



Income Determination Guidelines for Owner-occupied Projects

A. General Guidelines

When verifying income it is important to review and analyze the income verification documents that best disclose that particular household's income.

1. Household Income

For purposes of verifying income for owner-occupied projects, current income from all sources received by all household members must be included. This includes income received by adult household members even if the household member is not on the forgivable deed restriction or does not have title to the property. Income from the employment of children (including foster children) under the age of 18 years is not counted in the calculation of total household income.

2. Types of Income

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

- a) Gross income, not the net income of the household. Gross income is the income received before pre-tax deductions such as 401K and health savings accounts. Gross income includes compensation for overtime, commissions, tips, bonuses; and net income from self employment. For self-employed individuals, tax returns with IRS form 1099 and/or relevant schedules should be obtained to verify the self-employed portion of the income. If available, use the two year average of self employed income from tax returns.
- b) Child support and alimony must be counted. If it is not received regularly, verify the amount received during the last twelve months and divide by 12 months to calculate an average monthly amount.
- c) Interest, dividends, and net income from real or personal property.
- d) Annuities, periodic payments for insurance policies, retirement income, pensions, periodic benefits for disability or death, or other similar types of periodic payments.
- e) Payments made to the head of household for the support of a minor. For example, Temporary Assistance to Needy Families (TANF), Social Security Disability Insurance (SSDI), and Supplemental Security Income (SSI), or similar programs.
- f) Payments in lieu of earnings, such as unemployment and disability compensation, Social Security benefits, workmen's compensation and dismissal wages.



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3. Verifying Income when AHP is combined with a re-payable loan

Lenders should include all sources of household income – even if the income was not used to qualify the applicant for a repayable loan. There are certain types of income that might not be included when underwriting a repayable loan. However, these sources must be included as income when determining AHP eligibility. Some examples include:

- ◆ untaxed 401K income deducted from gross pay.
- ◆ untaxed pension funds or normal IRA distributions (not “loans” against the borrower’s account).
- ◆ irregular income such as overtime, bonuses and commissions.
- ◆ net income from self employment if less than two years.

4. Tax Returns

The Bank recommends that you collect the applicants’ most recent tax return as a check against the information received on the loan application and verifications. When using a W-2 to determine income, typically use Box 3 (Social Security wages) instead of Box 1 (Wages, tips and salaries), unless there are earnings such as tips or commissions which are reported in a separate box.

5. Calculation of Income Worksheet

All income verifications must be accompanied by a Calculation of Income Worksheet signed by the member or sponsor certifying they have completed and reviewed the income calculation. Each homeowner/homebuyer must also certify their household income, as determined on the Calculation of Income Worksheet, is correct. All sources of income including non-taxable income or income that was not included to qualify the applicant for a repayable loan must be included in the Calculation of Income Worksheet.

B. Low Document Processing/Underwriting

Bank staff is aware that many institutions use low doc procedures for secondary market outlets or use low doc in their portfolio underwriting, and the Bank wishes to accommodate those systems. If low doc underwriting is utilized, it is important the income be properly determined. The income must be maximized unless further documentation is obtained that demonstrates a lower income calculation.



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A Calculation of Income Worksheet must demonstrate that income has been maximized and that any non-taxable income or income not included to qualify the borrower for a repayable loan has been calculated into the total qualifying income. Each homeowner/homebuyer must certify that their household income, as determined on the Calculation of Income Worksheet, is correct.

If you have questions regarding income determination for AHP please call Bank staff at 1-800-544-3452, extension 1173.