



## Attachment D Income Guidelines

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For all FHLBI Affordable Housing Program (AHP) projects (including competitive AHP and the Homeownership Set-aside Programs) sponsors and members are required to use the guidelines set forth below to calculate a household's annual income for purposes of qualifying them for participation in owner occupied and rental projects ("Household" means one or more persons living in a dwelling unit).

The FHLBI may, at its discretion, allow applicants to follow the income guidelines of other funding sources where differences exist.

The FHLBI will request and review current and verifiable income source documents from applicant member banks or project sponsors. The FHLBI will implement the following guidelines in order to confirm the annual earnings and eligibility of households who have been approved to purchase and/or occupy AHP-subsidized units as well as a project's overall ability to achieve the committed occupancy targets that were stated in AHP applications. The determined household income will represent the current and anticipated future annual earnings for eligibility purposes.

### What constitutes "income"?

Income includes, but is not necessarily limited to, the following:

- The full amount of wages (before any payroll deductions) of all wages and salaries, overtime pay, commissions, fees, tips, bonuses, differential pay, housing allowances and other compensation for personal services for all people in the household over the age of 18, even if temporarily absent (see documentation requirements below)
- Income of co-habitant partners must be combined, *even if only one of the partners is on the note*. This includes a working partner/spouse not included in the loan application
- Interest, dividends and other net income of any kind from real or personal property
- Rental income – defined as 75% of the annual gross rental income to be received
- The full amount of periodic payments received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support), annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of period receipts
- Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay may constitute income.
- Public assistance except as indicated in "What does not constitute 'income'?" section below. Payments made to the head of household for the support of a minor, e.g., Temporary Assistance to Needy Families (TANF), Social Security Disability Insurance (SSDI), Aid for Dependent Children (AFDC) and Supplemental Social Security Income (SSI) or similar programs
- Alimony and child support payments
- All regular pay and allowances of a member of the Armed Forces
- The net income derived from operation of a business or profession

- Income from assets and investments. Withdrawals from investments will be treated as income only when the withdrawals are made on a regular basis, as in monthly payments received from an annuity
- Sec. 8 Housing Assistance - For homeownership projects Sec. 8 rental assistance is not counted as income if that assistance will end when the household closes on the purchase of a home. If the Sec. 8 assistance will continue as part of the Sec. 8 homeownership the amount of the Sec. 8 assistance may be shown as income.
- Adoption/stipend allowance up to the maximum allowed annually by HUD
- Income paid in cash must be reported to the IRS. Two years of tax returns will be required.

### What does not constitute “income”?

Employer paid and provided fringe benefits or reimbursements are not included in annual income regardless of whether the benefits are reported on an employee wage statement. Fringe benefits or reimbursements may include, but are not limited to: child care, medical/life insurance, stock options, discounts for merchandise, entertainment, educational allowance, mileage/car allowance, charity donations in employee’s name or any reimbursement of actual work expenses.

The following sources **are not to be considered** when calculating income:

- Income from the employment of children (including foster children) under the age of 18 years
- Payments received for the care of foster children
- Income directly received by foster children or foster adults
- Lump sum additions to family assets (e.g., inheritances, capital gains, insurance policy death benefit payments, settlement for personal/property losses, medical expense reimbursements except payments in lieu of earnings, such as unemployment and disability compensation, worker’s compensation and severance pay which are counted as income)
- Temporary, nonrecurring or sporadic income (including gifts)
- Deferred periodic payments of supplemental security income and Social Security benefits that are received in either a lump sum or in prospective monthly amounts
- Income of a live-in aide
- Educational scholarships paid directly to a student, educational institution or a veteran
- Earned income tax credits
- Unreliable and non-recurring income (e.g., gifts, employee stock option buyouts)
- The value of food stamp allotments
- The Special Pay to a family member serving in the Armed Forces who is exposed to hostile fire
- Signing bonus (e.g., Job or Military signing bonus)

### Criteria for determining household eligibility

Although it is not the intention of the FHLBI to dictate loan-underwriting policies to its members or project sponsors, the FHLBI is responsible for enforcing the Regulation governing the operation of the AHP in regard to the eligibility of households who are selected to purchase and/or occupy AHP-subsidized units. As such, members and project sponsors **must** utilize the following guidelines whenever qualifying households for AHP-assisted projects.

