Homeownership AHP and Down Payment Products

Income Calculation Guidelines

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All forms and documents listed in italics in this Guideline are available on the FHLB Des Moines website (www.fhlbdm.com/affordable-housing-products)

I. INCOME ELIGIBILITY REQUIREMENTS

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

AHP Income Eligibility

Eligible households qualifying under a competitive AHP award must qualify homeowners based on targeting approved at AHP application. The sponsor or member must calculate the annual household income for each household member, following these *AHP/DP Income Calculation Guidelines*. The calculation will be confirmed by FHLB Des Moines and compared to the HUD median income guidelines for the specified year, household size and property location as published by the Federal Home Loan Bank of Des Moines.

Down Payment Products Eligibility

Eligible households qualifying under a down payment program must have annualized incomes of less than or equal to 80% of HUD Area Median Income (AMI), based on household size for the location of the home. The member must calculate the annual household income for each household member, following these *AHP/DP Income Calculation Guidelines*. The calculation will be confirmed by the program analyst at the FHLB Des Moines, and compared to the HUD median income guidelines for the specified year, household size and property location as published by the Federal Home Loan Bank of Des Moines.

II. BASIS FOR INCOME ELIGIBILITY

Income eligibility is based on the household's projected annual income. The member must calculate the projected annual income for each household member 18 years of age and older to determine total household income.

Income information will be collected using the supporting income documents and by completing the *Income Calculation Workbook*.

For Down Payment products the Income Calculation Workbook and supporting documentation is to be reviewed and approved by Bank staff during grant reservation.

Homeownership projects awarded competitive AHP subsidies will upload the Income Calculation Workbook in the AHP Online Disbursement module to obtain disbursement of funds. Prior approval of the Income Calculation

Workbook is not required for competitive AHP awards; however, the Workbook and supporting documentation is reviewed by Bank staff and must demonstrate household income eligibility.

Determining Household Size

Household size is typically based upon the number of people who will reside in the home being purchased, but may include non-resident co-signers, co-borrowers or guarantors (see **Whose Income to Include** below). In addition, divorced or separated borrowers who have joint custody of their children should include the children in their household count, even though the children may only live in the household on a part-time basis. Borrowers who do not have custody should not include the children in their household count. Students who are considered dependents and are not living at home while attending school should be included in the borrower's household count.

Whose Income to Include

For purposes of verifying income for homeownership projects, current income from all sources received by all adult household members must be included. This includes income received by adult household members even if the household member does not have title to the property. Income documentation must be collected on all adult household members to verify annual income.

When subsidy is used in a transaction that includes a home purchase, the income of non-resident co-signers, co-borrowers or guarantors must be included in the calculation of income to determine eligibility.

When subsidy is used in an AHP project for owner-occupied rehabilitation and there is a non-resident co-owner or titleholder it is not necessary to include their income; however, in all cases the resident provided subsidy must be a titleholder of the property at the time of the AHP application. (Example: An elderly resident may have added non-resident children to title as part of estate planning. The non-resident children would not be included in income qualification.)

Income from *employment* of children (including foster children) under the age of 18 years is not counted in the calculation of total household income. Other income, such as social security income, supplemental social security income, or child support should be included.

Separated borrowers are not required to include their spouse’s income if the separation is legal or if they have been separated for 12 consecutive months or longer. Any financial support provided by the separated spouse to the homebuyer should be included as part of the homebuyer's income. If the homebuyer is not legally separated and the separation has been for less than 12 months, the spouse should be included in the household size and their income included in the household's income. At the FHLB Des Moines 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.

Please note that income of cohabitating partners/spouses must be included in household income, even if only one of the partners/spouses is on the application, mortgage, or note. Also, income of temporarily absent family members must be counted if that person is on title to the home and intends to reside in the home or their income is being used for mortgage underwriting purposes.

I. Whose Income to Include

Household Member	Include Income?
Head of Household	Yes
Spouse	Yes
Co-Head / Cohabitating Partner	Yes
Temporarily Absent Household Member	Yes, if on title and intend to reside in the home or their income is being used for mortgage underwriting purposes
Other Adult, 18 years or older	Yes
Full-time Students, 18 years or older that are not head of household or spouse	Only up to $480 per year
Dependent, 17 years or younger	No employment income, only support income
Foster Child	No employment income, only support income
Live-in Aide	No
Non-resident co-signer, co-borrower or guarantor	Yes, in home purchase transaction
Non-resident co-owner or titleholder	No, in AHP owner-occupied rehab

Income Documentation

Member banks for DP awards and AHP project sponsors for competitive AHP awards will need to provide current income documentation for each source of income. Dates on the income documentation other than tax returns must be within 120 days of the enrollment date entered in the AHP/DP Income Calculation Workbook (see definition of enrollment date in the Workbook). Tax returns and fixed income benefits letters must be the most current available.

