



# Homeownership AHP and Down Payment Products Income Calculation Guidelines

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## **I. INCOME ELIGIBILITY REQUIREMENTS**

This document sets forth the income guidelines for Federal Home Loan Bank of Des Moines (FHLB Des Moines, or the Bank) Homeownership projects in the Competitive Affordable Housing Program (AHP) and Down Payment Products (DP) including Home\$start and the Native American Homeownership Initiative (NAHI). Participating members or sponsors must use these *AHP/DP Income Calculation Guidelines* and the Bank's *Income Calculation Workbook* to calculate a household's annual income for the purpose of qualifying households for subsidy award.

**The income guidelines and calculation methodology used by the FHLB Des Moines may differ from the methodology used by members, sponsors, and other funders. When this occurs, FHLB Des Moines guidelines and calculation methodology must be used to qualify households for subsidy award.**

Income eligibility is based on a household's projected annual income at the time of their loan application or application for assistance (i.e. enrollment date). This includes all income of adult household members, and non-employment income of minors. Projected annual income will be calculated by annualizing current income. The Bank's *Certification of Zero Income* form is required for each adult household member that has no income.

Income information will be collected from verification of income documents and calculated in the Bank's *Income Calculation Workbook*. All households will be determined to be income eligible at the sole discretion of the Bank after review of income documentation and income calculation. The Bank will be conservative in calculating income from the verification of income documentation. For example, if provided both a verification of income form (VOE) and paystubs, the Bank will use the higher estimate of income derived from those documents in income qualification.

### **A. Competitive AHP Income Eligibility**

Eligible households qualifying under an AHP award must qualify homeowners based on income targeting approved at AHP application. Households must have annualized incomes less than or equal to 50%, 60%, or 80% of area median income, per the approved application. The income calculation will be compared to HUD median income guidelines for the specified year, household size, and property location (by county) and confirmed by the FHLB Des Moines before any disbursement of funds. Projects that serve households eligible for assistance from a Tribally Designated Housing Entity may use the greater of the HUD or NAHASDA income guidelines.

### **B. Down Payment Products Eligibility**

Eligible households qualifying under a down payment program must have annualized incomes less than or equal to 80% of median income. The income calculation will be compared to the HUD median income guidelines for the specified year, household size, and property location (by county or state) and confirmed by the FHLB Des

Moines before any disbursement of funds. Households eligible under NAHI program guidelines may use the greater of the HUD or NAHASDA income guidelines.

## **II. BASIS FOR INCOME ELIGIBILITY**

### **A. Who to Include/Exclude in Household**

A household should include all adults and children who will reside or intend to reside in the home, with some exceptions as noted below. An adult is a person 18 years and older.

A household may include temporarily absent family members including but not limited to:

- Children who reside with parents as a result of joint custody agreements or court orders.
- Children or young adults who are dependents but may be temporarily absent attending college.
- Active-duty military if that person is the head of household or their spouse.
- Persons temporarily absent while undergoing medical rehabilitation if they are expected to return to the home.

Persons that may be excluded, or included only under certain circumstances, include:

- If a household member is separated the absent spouse is not included if there is a legal separation or if they have been separated for 12 consecutive months or longer and this can be substantiated. If there is no legal separation or the separation has been for less than 12 months, the absent spouse should be included in the household. At the Bank's discretion, exceptions may be granted based on individual circumstances (e.g., the spouse has moved to another country and is providing no financial support to the household).
- Include foster children or foster adults only when they receive income other than the support received for their care. If the only income received is support income received for their care, they should be excluded from the household. Support income for their care may be excluded from income. (See [Income Inclusions and Exclusions](#).)

NOTE: A foster adult is typically a person with disabilities, unrelated to other household members, who is unable to live alone, and for whom payments for care are being received.

- Do not include a live in aide receiving compensation from a state or local welfare agency for care of an elderly or disabled household member.
- Non-resident co-owners, co-signers, or guarantors are not considered part of the household if they are not residing in the residence and this can be substantiated.

**Table: Whose Income to Include**

<b>Household Member</b>	<b>Employment Income</b>	<b>Other Income</b>
Head of Household	Yes	Yes
Spouse	Yes	Yes
Co-Head / Cohabiting Partner	Yes	Yes
Temporarily Absent Household Member	Yes	Yes
Other Adult, 18 years or older ( <i>exclude from household if adult is in foster care and only income is adult care support</i> )	Yes	Yes ( <i>other than foster care</i> )
Full-time Students, 18 years or older that are not head of household or spouse	Yes, up to \$480 per year	Yes
Dependent, 17 years or younger	No	Yes
Foster Child ( <i>exclude from household if only income is child care support</i> )	No	Yes ( <i>other than foster care</i> )
Live-in Aide	No	No

**B. Sources of Income/Income Documentation**

For each source of income identified in the tables below, member banks (DP) and project sponsors (AHP) will need to obtain and provide to the Bank current income documentation. The tables below include the most common sources of income and applicable documentation. Additional sources and documentation requirements are included in [Income Inclusions and Exclusions](#).

