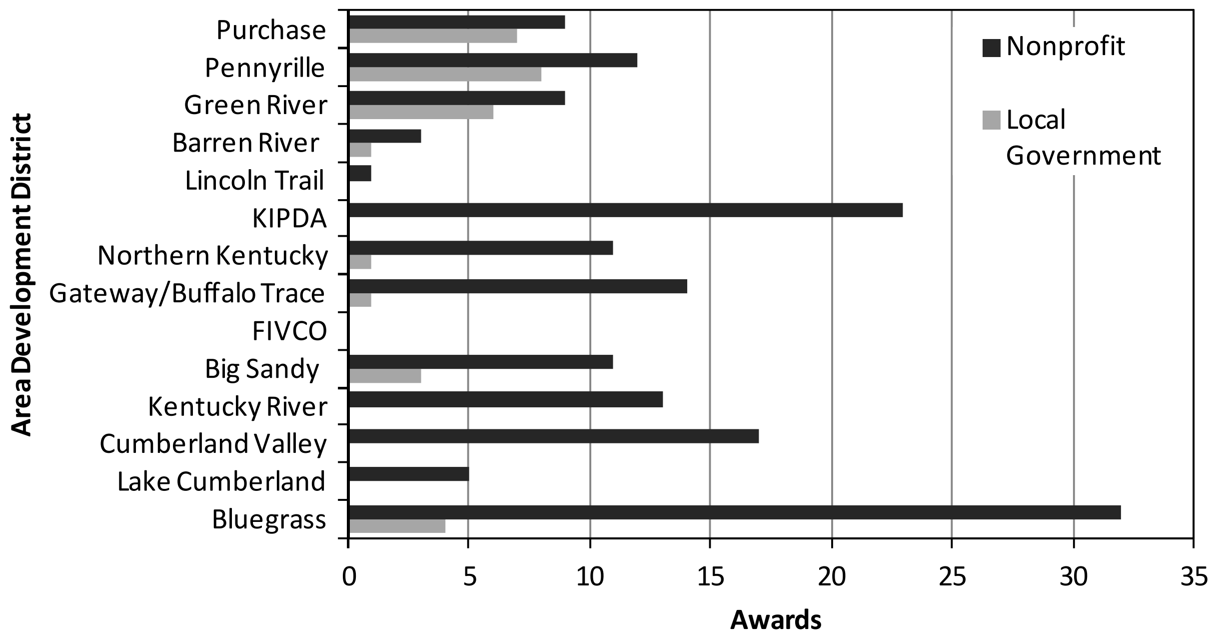

Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

No awards were made to entities to provide housing only within the FIVCO district. Three awards totaling $850,000 were made to entities that served FIVCO and three additional districts. The actual awards used in the FIVCO district could not be determined from the available information.

Most of the awards from the fund have been made to nonprofit organizations.

Figure 7.C shows the number of local government and nonprofit applicants for funding from the state Affordable Housing Trust Fund. Most applicants for this funding were nonprofit organizations, although in Pennyrile, Purchase, and Green River, there were nearly as many local government entities applying for funding as nonprofit organizations.

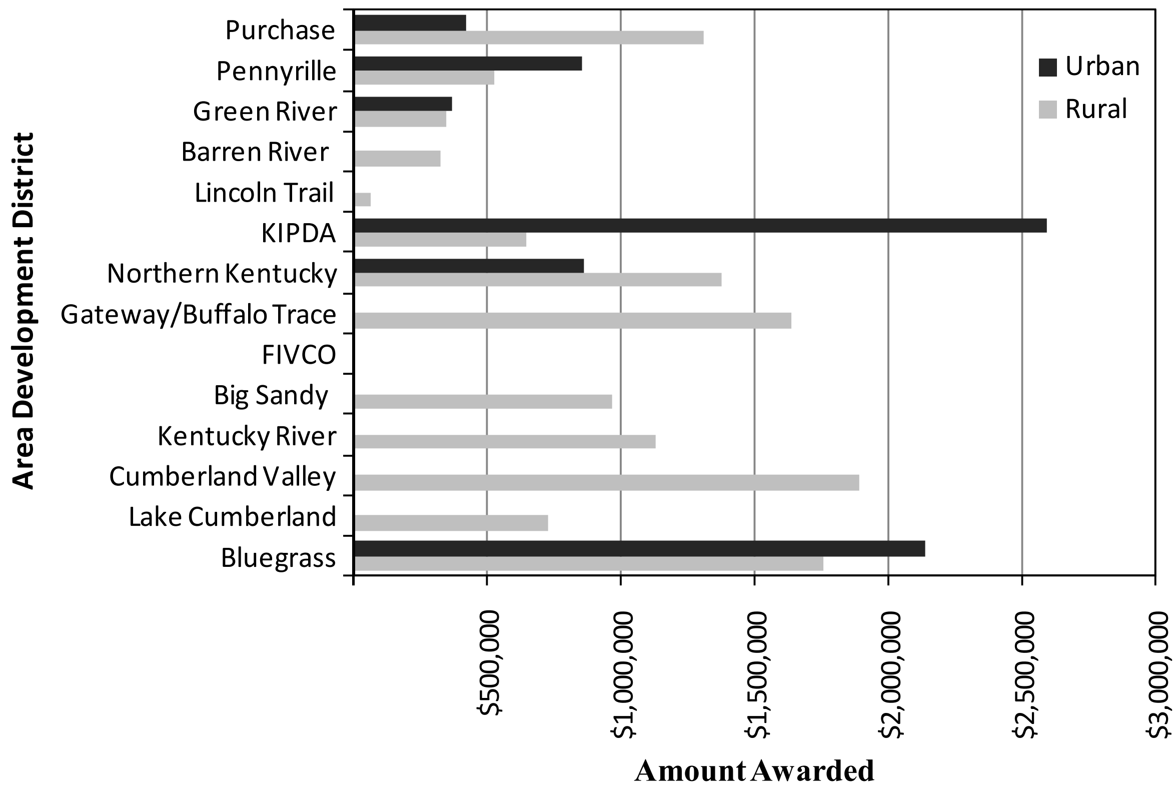
**Figure 7.C**
**Awards by Applicant Type**
**Fiscal Year 2002 to Fiscal Year 2006**




Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

Figure 7.D shows the dollar amount of awards made to each area development district that provides housing in rural and urban areas.

