

This document sets forth the income guidelines for the Homeownership Initiatives Programs 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 website.

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 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 submits tax returns or tax transcripts to the FHLBI, the member is responsible for obtaining an appropriate authorization to disclose such transcripts and/or returns from the household.

FHLBI eligibility and calculation requirements differ in some cases from mortgage loan underwriting standards. The member is responsible for compliance with these guidelines notwithstanding conflicting mortgage underwriting rules. With reasonable compensating factors, exceptions may be considered on a case-by-case basis.

In all cases, the member is responsible to calculate households' annual income for the purposes of qualifying the household to participate in Homeownership Initiatives Programs and for Affordable Housing Programs, pursuant to these guidelines. It is therefore the member's responsibility to carefully evaluate and document the household to confirm income eligibility for the programs.

For all Homeownership Initiatives Programs, 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 member must calculate the annual household income for each household member for the year the household is qualified. To determine eligibility, the member 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 member 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.

Household Income Eligibility

To be considered eligible for the Homeownership Initiatives Programs, the household should demonstrate, through third-party documentation, consistent and stable household income (including a status of zero income) for a minimum period of 1 year prior to enrollment, unless otherwise noted for special types of income. This requirement applies to all members of the household unless otherwise noted. The Enrollment Date is defined as the date upon which the member issues a qualification or other such loan commitment or enrolls the household in a Homeownership Initiatives Program.

For HOP transactions, the primary household members with earned income should demonstrate at least 1 full year of employment with the current employer. “Primary” household members are the person(s) in title (or, for HOP, to be in title) for the property, plus such person(s)’ spouse, domestic partners, or other members of the household who significantly contribute to the total household income as determined by FHLBI.

Although it is not the intention of the FHLBI to dictate loan-underwriting policies to its members, it is FHLBI’s expectation that households applying for funding are stable and settled in their financial affairs. Further, households with intermittent income or unstable work history pose a challenge in establishing the qualifying household income.

Determining Household Size

For HOP transactions, the household size equals the number of people for whom the home being purchased will be each such person’s primary residence. For NIP/AMP transactions, the household size equals the number of people for whom the home is such person’s primary residence. A household includes family members related naturally, by marriage or adoption, or co-habitant domestic partners or other residents. In general, for purposes of determining household income, any income, earned or unearned, received or earned from or on behalf of any and all household members will be included. The residency of any household member should be accurately and thoroughly documented.

Other household size/income considerations:

- Households with separated spouses are ineligible to apply until such time as a divorce has been court ordered.
- A child, age 17 or younger, who is subject to a shared-physical custody agreement or similar documentation ordering that the child is to reside with the custodial parent/guardian at a minimum of 50 percent of the time may be counted as a household member. Any income received by an adult on behalf of a child, such as child support, social security income, etc., will be included in the income determination.
- Temporarily absent household members such as dependent students age 18 or older, or military personnel are to be included in the household and any income earned by or received by or for that member will be included in the income determination.
- For households with members with undocumented or non-traditional citizenship, the FHLBI member must determine the household member’s eligibility to apply for the grant based on FHLBI member’s established policy for extending similar credit to an individual.

- Foster children should not be included when determining household size.
- Income from an unrelated live-in aide is generally excluded from the income determination

What constitutes “income”?

Specific categories of income are addressed below. Income includes, but is not necessarily limited to, the following:

- The full amount of all wages and salaries (before any taxes or other 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. Income of co-habitant partners must be included, even if only one of the partners is being qualified for the loan.
- 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 periodic receipts
- Payments in lieu of earnings, such as unemployment and disability compensation, worker’s compensation and severance pay may constitute income.
- 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,” which is 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 or required to be reported to the IRS, evidenced by the most recent two years of complete filed tax returns. In instances where the tax filing is required to be amended, the household will be considered ineligible until such time as all tax filing issues have been resolved.
- 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 - 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 assistance, the amount of the Sec. 8 assistance may be shown as 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 (W-2). Fringe benefits or reimbursements may include, but are not limited to: child care, medical/life insurance, stock options including restricted stock units, discounts for merchandise, entertainment, educational allowance, mileage/car allowance, and 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
- 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
- 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
- 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

Sources/types of income received by the household not referenced above will be evaluated for inclusion or exclusion on a case-by-case basis.

Documents Used to Verify Income

The specific documentation required to substantiate the income is detailed in the following sections under each income type below. All documentation must be dated within **60 days** prior to the Enrollment Date of the household.

For household members age 18 or older not receiving income, the member must obtain and submit with the disbursement request, the FHLBI Zero Income Affidavit (which is available at www.fhlbi.com) certifying that the household member does not have any income from any source which constitutes income as documented above.

