DOWN PAYMENT ASSISTANCE
FORGIVABLE LOAN PROGRAM

Income Calculation Guidelines

Determining Household Income Eligibility
The HOME Program regulations require that the income of all household members age 18 and older anticipated to be received in the coming 12-month period be included in the determination of annual income. Income includes household income (such as wages, SSI, etc.) and income from assets (such as interest on bank accounts, retirement accounts, etc.).

Eligible households must have annual incomes of less than or equal to 80% of the area median income for the county in which the home purchased will be located, adjusted for family size. (See Income Limits sheet.)

Lenders will have to submit the following documentation to the Wisconsin Partnership for Housing Development at the time of reservation:

1) Reservation Form
2) Subsidy Layering Worksheet
3) Income Calculation Worksheet
4) Income documentation for all sources of income

Determining Whose Income to Count
Lenders must count the income of all persons age 18 and older residing in the households, including nonrelated individuals. Do not include income of the following household members – foster children, live-in aides (and their children), unborn children, and children being pursued for legal custody or adoption who are not currently living with the household.

Income from certain groups of people requires special consideration when calculating a household's annual income. Those groups include:

- Temporarily absent family members – income is counted
- Permanently absent family members – income is only counted if the head of household chooses to count person as a member of the household (such as a spouse in a nursing home)
- Adult students living away from home – first $480 of the student's income must be counted in the family's income. (The $480 limit does not apply to a student who is the head of household or a spouse. When this is the case, their full income must be counted.)

Please review Appendix A and Appendix B for all inclusions and exclusions.

Gathering Income Documentation
Lenders will need to provide income documentation for each source of income identified on the Income Calculation Worksheet. The preferred income document of choice to confirm employment income is the Fannie Mae Request for Employment Verification (VOE) form. Best efforts must be made to obtain this form. However, if unavailable, two months of 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 household member holds more than one job; the lender will have to obtain more than one verification document.

For non-employment income sources, the household member will need to provide documentation to confirm the periodic payment and how often it is received.

For business income (self-employed household member), the household member will need to provide a YTD income statement or schedule of receipts and the IRS's Schedule C form or the equivalent from the household member's two most recent tax returns.

For income from assets, the household member will need to provide recent bank statements*, retirement statements, mortgage statement and most recent property tax bill.

*Please note that six months of checking account statements will need to be provided. One current statement is required for savings accounts.

Anticipating Income

A "snapshot" of the household's current circumstances will be used to project future income. The sources of income to be counted will be those identified on the Income Calculation Worksheet. The lender 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 401K contributions or health insurance premiums.

1. Employment 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 activities.

- **Hourly Wages**

  If using a VOE, the average hours and hourly wage should be expressed as finite numbers. However, if the average hours are expressed as a range, the high end of the range must be used in the calculation. If the average hours are not provided, the lender should make best efforts 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, take the average of all hours indicated on the two months of recent pay-stubs. These pay-stubs must be consecutively dated. Carry out the average hours to the second decimal place. Example – Average hours 43.565, use 43.57 for average hours.

  In order to determine an hourly wage, if not disclosed, annualize the gross base pay amount, and divide the annual amount by the standard 2,080 annual work hours. If a monthly wage is disclosed, multiply by 12; if weekly, multiply by 52; bi-weekly, multiply by 26; bi-monthly, multiply by 24; and annually, multiply by 1. Take the result and divide by 2,080 to get the hourly wage. The resulting hourly wage should then be used in the income calculation. If the hours aren't disclosed, the standard 40 hours should be used.

- **Bi-Monthly Pay Schedules**

  If a household member is paid on a bi-monthly basis, project the estimated earned income for the year by using the bi-monthly pay times 24 pay periods. Typically a bi-monthly earner is paid twice a month on the 15th and 30th of each month.

  If using paystubs, and only a bi-monthly wage is given, with no other information about hourly wages or hours, use the bi-monthly wage given and project forward for 12 months. If, however, the pay-stub discloses hours per pay period, hourly wage, and other income, then you must determine the average hours based on the bi-monthly pay period.

- **Salaried Workers**

  If the VOE or paystub clearly indicates the individual is on salary and provides an annual salary amount, use this amount as the annual income. To this amount add any additional non-salary income such as bonuses, commissions, tips, etc.

- **Seasonal Workers**

A VOE will be required for seasonal workers. The employer should document on the VOE the seasonal nature of the employment and expected employment schedule. The employer should also indicate whether unemployment is available during the off season. Use the standard calculation guidelines to determine annual income, while discounting the amount for off season time. However, be sure to include any unemployment compensation the household member has or may receive during the off season. The 40-hour standard work week will not apply to seasonal workers. The number of hours listed on the VOE will be used instead.

- **Other Compensation**

If other compensation is customary for the position, this should also be projected for the next 12 months. Add that result to the annual income from employment.

- **Position <1 Year**

If the household member has been in their current position less than one year, it is not necessary to confirm the earnings from the prior employer. Earnings from the current employer will be projected for the next 12 months.