**Figure 7.D**
**Dollar Amount of Awards Providing Housing in Urban and Rural Areas**
**Fiscal Year 2002 to Fiscal Year 2006**

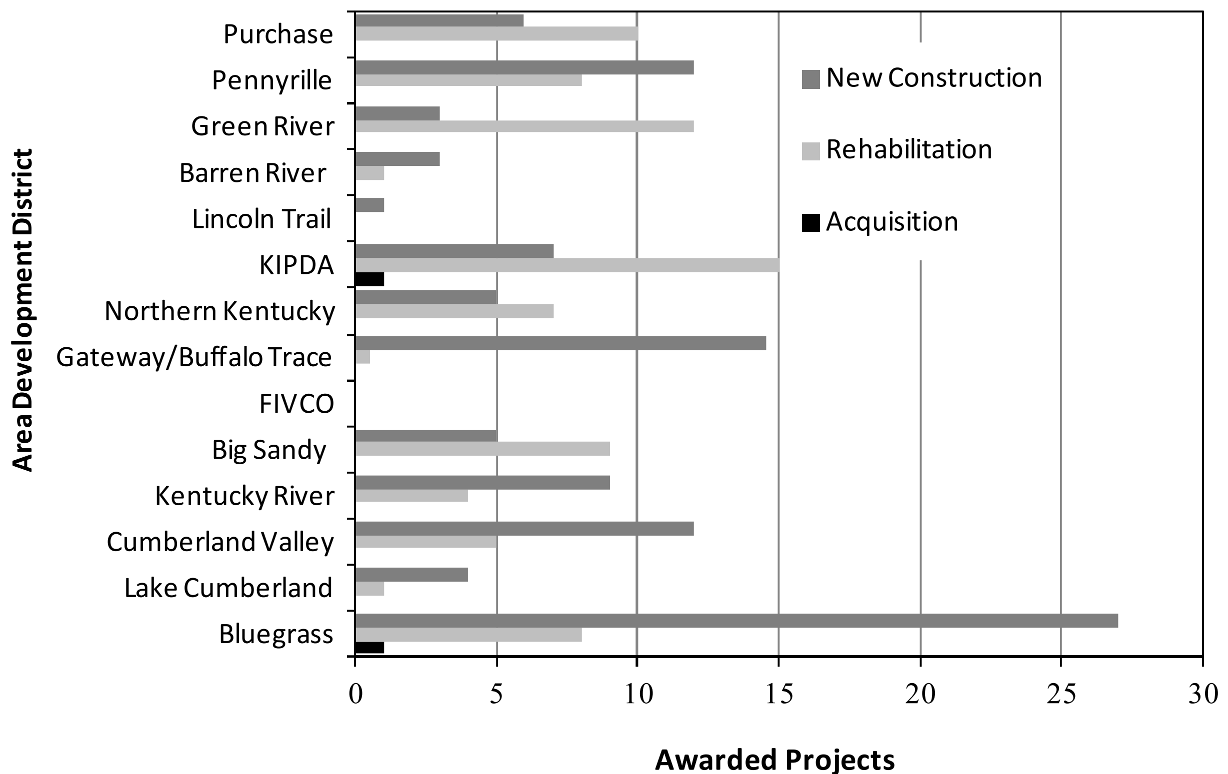



Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

The fund has been used to increase the supply of affordable housing stock in Kentucky.

Figure 7.E shows the number of projects funded by the Affordable Housing Trust Fund by whether the project involved new construction, rehabilitation, or property acquisition. Most of the projects involved new construction of affordable housing, which indicates that the fund has been primarily used to add to the state's affordable housing stock. Projects that rehabilitate existing affordable housing will ensure that the housing remains available for low-income families in the future.

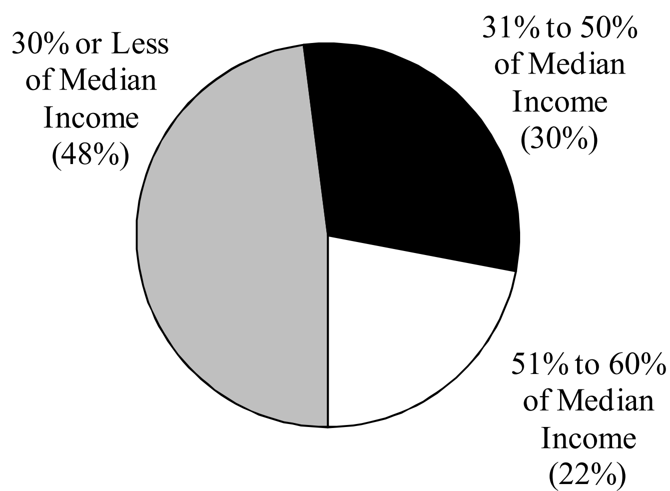
**Figure 7.E**
**Awarded Projects by Type**
**Fiscal Year 2002 to Fiscal Year 2006**




Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

Figure 7.F shows the income levels of the families served by projects funded with Affordable Housing Trust Fund money awarded to entities providing housing to individual area development districts. Almost one-half of the total awards served extremely low-income families. Thirty percent of the awards served very low-income families. All funds from the Affordable Housing Trust Fund must be used to serve families below 60 percent of the area median income.

**Figure 7.F**
**Income Levels Served for Applicants in Individual Area Development Districts Fiscal Year 2002 to Fiscal Year 2006**