Owner-occupied projects

For purposes of homeownership competitive AHP units, the Regulation specifies that households must be determined to be income-eligible at the time the household is qualified.

Currently occupied rental housing

For projects involving the acquisition and/or rehabilitation of occupied rental housing, the income eligibility determination of the existing, non-displaced tenants shall be made at the time of application for subsidy.

Rental housing created through new construction or rehabilitation of vacant buildings

The determination of income eligibility shall be made at the time that the household initially occupies the project unit.

For all rental projects, Tenant Income Certifications (TIC) or comparable industry formats utilized for purposes of determining household income, certified by the rental applicant and supported by the methods of verifying income as defined below, are accepted.

Homeownership Set-aside households

For purposes of Homeownership set-aside program households, the Regulation specifies that households must be determined to be income-eligible at the time the household is accepted for enrollment by the member in the Homeownership set-aside program.

**Income source documents**

For calculation of annual income, income from the following sources that are attributable to any household member over the age of 18 must be included. If a household member is over the age of 18 and has no income, members must obtain an affidavit of no income for that household member. It is realized that some types of income may not be used when underwriting a home mortgage loan. However, the income sources identified below must be included as income when determining eligibility for the Homeownership Set-aside Programs. All documentation must be dated within 60 days prior to date household was enrolled in the program. The FHLBI reserves the right to request more current income documents.

Acceptable forms of income source documents include the following:

- 1) Pay-stubs. The pay-stubs must reflect the year-to-date (YTD) gross income, overtime, bonus and other gross income. Two consecutive pay stubs covering, at a minimum, the previous 30 days of pay. If pay stubs are not available, the Fannie Mae Verification of Employment (VOE), Form 1005 and an employer-provided report of earnings to include at a minimum, beginning and ending pay periods, pay date, year to date totals and the date and amount of an approved future pay increase must be submitted. The Fannie Mae 1005 can be found at <https://www.efanniemae.com/sf/formsdocs/forms/1005.jsp>).

- 3) Completed, signed U.S. income tax returns. Tax returns must be complete with attached W-2 and 1099 forms or year-end wage and tax statements; i.e., Internal Revenue Service W-2 forms. If filing was self-prepared, evidence of filing must be submitted. Please note: gross income, including untaxed 401(k) income deducted from gross pay, not the net income of the household is to be used. If you use the W-2 to determine income, use Box 3 (Social Security wages) rather than Box 1 (Wages, tips and salaries), unless there are earnings such as tips or commissions, which are reported in a separate box.
- 4) Social Security or Supplemental Income Statements. The member will need to provide documentation to confirm the periodic gross payment and how often it is received. A recent award or benefit letter prepared and signed by the authorizing agency, Social Security benefits statement or notice of change in benefits must be provided indicating the current benefit. These amounts should not be adjusted upward for the purpose of documenting annual qualifying income. All pages of the statements must be submitted.

The previous year's 1099-SSA form, Social Security Administration Letter and/or Social Security Status print-out may be submitted to further substantiate award or benefits.

- 5) Annuities, Pensions, Insurance Policies. Financial statements must be submitted to verify receipt of periodic gross payments. Documentation must confirm the periodic payment including its frequency. A benefit, award or pension letter is acceptable documentation. The previous year's IRS 1099 form may be submitted to further substantiate the award.
- 6) Unemployment Benefit Statements. For applicants with household members receiving unemployment, the most recent award or benefit letter prepared and signed by the authorizing agency must be provided to verify unemployment income. The household member receiving unemployment must provide an explanation of unemployment status including length of time unemployed. Inclusion of unemployment income will vary across programs. Guidelines per program are as follows:
- a) For NIP households, the household member must show 2 year history of unemployment benefits supported by tax returns. If previous years of income indicate the household falls under the income limits, Bank may consider the household low income going forward.
  - b) For HOP/NSA households, unemployment benefits must be seasonal in nature, with documented history of receipt. The household must show at least a 1 year history of seasonal unemployment benefits supported by tax returns.
- 7) Income from Assets. Indicate the cash value of the assets and income generated. Acceptable documentation is:
- a) Verification forms or letters received from banks or other financial institutions;
  - b) Annual passbooks, checking or savings account statements, certificates of deposit or other financial statements;
  - c) 1099 forms from financial institution;
  - d) Brokers' quarterly statements showing value of stocks/bonds/investments and earnings credited;

