



## Attachment D Income Guidelines

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### **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.

## **I. INCOME ELIGIBILITY REQUIREMENTS**

This document sets forth the income guidelines for the Federal Home Loan Bank of Indianapolis' (FHLBI's) Affordable Housing Programs, which include the competitive Affordable Housing Program (AHP), Homeownership Opportunities Program (HOP), Neighborhood Impact Program (NIP), Accessibility Modification Program (AMP) and Disaster Relief Program (DRP). To qualify a household for these programs, participating members and sponsors must use these Income Calculation Guidelines to calculate the household's annual income.

Eligible households must have annual incomes of less than or equal to 80% of HUD area median income (AMI), based on the specified year, household size, and location (county/state) of the property. The member and sponsor, if applicable, must calculate the annual income of each household member using these income guidelines.

### **A. Rental and Homeownership (AHP Only)**

For clarification of this guide, references to occupying tenants of Rental AHP assisted properties or "tenant household" may be substituted for "homebuyer".

If a project is purchased, constructed, rehabilitated, and/or operated with funds from an income restricted federal, state, or local government program, project sponsors and owners will use the income calculation policy issued by and applicable to that program to qualify tenants for occupancy in AHP-assisted units. AHP project sponsors and members must identify whose method they will use and provide sufficient documentation for the FHLBI to verify income eligibility under the alternative method. If the project does not use funding from these other sources, the sponsor or owner must use the guidelines set forth below. Both household income and maximum rent calculations rely on HUD AMI data sets as the basis of the income restriction and rent affordability calculations

#### ***A.1. Rental Housing (AHP):***

Rental housing developments require project sponsor/owners to report, at the completion of the project in the Stage Two initial monitoring phase, each unit's household size, income including income year, unit size, and rent amount (broken down by tenant paid rent vs. total rent). This reporting instrument known as the Rental Income Targeting Worksheet (RITW) or rent roll, will perform the rent calculation and identify the maximum allowable income. If a project is occupied at the time of disbursement, income targeting will be verified with the disbursement. Rental unit targeting must correspond to the income targeting commitments made in the AHP application.

#### ***Minimum Eligibility Requirements:***

- At least 20% of an AHP assisted rental project units must be occupied by households with incomes at or below 50% AMI based upon income verifications obtained during the resident qualification and approval by the property owner or owner's agent.
- The rent on the designated affordable units may not exceed 30% of the AMI based upon unit size. Tenant households receiving Sec. 8 Housing Assistance - only the

portion of rent due and payable by the tenant household, net of the rent subsidy and other charges are applied to the 30% maximum rent subsidy calculation.

- For all rental projects, tenant income verification may be shown using the FHLBI's Income Calculation Workbook (ICW), 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.

***Qualifying Income Event:***

- *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 AHP subsidy as qualified by the sponsor/owner and reviewed by the member.
- *Rental housing created through new construction or rehabilitation of vacant buildings:* The determination of income eligibility shall be made at the time the tenant household is approved to occupy the rental unit as qualified by the sponsor/owner and reviewed by the member.
- Maximum Rent Calculation Example:

Using the HUD AMI tables for a rental property located in Marion County Indiana, the maximum rent calculation uses the HUD rule of 1.5 persons per bedroom. Therefore, a three bedroom apartment located in Marion County, Indiana would use the AMI figure for a 6 person household (1.5 x 3 bedrooms). The maximum unit income for this 3 bedroom apartment is based upon a 50% AMI, 6 persons in the household - \$38,700 per HUD AMI table. The rent may not exceed 30% of the maximum income annually -  $\$38,700 \times .30 = \$11,610$  per year / 12 months per year = \$967.50 maximum rent (including utilities).

**A.2. Homeownership (AHP Only)**

For **AHP Homeownership** a household must have a documented income meeting the income targeting commitments in the approved AHP application at the time it is qualified by the project sponsor for participation in the project. Within 60 days of closing, if there are changes in household size, significant changes in income, or changes in the number of employed household members from the time of application to the time closing occurs, the household income calculation must be updated to reflect this change(s).

Except where noted "AHP exempt" all income documentation and reporting requirements as detailed in this guide apply to the AHP homeownership project type.