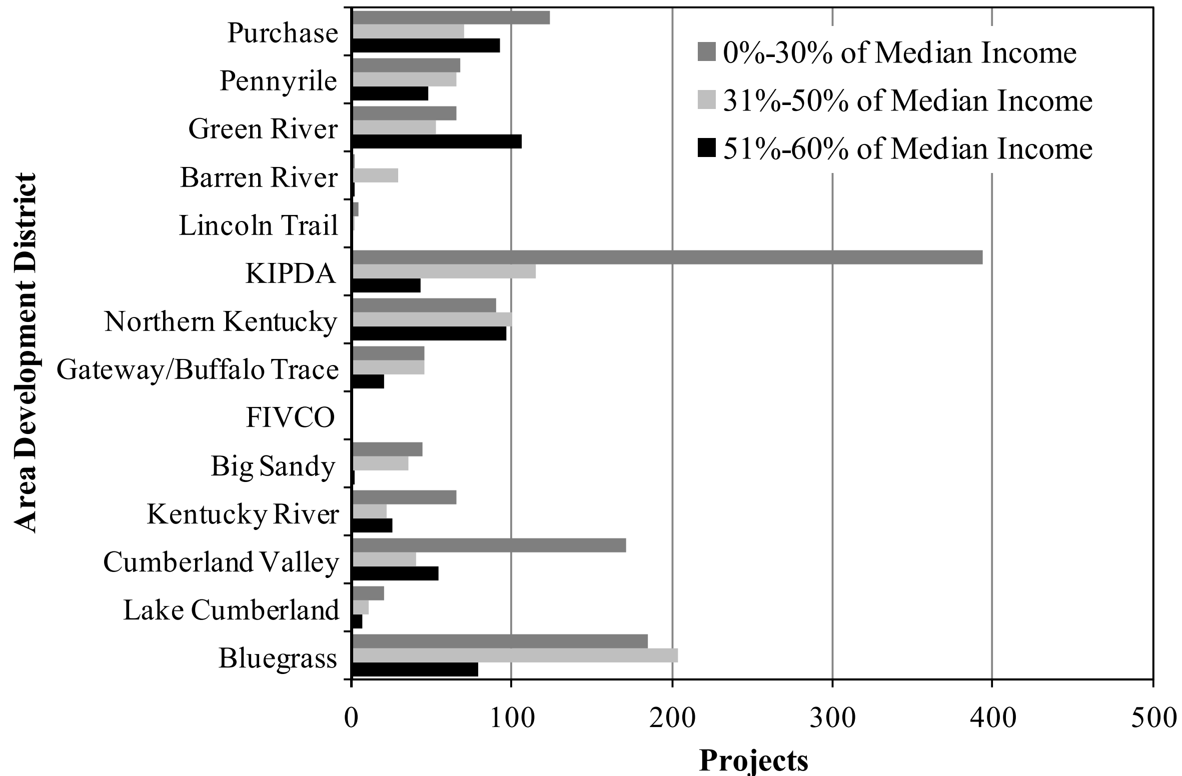



Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

The awards made from the Affordable Housing Trust Fund have most benefited families at the lowest income levels.

Figure 7.G also shows, by area development district, the income levels of families served. Most of the total awards served families at the lowest income levels.

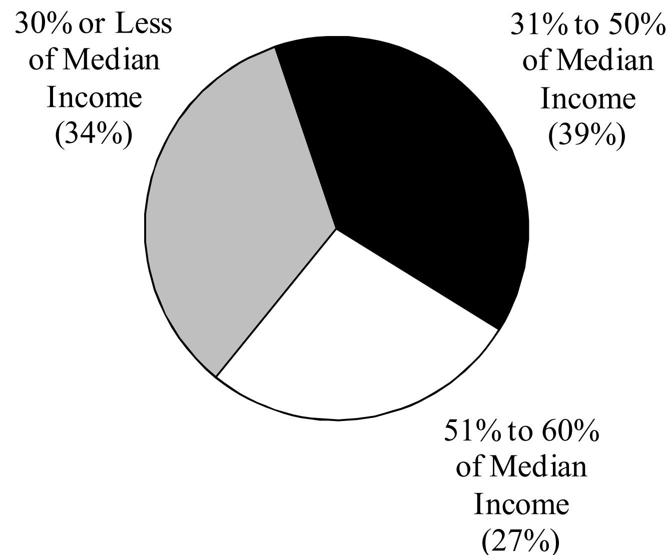
**Figure 7.G**
**Income Levels Served Per Area Development District**
**Fiscal Year 2002 to Fiscal Year 2006**




Source: Compiled by Program Review staff with information provided by the Kentucky Housing Corporation.

Figure 7.H shows the income levels served by awards from the fund to entities providing affordable housing in multiple area development districts. All the funds served families below 60 percent of the area median income.

**Figure 7.H**
**Income Levels Served for Awards to Applicants Serving Multiple Area Development Districts Fiscal Year 2002 to Fiscal Year 2006**




Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

### Conclusion

It appears that the corporation has used the state Affordable Housing Trust Fund to serve the areas in the state with the most affordable housing needs. In comparison with other sources of funding the corporation has to administer, it appears more nonprofit organizations use this source, and it serves more rural areas. However, the funding is insufficient to satisfy the demand for affordable housing in Kentucky. Because of the inflexibility of federal sources of funding, an infusion of funds into the flexible Affordable Housing Trust Fund would enable the corporation to partner with nonprofit organizations and units of local government to address local needs.

### Recommendation 7.1

**The General Assembly may wish to consider providing additional funding to the Kentucky Housing Corporation for the Affordable Housing Trust Fund to expand the availability of affordable housing to very low-income persons by partnering with nonprofit organizations and units of local government.**

# Chapter 8

## Programs Serving Special-needs Populations

Special-needs housing receives extra points in the competitive scoring process.

Under the competitive scoring process used by the corporation, special-needs housing receives more points. Special-needs housing is designed to serve the following persons:

- the elderly, who are defined in HUD regulations as persons aged 62 and older;
- the physically disabled, who include people with a physical, mental, or emotional impairment that 1) is expected to be of a long, continued, and indefinite duration; 2) substantially impedes the person's ability to live independently; and 3) is of such a nature that such ability could be improved by more suitable housing conditions;
- the mentally disabled, who include people with a developmental disability as defined in Section 102 of the Developmental Disabilities Assistance and Bill of Rights Act;
- single parents;
- people with Human Immunodeficiency Virus or Acquired Immune Deficiency Syndrome;
- people who are homeless;
- people who are the victims of domestic violence;
- families who pay more than 30 percent of their gross monthly incomes on housing expenses; and
- families in subsidized housing.

Several programs provide affordable housing to special-needs populations. This chapter discusses the programs and populations.

### Recovery Kentucky

Through the Recovery Kentucky program, the corporation has partnered with the Governor's Office for Local Development and the Department of Corrections to construct 10 facilities assisting individuals with substance abuse issues who are homeless or are at risk of becoming homeless.

The Recovery Kentucky program was established in 2005 as a joint effort of the corporation, the Governor's Office for Local Development, and the Department of Corrections. The program serves Kentuckians with chemical dependency issues who are homeless or at risk of becoming homeless and who often end up in jails, hospitals, or homeless shelters.

Ten Recovery Kentucky facilities will be constructed around the state. The facilities provide a form of peer recovery counseling but not licensed treatment. The program was modeled after two existing substance abuse shelters: The Healing Place in Louisville and The Hope Center for Women in Lexington. Table 8.1 lists the 10 Recovery Kentucky facilities by name and gender served, the nonprofit organizations involved in their operations, their locations, and the facilities' construction phase and anticipated completion dates.

