



Income Determination Guidelines for Owner-occupied Projects

1. General Guidelines

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

a) 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. This could also include a projection of future income, if there is an anticipated change in household income. A household may be income qualified as of the enrollment date with the member or sponsor provided that the income verification documentation is no older than six months from the date the household is qualified by the member or sponsor. Please refer to the definition of "enrollment date" in Section IV: Definitions and Acronyms, of the **AHP Implementation Plan** at http://www.fhlbdm.com/ci_ahp.htm.

b) Types of Income

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

- 1) 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 salary and wages, and compensation for overtime, commissions, tips, bonuses; and net income from self-employment. Compensation for overtime, commissions, tips, bonuses must always be included, unless it can be verified that this income will not continue in the future. For self-employed individuals, a minimum of two years of tax returns and relevant schedules must be obtained to verify the self-employed portion of the income. Net income from self-employment is lines 12 and/or 18 from the tax return.
- 2) 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.
- 3) Interest, dividends, and net income from real or personal property.
- 4) Annuities, periodic payments for insurance policies, retirement income, pensions, periodic benefits for disability or death, or other similar types of periodic payments.



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- 5) 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.
- 6) Payments in lieu of earnings, such as unemployment and disability compensations, social security benefits, workmen's compensation and dismissal wages.

c) **Verifying Income when AHP is combined with a re-payable loan**

Lenders should include all sources of income that can be considered when underwriting a loan – even if the income was not used to qualify the applicant for the repayable loan.

There are certain types of income that may not be included when underwriting a loan; these sources must be included as income when determining AHP eligibility. Some examples include:

- 1) untaxed 401K income deducted from gross pay.
- 2) irregular income such as, overtime, bonuses and commissions.
- 3) untaxed pension funds or normal IRA distributions (not "loans" against the borrower's account).
- 4) net income from self-employment of less than 2 years.

In addition, co-signer(s) income must be included in the calculation of income worksheet to determine eligibility if the purchaser is a full-time student.

d) **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. However, tax returns are not acceptable verification of current wage income. 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.



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e) Calculation of Income Worksheet

All income verifications must be accompanied by a Calculation of Income Worksheet signed by the member or sponsor, and by the homeowner/homebuyer. Each homeowner/homebuyer must certify their household income, as determined on the Calculation of Income Worksheet, is correct. In situations where it is appropriate to use only a tax return as verification of income (self-employment), the Calculation of Income Worksheet signed by the member or sponsor must demonstrate that any non-taxable income has been calculated into the total qualifying income.

2. 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. A Calculation of Income Worksheet signed by the member or sponsor must demonstrate that income has been maximized and that any non-taxable income has been calculated into the total qualifying income. Each homeowner/homebuyer must certify their household income, as determined on the Calculation of Income Worksheet, is correct.

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