**II. BASIS FOR INCOME ELIGIBILITY**

Income eligibility is based on the household's projected annual income. The member (and sponsor, if applicable) must calculate the projected annual income of each household

member 18 years or older to determine total household income. The enrollment date is used to determine the applicable HUD income guidelines and the age of each household member. The enrollment date is the date the member and/or sponsor determines the household is income-eligible, using the income documentation requirements detailed below.

Income source information will be collected using the FHLBI’s Household ICW or income calculation policy designated by state or federal funding sources. Income documents will be collected to verify the household’s projected annual income.

It is the member’s (and sponsor’s, if applicable) responsibility to carefully evaluate and document the information about the household to confirm income eligibility for the respective AHP programs. Each of the members (and sponsors, if applicable) are responsible for compliance with these guidelines. In its discretion, FHLBI may conclude that a household’s income is indeterminable due to inconsistent or unverifiable income or unstable work history.

**A. Determining Household Size / Whose Income to Include**

Household size is based on the number of people who will reside in the subject property being purchased or rehabilitated. Divorced borrowers who have joint custody of their children should include the children in their household count only if the child is to reside with the applicable custodial parent/guardian a minimum of 50% of the time. Any income received by an adult on behalf of a child, such as child support, social security etc., will be included in the income determination. Borrowers who do not have custody of children at least 50% of the time 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.

Please note that income of all household residents should be included in household income even if not on the application, mortgage, title, or note. Also, income of temporarily absent family members must be included (i.e. military personnel, rehabilitation facility).

<b>Household Member</b>	<b>Include Income?</b>	<b>Include in Household</b>
Head of household	Yes	Yes
Spouse	Yes	Yes
Co-head/cohabiting partner	Yes	Yes
Temporarily absent household member	Yes	Yes
Other adult, 18 years or older	Yes	Yes
Dependent Student, 18 years or older	No	Yes
Dependent, 17 years or younger	No, except as referenced	Yes
Foster child	No	No
Live-in aide (related)	Yes	Yes
Live-in aide (unrelated)	No	No

**B. Income Calculation Workbook**

Income Calculation Workbook (ICW) is a starting point for gathering income verification documentation for each member of the household. Members (and sponsors, if applicable) will need to provide income documentation for each source of income identified on the Income Calculation. The FHLBI must be updated regarding any changes affecting annual income or knowledge of previously unreported income.

- For **HOP, NIP, AMP and DRP** eligibility, household income documentation must be dated within 60 days of the enrollment date.

### **III. DOCUMENTING and CALCULATING ANNUAL INCOME**

The method used to determine annual income will vary depending on the type of income. However, in general, all “gross” current pay from all sources is used to determine the annual income of the household. The ICW is used to report household income to the FHLIB.

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

**For HOP, NIP, AMP and DRP programs, regardless of income type, the most recent year of U.S. income tax returns complete with all W-2 and 1099 statements and any applicable schedules and attachments must be submitted for all household members required to file tax returns.**

**A Verification of Employment (VOE) may be required for current or previous employer(s) in circumstances such as the following:**

- ***Start date and/or date of separation is necessary***
- ***Previous year tax returns or W-2s indicate a change in earnings or employment***
- ***There has been a change in employment within the last 12 months***
  - ***Change in employer(s)***
  - ***Change in status (part-time vs. full-time)***
  - ***Change in rate of pay (raise; hourly vs. salaried)***

#### **A. Income Inclusions and Exclusions**

The following are lists of items to be included or excluded from income calculations. These lists should be used as a starting point. They are not exhaustive and there may be exceptions. If you are unsure, please contact FHLBI Community Investment for further direction and clarification.