- e) Rental property financial statements, an executed lease agreement or comparative market analysis evidencing rental income. Projected income must be included in household income whether or not homeowner intends to rent the other unit(s); and/or
  - f) Most recent year tax return.
- 8) Public Assistance. A recent award or benefit letter prepared and signed by the authorizing agency to verify the current amount of assistance provided.
- 9) Approved HUD Section 8 certification of income.
- 10) Child Support/Alimony. Court orders verifying current alimony awards and child support payments. The member will need to provide documentation to confirm the periodic payment and how often it is received. Documentation from the court system of the current amount of child support due and paid. A copy of the divorce decree, separation agreement, and child support collection report may be required to further document required payments. If the amount required by agreement is not being received, the actual amount received must be documented from state or local entity responsible for enforcement of payment.
- 11) Self-Employment Income Statements. For self-employed persons, 2 years of completed and signed U.S. income tax returns, with supporting Schedules must be accompanied by a year-to-date Profit and Loss statement (<http://www.fhlbi.com/housing>). If the request is submitted after March 31, a current (within 3 months) Profit and Loss statement prepared by the borrower must be submitted.
- 12) For household members over the age of 18 not receiving income, the member must obtain and maintain an affidavit from the household member certifying that they do not have any income from any source, both taxable income and non-taxable income, including, but not limited to: earnings, overtime, IRA distributions, part-time employment, bonuses, dividends, interest, annuities, pensions, Veterans Administration welfare payments, social security benefits, disability payments, alimony, support payment, public assistance, sick pay, unemployment compensation and income received from trusts, business activities, and investments.

## Calculating Annual Income:

- 1) In general – The calculations of annual income must be clearly documented so the calculation can be easily recalculated and confirmed by FHLBI. **The member should use the information contained in the source documents to perform the calculation.** Income amounts used in the calculation should be on a pre-tax basis and include any allowable pretax deductions such as 401(k) contributions or health insurance premiums. The income documentation should agree with the income calculation spreadsheet. Depending on the type of income, the method used to determine the annualized income amount will vary. However, in general the current rate of pay as of the enrollment date (see below) is used to determine the equivalent annualized income of the household. Current and reasonably recent (within 60 days of enrollment) circumstances are the basis for annualizing income. The applicable enrollment dates are the date on which the member issues a qualification or other such loan commitment or enrolls the household in a member set-aside program. In the case of rehabilitation, the date the household is enrolled in the program by member.
- 2) Employment Income – To calculate the annual employment income, the following information is necessary:
  - a) gross earned income amount;
  - b) gross hourly wage;
  - c) average weekly hours; and
  - d) the time period constituting the YTD. The annual employment income is equal to the annualized income based on current rate of pay plus estimated annualized overtime, bonus and other applicable income. Gross earned 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, received up to the date of verification.

*(The calculation of annual income involves determination of annual income from base pay, recurring non-base pay income such as overtime, tips, commissions, etc., and other nonrecurring income such as annual bonus or equivalent single annual income payments.)*

- 3) Base Pay – Base pay is calculated using the current rate of income multiplied by average hours worked per week to calculate estimated annual base pay. If no average hours worked can be determined from income documentation, an assumption of full-time 40 hours per week, 52 weeks per year will be used. If paid weekly, semi-monthly, monthly or some other non-hourly basis the base pay is based on the amount paid and frequency, e.g., monthly salary multiplied by a factor of 12, bi-weekly salary by 26, semi-monthly by 24 or weekly by 52.

If using a VOE, the hours worked per week or pay period should be expressed as a specific number. However, if the average hours are expressed as a range, the high end of the range must be used in the calculation. For example, with the range on the form of 24-30, 30 hours must be used as the average hours per week. If the average hours are not provided, best efforts should be made to have the VOE completed accurately. The default for average work week hours will be 40 if not documented on the VOE. If using pay-stubs, the average of all hours indicated on the two (2) most recent pay-stubs must be consecutively dated. The average hours should be calculated to the second decimal place. For example: If average hours are 43.566, use 43.57 for average hours.