An employer’s verification of income or paystubs must be within 120 days of the household’s enrollment date. Tax returns and documentation of income other than employment must be the most current available at the enrollment date. Further instruction is included in the table below. In the case of an adult household member with no income, provide a *Certification of Zero Income*.

The enrollment date is the date a member or sponsor takes a household’s application for assistance. In a home purchase transaction this is typically the date of the loan application. This date must be entered in the *Income Calculation Workbook*, where it will be certified by the homeowners.

**Table 1: Income from Employment**

Source of Income	Income Documentation	Verification Tips
<p>Employment including salary, wages, overtime, bonus, commissions, tips.</p> <p>Other compensation including recurring allowances for housing, vehicle, food, or wellness.</p> <p>Includes vacation, holiday, personal, sick or other paid time off, and training pay.</p>	<p>Verification of Employment (VOE) forms including the Fannie Mae Request for Employment Verification form, or verification of employment provided by an employment verification service such as The Work Number; <i>or</i></p>	<p>VOE is preferred over paystubs, as it verifies the hire date.</p> <p>VOE is preferred to verify allowances.</p> <p>See <a href="#">Employment Income</a> in this document and the Instructions in the <i>Income Calculation Workbook</i> for tips on determination of pay rate, payroll frequency, thru date, and inclusion of bonus and commission income.</p>
	<p>Three consecutively dated paystubs.</p>	<p>When using paystubs, inquire as to hire date. If in current year verify date with employer or from first paystub.</p> <p>See <a href="#">Employment Income</a> in this document and the Instructions in the <i>Income Calculation Workbook</i> for tips on determination of payroll frequency, total of regular/base hours, and determination of overtime and other income, including bonus, commission, tips, and shift differential.</p>
	<p>In some cases, an employment contract or offer of employment.</p> <p>See <a href="#">Verification of Employment from a Contract or Offer</a>.</p>	<p>Obtain for new positions when an applicant will not start work before closing. Should also be obtained for teachers to help interpret a VOE or paystubs.</p>
<p>Seasonal employment</p>	<p>VOE should be obtained, together with tax returns over the last two years to verify any unemployment compensation. See <a href="#">Seasonal Workers</a>.</p>	<p>Verify weeks employed to date, weeks off work during the year, average hours per week, and if unemployment is available. Include unemployment in Other Income in Workbook.</p>

**Table 2: Self-employment, Farms, Corporation or Partnership**

Source of Income	Income Documentation	Verification Tips
Self-employment or farm income	<p>Previous 2 years individual income tax returns (1040) including Schedules C or Schedule F. <b>Beginning in 2018, this income is referenced in Schedule 1 of the 1040.</b></p> <p>If prior year return is not available, a signed profit and loss statement from prior year will be accepted; <i>except that</i> after April 15 of the current calendar year, prior year tax return is required. A signed profit and loss statement is required if enrollment is after July 1 of the current year.</p> <p>Obtain a signed letter from applicant certifying the start date of the business or farm if within the last two years.</p>	<p>Net profit from self-employment or farm will appear in the 1040 or (1040 Schedule 1) on line 12 (self-employment) or line 18 (farm). Refer to the supporting Schedules C or F in calculating income. If more than one household member is self-employed or an applicant operates more than one business, obtain schedules for each business and calculate income separately.</p> <p>The <i>Income Calculation Workbook</i> provides data entry for only one business or farm on each household member worksheet. If an individual applicant has more than one business contact Bank staff to discuss options for income calculation.</p>
S Corporation or Partnership	<p>For an S corporation or a partnership, previous 2 years individual income tax returns (1040) including Schedule E. <b>Beginning in 2018, this income is referenced in Schedule 1 of the 1040.</b> See above if prior year tax return is unavailable and for current year. Obtain a signed letter from applicant certifying the start date of the business if within the last two years.</p> <p>For S corporations and for partnerships, form 1120S K-1, or form 1065 K-1 previous 2 years.</p>	<p>Income from an S corporation or partnership will appear in the 1040 on line 17. Refer to the supporting Schedule E in calculating income. Verify and calculate income in the same manner as self-employment income.</p> <p>Distributions of cash from an S corporation or partnership should be included in income if they exceed the amount of the applicant's investment. Distributions are reported in Schedule K-1.</p>