2. Non-Employment Income

For other income received on recurring or periodic schedules, calculate the annualized amount by taking the periodic amount times the number of periods in the year. For amounts that vary, use an average of the amount earned to date and project forward. Examples of this type of income include Social Security, annuities, pensions, disability compensation, etc.

3. Business Income

The net income from the operation of a business or profession must be calculated. See Appendix A Category 2 for what is to included in the income calculation. The household member should be prepared to supply an income statement or schedule of receipts for this purpose. The IRS's Schedule C form or the equivalent from the household member's two most recent tax returns will also be needed. Future earnings will be based on the monthly average of the net income from the two most recent years.

If the household member has less than two years of self employment history, the monthly average of net income will be based on the number of self employed months including those in the current year.

In cases where a business is started in the same year as the year of qualification, the YTD net income should be projected forward for 12 months. However, if the YTD figure is negative (net loss), the net loss will not be counted or projected forward.

Treatment of Assets

1. What Should Be Included as an Asset?

An asset is a cash or a non-cash item that can be converted to cash. When including assets in the annual income calculation, it is the **income earned from the asset that is counted**, not the value of the asset.

Please review Appendix C and Appendix D for all asset inclusions and exclusions.

2. Determining Asset Income

Actual income generated by the asset, such as the interest on a savings or checking account, should be included in the annual income. This income is counted even if the household elects not to receive it. For example, though a household member may elect to reinvest the interest or dividends from as asset, the interest or dividends are still counted as income.

When a household member has a checking account that earns income, to avoid counting monthly income as an asset, an average monthly balance over a six-month period should be used as the cash value of the checking account.

Determining Asset Income – Assets with Little or No Income
It is assumed that a household with assets has an increased payment ability, even if the assets do not currently produce income (e.g. a household may own land that is not rented or otherwise currently used to produce income).

Rather than require the household to dispose of the property, it is required that an "imputed" income be calculated based on a Passbook Rate (2%) applied to the cash value of all assets. This rule only applies if the total cash value of all assets is more than $5,000.

Example

The Smith family has $6,000 (average balance over six months) in a non-interest-bearing checking account. The annual income would include an amount based on the Passbook Rate. The calculation would be: $6,000 X .02 = $120

Assets Sold Below Fair Market Value
Household members who dispose of assets for less than fair market value have, in essence, voluntarily reduced their ability to afford housing.

a. It is required that any asset disposed of for less than fair market value during the **two years preceding** the income determination be counted if the household still owned the asset.
- *Fair Market Value* is the value of an asset on the open market in an "arm's length transaction."

b. Each household member must certify whether an asset has been disposed of for less than fair market value during the two years preceding the income determination.
- Assets disposed of for less than fair market value as a result of foreclosure or bankruptcy are not included in this calculation.
- In the case of disposition as part of a separation or divorce settlement, the disposition will not be considered to be less than fair market value if the household member receives (or received) important consideration not measurable in dollar terms.
- The amount that will be included as an asset for purposes of calculating annual income is the difference between the cash value of the asset and the amount that was actually received (if any) in the disposition of the asset.

Example

Mr. Jones "sold" a piece of property to a family member for $30,000 on July 1, 2014. The home was valued at $75,000 and had no loans against it.

Market value	$75,000
Less settlement costs	(3,000)
Less sales price	(30,000)
Cash value to be considered	$42,000

The $42,000 would be counted as an asset for any income documentation conducted until July 1, 2016. This amount would be combined with the cash value of other assets (if any), and an imputed income calculation would be required.

3. Computing the Value of Assets

Only the cash value (rather than the market value) of an item is counted as an asset. An asset's cash value, however, is the market value less reasonable expenses required to convert the asset to cash, including:

- Penalties or fees for converting financial holdings, such as penalties charged for premature withdrawal of a certificate of deposit, the transaction fee for converting mutual funds to cash or broker fees for converting stocks to cash; and/or
- Costs for selling real property, such as settlement costs, real estate transaction fees, payment of mortgages/lien against the property and any legal fees associated with the sale of real property

If an asset is owned by more than one person, the asset must be prorated according to the household member's percentage of ownership. If no percentage is specified or provided by state or local law, the asset must be prorated evenly among all owners. If an asset is not effectively owned by an individual, it should not be counted as an asset in the annual income.