The FHLBI, in its sole discretion may request additional documentation to support the household income determination.

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 member should use the information contained in the source documents to perform the calculation.** The calculation of annual income includes all "income" as described above, calculated based on the frequency and amount of payments. 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 is used to determine the equivalent annualized income. Current and reasonably recent (within 60 days of enrollment) circumstances are the basis for annualizing income.

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. The Income Calculation Worksheet can be accessed via the FHLBI website.

Where appropriate, all income documentation must be dated within **60 days** prior to date household was enrolled in the program.

FHLBI recommends calculating income using at least two different calculation methods and selecting the highest yielding calculation based on the same period of income data and supporting documentation.

Income Types, Documentation and Calculation Methods

1. Earned Income (wages/salary).

Third-party Documentation:

- a. Two pay stubs, consecutive, representing, at a minimum, the previous 30 days of pay, that reflect the year-to-date (YTD) gross income, overtime, bonus and other gross income. If pay stubs are not available, are handwritten, or do not reflect items listed above, 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.
- b. A Fannie Mae Verification of Employment (VOE) Form 1005 for each current household member. The Fannie Mae 1005 can be found on the Fannie Mae website.
- c. Previous year's complete, signed and filed U.S. income tax return
 - i. Submitted for all household members unless the member is not required to file a return*, and
 - ii. Include all W-2 and 1099 statements, schedules and/or year-end wage and tax statements.

If a W-2 statement is used 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.

**Households with household members required to file a tax return who have not filed, are not eligible for the Homeownership Initiatives Programs.*

Income Calculation:

Annual employment income is equal to the annualized income based on the 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.

Holiday and vacation pay should not be calculated separately 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.

To calculate the annual employment income, the following information is necessary:

- i. Gross Earned Income amount;
- ii. gross hourly wage;
- iii. average weekly hours; and
- iv. the time period constituting the YTD

Income Calculation Methods

- a. YTD Gross Annualized – 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.
- b. Averaged Base Pay – Annual base pay is calculated using the current rate of income multiplied by average hours worked per week as derived from pay-stubs or similar third-party documentation. 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. The average number of hours noted on the VOE may be used to calculate the averaged base pay if the hours and pay are reasonably consistent with past income earnings. If average hours worked cannot be determined from income documentation, an assumption of full-time 40 hours per week, 52 weeks per year may be used, again if reasonably consistent with past income earnings.
 - i. Based on consecutively dated pay-stubs, the average of all hours indicated will be used to calculate averaged based pay. The average of all hours indicated on the pay-stubs provided will be used. The average hours should be calculated to the second decimal place. *Example:* Sum the hours from four consecutive weekly pay-stubs (46, 38, 40, 41) and divide by the total number of pay-stubs (4). The average total hours is 41.25.

Inconsistencies in income calculations:

The 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.

Example: 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.

- c. Recurring Earned Income –Income received on a periodic or regular basis, such as monthly, quarterly, semi-annually or annually, and issued by third-party source.
Example: Tips, commissions and equivalent income are Recurring Income.

If pay stubs or the VOE show a YTD total for recurring income, the annualized amount of income will be calculated by dividing the YTD amount 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 continue earning additional recurring income such as, documentation supporting the change must be provided by the employer.

- d. 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 generally are not annualized. Additional documentation from the employer to evidence the amount and frequency of continued payments may be required.

2. Social Security Income or Supplemental Security Income.

Third-party Documentation: An award or benefit letter (all pages) **dated within 60 days** of the household enrollment, prepared by the authorizing agency, confirming the periodic gross payment and frequency of receipt. 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.

Please note: If benefits have recently changed, a current Social Security benefits statement or notice of change in benefits must be provided indicating the current benefit. These amounts should not be adjusted upward or "grossed-up" for the purpose of calculating annual income.

Income Calculation: For 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.

3. Annuities, Pensions, Insurance Policies.

Third-party Documentation: Most recent financial statement of benefit, award or pension letter confirming the gross payments and frequency of payment, AND the previous year's IRS 1099 form attributable to the annuity, pension, or insurance policy may be submitted to further substantiate the income.

Income Calculation -Recurring Unearned Income: "Recurring Unearned Income" 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. For 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.

4. Child Support/Alimony.

Third-party Documentation:

- a. Court-ordered documentation evidencing child support payments reflecting a minimum of 6 months of the most recent payments. Additional payments or additional supporting documentation may be requested. Documentation from the court system should reflect

the current amount of child support due and paid. Medical, child care and arrearage payments should be excluded from child support income if amounts are itemized.

- b. 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.