**Table 3: Other Income (continues on next page)**

Source of Income	Income Documentation	Verification Tips
<p>Payments in lieu of earnings (unemployment, workmen’s compensation, disability, or severance pay)</p>	<p>Benefits notification letter or letter from benefits administrator.</p> <p>For unemployment paid to seasonal workers, obtain last two years tax returns. See <a href="#">Seasonal Workers</a> for information on calculation of overtime income for seasonal workers.</p>	<p>Benefits, except unemployment paid to seasonal workers, should be annualized over 12 months, unless it is documented they will not continue. If they will not continue, use the maximum amount to be received in the current year.</p>
<p>Periodic payments including Social Security or Supplemental Security Income</p>	<p>For Social Security or Supplemental Security Income, the most recent benefit letters.</p>	<p>Include amounts received by adults on behalf of minors, or by minors intended for their own support.</p> <p>Verify the gross amount of periodic payment and use the gross amount in calculation of income.</p>
<p>Pension, retirement or annuities including VA benefits, corporate or government pension, payments under annuity contracts or from insurance policies, or distributions from retirement accounts (401K, 403B, etc.)</p>	<p>For VA benefits, the most recent benefit letters.</p> <p>For annuities, pensions, or insurance policies, a benefit statement or benefit letter from payor.</p> <p>For distributions from retirement accounts (401K, 403B, etc.) obtain 1099R.</p>	<p>Benefit statements or letters should include amount and frequency of payment for correct income calculation. Verify the gross amount of periodic payments.</p> <p>Gross annual distribution from retirement accounts should be included in income, unless the 1099R indicates a total distribution (liquidation of account).</p>

Child support, alimony, or maintenance	Court order or formal statement or history from state or local agency verifying payments.	Include any court ordered reoccurring cash allowances noted in divorce or support decree, including payments of delinquent support.
Rental income (units in the purchased dwelling)	Signed lease, or estimated gross rent from appraisal if rental units vacant. See <a href="#">Rental Income</a> for More Information.	Include 75% of gross rent in income. Rent should be annualized over 12 months.
Rental income (from other owned property)	Previous 2 years Individual Income Tax Returns (1040). Refer to Schedule E. After April 15 of the current calendar year, this should include the prior year tax return.	A two year average of income from rents is preferred. Use applicable period if owned less than 2 years.  If units were acquired in the current year, obtain leases and or appraisal, and calculate from 75% of gross rent.
Other Income: Income earning assets (interest, dividends, capital gains)	Previous 2 years Individual Income Tax Returns (1040). After April 15 of the current calendar year, this should include the prior year tax return.	Assets themselves do not need to be documented, only income from assets. Interest, dividends, or capital gains less than \$100 annually may be excluded.
Other Income: Public assistance including temporary aid to needy families, aid to families with dependent children, or general assistance	Letters or case management forms from applicable agencies.	Include the amount of Section 8 vouchers used to pay for monthly mortgage payments.  Do not include SNAP or LIHEAP benefits.
Other Income: Government distributions including Native American and Native Alaskan tribal or corporation distributions, and Alaska Permanent Fund (PFD)	The prior year tax return or the most recent 1099-Misc.	The gross amount of the benefit should be included in annual income.
Other Income: Recurring cash contributions or gifts	Signed letters from donors including the amount and frequency of payment.	Include only regular payments from persons or organizations outside the household. Sporadic contributions or gifts should not be counted in income.

### **C. Household Members with No Income**

If an adult household member is not employed or receiving income of any kind, they should complete and sign a *Certification of Zero Income* form. The *Certification of Zero Income* will act as verification that an adult household member has no income to report.

Persons who are on temporary leave of absence or are laid off and expecting to return to their employer should be regarded as employed and a verification of income obtained from their employer. Their income should be included unless it is confirmed they do not expect to return to work within the next 12 months.

Persons who have received an offer of employment or employment contract but have not begun work should be regarded as employed. See [Verification of Employment from a Contract or Offer](#).

Typically a household will include at least one adult household member with income. If there are no adult household member with income all applicants completing the *Certification of Zero Income* form must explain what sources of funds they use to pay home expenses. The Bank will determine if these sources should be included in income.

### **D. Income Inclusions and Exclusions**

The most common income sources of income are listed above in [Sources of Income](#). The list that follows includes additional income inclusions and exclusions. If you are unsure of the need to include or exclude a source of income, please contact the FHLB Des Moines for direction. The Bank, in its sole discretion, will approve the inclusion or exclusion of a source of income.

