

2009
FHLBank Topeka (FHLBank)
Affordable Housing Program
Homeownership Set-aside Programs
(inc. RFHP and TOP)
Income Calculation Guidelines
Revised February 19, 2009

A. General Policy

Affordable Housing Program (AHP) homeownership project 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 an owner occupied AHP project. ("Household" means one or more persons living in a dwelling unit.)

For the Homeownership Set-Aside Programs (HSP) [including Rural First-time Homebuyer Program (RFHP) and Targeted Ownership Program (TOP)], members will be required to use the guidelines set forth below to calculate a household's annual income for purposes of qualifying them for participation in the HSP. Note that eligibility for AHP and set-aside is based on "household" income. FHLBank will not accept documentation based only on "borrower" income to determine whether income qualification and income targeting commitments are met. Specifically, the income of all adult members of the household must be used even if income from all members of the household is not necessary or is not used by a lender in qualifying the household for financing associated with ownership of the home. Income of all household members is required even if the household member is not shown on the forgivable AHP note, mortgage, deed of trust or equivalent retention agreement, other non-FHLBank loans or financing or will not be on the title to the property.

If a rental project is purchased, constructed, rehabilitated and or operated with funds from a federal, state, or local government entity program, project sponsors and owners will use the income policy issued and applicable to those programs for purposes of qualifying tenants for occupancy in AHP-assisted units. If the project has not used funding from these other sources, the sponsor or owner will use the guidelines set forth in this document. The applicable program guidelines must be identified to FHLBank.

B. Determining Household Income Eligibility:

FHLBank members requesting AHP and HSP funds must calculate the annual income for each household member aged 18 years and older including payments received on behalf of minor children in the household. The income for all members of the household will be totaled to determine the household's annualized income, which will then be used to determine whether the household is income eligible for AHP and HSP assistance. For homeownership recipients the member must collect, maintain, and submit income documentation used to calculate a household's annualized income. This information will be collected through verification of employment, current pay-stubs, documentation of income producing assets or other source documents (see Income Source Documentation section of this document). Annualized household

income will be determined by the calculation of estimated gross annual income at the time the household is being assessed as being qualified to participate in the AHP and HSP. The annual income will be compared to the applicable Mortgage Revenue Bond (MRB) Program income limits appropriate for the time that the household was qualified, the household size and property location. Published MRB income limits are adjusted by FHLBank to reflect the applicable maximum percent of median income for the program or project. For example, for the HSP the MRB income limits are adjusted to reflect 80 percent of the published MRB limit. The member will confirm a household's eligibility by calculating the annual income against the applicable MRB limit.

For the purposes of calculating gross annual income for the AHP and HSP, no deductions from gross income are allowed even if other funding sources such as USDA or HUD make adjustments. For example, there can be no deduction from gross income for childcare, disability status, elderly members of the household or medical expenses. Income from tax exempt, non-employment sources such as social security is not "grossed up" but must be based on actual gross income received.

AHP and HSP participating members must submit income documentation for all sources indicated on the FHLBank Topeka's Income Calculation Worksheet in addition to other documentation required for the AHP and HSP.

C. Sources of Income Counted for Annual Income

For calculation of annual income, income from the following sources that are attributable to any household member age 18 and over **must be included**. Some types of income required for calculating FHLBank eligibility may not be used when underwriting a home mortgage loan. However, the income sources identified below must be included as income when determining AHP and HSP eligibility.

- (1) The full amount (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. Housing allowances may include but are not limited to: Cash or non-cash contributions paid on behalf of the applicant by persons not living in the housing, allowances for members of the Armed Forces, allowances for members of the clergy and allowances paid by employer.
- (2) 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. However, deferred periodic amounts from supplemental income and social security benefits that are received in a lump sum amount or in prospective monthly amounts are ineligible for inclusion.
- (3) Payments in lieu of earnings, such as unemployment and permanent disability compensation, and worker's compensation.

- (4) Public assistance except as indicated in “Sources of Income Excluded from Annual Income” 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), AFDC - Aid for Dependent Children and Supplemental Security Income (SSI) or similar programs. Include known increases if documentation is available.
- (5) Alimony and child support payments. If the support is not received regularly the amount received over the previous twelve months will be used to calculate an average amount of support to be assumed when calculating annual income.
- (6) All regular pay, special pay and allowances of a member of the Armed Forces.
- (7) The net income derived from operation of a business or profession. (“Negative” net income from business is not deducted from total household income but is to be calculated as zero rather than negative.)
- (8) 75 percent of any gross rental income from rental units in a 2-4 unit property to be occupied by the recipient or for currently owned property.
- (9) Income from assets and investments totaling more than \$5,000. 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. Assets include: amounts in savings and average balance of interest bearing checking account, stocks, bonds, treasury bonds, certificates of deposit, trusts and other equivalent assets.
- (10) 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 Sec. 8 homeownership assistance the amount of the Sec. 8 assistance must be shown as income.