**Table 8.1**
**Recovery Kentucky Centers**

| Facility | Nonprofit Organization To Sustain and Maintain Facility | Construction Phase | Completion Date |
|---|---|---|---|
| Brighton Recovery Center-Women's Program | Brighton Center-Boone County | Construction | June 2008 |
| Cumberland Hope Recovery-Women's Program | Cumberland River Behavioral Health-Harlan County | Construction | March 2008 |
| Four Rivers Recovery Center-Men's Program | Four Rivers Behavioral Health Inc.-McCracken County | Site work | March 2009 |
| Liberty Place Recovery Center-Women's Program | Kentucky River Foothills Partnership-Madison County | Construction | April 2008 |
| Morehead Inspiration Center-Men's Program | Pathways Inc.-Rowan County | Construction | Oct. 2007 |
| Owensboro Recovery Center-Men's Program | Lighthouse Recovery Center-Daviess County | Ground breaking | Nov. 2008 |
| Taylor County Recovery Center-Men's Program | Interlink Counseling Inc.-Taylor County | No official ground breaking | Jan. 2009 |
| Transitions Recovery Center-Men's Program | Transitions, Inc.-Kenton County | Site work | Jan. 2009 |
| Trilogy Center for Women-Women's Program | Pennyroyal MH/MR Board, Inc.-Christian County | Construction | May 2008 |
| Women's Addiction Recovery Manor-Women's Program | Henderson Addiction Recovery LLC-Henderson County | Complete | July 2007 |

Source: Compiled by Program Review staff from information provided by the Kentucky Housing Corporation.

The corporation has allocated HOME funds, Affordable Housing Trust Fund money, and housing credits for construction of Recovery Kentucky centers.

The corporation has allocated approximately $6.9 million in HOME funds, $1.5 million in Affordable Housing Trust Fund money, and $3.4 million in housing credits. Total funding is anticipated to generate $30.6 million in equity. The Governor's Office for Local Development has allocated approximately $3 million in Community Development Block Grant funds designated for operating costs. The Department of Corrections has agreed to fund 33 percent of the program's operating costs on a permanent basis by paying a per diem amount for the number of Recovery Kentucky residents diverted to the centers from the department.

The corporation's investment in this program includes large portions of some of its annual sources of funding; therefore, the corporation made a policy decision to fund these centers and to delay funding of other types of affordable housing. If the facilities do not continue to receive funding for operational costs from the state's Community Development Block Grant or if alternative funding sources are not identified, it is questionable whether the centers will be independently sustainable.

## Continuum of Care

HUD defines the Continuum of Care as a community plan to organize and deliver housing and services to meet the specific needs of people who are homeless as they move to stable housing and maximum self-sufficiency. It includes actions to end homelessness and to prevent a return to homelessness.

Jefferson and Fayette Counties apply directly to HUD for funding. The corporation administers programs in the remainder of the state.

The corporation administers funds for programs that help homeless people become stable and self-sufficient.

Continuum of Care consists of three federally funded programs: Section 8 Moderate Rehabilitation (Single-Room Occupancy), Shelter Plus Care, and the Supportive Housing Program. The funds are awarded competitively.

Section 8 Moderate Rehabilitation (Single-Room Occupancy) provides assistance to eligible organizations to rehabilitate housing. Eligible organizations include nonprofit organizations, community development housing organizations, and qualified community and faith-based organizations. Units must need a minimum of $3,000 of rehabilitation. Rental assistance for the units is provided for 10 years and may be renewed; however, no new funding for this program was received from FY 2002 to FY 2006.

The Shelter Plus Care program is designed to provide permanent housing to people who are homeless and disabled. Eligible applicants are units of local government, nonprofit organizations, and public housing authorities. Total funding received from FY 2002 to FY 2006 was approximately $1.8 million.

The Supportive Housing Program offers housing for homeless individuals through grants awarded to the state, units of local government, public housing authorities, and nonprofit organizations. To receive permanent housing under this program, individuals must be homeless and disabled. Total funding received from FY 2002 to FY 2006 was approximately $26.5 million.

A total of 7,417 clients, including 2,240 people with special needs, were served by the Shelter Plus Care program and the Supportive Housing Program from FY 2002 to FY 2006.

### Safe Havens

The corporation has two programs targeting homeless families: one for victims of domestic violence and homeless families with children, and the other for individuals with severe and persistent mental illness.

Safe Havens is a program for people who are homeless. It consists of two parts: Safe Start provides temporary housing vouchers to victims of domestic violence and homeless families with children; and Safe Place provides temporary housing vouchers to homeless individuals with severe and persistent mental illness. Temporary housing vouchers are good for 1 year. The voucher can be renewed if permanent housing has not been found at the end of the year. The corporation allocated $5 million to fund emergency housing vouchers until Section 8 Housing Choice Vouchers are available. When the federal housing vouchers are available, clients are transferred to the tenant-based rental assistance program. However, since the corporation administers tenant-based rental assistance in only 87 counties, it must collaborate with public housing agencies in the other 33 counties to try to give preference to Safe Havens clients.

As of May 31, 2007, the corporation had issued 1,046 vouchers. Of that number, 603 families had leased units with the vouchers, and the other 443 were looking for units to lease.

### Emergency Shelter Grants

The corporation administers grants for homeless shelters to local government entities and nonprofit organizations.

The Emergency Shelter Grant program is designed to improve the quality of existing shelters for the homeless, to help provide additional shelters, and to help meet the costs of operating the shelters. This competitive grant also is used to provide essential social services, homeless prevention services, and supportive services for homeless individuals.

The Lexington-Fayette Urban County Government, the Louisville Metro Government, and the corporation each receive separate allocations of the competitive block grant from HUD. However, the corporation accepts applications from all parts of the state. Eligible applicants are limited to units of local government and nonprofit organizations. All awards must be spent within 18 months of receiving funds. In FY 2005, the Emergency Shelter Grants program served 9,310 homeless individuals. From FY 2002 to FY 2006, the corporation allocated approximately $6.5 million through this program.

### Housing Opportunities for Persons with AIDS

The corporation provides funds for housing assistance and services for persons with AIDS.

The corporation's Housing Opportunities for Persons with AIDS program provides grants for housing assistance and services for people with acquired immunodeficiency syndrome (AIDS). Eligible applicants include local governments and the regional Kentucky Care Consortium. Resources are allocated through a HUD block grant and are to be used for low-income people. In FY 2005, the corporation served 458 people through the program.