#### **Income Inclusions:**

- Adoption assistance payments received as periodic payments from federal, state, or private agencies. Acceptable documentation is current benefit statement or letter from the applicable agency. Adoption assistance occurring as a one-time contribution or gift may be excluded.
- Lottery or gambling winnings. Acceptable documentation includes the tax return (1040) or form 1099-Misc. Winnings in the current year may be documented by awards notifications and/or bank statements. Annualize over applicable period. Gambling losses in the current year may not be used to reduce income in the current year.
- Net Farm Rental Income. Acceptable documentation is previous two year's Schedule E of the applicant's tax return (1040). See Part IV, line 40 of Schedule E. Average over applicable period. Losses are calculated as \$0 income.

## Income Exclusions:

- Interest, dividends, or capital gains less than \$100 annually.
- Earnings from employment in excess of \$480 for full time students 18 years or older that are not the head of household or their spouse.
- Income from the employment of children under the age of 18.
- Non-recurring allowances for housing, vehicle, food, or wellness (e.g. relocation assistance).
- Supplemental Nutrition Assistance Program (SNAP) benefits and Low-Income Home Energy Assistance Program (LIHEAP) benefits.
- Earned Income Tax Credit (EITC) refunds.
- Payments received for the care of foster children or adults.

**NOTE:** Children or adults receiving payments for foster care should not be included in the household unless they have income in addition to the foster care. Any income in addition to foster care should be included in income. (See [Who to Include in Household.](#))

- Home care assistance paid by a state agency to offset the cost of services or equipment needed for a disabled household member.
- Income of a live-in aide. (See [Who to Include in Household.](#))
- Employer benefit for health, dental, or vision insurance or employer contribution to a Health Savings Account (HSA).
- Employer benefit for retirement savings, including 401K or 403B.
- Medical expense reimbursement received for a household member.
- Lump sum additions to family assets (e.g., inheritances, insurance policy death benefit payments, payments under health or accident insurance, settlements for personal or property losses).
- Sporadic or non-recurring contributions or gifts from entities or persons outside the household.
- Tuition reimbursement and all forms of student financial assistance paid directly to a student or to their educational institution.

## III. CALCULATING ANNUAL INCOME

The method used to calculate annualized income will vary depending on the type of income, and for income from employment the type of income verification obtained.

Calculation will be performed in the Bank's *Income Calculation Workbook*. In some cases, it may be necessary to perform calculation outside the Workbook to assist in income calculation, typically for Other Income. In that event the calculation must be documented in a way that ensures the calculation can be easily recalculated and reconfirmed. Explanation should be provided in the **NOTES** worksheet in the Workbook.

In calculating income, income amounts must always be gross amounts, not wages net of payroll deductions, or social security or other periodic payments net of insurance or other costs. In addition, there should be no adjustments to gross income even if allowed by other funding sources, such as the USDA or HUD.

## **A. Employment Income**

Annual employment income is calculated from gross income for each job currently held. Annual income will be calculated by either 1) annualizing base wages or other compensation (shown in the *Income Calculation Workbook* as **Annualized Base Pay**), or 2) annualizing year-to-date gross income when base wages and other compensation are not broken out (shown in Workbook as **Income Average**). The larger of the two calculations will be selected as annual employment income in the Workbook.

Gross income is defined as the full amount of all base wage or salary, overtime pay, commission, bonus, tips, and other compensation for services, including but not limited to vacation, personal, or sick time, and training pay. Employer paid retirement or health benefits, including employer contributions to Health Savings Accounts, are not included in gross income.

### **Calculation 1 – Annualized Base Pay**

In the *Income Calculation Workbook*, base pay and other compensation are multiplied by the total number of pay periods per year determined from the hire date and thru date and the base pay rate. The standard calculations listed below will be used, depending on the base pay rate.

- Hourly: Multiply hourly wages by 2080 hours;
- Weekly: Multiply weekly wages by 52;
- Bi-weekly: Multiply bi-weekly wages by 26;
- Semi-monthly: Multiply semi-monthly wages by 24;
- Monthly: Multiply monthly wages by 12.

### **Calculation 2 – Income Average**

To annualize gross income, year to date gross income is divided by the number of pay periods to date, and then multiplied by the total number of pay periods in a full year based on the pay schedule.

### **Hire Date/Pay Schedule/Thru Date/End Date vs. Check Deposit Date**

In order to accurately calculate annual income from employment it is important to verify the persons hire date if they were hired in the current year. It is also important to verify how often the person is paid (their pay schedule) and the paid thru date.