D. Sources Of Income Excluded From Annual 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 annual income

- (1) Income from the employment of children (including foster children) less than 18 years of age, except parties to the note and their spouses.
- (2) Income of live-in aides and income directly received by foster children or foster adults.
- (3) Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the applicant family, who are unable to live alone).

- (4) Temporary, non-recurring or sporadic income (including gifts, relocation/moving expenses).
- (5) Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health, accident, or hazard insurance, and worker's compensation), capital gains and settlement for personal or property losses (except that payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay are counted as income.)
- (6) Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
- (7) Reparation payments paid by a foreign government arising out of the Holocaust. If any applicant for an FHLBank program was deemed ineligible because the applicant's income exceeded the low-income limit because of the applicant's Nazi persecution benefits, the member should notify the applicant to reapply for assistance.
- (8) Any federal or state earned income tax credit.
- (9) Adoption assistance payments.
- (10) Deferred payments of supplemental security income and Social Security benefits that are received in either a lump sum amount or in prospective monthly amounts.
- (11) The full amount of student financial assistance received by household members or paid directly to the educational institution.
- (12) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit.
- (13) Amounts paid by a State agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.
- (14) Any other revenue which a Federal statute exempts will not be considered income or used as a basis for determining eligibility for an FHLBank loan, payment assistance, or denying or reducing Federal financial assistance or benefits to which the recipient would otherwise be entitled. Additional financial assistance which is considered exempt income under Federal statutes includes:
 - (a) The imminent danger duty pay to a family member away from home and exposed to hostile fire.
 - (b) Any amount of crime victim compensation received through crime victim assistance (or payment or reimbursement of the cost of such assistance) because of the commission of a crime against the applicant under the Victims of Crime Act (42 U.S.C. 10602).
 - (c) Payments to volunteers under the Domestic Volunteer Service Act of 1973, including, but not limited to:
 - i. National Volunteer Antipoverty Programs which include Volunteers In Service To America (VISTA), Peace Corps, Service Learning Programs and Special Volunteer Programs.
 - ii. National Older American Volunteer Programs for persons age 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program and National Volunteer Programs to Assist Small Business and Promote Volunteer Service to Persons with Business Experience, Service Corps of Retired Executives (SCORE), and Active Corps of Executives (ACE).

- (d) Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the "In Re Agent Orange" product liability litigations, M.D.L. No. 381 (E.D.N.Y.).
- (e) Any allowance paid under 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran.
- (f) Payments received under the "Alaska Native Claims Settlement Act" or the "Maine Indian Claims Settlement Act."
- (g) Income derived from certain sub-marginal land of the United States that is held in trust for certain American Indian tribes.
- (h) Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation (Pub.L. 95-433).
- (i) Income derived from the disposition of funds of the Grand River Band of Ottawa Indians.
- (j) The first \$2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims, or from funds held in trust for an American Indian tribe by the Secretary of Interior.
- (k) Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance Program.
- (l) Payments received from the Job Training Partnership Act.
- (l) Payments received from programs funded under Title V of the Older Americans Act of 1965.
- (m) The value of the allotment provided to an eligible household under the Food Stamp Act of 1977.
- (n) Any other income which is exempted under Federal statute.
- (15) Payments received on reverse amortization mortgages (these payments are considered a drawdown on the applicant's assets).
- (16) Amounts received by any family member participating in programs under the Workforce Investment Act of 1998 (29 U.S.C.2931) or any special training programs funded by HUD:
 - (a) Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS);
 - (b) Amounts received by a participant in other publicly assisted programs which are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program;
 - (c) Amounts received under a resident service stipend. A resident service stipend is a modest amount (not to exceed \$200 per month) received by a resident for performing a service for the Public Housing Authority (PHA) or owner, on a part-time basis, that enhances the quality of life in the development. Such services may include, but are not limited to, fire patrol, hall monitoring, lawn maintenance, resident initiatives coordination, and serving as a member of the PHA's governing board. No resident may receive more than one such stipend during the same period of time;
 - (d) Incremental earnings and benefits resulting to any family member from participation in qualifying State or local employment training programs (including training programs not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are

excluded only for the period during which the family participates in the employment training program; and

- (e) Allowances, earnings and payments to AmeriCorps participants under the National and Community Service Act of 1990 (42 U.S.C. 12637(d)).

E. Income Documentation:

Members will need to provide income documentation for each source of income identified for each member of the household. Income verification documentation must be reasonably “recent.” Generally, the income documentation must be dated no more than four months prior to the AHP disbursement request date unless the household was qualified for participation in an approved AHP project more than four months prior to disbursement. For the purposes of HSP, income documentation must have been originated within four months prior to the time the household was qualified to participate in the program or the date of the submission of HSP disbursement request. The four month period prior to request may not apply to tax returns or similar annual income documentation only available on an annual basis. The most recent returns (for self-employed or Habitat buyers) or annual documentation must be provided.

It is critical the employment verification is completed accurately and thoroughly as the information will be used to calculate the annual employment income.