Income Calculation: For 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 (at a minimum, 6 months) and divide by 12 months to calculate an average monthly amount.

5. Unemployment Income.

Third-party Documentation: Most recent award or benefit letter prepared by the authorizing agency along with schedules reflecting payments received YTD or similar documentation, AND Inclusion of unemployment income will vary across programs.

Specific guidelines per program are as follows:

- o For HOP households, only unemployment benefits currently received that are seasonal in nature and with documented history of receipt will be accepted as qualifying income. The household member must show at least a 1 calendar year history of seasonal unemployment benefits supported by tax returns.
- o For NIP and AMP households, FHLBI will consider the total household income from the previous year as reported on the filed federal tax returns. If the previous year of income fell within the published income limits, FHLBI may consider the household's eligibility for the program based on the current income. If the income reported in the previous year exceeded the published income limits, the applicant may be required to re-apply at a future date.

Income Calculation: 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 unemployment is not received regularly, verify the amount received during the last 12 months, and divide by 12 months to calculate an average monthly amount.

6. Income from Assets.

Third-party Documentation: Indicate the cash value of the assets and income generated. Acceptable documentation includes:

- 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 reflecting gross benefits;
- c. Previous year's IRS 1099 form, if only received once annually;
- d. Brokers' quarterly statements showing value of stocks/bonds/investments and earnings credited;
- e. Rental property: an executed lease agreement or comparative market analysis (CMA) evidencing rental income. Projected income must be included in household income for vacant units
- f. Most recent year of U.S. income tax returns complete with all W-2 and 1099 statements attributable to the assets, and schedules and evidence of filing if only received once annually.

Income Calculation (Interest, Stocks, Bonds, CDs, Real Estate, and Dividends): Interest and dividend income is included in the total household income when such income is reflected on the tax returns or financial statements. 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. 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.

Income Calculation (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.

7. Seasonal / Irregular Income* (i.e., teachers, construction workers, farm workers)

All seasonal income earned by any household member must be fully documented. Seasonal income is considered stable and eligible for qualifying purposes if the income has been received for 1 full calendar year.

Third-party Documentation:

- a. Two pay stubs, consecutive, representing, at a minimum, the previous 30 days of pay. Pay stubs must reflect the year-to-date (YTD) gross income, overtime, bonus and other gross income. If pay stubs are not available or do not reflect items listed above, 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.
- b. A Verification of Employment (VOE), Fannie Mae Form 1005, for each current job. The VOE must clearly explain the nature of the seasonal or irregular employment including the specific dates when employment begins and ends and indicate whether

unemployment is available during the off season. The Fannie Mae 1005 can be found on the Fannie Mae website.

- c. Previous year's complete, signed and filed U.S. income tax return submitted for all household members unless the member is not required to file a return**, and including all W-2 and 1099 statements, schedules and/or year-end wage and tax statements. If a W-2 statement is allowed to be used 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.
- d. Income documented by IRS 1099 wage/earnings statements will be evaluated as self-employment income.
- e. If the applicant is a teacher, the most recent teaching contract is required.

**FHLBI, in its discretion, may consider documented seasonal income of less than 1 year for secondary household members.*

***Households with household members required to file a tax return, however have not filed, are not eligible for the Homeownership Initiatives Programs.*

Income Calculation:

- a. Methods used to calculate seasonal income will vary based on documentation of current earnings, the established on and off periods of work as indicated by the employer. Income earned / received during off periods should be included. The income should be compared against prior earning periods as provided by the employer.

8. 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.

Third-party Documentation:

- a. The most recent 3 years of completed, signed and filed U.S. income tax returns, including all supporting schedules, both individual and business where applicable are required to demonstrate at least 2 full years of self-employment income. - **If submitting transcripts, all attachments, schedules and other supporting schedules and descriptions must be submitted along with the transcripts, otherwise, the 1040 format is required.**
- b. A YTD profit and loss statement must also be submitted with the completed tax returns. All self-employment income earned by any household member must be fully documented. The YTD profit and loss statement will be evaluated for consistency with previous years of earned/reported income.

**FHLBI, in its discretion, may consider documented self-employment income of less than 2 years for secondary household members.*

Income Calculation:

- a. The income is to be calculated by taking an average monthly net income based on the most recent 2 full years of tax returns.
- b. 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.
- c. If the tax returns indicate a loss, the income for the effected tax year will be carried as a zero when averaging the income.
- d. 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.

9. Public Assistance.

A recent award or benefit letter, such as an approved HUD Section 8 certification of income, prepared by the authorizing agency to verify the current amount of assistance provided and frequency of payments.

Miscellaneous - Review and Amendment

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