The program is statewide, excluding Boone, Bullitt, Campbell, Gallatin, Grant, Kenton, Oldham, Pendleton, Shelby, and Spencer Counties. These counties are served by the Louisville and Cincinnati entitlement areas.

From FY 2002 to FY 2006, approximately $1.8 million was allocated through this grant.

A separate competitive grant provides tenant-based rental assistance to low-income people who are diagnosed with human immunodeficiency virus or AIDS. The $1,027,915 grant was awarded from HUD in October 2007 with an ending date of September 30, 2009.

### Rural Housing and Economic Development Permanent Supportive Housing

The Rural Housing and Economic Development Permanent Supportive Housing program provides funding for developers of permanent supportive housing and affordable housing in distressed Appalachian counties and Kentucky counties in the Mississippi Delta region.

This program provides grants to meet rural communities' housing and economic development needs. It was funded for 2004 and 2005 with a 3-year deadline to use funds. Funds awarded to the corporation by HUD can be used as incentives for developers of permanent supportive housing and affordable housing in distressed Appalachian counties and Kentucky counties in the Mississippi Delta region. Total funding allocated was $800,000.

### Kentucky Group Home Loan Program

The Kentucky Group Home Loan program provides loans to help establish group homes for individuals recovering from substance abuse.

The Kentucky Group Home Loan program is funded and administered by the Department for Mental Health and Mental Retardation Services in the Cabinet for Health and Family Services. The program provides loans to assist in establishing group homes for individuals recovering from substance abuse who are moving toward self-sufficiency. The corporation provides administrative support such as loan closings, disbursements, and

servicing. This program is administered statewide and began with an initial investment of $100,000 in 1989 from the department. Since 2002, the corporation has disbursed three $4,000 loans.

### HouseWorks

The corporation partners with the US Department of Agriculture to provide the HouseWorks program that assists homeowners in rural communities with common household repairs.

The corporation partners with the US Department of Agriculture Rural Development to provide the HouseWorks program that assists homeowners in rural communities with common household repairs such as plumbing, roofing, and handicap accessibility. Funding is provided by the Affordable Housing Trust Fund and the Department of Agriculture. Homeowners must meet the low-income guidelines and live in a rural area of the state. The amount of assistance awarded to recipients depends on income level, need, and, occasionally, age. From FY 2002 to FY 2006, the corporation disbursed approximately $2.7 million.

Boone, Boyd, Bullitt, Campbell, Christian, Clark, Daviess, Fayette, Franklin, Greenup, Hardin, Henderson, Jefferson, Kenton, McCracken, Madison, Meade, and Warren Counties are not served by this program because they are not considered rural areas. In 2007, the corporation began to partner with nonprofit organizations to serve these areas.

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# Appendix A

## Response From the Kentucky Housing Corporation

November 7, 2007

Program Review and Investigations Committee
Legislative Research Commission
Capitol Annex
Frankfort, KY 40601

Dear Committee Members:

Over the last several months, the Program Review staff of the Legislative Research Commission (LRC) has reviewed the operations and programs of Kentucky Housing Corporation. In response, the Corporation has examined LRC's report and concurs with its recommendations and conclusions as outlined in this letter.

Additional bond cap would allow the Corporation to expand the mortgage loan program and lessen the need for taxable debt. Additional tax-exempt capacity would result in less expensive borrowing costs. This savings would then be passed to the Corporation's mortgagors in the form of reduced rate mortgages. Implementing this recommendation, combined with our existing down payment and closing costs assistance, we could help more Kentuckians realize their dream of homeownership.

Along with the additional bond cap, your second recommendation to increase the Corporation's limit on outstanding bonded indebtedness is needed to continue to meet our legislative mandate to provide financing for residential housing to individuals and families of lower and moderate income. Currently, KRS 198.090 allows that Kentucky Housing Corporation may provide for the issuance of bonds if the cumulative outstanding indebtedness does not exceed $2.5 billion. As of June 30, 2007, the Corporation's outstanding bonded indebtedness was approximately $2.1 billion. Increasing the Corporation's debt ceiling to $5.0 billion will allow the Corporation to continue providing lower-than-market rate interest loans to lower- and moderate-income Kentuckians.

Your third recommendation concerns additional funding for the Affordable Housing Trust Fund (AHTF). In 2006, the General Assembly adopted legislation allocating to the AHTF a portion of fees on new mortgages, deeds and 21 additional instruments recorded by Kentucky's county clerks. As the report indicates, in fiscal year 2007, the AHTF received $5.3 million from this funding source. The AHTF is a very flexible source of funding and since 1994 Kentucky Housing Corporation has allocated over $40 million to create over 6,500 affordable housing units in 118 counties in Kentucky. Over the last five years, 46 percent of the families served by the AHTF have incomes at or below 30 percent of the area median income. With additional funding, the Corporation could provide more resources to offer affordable housing to Kentuckians in need.

As the Corporation looks to the future, we will continue to maximize the use of our resources to meet our legislative mandate. We extend appreciation to LRC's Program Review staff. They were great to work with, were always very professional, asked excellent questions and garnered an understanding of what we do very quickly. Furthermore, we thank the committee for this opportunity to receive your professional guidance in this review of our programs, as we strive to most efficiently serve the largest number of Kentuckians with affordable housing needs.

Sincerely,

Ben A. Cook
Chief Executive Officer

# Appendix B

## Financial Eligibility for Rental Assistance

Financial eligibility for rental assistance is based on a family's annual income as defined by HUD, which includes unearned income; earned income; and income from assets, less specific exclusions. In the tenant-based program, the value of "imputed welfare income" is included in the calculation. Imputed welfare income arises when a family member would receive a cash benefit, except that the benefit has been reduced because of welfare fraud or noncompliance with the requirements of the Family Self-Sufficiency Program. That program helps voucher families obtain employment that will lead to economic independence and self-sufficiency.

Unearned income consists of periodic benefits, payments in lieu of earnings, welfare assistance, and periodic and determinable allowances. Each is described in Table B.1.

**Table B.1**
**Types of Unearned Income for Rental Assistance**

| Type of Income | Description |
|---|---|
| Periodic benefits | The full amount of receipts from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts |
| Payments in lieu of earnings | Unemployment and disability compensation, workers' compensation, and severance pay |
| Welfare assistance | The amount of welfare assistance cash benefit not specifically designated for shelter and utilities |
| Periodic and determinable allowances | Alimony and child support payments and regular contributions or gifts received from organizations or from persons not residing in the dwelling |

Source: 24 CFR 5.609.

Types of earned income are employment, business and self-employment, and military pay. Each is described in Table B.2.