Appendix A – Income Inclusions

General Category	
1. Income from Wages, Salaries, Tips, etc.	The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal activities.
2. Business Income	The net income from the operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation of assets used in a business or profession may be deducted, based on straight-line depreciation, as provided in Internal Revenue Service regulations. Any withdrawal of cash or assets from the operation of a business or profession will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested in the operation by the family.
3. Interest and Dividend Income	Interest, dividends, and other net income of any kind from real or personal property. Expenditures for amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation is permitted only as authorized in number 2 (above). Any withdrawal of cash or assets from an investment will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested by the family. Where the family has net family assets in excess of $5,000, annual income shall include the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by HUD.
4. Retirement and Insurance Income	The full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount (except as provided in number 14 of Income Exclusions).
5. Unemployment and Disability Income	Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay (except as provided in number 3 of Income Exclusions).
6. Welfare Assistance	Welfare assistance payments made under the Temporary Assistance for Needy Families (TANF) program are included in annual income. If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of: • The amount of the allowance or grant exclusive of the amount specifically designated for shelter or utilities; plus • The maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family's welfare assistance is reduced from the standard of need by applying a percentage, the amount calculated under 24 CFR 5.609 shall be the amount resulting from an application of the percentage.
7. Alimony, Child Support and Gift Income	Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or persons not residing in the dwelling.
8. Armed Forces Income	All regular pay, special pay and allowance of a member of the Armed Forces (except as provided in number 7 of Income Exclusions).

Appendix B – Income Exclusions

General Category	
1.Income of Children	Income from employment of children (including foster children) under the age of 18 years old.
2. Foster Care Payments	Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone).
3. Inheritance and Insurance Income	Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlements for personal or property losses (except as provided in number 5 of Income Inclusions).
4. Medical Expense and Reimbursements	Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
5. Income of Live-in Aides	Income of a live-in aide
6. Disabled Persons	Certain increases of a disabled member of qualified families residing in HOME-assisted housing or receiving HOME tenant-based rental assistance.
7. Student Financial Aid	The full amount of student financial assistance paid directly to the student or to the educational institution.
8. Armed Forces Hostile Fire Pay	The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.
9. Self-Sufficiency Program Income	• Amounts received under training programs funded by HUD. • 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). • Amount received by a participant in other publicly assisted programs that are specifically for, or in reimbursement of, out-of-pocket expenses incurred (special equipment, clothing, transportation, childcare, etc.) and that are made solely to allow participation in a specific program. • 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 a 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. • Incremental earnings and benefits resulting to any family member from participation in qualifying state or local employment training programs (including training 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 member participates in the employment training program.
10. Gifts	Temporary, nonrecurring, or sporadic income (including gifts).
11. Reparations	Reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era.
12. Income from Full-time Students	Earnings in excess of $480 for each full-time student 18 years old or older (excluding the head of household or spouse).

13. Adoption Assistance	Adoption assistance payments in excess of $480 per adopted child.
14. Social Security and SSI Income	Deferred periodic amounts from SSI and Social Security benefits that are received in a lump sum amount or in prospective monthly amounts.
15. Property Tax Refunds	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.
16. Home Care Assistance	Amounts paid by a state agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep this developmentally disabled family member at home.
17. Other Federal Exclusions	Amounts specifically excluded by any other federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program to which the exclusions of 24 CFR 5.609(c) apply. Please contact the Wisconsin Partnership for Housing Development for more information.

Appendix C – Asset Inclusions

General Category	
Cash Accounts	Cash held in savings accounts, checking accounts, safe deposit boxes, homes, etc. For savings accounts, use the current balance. For checking accounts, use the average 6-month balance.
Revocable Trusts	Cash value of revocable trusts available to the household member.
Rental Property	Equity in rental property or other capital investments. Equity is the estimated current market value of the asset less the unpaid balance on all loans secured by the asset and all reasonable costs (e.g., broker fees) that would be incurred in selling the asset. Under HOME, equity in the family's primary residence is not considered in the calculation of assets for owner-occupied rehabilitation projects.
Stocks, Bonds, etc.	Cash value of stocks, bonds, Treasury bills, certificates of deposit and money market accounts.
IRA	Individual retirement and Keogh accounts (even though withdrawal would result in a penalty).
Pension	Retirement and pension funds.
Life Insurance	Cash value of life insurance policies available to the individual before death (e.g., surrender value of a whole life or universal life policy).
Personal Property	Personal property held as an investment such as gems, jewelry, coin collections, antique cars, etc.
Lump Sum	Lump sum or one-time receipts, such as inheritances, capital gains, lottery winnings, victim's restitution, insurance settlements and other amounts not intended as periodic payments.
Mortgages	Mortgages or deeds of trust held by a household member.

Appendix D – Asset Exclusions

Personal Property	Necessary personal property, except as noted in number 8 of Inclusions, such as clothing, furniture, cars and vehicles specially equipped for persons with disabilities.
Indian Trust Lands	Interest in Indian trust lands.
Non-owned	Assets not effectively owned by the household member. That is, when assets are held in an individual's name, but the assets and any income they earn accrue to the benefit of someone else who is not a member of the household and that other person is responsible for income taxes incurred on income generated by the asset.
Cooperatives	Equity in cooperatives in which the family lives.
Not Accessible/No Income	Assets not accessible to and that provide no income for the household member.
Term Life Insurance	Term life insurance policies (i.e., where there is no cash value).
Active Business	Assets that are part of an active business. "Business" does not include rental of properties that are held as an investment and not a main occupation.