The Fannie Mae Request for Employment Verification form is the preferred document to confirm employment income or three (3) most recent paystubs may be used. The paystubs must be consecutively dated. If the borrower holds more than one job, the member will have to obtain verification documents for each job.

For other income sources, the borrower will need to provide documentation to confirm the amount and frequency of any periodic payment.

The FHLB Des Moines must be provided any documentation for income received as of the enrollment date, but previously omitted, even if income eligibility has already been confirmed by the program analyst.

I. **Income Source Documents (Examples)**

- Completed and properly executed Request for Employment Verification (VOE) forms
- Three consecutively dated paystubs
- Social Security, Supplemental Income, or VA benefits letters
- Financial or formal statements or benefit letter verifying payments received from annuities, pensions, insurance policies, etc.
- Formal statement or history from recognized state or local authority or agency verifying alimony awards and child support payments. Court orders are acceptable as well.
- Completed and signed property appraisal or lease for any current or potential rental income
- Previous 2 years tax returns (use with self-employed, unemployment, or seasonal workers or farmers)

II. **Household Members with No Income**

If a household member is not employed or receiving income of any kind, they should complete and sign the *Certificate of Zero Income* form. The *Certificate of Zero Income* will act as verification that a household member has no income to report. **Self-certification of income by an applicant is not acceptable for verification of income alone; the member or sponsor must also certify to this. Every effort should be made to verify a person's lack of income.**

III. CALCULATING ANNUAL INCOME

The method used to determine the annualized amount will vary depending on the type of income. As a rule of thumb, however, all gross current pay from all sources is used to determine the annual income of the household.

The calculations must be clearly documented in a way that ensures the calculation can be easily recalculated and reconfirmed. The member should use the information contained in the source documents to perform the calculation. Income amounts used in the calculation must be "gross" pay, not "net" of payroll deductions.

Any income information used to qualify an applicant for the first mortgage or used as a compensating factor must be disclosed and included in the income calculation.

A household must have a sufficient current stream of income to support a home purchase. That stream of income must be used to determine household income eligibility. For example, if a student has little or no current income, but is starting a new job upon graduation and that employment income is used to qualify for the mortgage loan, the same employment income must be counted when determining grant income eligibility.

Income Inclusions and Exclusions

The following lists are to be used as a starting point and are not exhaustive. There may be exceptions to the lists and, if you are unsure, please contact FHLB Des Moines for further direction and clarification.

I. **Income Inclusions**

- The full amount (before any payroll deductions) of all wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services
- All income of a student, 18 years of age or older, if that person is the head of household or spouse. Up to $480/year each for other adult, full-time students.
- Income of temporarily absent family members who are on title and intend to reside in the home
- Income of non-resident co-signers who are on title
- Salaries received from a family-owned business
- The full, gross amount of periodic payments received from social security, supplemental social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts including a lump sum payment for the delayed start of a periodic payment; include amounts received by adults on behalf of minors, or by minors intended for their own support
- Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay
- Welfare assistance (excluding food stamps)
- Alimony/maintenance and child support payments
- All regular pay, special pay, and allowances of a member of the Armed Forces
- Two year average of line 12 or line 18 of the previous 2 years tax returns for self-employed or farmers
- Gross rental income from real property
- Lottery winnings paid in periodic or lump sum payments
- Wellness pay
- Allowances for housing, auto, food, etc.

II. **Income Exclusions:**

- Income from the employment of children under the age of 18
- Income from dependent children who are students
- Payments received for the care of foster children or adults, or adoption assistance
- Lump sum additions to family assets (*e.g.*, inheritances, capital gains, insurance policy death benefit payments, stock option payouts)
- Medical expense reimbursement received specifically for the medical expense of a household member
- Home care assistance paid by a state agency to offset the costs of services or equipment needed for a disabled household member
- Income of a live-in aide
- All forms of student financial assistance paid directly to a student, educational institution, or a veteran
- The amount of Section 8 vouchers used to pay for monthly mortgage payments
- Tuition reimbursement
- Stock options
- Vacation buybacks
- Gift cards

Employment Income

Annual employment income must be determined for each job currently held. Annual income will be calculated by either 1) annualizing year-to-date (YTD) gross income or 2) annualizing base wages and year-to-date other compensation. The larger value of the two calculations will be selected as annual employment income.