**Table B.2**
**Types of Earned Income for Rental Assistance**

| Type of Income | Description |
|---|---|
| Employment | The full amount of wages, salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services before payroll deductions |
| Business and self-employment | The net income from the operation of a business or profession less an allowance for depreciation of assets using the straight-line method |
| Military pay | All regular pay, most special pay, and allowances of a member of the armed forces |

Source: 24 CFR 5.609.

The corporation is required to exclude certain types of income from the annual income calculation. Several of the most common exclusions are shown in Table B.3.

**Table B.3**
**Common Exclusions From Income**

| Type of Exclusion | Description |
|---|---|
| Adoption assistance | Adoption assistance payments in excess of $480 per adopted child |
| Child earnings | Income from employment of children and foster children younger than 18 |
| Developmental disability assistance | Amounts paid by a state agency to a family with a member with a developmental disability who is living at home to offset the cost of services and equipment needed to keep that family member at home |
| Foster care | Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone) |
| Hostile fire special pay | Special pay for a member of the armed forces for being exposed to hostile fire |
| HUD training | Amounts received under training programs funded by HUD |
| Live-in aide | The income of a live-in aide to assist a person with a disability |
| Lump-sum additions to family assets | Inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains, and settlement for personal or property losses |
| Medical expense reimbursement | Amounts received by the family that are specifically for or in reimbursement of the cost of medical expenses for any family member |
| Plan to Attain Self Sufficiency | Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self Sufficiency |
| Reimbursements | Amounts received by a participant in other publicly assisted programs that are specifically for or in reimbursement of out-of-pocket expenses incurred for items such as special equipment, clothing, transportation, and child care, and that are made solely to allow participation in a specific program |
| Resident service stipend | Amounts received by a resident (not to exceed $200 a month) for performing a service for the public housing agency or owner on a part-time basis that enhances the quality of life in the development |
| Student earnings over $480 | Earnings in excess of $480 for each full-time student aged 18 or older, excluding the head of household and spouse |
| Training stipends | Earnings and benefits of any family member from participation in qualifying state or local employment training programs and training of a family member as resident management staff |
| Other | Temporary, nonrecurring, or sporadic income |

Source: 24 CFR 5.609.

The family's income for determining eligibility for Section 8 rental assistance has been determined by adding unearned income and earned income and then excluding specific items. The next step is to calculate adjusted annual income by deducting mandatory items. Table B.4 shows the mandatory deductions.

**Table B.4**
**Mandatory Deductions From Income**

| Amount Deducted | Description |
|---|---|
| $480 | For each family member except foster children and foster adults (other than the head of household or spouse) who is younger than 18, a person with a disability, or a full-time student |
| $400 | For any family whose head of household, spouse, or sole member is a person with a disability or is at least age 62; includes two or more persons with a disability living together or one or more persons with a disability living with one or more live-in aides |
| Sum of two items, to the extent the sum exceeds 3% of annual income | 1. Unreimbursed medical expenses of all members of an elderly or disabled family; and<br>2. Unreimbursed reasonable attendant care and auxiliary apparatus of each member of the family who is a person with a disability, to the extent necessary to enable any family member to be employed, but not to exceed the earned income of family members age 18 or older who are able to work because of the attendant care of auxiliary apparatus |
| No more than amount earned by family member | Any reasonable child care expenses to enable a family member to be employed or to further his or her education |

Source: 24 CFR 5.611

# Appendix C

## Mortgage Income Limits by County

Table C.1 lists the family income limits for Kentucky Housing Corporation mortgage loans by county. The income limits are established by the US Department of Housing and Urban Development and are adjusted for family size. These income limits went into effect March 31, 2006, and did not change in 2007.

**Table C.1**
**Family Income Limits by County for Mortgage Loans From New Bond Funds or Recycled Funds**

| | People in Household | | | People in Household | |
|---|---|---|---|---|---|
| **County** | **1 or 2** | **3 or More** | **County** | **1 or 2** | **3 or More** |
| Adair | $59,920 | $68,740 | Daviess | $53,600 | $61,640 |
| Allen | 59,920 | 68,740 | Edmonson | 62,160 | 72,520 |
| Anderson | 60,800 | 69,920 | Elliott | 59,920 | 68,740 |
| Ballard | 49,900 | 57,385 | Estill | 59,920 | 68,740 |
| Barren | 49,100 | 56,465 | Fayette | 61,800 | 71,070 |
| Bath | 59,920 | 68,740 | Fleming | 59,920 | 68,740 |
| Bell | 59,920 | 68,740 | Floyd | 59,920 | 68,740 |
| Boone | 64,600 | 74,290 | Franklin | 61,200 | 70,380 |
| Bourbon | 74,160 | 86,520 | Fulton | 59,920 | 68,740 |
| Boyd | 49,100 | 56,465 | Gallatin | 77,520 | 90,440 |
| Boyle | 61,320 | 71,540 | Garrard | 60,960 | 71,120 |
| Bracken | 77,520 | 90,440 | Grant | 62,160 | 75,520 |
| Breathitt | 59,920 | 68,740 | Graves | 49,100 | 56,465 |
| Breckinridge | 59,920 | 68,740 | Grayson | 59,920 | 68,740 |
| Bullitt | 58,900 | 67,735 | Green | 59,920 | 68,740 |
| Butler | 59,920 | 68,740 | Greenup | 49,100 | 56,465 |
| Caldwell | 49,100 | 56,465 | Hancock | 53,600 | 61,640 |
| Calloway | 49,100 | 56,465 | Hardin | 51,300 | 58,995 |
| Campbell | 64,600 | 74,290 | Harlan | 59,920 | 68,740 |
| Carlisle | 59,920 | 68,740 | Harrison | 60,360 | 70,420 |
| Carroll | 63,240 | 73,780 | Hart | 59,920 | 68,740 |
| Carter | 59,920 | 68,740 | Henderson | 56,900 | 65,435 |
| Casey | 59,920 | 68,740 | Henry | 70,680 | 82,460 |
| Christian | 49,100 | 56,465 | Hickman | 59,920 | 68,740 |
| Clark | 74,160 | 86,520 | Hopkins | 59,920 | 68,740 |
| Clay | 59,920 | 68,740 | Jackson | 59,920 | 68,740 |
| Clinton | 59,920 | 68,740 | Jefferson | 58,900 | 67,735 |
| Crittenden | 59,920 | 68,740 | Jessamine | 61,800 | 71,070 |
| Cumberland | 59,920 | 68,740 | Johnson | 59,920 | 68,740 |