##### **Income Inclusions:**

- The full amount (before any payroll deductions) of all wages and salaries, overtime pay, commissions, fees, tips, bonuses, allowances for housing, transportation, food, etc., cash compensation and other compensation for personal services
- 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 payments
- Self-Employment income
- Payments in lieu of earnings, such as unemployment or disability compensation, worker’s compensation, and severance pay
- 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

- Alimony/maintenance and child support payments
- All regular pay and allowances of a member of the Armed Forces
- The net income, salaries, and other amounts derived from operation of a business or profession
- 75% of any gross rental income from real property
- Income paid in cash that is reported to the IRS, evidenced by the most recent two years of complete tax returns
- Sec. 8 Housing Assistance - If the Sec. 8 assistance will continue as part of the Sec. 8 homeownership assistance, the amount of the Sec. 8 assistance is income
- 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

**Income Exclusions:**

- Employer-paid and provided fringe benefits or reimbursements - 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, and charity donations in employee's name or any reimbursement of actual work expenses
- Income from the employment of children under the age of 18
- Income directly received by or for foster children or foster adults, unless the foster 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)
- Adoption subsidies/stipend allowances
- Lump-sum additions to family assets (e.g., inheritances, capital gains, insurance policy death benefit payments, settlement for personal/property losses, medical expense reimbursement, lottery/gambling winnings, one-time disability payments, stock option payouts, or other similar one time payments)
- Home care assistance paid by a state agency to offset the costs of services or equipment needed for a disabled household member
- Income of an unrelated live-in aide
- All forms of student financial assistance paid directly to a student educational institution or veteran
- Deferred periodic payments of supplemental security income and Social Security benefits that are received in either a lump sum or in prospective monthly amounts
- 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
- Medical, child care and arrears payment in child support

- One-time withdrawals from retirement accounts

## **B. Employment Income**

Gross annual employment income must be determined for each job currently held. 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.

### **a. Base Pay**

Regular, holiday, vacation, sick, and paid time off (PTO) pay will be treated as base hours and wages for the purposes of calculating annual income.

#### **Documentation**

A minimum of two consecutive paystubs, covering a minimum of 28 days, reflecting year-to-date (YTD) gross income, overtime, bonus and other gross income is required.

**A Verification of Employment (VOE) may be required for current or previous employer(s) in circumstances such as the following:**

- ***Start date and/or date of separation is necessary***
- ***Previous year tax returns or W-2s indicate a change in earnings or employment***
- ***There has been a change in employment within the last 12 months***
  - ***Change in employer(s)***
  - ***Change in status (part-time vs. full-time)***
  - ***Change in rate of pay (raise; hourly vs. salaried)***

AHP Rental – *either* two consecutive paystubs, covering a minimum of 28 days, reflecting year-to-date (YTD) gross income, overtime, bonus and other gross income required *or* a fully completed Fannie Mae, state, or any standardized Verification of Employment (VOE) form is accepted.

#### **Calculation**

Annual income will be calculated by either (1) annualizing YTD gross income or (2) averaging the gross period income of submitted check stubs and multiplying by the number of pay periods per year.

### **b. Other Compensation**

Income from overtime, tips, commissions, bonuses, or equivalent income must be included when calculating annual income. If the paystub reflects YTD overtime or other compensation, the amount must be accounted for and included in the annual income calculation. If a VOE shows historical tips/bonuses/commissions, this must be reflected in income calculations for the current income.

### **Documentation**

Additional documentation from the employer outlining the payment structure including frequency and amount of payments may be required to document *Other Compensation*.

### **Calculation**

- Regularly reoccurring *Other Compensation* should be calculated in the same manner as *Base Pay*
- *Other Compensation* paid out in frequencies that differ from *Base Pay* should be pulled out of *Base Pay* calculations and calculated according to the frequency and amounts indicated by the employer. If unable to establish the frequency, an average of the two most recent years' compensation must be used

### **c. Salaried Workers**

Annual salary amounts will be used as *Base Pay*. Any non-salary income such as bonuses, commissions, tips, etc., will be treated as *Other Compensation*.

### **d. Teachers**

Additional income (e.g., summer school, meetings, tutoring, coaching or extracurricular positions) should also be included with the teacher's income.

### **Documentation**

In addition to the *Base Pay* requirements, a copy of the most recent teaching contract should be provided.

### **Calculation**

The amount of the contract plus any additional income will be used as annual income.

### **e. Seasonal/Irregular Income (i.e., construction workers, farm workers, etc.)**

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 is represented on at least the two previous tax years' returns.

