

This document sets forth the income guidelines for the Competitive Program of the Affordable Housing Program (AHP) of the Federal Home Loan Bank of Indianapolis (FHLBI). It is adopted by the Community Investment department of the FHLBI effective as of January 1, 2016, pursuant to the FHLBI's 2016 Affordable Housing Program Implementation Plan (Plan).

Capitalized terms not otherwise defined herein have the meanings ascribed to them in the Plan. These guidelines may be amended, supplemented, or replaced by the FHLBI from time to time in its discretion by adoption and publication on the FHLBI's website at: <https://www.fhlbi.com/>.

For all FHLBI AHP projects, sponsors and members are required to use the guidelines set forth below to calculate a household's annual income for all purposes.

General Requirements for Calculating Household Income

The FHLBI will review current and verifiable income source documents submitted by the member or sponsor for the applicant household. In its discretion, FHLBI may conclude that a household's income is indeterminable due to inconsistent or unverifiable income, or unstable work history. If a member or sponsor submits tax returns or tax transcripts to the FHLBI, the member/sponsor is responsible for obtaining an appropriate authorization to disclose such transcripts and/or returns from the household.

In all cases, the member and sponsor are responsible to calculate households' annual income for the purposes of qualifying the household to participate in AHP, pursuant to these guidelines. It is therefore the member's and sponsor's responsibility to carefully evaluate and document the information about the household to confirm income eligibility for the programs. Each of the member and the sponsor is responsible for compliance with these guidelines.

For all competitive AHP, eligible households must have projected annualized incomes of less than or equal to 80% of Area Median Income for the county in which the property is or will be located (AMI). The sponsor must calculate the annual household income for each household member for the year the household is qualified for housing. To determine eligibility, the sponsor must compare the household's annual income to the HUD median income guidelines for the specified year, household size, and location of the property. The FHLBI will review current and verifiable income source documents submitted by the sponsor for the applicant household. In its discretion, FHLBI may conclude that a household's income is indeterminable due to inconsistent or unverifiable income, or unstable work history.

Defining "Household"

A household includes family members related naturally, by marriage or adoption, or co-habitant domestic partners or other residents who will reside or currently reside in the subject property. The residency of any household member may be required to be documented.

The FHLBI will request and review current and verifiable income source documents obtained by the applicant member institutions 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.

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

Defining "income"

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

- The full amount of all wages and salaries (before any payroll deductions), cash compensation, overtime pay, commissions, fees, tips, bonuses, differential pay, housing allowances and other compensation for personal services for all people in the household at or over the age of 18, even if temporarily absent (see documentation requirements below). Income of co-habitant partners must be included, even if only one of the partners is being qualified for the housing.
- The full amount of periodic payments (total gross 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.
- Alimony and child support payments.
- Income from assets and investments including interest, dividends and other net income of any kind from real or personal property shall be included. In general, withdrawals from investments will be treated as income only when the withdrawals are made on a regular basis, such as monthly, quarterly, semi-annually or annually.
- All regular pay and allowances of a member of the Armed Forces, unless otherwise noted.
- Net income derived from operation of a business or profession as deemed eligible by FHLBI.
- Rental income – defined as 75% of the annual gross rental income to be received, with or without an active lease agreement.
- Income paid in cash that is reported to the IRS, evidenced by the most recent two years of complete tax returns.
- Public assistance payments, except as indicated in "What does not constitute 'income'?" section, 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.

- Sec. 8 Housing Assistance - 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 assistance, the amount of the Sec. 8 assistance is income.
- Adoption/stipend allowance up to the maximum allowed annually by HUD.

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, merchandise discounts, entertainment, educational allowance, mileage/car allowance, and charity donations in employee's name or any reimbursement of actual work expenses. In addition, 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
- Medical, child care and arrearage payments itemized from child support payments
- Income directly received by or for foster children or foster adults, unless the adult is a primary household member (i.e., a household member in title for the property or lease, and/or the spouse of any such person)
- Lump sum additions to family assets, such as inheritances, capital gains, insurance policy death benefit payments, settlement for personal/property losses, medical expense reimbursements, lottery/gambling winnings, one-time disability payments, or other similar one-time payments
- 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 received by an unrelated live-in aide
- Educational scholarships paid directly to a student, educational institution or a veteran
- Earned income tax credits
- Unreliable, temporary 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)
- Loan advances from a reverse mortgage

Criteria for determining household eligibility

The FHLBI is responsible for complying with 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 (or such other income calculation guidelines the FHLBI may permit from time to time, as described above) whenever qualifying households for AHP-assisted projects. In cases where income is variable, the FHLBI, at its discretion, will calculate income using the information and documentation provided that may forecast the highest household income due to compensating factors.

Owner-occupied projects. For purposes of homeownership competitive AHP units, households are determined to be Eligible Households at the time the household is qualified and approved by the Sponsor, provided, however, the household must be re-qualified if, between the date of the initial qualification and the homeownership closing date:

- The number of employed persons in the household changes; or
- The number of persons in the household changes.

Rental Housing:

- *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 by the sponsor.
- *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 may be shown using the FHLBI's Income Calculation Worksheet available at <https://www.fhlbi.com/>, 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.