F. Income Source Documentation

- (1) Employment/Income Verification Forms. The preferred income document of choice to confirm employment income is a standard “Request for Employment Verification” form. Best efforts must be made to obtain this form. However, if unavailable, two (2) recent pay-stubs can be used. These pay-stubs must be consecutively dated. (Only one or the other type of employment income document is required, not both.) If the beneficiary holds more than one job; the member will have to obtain verification documents for each job. Acceptable documentation is:
 - (a) Completed and signed by employer recent Request for Employment Verification (VOE) forms. Forms may be those used by another agency, lender secondary market entity or equivalent including USDA Form RD 1910-5 Request for Verification of Employment;
 - (b) For self-employed, letter from IRS indicating earnings from income tax returns; or
 - (c) For self-employed, completed tax returns accompanied by supporting schedules.
- (2) Pay-stubs. If using pay-stubs, the Year-to-date (YTD) gross income, overtime, bonus and other gross income must be shown. If pay stubs do not show this information a Verification of Employment (VOE) form must be obtained. Two consecutive pay stubs should be submitted.
- (3) Social Security or Supplemental Income notices. The member will need to provide documentation to confirm the periodic payment and how often it is received. A recent award or benefit letter prepared and signed by the authorizing agency, a cost of living payment notice, 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. Acceptable documentation is:

- (a) 1099-SSA form;
- (b) Social Security Administration Letter;
- (c) Verification of Benefits Form; or
- (d) Social Security Status print-out.

(4) Financial statements verifying payments received from annuities, pensions, insurance policies, unemployment, etc. The member must provide documentation to confirm the periodic payment including its frequency. For applicants with household members receiving unemployment a recent award or benefit letter prepared by the authorizing agency must be provided to verify unemployment income. Acceptable documentation is:

- (a) Verification of Benefits Form;
- (b) Pension letter; or
- (c) 1099 form.

(5) Child Support/Alimony. Court orders verifying alimony awards and child support payments. The member will need to provide documentation to confirm the periodic payment and how often it is received. A copy of the divorce decree, separation agreement, child support collection report or other documentation of the amount of child support due and paid is sufficient documentation. 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.

(6) For self-employed persons, completed and signed U.S. income tax return, with supporting Schedules. Tax return can be used to determine income that cannot be verified using other methods. Tax return for non-self-employed persons may only be used with prior written permission of FHLBank Topeka supported by explanation from member and sponsor, if applicable. W-2 forms must accompany any tax return unless there is no income from wages. The amount of income shown in Box 3 Social Security wages should be used rather than Box 1 wages, tips and salaries.

(7) Public Assistance. A recent award or benefit letter prepared and signed by the authorizing agency to verifying the current amount of assistance provided.

(8) Approved HUD Section 8 certification of income.

(9) State housing agency certification of income.

(10) Income from Assets. Indicate the cash value of the assets and income generated if the total amount of the income producing assets is greater than or equal to \$5,000.

- (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; and/or
- (f) Most recent year tax return.

G. Calculating Annual Income:

- (1) The calculations of annual income must be clearly documented so the calculation can be easily recalculated and confirmed by FHLBank. **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 pre-tax deductions such as 401(k) contributions or health insurance premiums. The income documentation should agree to 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 qualifying date (see below) is used to determine the equivalent annualized income of the household. Current and reasonably recent circumstances are the basis for annualizing income. The applicable qualifying dates are: as of the date the household is qualified to participate in the case of AHP homeownership projects; as of the date of income documentation for HSP; or as of the date a tenant is qualified at initial move-in for a rental project.
- (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 non-recurring 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 verification of employment, 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 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.

- (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.
- (5) Non-recurring Income. Bonus or equivalent single annual payments must also be added to base pay and recurring income to arrive at annual income. Single payments such as a bonus must be added based on the amount shown on the income documentation. 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, 2005. 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, 2005. 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 FHLBank must assumed the annual income to be the higher amount of \$24,566.

(The instructions attached to the Income Calculation Worksheet should be reviewed to show how calculation of annual income is to be completed consistent with 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 average amount received monthly to calculate an annual estimate of child support received.
- (8) Self-Employment Income. The complete tax return with schedules from the beneficiary's most recent tax return will also be needed. Income from the most recent tax return will be used as the basis for calculating qualifying income. ("Negative" net income from business is not deducted from total household income but is to be calculated as zero rather than negative.)
- (9) Rental Income. Rental income must be included in the household income calculation and supporting documentation provided. Rental income is defined as 75 percent of the annual gross rental income received.
- (10) Income from Assets. To arrive at income from assets, the member bank must verify all assets and income derived from such assets if the total amount of assets is \$5,000 or more. 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 account statements. If any of the assets are to be used for expenses related to purchase of a home not shown a statement must be provided explaining in detail the amount and purpose for which the assets will be used. The amount of assets to be used for these expenses can be excluded from the calculation of income attributable to that amount of the homebuyers 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 vacation, vacation and sick leave.