| County | People in Household 1 or 2 | People in Household 3 or More | County | People in Household 1 or 2 | People in Household 3 or More |
|---|---|---|---|---|---|
| Kenton | $64,600 | $74,290 | Nelson | $64,440 | $75,180 |
| Knott | 59,920 | 68,740 | Nicholas | 59,920 | 68,740 |
| Knox | 59,920 | 68,740 | Ohio | 59,920 | 68,740 |
| LaRue | 61,560 | 71,820 | Oldham | 58,900 | 67,735 |
| Laurel | 49,100 | 56,465 | Owen | 59,920 | 68,740 |
| Lawrence | 59,920 | 68,740 | Owsley | 59,920 | 68,740 |
| Lee | 59,920 | 68,740 | Pendleton | 77,520 | 90,440 |
| Leslie | 59,920 | 68,740 | Perry | 59,920 | 68,740 |
| Letcher | 59,920 | 68,740 | Pike | 59,920 | 68,740 |
| Lewis | 59,920 | 68,740 | Powell | 59,920 | 68,740 |
| Lincoln | 59,920 | 68,740 | Pulaski | 59,920 | 68,740 |
| Livingston | 49,100 | 56,465 | Robertson | 59,920 | 68,740 |
| Logan | 59,920 | 68,740 | Rockcastle | 59,920 | 68,740 |
| Lyon | 49,100 | 56,465 | Rowan | 59,920 | 68,740 |
| Madison | 69,960 | 81,620 | Russell | 59,920 | 68,740 |
| Magoffin | 59,920 | 68,740 | Scott | 74,060 | 86,520 |
| Marion | 59,920 | 68,740 | Shelby | 58,900 | 67,735 |
| Marshall | 51,800 | 59,570 | Simpson | 50,700 | 58,305 |
| Martin | 59,920 | 68,740 | Spencer | 70,680 | 82,460 |
| Mason | 59,920 | 68,740 | Taylor | 49,100 | 56,465 |
| McCracken | 51,000 | 58,650 | Todd | 59,920 | 68,740 |
| McCreary | 59,920 | 68,740 | Trigg | 49,100 | 56,465 |
| McLean | 64,320 | 75,040 | Trimble | 70,680 | 82,460 |
| Meade | 49,100 | 56,465 | Union | 50,800 | 58,420 |
| Menifee | 59,920 | 68,740 | Warren | 51,800 | 59,570 |
| Mercer | 53,100 | 61,065 | Washington | 59,920 | 68,740 |
| Metcalfe | 59,920 | 68,740 | Wayne | 59,920 | 68,740 |
| Monroe | 59,920 | 68,740 | Webster | 68,280 | 79,660 |
| Montgomery | 59,920 | 68,740 | Whitley | 59,920 | 68,740 |
| Morgan | 59,920 | 68,740 | Wolfe | 59,920 | 68,740 |
| Muhlenberg | 49,100 | 56,465 | Woodford | 61,800 | 71,070 |

Source: Kentucky Housing Corporation.

Table C.2 lists the family income limits for mortgage loans when a family receives funds from the state's HOME Investment Partnerships block grant. These income limits are adjusted for family size and went into effect April 28, 2007.

**Table C.2**
**Family Income Limits by County for Mortgage Loans From the HOME Investment Partnerships Block Grant**

| | People in Household | | | |
|---|---|---|---|---|
| **County** | **1** | **2** | **3** | **4 or more** |
| Adair | $22,450 | $25,700 | $28,900 | $32,100 |
| Allen | 24,450 | 27,900 | 31,400 | 34,900 |
| Anderson | 34,050 | 38,900 | 43,800 | 48,650 |
| Ballard | 27,950 | 31,900 | 35,900 | 39,900 |
| Barren | 24,700 | 28,250 | 31,750 | 35,300 |
| Bath | 22,450 | 25,700 | 28,900 | 32,100 |
| Bell | 22,450 | 25,700 | 28,900 | 32,100 |
| Boone | 36,200 | 41,350 | 46,550 | 51,700 |
| Bourbon | 34,600 | 39,550 | 44,500 | 49,450 |
| Boyd | 25,850 | 29,500 | 33,200 | 36,900 |
| Boyle | 28,650 | 32,700 | 36,800 | 40,900 |
| Bracken | 36,200 | 41,350 | 46,550 | 51,700 |
| Breathitt | 22,450 | 25,700 | 28,900 | 32,100 |
| Breckinridge | 25,100 | 28,700 | 32,250 | 35,850 |
| Bullitt | 32,950 | 37,700 | 42,400 | 47,100 |
| Butler | 23,400 | 26,750 | 30,100 | 33,450 |
| Caldwell | 25,100 | 28,700 | 32,250 | 35,850 |
| Calloway | 26,800 | 30,600 | 34,450 | 38,250 |
| Campbell | 36,200 | 41,350 | 46,550 | 51,700 |
| Carlisle | 22,450 | 25,700 | 28,900 | 32,100 |
| Carroll | 29,500 | 33,700 | 37,950 | 42,150 |
| Carter | 25,000 | 28,550 | 32,150 | 35,700 |
| Casey | 22,450 | 25,700 | 28,900 | 32,100 |
| Christian | 26,800 | 30,600 | 34,450 | 38,250 |
| Clark | 34,600 | 39,550 | 44,500 | 49,450 |
| Clay | 22,450 | 25,700 | 28,900 | 32,100 |
| Clinton | 22,450 | 25,700 | 28,900 | 32,100 |
| Crittenden | 25,150 | 28,750 | 32,350 | 35,900 |
| Cumberland | 22,450 | 25,700 | 28,900 | 32,100 |
| Daviess | 30,050 | 34,300 | 38,600 | 42,900 |
| Edmonson | 29,000 | 33,150 | 37,300 | 41,450 |
| Elliott | 22,450 | 25,700 | 28,900 | 32,100 |
| Estill | 22,450 | 25,700 | 28,900 | 32,100 |
| Fayette | 34,600 | 39,550 | 44,500 | 49,450 |
| Fleming | 22,750 | 26,000 | 29,250 | 32,500 |
| Floyd | 22,450 | 25,700 | 28,900 | 32,100 |