### **Documentation**

In addition to the requirement for pay stubs, the 2 most recent years' tax returns complete with W-2 and 1099 statements must be submitted to demonstrate a 2 year history of the seasonal income. A VOE that clearly explains the nature of the seasonal or irregular employment including the specific dates when employment begins and ends is also required. The employer should also indicate whether unemployment compensation is available during the off-season. Income documented by 1099 statements will be evaluated as *Self-Employment Income*. All seasonal income earned by any household member must be fully documented.



**Calculation**

Methods used to calculate seasonal income will vary based on documentation of current earnings and 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.

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

### **C. Self-Employment Income**

Self-employment income is considered stable and eligible for qualifying purposes if the income has been received for 2 full tax years.

#### **Documentation**

Not less than the most recent 2 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. An additional tax return may be necessary in some cases. YTD profit and loss statement must also be submitted with the completed tax returns.

#### **Calculation**

The income is to be calculated by taking an average annual 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 adjusted income. If the tax returns indicate a loss, the income for the affected tax year will be reflected as a zero when averaging the income.

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

### **D. Social Security / Supplemental Security Income**

#### **Documentation**

The current year's award letter along with a copy of the most recent bank statement reflecting the monthly net amount from the award letter. If these amounts differ a current benefits statement dated within 60 days will be required. A current benefits statement dated within 60 days may also be used in place of the award letter and current bank statement.

#### **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.

### **E. Annuities / Pensions / Insurance Policies**

#### **Documentation**

Most recent financial statement of benefit, award or pension letter confirming the gross payments and frequency of payment.

#### **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.

## F. Child Support / Alimony

### Documentation

Court-ordered documentation evidencing a minimum of 6 months of the most recent child support payments. Additional payments or 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. A copy of the divorce decree 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.

### 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 6 months (at a minimum, 6 months) and divide by 6 to calculate an average monthly amount.

## G. Unemployment Income

### Specific guidelines per program are as follows:

- 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. Otherwise, households receiving unemployment income are not eligible.
- 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 is currently ineligible.
- For AHP annualized income shall include any and all unemployment income received during the calendar year.

### Documentation

Most recent award or benefit letter prepared by the authorizing agency along with schedules reflecting payments received YTD or similar documentation.

### 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 6 months, and divide by 6 months to calculate an average monthly amount.

## H. Income from Assets

### **Documentation (*AHP Exempt*)**

If total household income is less than or equal to 60% AMI, tax returns or annual statements are sufficient to document income from assets.

If total household income is greater than 60% AMI, the following documentation is required:

- Verification forms or letters received from banks or other financial institutions
- Annual passbooks, checking or savings account statements, certificates of deposit or other financial statements reflecting gross benefits
- Previous year's IRS 1099 form, if only received once annually
- Quarterly statements showing value of stocks/bonds/investments and earnings credited

### **Calculation**

If total household income is less than or equal to 60% AMI, use the amount from the previous year's tax return.

If total household income is greater than 60% AMI include all income eligible assets that household members are currently receiving. Calculate the income by dividing the YTD amount shown by the number of months represented in the documentation and multiply by 12 to arrive at the annual income.

### ***AHP Only:***

Interest income generated from assets as found on bank or other investment/financial institution statements is included in the annual income calculation. The amount of interest income reflected, using state or HUD guidelines, shall be the greater of the projected annual interest based upon the earnings reflected on monthly, quarterly or annual bank, savings, or investment account statements. If total assets exceed \$5,000, interest income is calculated using the HUD passbook savings rate (currently 0.6%).

Example: ABC Banks statement reflects Susie Saver maintains an average \$8,000 balance in her savings account on which she earns 0.5% interest annually or \$40/year. Applying the HUD passbook saving rate of 0.6% to the \$8,000 average balance, Susie Saver would earn \$48/year in interest. Therefore, the higher amount of \$48 would be used in the calculation of interest income.

## I. Rental Income

### **Documentation**

An executed lease agreement or comparative market analysis (CMA) evidencing rental income. Projected income must be included in household income for vacant units.

**Calculation**

Rental income must be included in the household income calculation with or without an active lease agreement. Rental income shall be calculated as 75% of the projected annual gross rents.

**J. No Income****Documentation**

If an adult household member is not employed or receiving income of any kind, he/she must complete and sign the Certification of Zero Income. The Certification will act as verification that a household member has no income to report.