- 4) Recurring Income – Income from overtime, tips, commissions or equivalent income must be used to calculate annual income. Information from income documentation will be used to arrive at annualized amount of income associated with the type of income received. If pay stubs or VOE shows YTD overtime or other income, the annualized amount of income will be calculated by dividing the YTD overtime or other income shown by the proportion of a year in months represented in the income documentation multiplied by 12 to arrive at annual income to be added to base pay. If the applicant does not expect to work additional overtime, documentation must be provided by the employer.
- 5) Non-recurring Income – Annual bonus or equivalent single annual payments must also be added to base pay and recurring income to arrive at annual income. These single payments are not annualized.
- 6) Combined YTD Gross Income – The combined gross annual income shown on income documentation may be used to calculate annualized gross income if the information is consistent with the results that would be obtained by calculating base pay, recurring pay and non-recurring pay separately. A YTD gross pay amount shown on income documentation may not accurately reflect an individual's expected gross income at his/her current rate of pay. For example, if a person has a significant amount of time not worked and without pay, the amount shown as YTD will not accurately reflect annualized income at the person's current rate of pay.

*Illustration 1:* The YTD gross pay shown on the recent pay stub and VOE is \$20,941 as of October 31. However, the income documentation shows the hourly rate of pay to be \$15.50 with 40 hours per week. The YTD annualized is  $(\$20,941/10)12 = \$25,129$ . The base pay using \$15.50 results in annual income of  $\$15.50 * 2080 = \$32,240$ . Lacking any explanation justifying fewer total annual hours the income for this person must be assumed to be \$32,240 plus any applicable other income such as overtime or bonus.

*Illustration 2:* The YTD gross pay shown on the recent pay stub and VOE is \$20,472 as of October 31. However, the income documentation shows the hourly rate of pay to be \$9.00 per hour with 40 hours per week. The YTD annualized income is  $(\$20,472/10)12 = \$24,566$ . The base pay using \$9.00 per hour results in annual income of  $\$9.00 * 2080 = \$18,720$ . Lacking any explanation justifying the difference in information available to calculate annual income FHLBI must assume the annual income to be the higher amount of \$24,566.

*(The instructions attached to the Income Calculation Worksheet should be used to show calculation if annual income consistent with the documentation shown on the income documentation provided.)*

- 7) Non-employment Income – For other income received on recurring or periodic schedules, calculate the annualized amount by taking the periodic amount multiplied by the number of periods in the year. For amounts that vary, use an average of the amount earned to date and project forward. For example, if child support is not received regularly, verify the amount received during the last 12 months, and divide by 12 months to calculate an average monthly amount.

- 8) Self-employment Income – Calculate an *average monthly net income* based on 2 years Federal Income Tax Returns and the year-to-date profit and loss statement. Deductions in income for depreciation, amortization, depletion and other non-cash deductions shall be added back to net income on Schedule C, partnership or corporation income to determine compliance income. The average monthly income shall be calculated after deductions are added back in. If applicant is self-employed for less than two years, applicant must show history of employment in same field.
- 9) Rental Income – Rental income must be included in the household income calculation. Rental income is defined as 75% of the annual gross rental income to be received, compared to or confirmed by tax returns.
- 10) Income from Assets – To arrive at income from assets, the member must verify all assets and income derived from such assets. Include all income eligible assets that household members have been receiving during the most recent year. Income from assets can be verified using the most recent year tax return or annual account statements.
- 11) Holiday Pay and Vacation Pay – Should not be calculated and added to estimated annual income if the annual income calculation includes holiday, vacation leave or sick leave. The calculation of annual income using base pay, e.g., rate multiplied by 2080 or other applicable pay period already includes the value of holiday, vacation and sick leave.

#### **What documents must you submit?**

For every household assisted, members must submit, with disbursement requests, copies of all documentation and forms used to calculate income along with the Income Calculation Worksheet ([http://www.fhlbi.com/housing/grant\\_forms.asp](http://www.fhlbi.com/housing/grant_forms.asp)). Where appropriate, all income documentation must be dated within **60 days** prior to date household was enrolled in the program.