Gross income is defined as the full amount (before any payroll deductions) of all wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services. Holiday/vacation hours and pay will be treated as base hours and wages for purposes of calculating annual income.

I. **Calculation 1 – Annualizing YTD Gross Income**

To annualize YTD gross income, divide the YTD gross income by the number of pay periods to date, and then multiply that average by the total number of pay periods in a full year.

II. **Calculation 2 – Annualizing Base Wage and Other Compensation**

To annualize base wages, multiply base wages per period by the total number of pay periods per year. The standard calculations listed below will be used, depending on the pay schedule.

- Multiply hourly wages by 2080 hours;
- Multiply weekly wages by 52;

- Multiply bi-weekly wages by 26;
- Multiply semi-monthly wages by 24;
- Multiply monthly wages by 12.

In order to accurately calculate the annual employment income, it is important to know how often the person is paid, *i.e.*, their pay schedule. If the income documentation indicates an annual salary amount, but does not provide a pay schedule, the default pay schedule will be weekly.

a. **Average Base Hours**

If using a VOE, the base or regular hours should be expressed as a finite number. However, if the 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, use 30 hours as the hours per week. The weekly hours should not exceed 40. If the hours are not provided, the member should use best efforts to have the VOE completed accurately. The default for average work-week hours will be 40, if not documented on the VOE.

If using paystubs, calculate the average of all hours indicated on the three (3) most recent paystubs. These paystubs must be consecutively dated and for the same current position. Do not round the average hours. If the average hours exceed 40, use 40 hours to determine base pay and annualize overtime as indicated below. Consider holiday and vacation hours as regular hours and include those in the average.

b. **Hourly Wages or Shift Differentials**

It is typically best to use the gross YTD wage from the paystubs. Alternatively, when using an hourly pay schedule, where an hourly wage is not disclosed on the paystub, find the hourly wage by dividing base pay by base hours.

If a person's base or regular wage varies, such as when working in different positions during the same pay period, where possible, treat each base wage as a different position, and determine the annual income for that position before including it in the total annual income. For example, a nurse may work during the day and night, but be paid different wages for morning versus evening hours. The paystub or VOE may reflect hours worked by shift and the respective wage. Determine the annual income for the morning hours as one calculation, and the annual income from the evening hours as a separate calculation. Add these two annual amounts together to calculate total employment income.

If the different rates and positions are not broken out, but YTD hours are provided, find the average rate by dividing YTD base income by YTD hours. If YTD hours are not provided, then divide the sum of the wages on the three paystubs by the sum of the hours on the three paystubs.

When shift differentials are shown, treat the YTD income as other compensation and find the average of the YTD income, annualize, and add to the total household income.

c. **Other Compensation**

Income from overtime, tips, commissions, bonuses, or equivalent income must be used to calculate annual income. If pay stubs or VOE show YTD overtime or other compensation, the amount must be annualized and included in the annual income calculation.

When the documentation displays the YTD overtime or other compensation amount, determine the pay period average by dividing the YTD overtime or other income by the number of pay periods to date. To annualize income, multiply that average by the total number of pay periods in a full year. Add that result to the annual income from employment.

If the applicant does not expect to work additional overtime or receive other compensation on a regular and recurring basis, verification of this fact must be provided by the employer in writing. If written documentation is provided, FHLB Des Moines must review the calculation and approve an adjustment to the income calculation prior to the reservation being approved.

d. **Semi-Monthly vs. Bi-Weekly Pay Schedules**

A person is paid on a semi-monthly basis when they are paid twice a month, on the same recurring schedule. The pay periods will split each month equally, often as 1st-15th and 16th-end of month. Typically a semi-monthly earner is paid on the 15th and last day of each month, the 5th and 20th or a different twice-monthly schedule. 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. If paystubs are being used as verification, these criteria need to be considered. If it is not clear that the person receives only two paychecks each month, consider the person to be paid bi-weekly.

e. **Salaried Workers**

Annual salary amounts will be used as base wages and to this amount any additional non-salary income such as overtime, bonuses, commissions, tips, etc. will be added. Non-salary income will be treated as other compensation and must be averaged, annualized, and added to the salary amount.

f. **Health and Insurance Benefits**

Some employers document health and/or insurance benefits by including the amount in an employee's YTD gross income. When annualizing the gross income, the amount of benefits can be excluded from the YTD gross income if the paystub shows a corresponding payroll deduction of the amount.

