



# AHP 2015 Implementation Plan Income Determination Guidelines

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

## 1. Household Income

For purposes of verifying income for homeownership projects, current income from all sources received by all adult household members must be included. This includes income received by adult household members even if the household member 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.

Household income should include a projection of future income if there is an anticipated change in household income.

A household should be income qualified as of the enrollment date with the member or sponsor. Unless otherwise instructed in these guidelines, income verification documentation should be 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.

## 2. Types of Income

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

- a) Gross wage and salary 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 (referred to as a Social Security wages). Gross income should include salary and wages and compensation for overtime, commissions, tips, and bonuses. Compensation for overtime, commissions, tips, bonuses must always be included unless it can be verified that this income will not continue in the future.
- b) Income from self-employment and farm income: For self-employed individuals a minimum of two years of tax returns should be obtained to verify income. Net income from self-employment may be taken from line 12 (Business Income or Loss) of the tax form 1040. Farm income may be taken from line 18 (Farm Income or Loss) of the tax form 1040. It is preferred that income is projected from an average of the last two year's income; however, if there is a net loss in a given year, self-employment income for that year should be included in the calculation as \$0 income, rather than shown as a negative amount. If a household has less than two years of self-employment income the household should provide satisfactory financial records in addition to tax returns from which a reasonable income projection can be made.



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- c) 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.
- d) Interest and dividends may be taken from lines 8 and 9 of the tax form 1040. Include taxable and tax-exempt interest, and ordinary and qualified dividends.
- e) Net income from rental real estate, royalties, partnerships, S corporations, and trusts may be taken from line 17 (Rental real estate, etc.) from the tax form 1040. It is preferred that this income is based on an average of the last two year's income. If there is a net loss from these activities this income should be included as \$0 income, rather than shown as a negative amount.
- f) Payments for annuities, periodic payments from insurance policies, retirement income from tax deferred accounts such as IRA's and 401K's, pensions, periodic benefits for disability or death, Social Security, Social Security Disability Insurance (SSDI), Supplemental Security Income (SSI), or other similar types of periodic payments.. All payments should be calculated from the gross amount before deductions.
- g) 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.
- h) Payments in lieu of earnings, such as unemployment and disability compensation, and workmen's compensation and dismissal wages.

### **3. Verifying Income when AHP is combined with a repayable loan**

All the income of an applicant household must be included in calculation of income even if the income was not used to qualify the applicant household for a repayable loan. There are certain types of income that might not be included when underwriting a loan that must be included as income when determining AHP eligibility. Some examples include:

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



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## 4. Co-signer(s) income when AHP is used for home purchase

For transactions that include home purchase the income of non-resident co-signers or co-borrowers must be included in the calculation of income to determine eligibility if the purchaser is a student or the co-signers and/or co-borrowers will be included as titleholders to the property.

## 5. Income Verification Documentation and use of Tax Returns

Appropriate income verification may include: an employer's verification of employment (VOE); current pay stubs (paystubs within three months of enrollment); a tax return including W-2's if they are no more than six months old; current benefit letters for Social Security or other government assistance; current pension and annuity statements; court records of child support and alimony payment; and other acceptable written third party verification.

Tax returns are appropriate to verify some forms of income, including income from self-employment, farm income, interest and dividend income, and rents; however, tax returns are typically not acceptable verification of current wage or salary income.

Though tax returns are typically not acceptable verification of current wage income, it is recommended that applicants' most recent tax return and W-2's be obtained as a check against the information received on the application and in income verification, and as a check of income calculation.

Self-certification of income by an applicant is not acceptable for verification of income. All stated income sources must be verified. In cases where an adult household member has no income, a zero income certification should be obtained; however, effort should be made to verify the person's lack of income. A recommended form of verification of zero income would be through an IRS Form 4506-T (Request for Transcript of a Tax Return).

## 6. Calculation of Income Worksheet

All income verifications must be accompanied by the Bank form, [Calculation of Income Worksheet](#), completed and signed by a member or sponsor as applicable, and by the adult members of the household, to certify that the calculation of income is correct. Income must be maximized and all sources of income must be included unless further documentation is obtained that demonstrates a lower income calculation is justified. The Calculation of Income Worksheet includes Instructions which may be used together with these Guidelines to verify and calculate income.

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