- **Hire Date:** VOE's will typically include a hire date, so are preferred for this reason. If using paystubs, it will be necessary to verify the hire date if the person was hired in the current year. Verify the hire date with the employer or obtain other satisfactory documentation. For example, a copy of the person's first paystub can assist in verifying the hire date.

- **Pay schedule:** Pay schedules or "Payroll Frequency" include weekly, bi-weekly, semi-monthly, or monthly.

When using a VOE, pay schedule may or not be provided. If the pay schedule is not provided, the default pay schedule will be weekly.

When using paystubs it will be necessary to deduce the pay schedule. It may be difficult determining a semi-monthly schedule versus a bi-weekly schedule.

If a semi-monthly schedule there will be 24 pay periods or pay checks in a calendar year. An applicant will be paid only twice a month, on the same recurring schedule. The pay periods will split each month equally, often as 1<sup>st</sup> thru the 15<sup>th</sup> and 16<sup>th</sup> thru the end of the month. If it is not clear that the person receives only two paychecks each month, consider the person to be paid bi-weekly.

If a bi-weekly schedule there will be 26 pay periods or paychecks in a calendar year. Bi-weekly pay periods will typically be exactly 14 days in length, and the person will be paid on the same day every other week, sometimes receiving three paychecks in one month.

- **Thru date:** When using a VOE, enter a paid thru date as Thru Date in the Workbook for calculation of Income Average. A thru date should be provided in the VOE. Effort should be made to determine the thru date if not provided. If unable to obtain, use the date the form was completed as a default (accompanies signature at the bottom of the FNMA form).
- **End Date vs. Check Deposit Date:** When using a paystub a paid thru date derived from the paystubs will be used for calculation of Income Average. Enter the paystub start and end date and the check/deposit date from three consecutive paystubs in the Workbook. Income will be calculated from the check deposit date. It will be calculated from the end date if a deposit date was not provided in the paystub.

### **Base Hours**

Base or regular hours should be expressed as a finite number in the *Income Calculation Workbook*.

- **VOE:** Enter base hours in the *Income Calculation Workbook* as "Average Hours per Week". When using a VOE for verification, if hours are expressed as a range, the high end of the range must be used in the calculation. For example, if the range on the form is 24-30 hour per week, use 30 hours as the hours per week. The weekly hours should not exceed 40. If the hours are not provided in the VOE, the default for work-week hours will be 40.
- **Paystubs:** When using paystubs for verification, enter base hours paid from three (3) most recent paystubs in "Regular/Base Hours" in the *Income Calculation Workbook*. These paystubs must be consecutively dated. Do not

round the hours. Include in regular/base hours all hours paid at the base rate including holiday/vacation hours, or personal or sick time. Do not include overtime hours in regular/base hours.

### **Base Pay Rate**

Applicable base pay rate should be determined from the VOE or the paystub and entered in the *Income Calculation Workbook*. Pay rates include: hourly, weekly, bi-weekly, semi-monthly, monthly, or annual.

### **Base Pay**

Include in base pay all compensation that may be considered regular/base hours paid at the base pay rate.

- **VOE:** When using a VOE it will differentiate base pay from overtime, commissions, and bonus.
- **Paystubs:** When using a paystub include in base pay all compensation paid at the base pay rate including regular hours worked, vacation, holiday, personal, sick or other paid time off. Include training pay if paid at the same rate as base pay and it is substituted for regular/base hours. Include any retroactive pay if paid at the new base rate.

### **Overtime/Commissions/Bonus and other Recurring Income**

Income from overtime, commissions, bonuses, tips, or other recurring income outside of base pay must be annualized and included in calculation of annual income. If the applicant does not expect to work additional overtime or receive other compensation on a regular and recurring basis it may be excluded from income; however, verification of this fact must be provided by the employer in writing. If written verification is provided, FHLB Des Moines must review and approve the exclusion prior to the reservation or disbursement being approved.

- **VOE:** Enter overtime, commissions, tips, and other recurring income including bonuses in the current year in the *Income Calculation Workbook*. Differentiate overtime from other recurring income. The Workbook will annualize these amounts by dividing the year to date amount by the number of pay periods, then multiplying that amount by the total number of pay periods in the year.
- **Paystubs:** Enter overtime, commissions, tips, and other recurring income including bonuses in the current year in the *Income Calculation Workbook*. Differentiate overtime from other recurring income. The Workbook will annualize these amounts by dividing the year to date amount by the number of pay periods, then multiplying that amount by the total number of pay periods in the year. See the instruction below for income from shift differentials.