| County | People in Household | | | |
|---|---|---|---|---|
| | 1 | 2 | 3 | 4 or more |
| Franklin | $34,250 | $39,150 | $44,050 | $48,950 |
| Fulton | 22,700 | 25,900 | 29,150 | 32,400 |
| Gallatin | 36,200 | 41,350 | 46,550 | 51,700 |
| Garrard | 28,450 | 32,500 | 36,600 | 40,650 |
| Grant | 29,000 | 33,150 | 37,300 | 41,150 |
| Graves | 25,400 | 29,050 | 32,650 | 36,300 |
| Grayson | 22,450 | 25,700 | 28,900 | 32,100 |
| Green | 22,450 | 25,700 | 28,900 | 32,100 |
| Greenup | 25,850 | 29,500 | 33,200 | 36,900 |
| Hancock | 30,050 | 34,300 | 38,600 | 42,900 |
| Hardin | 28,750 | 32,850 | 36,950 | 41,050 |
| Harlan | 22,450 | 25,700 | 28,900 | 32,100 |
| Harrison | 28,200 | 32,200 | 36,250 | 40,250 |
| Hart | 22,450 | 25,700 | 28,900 | 32,100 |
| Henderson | 31,850 | 36,400 | 40,950 | 45,500 |
| Henry | 32,950 | 37,700 | 42,400 | 47,100 |
| Hickman | 25,100 | 28,700 | 32,250 | 35,850 |
| Hopkins | 24,550 | 28,100 | 31,600 | 35,100 |
| Jackson | 22,450 | 25,700 | 28,900 | 32,100 |
| Jefferson | 32,950 | 37,700 | 42,400 | 47,100 |
| Jessamine | 34,600 | 39,550 | 44,500 | 49,450 |
| Johnson | 22,450 | 25,700 | 28,900 | 32,100 |
| Kenton | 36,200 | 41,350 | 46,550 | 51,700 |
| Knott | 22,450 | 25,700 | 28,900 | 32,100 |
| Knox | 22,450 | 25,700 | 28,900 | 32,100 |
| LaRue | 28,750 | 32,850 | 36,950 | 41,050 |
| Laurel | 22,450 | 25,700 | 28,900 | 32,100 |
| Lawrence | 22,450 | 25,700 | 28,900 | 32,100 |
| Lee | 22,450 | 25,700 | 28,900 | 32,100 |
| Leslie | 22,450 | 25,700 | 28,900 | 32,100 |
| Letcher | 22,450 | 25,700 | 28,900 | 32,100 |
| Lewis | 22,450 | 25,700 | 28,900 | 32,100 |
| Lincoln | 22,500 | 25,750 | 28,950 | 32,150 |
| Livingston | 26,300 | 30,100 | 33,850 | 37,600 |
| Logan | 26,500 | 30,300 | 34,050 | 37,850 |
| Lyon | 26,800 | 30,600 | 34,450 | 38,250 |
| Madison | 32,650 | 37,300 | 42,000 | 46,650 |
| Magoffin | 22,450 | 25,700 | 28,900 | 32,100 |
| Marion | 24,550 | 28,050 | 31,550 | 35,050 |
| Marshall | 29,000 | 33,150 | 37,300 | 41,450 |
| Martin | 22,450 | 25,700 | 28,900 | 32,100 |
| Mason | 25,250 | 28,900 | 32,500 | 36,100 |
| McCracken | 28,550 | 32,650 | 36,700 | 40,800 |
| McCreary | 22,450 | 25,700 | 28,900 | 32,100 |

| County | People in Household | | | |
|---|---|---|---|---|
| | 1 | 2 | 3 | 4 or more |
| McLean | $30,050 | $34,300 | $38,600 | $42,900 |
| Meade | 26,800 | 30,650 | 34,450 | 38,300 |
| Menifee | 22,450 | 25,700 | 28,900 | 32,100 |
| Mercer | 29,750 | 34,000 | 38,250 | 42,500 |
| Metcalfe | 22,450 | 25,700 | 28,900 | 32,100 |
| Monroe | 22,450 | 25,700 | 28,900 | 32,100 |
| Montgomery | 24,800 | 28,350 | 31,900 | 35,450 |
| Morgan | 22,450 | 25,700 | 28,900 | 32,100 |
| Muhlenberg | 22,450 | 25,700 | 28,900 | 32,100 |
| Nelson | 30,050 | 34,350 | 38,650 | 42,950 |
| Nicholas | 23,850 | 27,300 | 30,700 | 34,100 |
| Ohio | 23,750 | 27,100 | 30,500 | 33,900 |
| Oldham | 32,950 | 37,700 | 42,400 | 47,100 |
| Owen | 25,950 | 29,700 | 33,400 | 37,100 |
| Owsley | 22,450 | 25,700 | 28,900 | 32,100 |
| Pendleton | 36,200 | 41,350 | 46,550 | 51,700 |
| Perry | 22,450 | 25,700 | 28,900 | 32,100 |
| Pike | 22,450 | 25,700 | 28,900 | 32,100 |
| Powell | 22,450 | 25,700 | 28,900 | 32,100 |
| Pulaski | 22,450 | 25,700 | 28,900 | 32,100 |
| Robertson | 24,450 | 27,950 | 31,450 | 34,950 |
| Rockcastle | 22,450 | 25,700 | 28,900 | 32,100 |
| Rowan | 23,050 | 26,350 | 29,650 | 32,950 |
| Russell | 22,450 | 25,700 | 28,900 | 32,100 |
| Scott | 34,600 | 39,550 | 44,500 | 49,450 |
| Shelby | 32,950 | 37,700 | 42,400 | 47,100 |
| Simpson | 28,400 | 32,450 | 36,500 | 40,550 |
| Spencer | 32,950 | 37,700 | 42,400 | 47,100 |
| Taylor | 22,600 | 25,850 | 29,050 | 32,300 |
| Todd | 25,650 | 29,300 | 33,000 | 36,650 |
| Trigg | 26,800 | 30,600 | 34,450 | 38,250 |
| Trimble | 32,950 | 37,700 | 42,400 | 47,100 |
| Union | 28,450 | 32,500 | 36,600 | 40,650 |
| Warren | 29,000 | 33,150 | 37,300 | 41,450 |
| Washington | 27,200 | 31,000 | 34,850 | 38,700 |
| Wayne | 22,450 | 25,700 | 28,900 | 32,100 |
| Webster | 31,850 | 36,400 | 40,950 | 45,500 |
| Whitley | 22,450 | 25,700 | 28,900 | 32,100 |
| Wolfe | 22,450 | 25,700 | 28,900 | 32,100 |
| Woodford | 34,600 | 39,550 | 44,500 | 49,450 |

Source: Kentucky Housing Corporation.