g. **Vacation Day Pay-Outs**

If a person receives a lump sum payment for unused vacation days annually, treat this as non-recurring income. Subtract the payment from the YTD gross income and place the payment amount in the Income Source table on the *Income Calculation Workbook* as "Other Income."

h. **Teachers**

Persons working as teachers should provide a copy of their most recent teaching contract. Additional income (*i.e.*, summer school, meetings, tutoring) should also be included. The amount of the contract plus any additional income will be used as their annual income. <u>In addition to the contract, provide a VOE or a copy of the three most recent consecutive paystubs.</u> If the contract is unavailable, a VOE must be obtained. Follow the guidelines to determine their base pay, and to this amount add any additional employment income received.

If a substitute teacher is working under contract, the income should be calculated based on the terms of the contract; otherwise, a VOE must be used to verify their income. The VOE must provide the *per diem* amount the teacher receives. Income will be annualized by multiplying the average number of days worked per month by the *per diem* amount. The number of days worked to date is calculated by dividing the total income listed on the VOE by the *per diem* amount. Divide the number of days worked by the number of full months worked to date.

Annualize income by multiplying the *per diem* and the average number of days worked per month and multiply by 12.

i. **Seasonal Workers**

The two most recent tax returns will be required for seasonal workers. Use the calculation guidelines for employment income to determine annual seasonal income, while discounting the amount for off-season time. Include any unemployment compensation the borrower has received or may receive during the off-season in the "Other Income" section.

j. **ITIN Holders**

ITIN holders who have filed federal income tax returns for at least the two preceding years, and who are able to document consistent earnings, are eligible to apply for a grant. Providing the grant to ITIN holders is at each member's discretion. ITIN holders whose income is used to qualify the household for the first mortgage financing must meet the above ITIN requirements.

If the borrower is working under an ITIN rather than a social security number, annual income is calculated using these income calculation guidelines. The collection of a VOE listing the borrower's hire date, or three current consecutive paystubs (as required by the income calculation guidelines), can be used to demonstrate consistent earnings. In addition to the standard income documentation, ITIN holders must also supply copies of their federal income tax returns for the preceding two years. Returns must be signed by the filer and preparer (if applicable). If unsigned (as is the case for those filing via the internet), a filing confirmation must be submitted. The name on the income verification documents must match the name on the tax returns.

Non-Employment Income

For other income received on a recurring or periodic schedule, calculate the annualized amount by multiplying the gross periodic amount by the number of periods in the year. For amounts that vary, calculate an average of the amount received to date and annualize it. Verification of non-employment income must be obtained for the year in which the household is being qualified for assistance. For example, if the person is being qualified in 2015 and receives SSI or SSD, the documentation confirming the amount must show the amount of SSI or SSD they will receive in 2015.

For child support, only use the current ordered amount of support, and do not include amounts for arrears or past-due support. If child support is not received regularly, and this fact is documented, determine annual support by averaging the YTD child support received and annualizing that average.

Self-Employment or Farm Income

For self-employed persons, full tax returns from the previous two years, including an IRS Schedule C or F or the equivalent, will be required.

Future earnings will be based on the average of the adjusted income from the two most recent years. If the net income for either year is negative, count the income for that year as $0.

If the borrower has fewer than two years of self-employment history, the monthly average will be based on the number of self-employed months, including those in the current year. If a business is started in the same year as the year of qualification, the YTD income is averaged and projected forward. The borrower must supply an income statement or schedule of receipts for this purpose.

Rental Income

If the property being purchased is a multi-unit property, rental income must be included in the household income calculation. An appraisal or lease is needed to confirm the gross monthly rent amount. When using an appraisal, the highest rent amount listed for the rented units will be used to calculate annual gross rental income. Rental income is defined as 75% of the annual gross rental income.

If the borrower has income from rental properties other than the property being purchased, calculate the annual gross rental income of those units. A copy of the lease(s) is needed to confirm the gross monthly rent amount. Rental income is defined as 75% of the annual gross rental income.

IV. HOUSEHOLD SUMMARY PAGE

Once the Income Calculation Workbook has been completed and the household has been found to be income-eligible, the workbook should be saved in .xls format. The Household Summary tab should be printed and the homebuyer/co-buyer should sign and date the bottom of the page certifying the information contained on the page is correct and complete.

The member will then scan the signed Household Summary and save it as a .pdf document, to be later uploaded into Down Payment Online at grant reservation, or AHP Online during disbursement.