### **Position or Shift Differentials**

A person's pay rate may vary, such as when working in different positions or working day or night hours for the same employer for a different pay rate. When this occurs, there are various options for including the shift differential in the

*Income Calculation Workbook.*

- **VOE:** When using a VOE provided by an employment verification service such as The Work Number, pay from shift differentials is typically included in the base pay, in which case it is annualized with base pay.

In the Fannie Mae form compensation from shift differential may be reported separately from base pay. In that case the differential amount may be included in Commissions/Tips and Other Income in the *Income Calculation Workbook*. It will be necessary to adjust the Average Hours per Week used to calculate Base Pay, and the employer should be asked to average base hours separately from hours at the differential rate of pay. For example, the applicant works 40 hours per week, but averages only 30 hours at the base rate of pay. An average of 10 hours are worked at a higher differential rate. In that case enter 30 Average Hours per Week to calculate Base Pay and include the differential compensation in Commissions/Tips and Other Income. The Workbook will annualize base pay at the base rate and average hours plus other income, and it will also calculate an income average from gross pay year to date. It will use the larger of the two in the applicant’s calculated income.

Verification	VOE	
Hire Date	1/1/2018	

  

VOE	If the Thru Date is not provided, enter the date th		Date.
	YTD per VOE	Per Pay Period	Annualized Base Pay
<b>actual base pay year to date</b>	Average Hours Per Week	30	<b>average hours at base pay and base pay rate</b>
	Base Pay Rate	\$10.00	Pay Rate is
	Frequency	Weekly	Hourly Pay Rate
	Thru Date	8/31/2018	35 pay periods to date
<b>actual differential year to date</b>	Base Pay	\$11,000.00	\$300.00
	Overtime	\$0.00	\$0.00
	Commissions/Tips and Other Recurring Income	\$4,200.00	\$120.69
	(entire year)	\$15,200.00	\$21,875.86
	Gross Pay 2017		\$22,712.64
	Gross Pay 2016		

**year to date gross**

- **Paystubs:** If the different positions/differential rates of pay are broken out in the individual paystubs, and year to date information is provided for each, it is suggested entering payroll information for each as a separate position in the *Income Calculation Workbook*. Each worksheet provides for data entry for up to four different positions.

If the different positions/differential rates are broken out in individual paystubs, but not in year to date information (i.e. paystub provides only gross income year to date), enter the regular/base hours and base pay from the individual paystubs, and include pay at the differential rate in Other Income. Enter the total of the year to date gross wages. The Workbook will annualize

base pay at the base rate and average of base hours plus other income, and it will also calculate an income average from gross wages year to date. It will use the larger of the two in the applicant's calculated income.

Pay Stubs	Payroll Frequency			Recommended: Semi-Monthly		
	Enter number of Pay Periods to Date			18		
	Pay Stub 1 (Oldest)	Pay Stub 2 (Middle)	Pay Stub 3 (Newest)		Annualized Base Pay	Income Average
Start Date	8/16/2018	9/1/2018	9/15/2018			
End Date	8/31/2018	9/15/2018	9/30/2018			
Check/Deposit Date	8/31/2018	9/15/2018	9/30/2018			
Regular/Base Hours	58	62	60			
Base Pay Rate	\$10.00	\$10.00	\$10.00	Pay Rate is:	Hourly Pay Rate	
Earnings	\$580.00	\$620.00	\$600.00		\$14,400.00	
Differential					\$0.00	
Other Income	\$220.00	\$240.00	\$240.00		\$5,600.00	
Gross Wages	\$840.00	\$840.00	\$840.00	\$15,120.00	\$20,000.00	\$20,160.00

### Verification of Employment from a Contract or Offer

It may happen that an applicant has recently obtained an employment contract or employment offer and will not begin work before closing a home purchase or being provided assistance. In that case use the employment contract or written employment offer for income verification. If the applicant has a contract or offer at application but will begin employment before closing a home purchase or being provided assistance, VOE or paystubs should be obtained. In DP, the Bank may elect to leave a reservation pending until income can be verified by a VOE or paystubs.

To calculate income from a contract or offer, use the VOE section of the Workbook. The hire date should be the date the person will begin the position if known, otherwise the date of the contract or the offer of employment. The annual base should be used as base pay rate. If not specified calculate the annual base from information provided. Assume 40 average hours per week and weekly payroll frequency if that information is not provided. As the position has not started do not include base pay. Use the year end date as the thru date.