Required income source documents

For calculation of annual income, income from the following sources that are attributable to any household member at or over the age of 18 must be included. If a household member is at or over the age of 18 and has no income, members/sponsors must obtain an affidavit of zero income for that household member (such as in the form available at <https://www.fhlbi.com/>). All documentation must be dated within **60 days**

prior to date household was approved for the housing. The FHLBI reserves the right to request more current income documentation.

Acceptable forms of income source documents include the following, to be submitted by the Sponsor and certified by the Member:

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, 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.
2. Social Security or Supplemental Income Statements. An award or benefit letter dated within 60 days of the household enrollment, prepared by the authorizing agency must be submitted to confirm the periodic gross payment and how often it is received. If benefits have recently changed, a current Social Security benefits statement or notice of change in benefits must be provided indicating the current benefit. All pages of the statements must be submitted. The Social Security Administration Letter and/or Social Security Status print-out may be requested to further substantiate award or benefits.
3. Annuities, Pensions, Insurance Policies. Financial statements must be submitted to verify receipt of periodic gross payments. Documentation must confirm the current periodic payment including its frequency. Documentation for a minimum of 2 pay cycles must be submitted. A benefit, award or pension letter is acceptable documentation. The previous year's IRS 1099 form may be submitted to further substantiate the income.
4. Unemployment Benefit Statements. For household members receiving unemployment, the most recent award or benefit letter prepared 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.
5. 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

6. Public Assistance. A recent award or benefit letter prepared by the authorizing agency to verify the current amount of assistance provided.
7. Approved HUD Section 8 certification of income.
8. Child Support/Alimony. Documentation evidencing child support payments reflecting a minimum of 6 months of recent payments. Additional payments or additional supporting documentation may be requested. 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 (at a minimum, 6 months) and divide by 12 months to calculate an average monthly amount.
9. Seasonal / Irregular Income. (i.e., construction workers, farm workers). In addition to the requirement for pay stubs, the 2 most recently signed tax returns complete with W-2 and 1099 statements must be submitted to demonstrate a 2 year history of the seasonal income. A Verification of Employment (VOE) that clearly explains the nature of the seasonal or irregular employment including the specific dates when employment begins and ends is also required. If the applicant is a teacher, the most recent teaching contract is required. Income documented by 1099 statements will be evaluated as self-employment earners. All seasonal income earned by any household member must be fully documented.
10. Self-Employment Income Statements. FHLBI requires 2 years of completed and signed U.S. income tax returns, with all supporting schedules.

Calculating Annual Income:

In general, the calculations of annual income must be clearly documented so the calculation can be easily recalculated and verified by FHLBI. **The sponsor should use the information contained in the source documents to perform the calculation.** 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 irregular income such as annual bonus or equivalent single annual income payments.

Income amounts used in the calculation should be on a gross, 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 Worksheet, the TIC, or other authorized documentation. Depending on the type of income, the method used to determine the annualized income amount will vary. 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.

1. Employment Income –To calculate the annual employment income, the following information is necessary:
 - gross earned income amount;
 - gross hourly wage;

- average weekly hours; and
- 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.

2. 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 at least the two (2) most recent pay-stubs will be used. These 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.

3. 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. Recurring is defined as income received on a periodic or regular basis, such as monthly, quarterly, semi-annually or annually. The income must be issued by third-party source.
4. Irregular Recurring Income – Earned or received annual bonus or equivalent single annual payments must also be added to base pay and recurring income to arrive at an annual income. These single payments are not annualized. Additional documentation from the employer to evidence the amount and frequency of continued payments may be required.
5. 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.

6. 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.
7. Self-employment Income – Self-employment income is considered stable and eligible for qualifying purposes if the income has been received for a full 2 calendar years. The income is to be calculated by taking an *average monthly net income* based on the most recent 2 full years of tax returns. 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. The YTD profit and loss statement will be evaluated for consistency with previous years of earned/reported income. Self-employment income determined to be secondary income or self-employment income earned by secondary household members must be fully documented as outlined above and will be evaluated on a case-by-case basis.
8. Seasonal Income – Seasonal income is considered stable and eligible for qualifying purposes, if the income has been received for a full 2 calendar years. Calculate an *average monthly income* based on the 2 most recent years' tax returns plus YTD gross income. Any unemployment compensation received during the off season should be included. If a W-2 wage earner, a VOE or other similar documentation will be used to determine specific dates when employment begins and ends. Seasonal income determined to be secondary income or seasonal income earned by secondary household members must be fully documented as outlined above and will be evaluated on a case-by case basis.
9. Rental Income – Rental income must be included in the household income calculation with or without an active lease agreement. 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/sponsor 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. Calculate the income by dividing the YTD amount 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. FHLBI imputes a minimum 2% interest income to all such assets.
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.

Calculation of Income in Regular Certifications by Members and Sponsors for Rental Projects.

In preparing annual and other certifications during the retention period, for every AHP household assisted, sponsors and members must provide, at any time upon request, copies of all documentation and forms used to calculate income pursuant to the sampling plan outlined in the Implementation Plan's monitoring procedures, along with the Income Calculation Worksheet (<https://www.fhlbi.com/>), TIC, or other approved document. Where appropriate, all income documentation must be dated within **60 days** prior to date of the certification.

Miscellaneous - Review and Amendment

The FHLBI's Community Investment department shall review these income guidelines at least annually. These Guidelines may be amended from time to time by the Community Investment department by publication on the FHLBI's website.