In the example that follows, an applicant has obtained a salaried position verified by an employment offer. Annual salary is \$60,000. The date the applicant will begin work was not given. The date of the offer of employment was April 15 will be the default hire date. The average hours per week and payroll frequency were not given so the default, 40 average hours per week and weekly pay, was entered. There is no base pay as yet so thru date will be the year end date. Pay periods from April 15 were calculated automatically. The \$60,000 annual salary was calculated.

Verification	VOE
Hire Date	4/15/2018

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**VOE** If the Thru Date is not provided, enter the date the VOE was signed as the Thru Date.

	YTD per VOE	Per Pay Period	Annualized Base Pay	Income Average
Average Hours Per Week	40			
Base Pay Rate	\$60,000.00	Pay Rate is	Annual Pay Rate	
Payroll Frequency	Weekly			
Thru Date	12/31/2018	38 pay periods to date		
Base Pay		\$1,153.85	\$60,000.00	
Overtime		\$0.00	\$0.00	
Commissions/Tips and Other Recurring Income		\$0.00	\$0.00	
Gross Pay (Current Year)	\$0.00		\$60,000.00	\$0.00

Additional income such as overtime, commissions, or bonus that may be expected should be included in income. Follow up with the employer for more information if this compensation is referenced in an offer but amounts are not given. This income may be excluded at the discretion of the Bank if amounts cannot be verified. It will be necessary to calculate this income separately and include this in Other Income in the *Income Calculation Workbook*. Include explanation of income calculation in **Notes** in the Workbook.

### Teachers (Full time)

If applicants are working as teachers a copy of their current teaching contract should be obtained. Additional income (*i.e.*, summer school, meetings, tutoring) is typically included in their contract. The amount of the contract plus any additional income will be used to calculate annual income.

If a teacher has not begun employment, follow the instruction above in [Verification of Employment from a Contract or Offer](#) to perform the income calculation. If the teacher has begun employment obtain a VOE or paystubs in addition to the contract. If the contract is unavailable or not obtained, a VOE must be obtained. Follow guidelines for income calculation using a VOE or paystubs as applicable, including calculation of base pay and additional income. If the additional income is not yet reflected in the VOE or paystubs, it must be included in Other Income.

### Per Diem Pay

Applicants may be paid on a per diem basis, for example, a daily per diem (substitute teacher), mileage per diem (trucker), or units per diem (farm or factory worker). If income cannot easily be calculated in the VOE or paystubs sections of the Workbook, annual income may be calculated by dividing the gross income year to date listed on the VOE or paystubs by the pay periods to date, then multiplying that number by the total of pay periods in a year. Income calculation may be explained in **NOTES** in the *Income Calculation Workbook* and annual income included in Other Income.

## Seasonal Workers

The two most recent tax returns and a VOE will be required for seasonal workers. VOE should include information on the number of weeks worked and not worked. VOE will be used for calculation of income from employment. Follow instructions for calculation of seasonal income in *the Income Calculation Workbook*. Tax returns will be used to verify any unemployment compensation the applicant has received or may receive during the off-season. If there has been unemployment compensation in prior years include an average of the last two years in the Other Income section of the Workbook.

**NOTE:** Beginning in the 2018 tax year income from unemployment will be reported in Schedule 1 of a 1040.

The Workbook provides for data entry for only one seasonal job per household member. If a household member holds more than one seasonal job contact Bank staff to discuss options for including additional seasonal employment.

## Vacation Day Pay-Outs

If a person receives a lump sum payment for unused vacation days annually it should be included in income, but do not calculate with employment. Subtract the payment from applicable paystub or the year to date gross income and include the amount in the Other Income section of the *Income Calculation Workbook*.

## B. Self-Employment or Farm Income

For self-employed persons or farms, individual income tax returns (1040) from the previous two years including Schedule C or F, will be required. In some cases, a signed profit and loss statement from the applicant is required. In addition, obtain a signed letter from the applicant certifying the start date for the business or farm if within the last two years. See Table 2 in [Sources of Income/Income Documentation](#) in these Guidelines for more information.

**NOTE:** Beginning in the 2018 tax year income from self-employment or a farm will be reported in Schedule 1 of a 1040.

Calculated income from the average of the net profit from a Schedule C or F over the two most recent years. If the applicant has fewer than two years of self-employment or farm history, the monthly average will be based on the number of months in business, including those in the current year. After July 1 of the current year average will be based on months in the current year and the prior year. If the net income for any period is negative, count the income for that period as \$0.

If more than one household member is self-employed or an applicant operates more than one business, obtain schedules for each business and calculate income for each separately. The *Income Calculation Workbook* provides data entry for only one business or farm on each household member worksheet. If an individual applicant has more than one business contact Bank staff to discuss options for income calculation.

**S Corporations or Partnerships:** An applicant may be engaged in a business organized as an S corporation or a partnership. Documentation must include individual income tax returns 1040 from the previous two years, including Schedule E, and form 1120S K-1 for an S corporation and form 1065 K-1 for a partnership. Use the income from the S Corporation or partnership reported in Schedule E in income calculation. Income is reported on line 32 of the Schedule E.

**NOTE:** Beginning in the 2018 tax year income from an S corporation or partnership will be reported in Schedule 1 of a 1040. Schedule E is still required to be submitted and will continue to be used in income calculation.

In some cases, a signed profit and loss statement from the applicant is required. In addition, obtain a signed letter from the applicant certifying the start date for the corporation or partnership if within the last two years. See Table 2 in [Sources of Income/Income Documentation](#) in these Guidelines for more information.

Calculate income from an S corporation or partnership in the same manner as self-employment income.

The *Income Calculation Workbook* does not provide a data entry location for income from S corporations or partnerships. If there is space, utilize the Self-employment Income location. Otherwise include the income in Other Income. If included in Other Income provide **Notes** on income calculation in the Workbook.

S corporations and partnerships may distribute cash to owners and partners as dividends or capital gains, in which case this will be reported in the applicant's individual tax return and included in Other Income. Distributions may also be taken as a withdrawal of the applicant's investment or previous earnings. These distributions should be included in income if they exceed the amount of the applicant's investment. Distributions for corporations are reported in the form 1120S K-1. Look for applicable distributions on line 16, with reference code D. For partnerships use form 1065 K-1. Look for partner's capital account analysis and line 19 for distributions. Include average of applicable distributions from the previous two years in Other Income. Provide **Notes** on income calculation in Workbook.

### **C. Non-Employment (Other) Income**

Verification documentation of non-employment income must be the most current for the applicant. For example, if a person is being qualified in 2019 and receives SSI or SSD, the documentation confirming the amount must show the amount of SSI or SSD they will receive in 2019. In addition, always use gross amounts of periodic payments such as SSI or SSD.

For child support, alimony, or maintenance obtain documentation of the court ordered amount of support, including any amount ordered for delinquent payment. If support is not received regularly and this fact is documented, determine annual support by averaging year to date support received and annualizing that average.

In general, for non-employment income received in the same amount on a recurring or periodic schedule, enter the payment amount and the frequency of

payment (the schedule) in the *Income Calculation Workbook*. The Workbook will calculate the annualized amount by multiplying the gross periodic amount by schedule. For amounts that vary, calculate the amount received and annualize it. In these cases, provide information on income calculation in **Notes** in the Workbook.

See Table 3 in [Sources of Income/Income Documentation](#) and [Income Inclusions and Exclusions](#) in these Guidelines for sources of non-employment income, information on supporting documentation, and additional instruction on calculation of non-employment income.

#### **D. Rental Income**

If the property is a multi-unit property rental income must be included in household income. Provide a lease or rental agreement for units that are rented. An appraisal is needed to confirm the gross monthly rent amount if there are units that are not rented. When using an appraisal, the highest rent amount listed for a unit will be used in the calculation. Annual rental income will be calculated from 75% of the gross rent.

**NOTE:** For owner-occupied rehabilitation projects, rents in a multi-unit dwelling may be excluded if the applicant can demonstrate from tax return that no rent is being received.

If the applicant has income from rental properties other than the property being purchased, the annual rental income of those units must be included in household income. This income will be reflected in the applicant's individual income tax return (1040), in Schedule E. Calculated income will be based on the average of the rent income from line 26 of Schedule E over the two previous years. If the units are owned less than two years, calculate over the applicable period. If the applicant acquired units in the current year, leases and/or appraisal should be obtained for those units, and annual rental income for those units calculated from 75% of the gross rent. Provide information on the income calculation in **Notes** of the *Income Calculation Workbook*.

**NOTE:** Beginning in the 2018 tax year income from rents will be reported in Schedule 1 of a 1040.

### **IV. HOUSEHOLD SUMMARY PAGE**

Once the *Income Calculation Workbook* has been completed and the household appears income-eligible, the Workbook should be saved in .xls format. The Household Summary tab should be printed. The homebuyer/co-buyer and other income earning adult household members should sign and date the form certifying the income information provided is true, accurate, and complete.

The member will then scan the signed Household Summary and save it as a .pdf document. Scan *Certificates of Zero Income* together with the Summary. The .pdf will be uploaded into DP Online or AHP Online for grant reservation or disbursement.