

INCOME CALCULATION GUIDELINES

FEDERAL HOME LOAN BANK OF DES MOINES

Effective January 1, 2024



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I. INCOME ELIGIBILITY REQUIREMENTS

This document sets forth the income guidelines for Federal Home Loan Bank of Des Moines (FHLB Des Moines, or the Bank) Homeownership projects in the Competitive Affordable Housing Program (AHP) and Down Payment Products (DP) including Home\$tart and the Native American Homeownership Initiative (NAHI). Participating members or sponsors must use these *AHP/DP Income Calculation Guidelines* and the Bank's *Income Calculation Workbook* to calculate a household's annual income for the purpose of qualifying households for subsidy award.

The income guidelines and calculation methodology used by the FHLB Des Moines may differ from the methodology used by members, sponsors, and other funders. When this occurs, FHLB Des Moines guidelines and calculation methodology must be used to qualify households for subsidy award.

Income eligibility is based on a household's projected annual income at the time of their loan application or application for assistance (i.e., enrollment date). This includes all income of adult household members, and non-employment income of minors. Projected annual income will be calculated by annualizing current income. Each adult household member that has no income will be certifying this information on the Household Questionnaire.

Income information will be collected from verification of income documents and calculated in the Bank's *Income Calculation Workbook*. All households will be determined to be income eligible at the sole discretion of the Bank after review of income documentation and income calculation. The Bank will be conservative in calculating income from the verification of income documentation. For example, if provided both a verification of income form (VOE) and paystubs, the Bank will use the higher estimate of income derived from those documents in income qualification.

A. Competitive AHP Income Eligibility

Eligible households qualifying under an AHP award must qualify homeowners based on income targeting approved at AHP application. Households must have annualized incomes less than or equal to 50%, 60%, or 80% of area median income, per the approved application. The income calculation will be compared to HUD median income guidelines for the specified year, household size, and property location (by county) and confirmed by the FHLB Des Moines before any disbursement of funds. Projects that serve households eligible for assistance from a Tribally Designated Housing Entity may use the greater of the HUD or NAHASDA income guidelines.

B. Down Payment Products Income Eligibility

Eligible households qualifying under a down payment program must have annualized incomes less than or equal to 80% of median income. The income calculation will be compared to the HUD median income guidelines for the specified year, household size, and property location (by county or state) and confirmed by the FHLB Des Moines before any disbursement of funds. Households eligible under NAHI program guidelines may use the greater of the HUD or NAHASDA income guidelines.

II. BASIS FOR INCOME ELIGIBILITY

A. Who to Include/Exclude in Household

A household should include all adults and children who will reside or intend to reside in the home, with some exceptions as noted below. An adult is a person 18 years and older.

A household may include temporarily absent family members including but not limited to:

1. Children who reside with parents as a result of joint custody agreements or court orders.
2. Children or young adults who are dependents but may be temporarily absent attending college.
3. Active-duty military if that person is the head of household or their spouse.
4. Persons temporarily absent while undergoing medical rehabilitation if they are expected to return to the home.

Persons that may be excluded, or included only under certain circumstances, include:

1. If a household member is separated the absent spouse is not included
2. Include foster children or foster adults only when they receive income other than the support received for their care. If the only income received is support income received for their care, they should be excluded from the household. Support income for their care may be excluded from income. (See [Income Inclusions and Exclusions](#).)

NOTE: A foster adult is typically a person with disabilities, unrelated to other household members, who is unable to live alone, and for whom payments for care are being received.

3. Do not include a live-in aide receiving compensation from a state or local welfare agency for care of an elderly or disabled household member.
4. AHP only - Non-resident co-owners, co-signers, or guarantors are not considered part of the household if they are not residing in the residence, and this can be substantiated. Home\$tart/NAHI allows non-resident co-signers, or guarantors only if they are not taking title to the home Non-resident co-owners are not permitted.

Table: Whose Income to Include

Household Member	Employment Income	Other Income
Head of Household	Yes	Yes
Spouse	Yes	Yes
Co-Head / Cohabiting Partner	Yes	Yes
Temporarily Absent Household Member	Yes	Yes
Other Adult, 18 years or older (exclude from household if adult is in foster care and only income is adult care support)	Yes	Yes (other than foster care)
Full-time Students, 18 years or older that are not head of household or spouse	Yes, up to \$480 per year	Yes
Dependent, 17 years or younger	No	Yes
Foster Child (exclude from household if only income is childcare support)	No	Yes (other than foster care)
Live-in Aide	No	No

B. Sources of Income/Income Documentation

For each source of income identified in the tables below, member banks (DP) and project sponsors (AHP) will need to obtain and provide to the Bank current income documentation. The tables below include the most common sources of income and applicable documentation. Additional sources and documentation requirements are included in [Income Inclusions and Exclusions](#).

An employer’s verification of income or paystubs must be within 120 days of the household’s enrollment date for AHP. Home\$art and NAHI require the most current documentation available as of the enrollment date. Further information is included in the table below. In the case of an adult household member with no income, they should document and certify this on the Household Questionnaire.

The enrollment date for the Homeownership Down Payment Program is the date the reservation is initiated by the member in the Bank’s DP Online system where the date is visible on the “Request Timeline” screen under “Reservation Date (Funds Reserved)”. For Competitive AHP this is the date the homeowner submits an application to the Sponsor. This date must be entered in the *Income Calculation Workbook*, where it will be certified by the homeowners.

Table 1: Income from Employment

Source of Income	Income Documentation	Verification Tips
<p>Employment Income Employment including salary, wages, overtime, bonus, commissions, tips. Includes vacation, holiday, personal, sick, or other paid time off, and training pay.</p> <p>Other compensation including recurring allowances for housing, vehicle, food, or wellness. (Pages 11-16)</p> <p>Contracts, Offer Letters, and Teachers full-time Verification of Employment from a Contract or Offer (Page 16)</p>	<p>Verification of Employment (VOE) forms including the Fannie Mae Request for Employment Verification form, or verification of employment provided by an employment verification service such as The Work Number; <i>or</i></p> <p>Three consecutively dated paystubs.</p> <p>Employment contracts or offer of employment and VOE or paystubs if employment has commenced</p> <p>See Verification of Employment from a Contract or Offer.</p>	<p>VOE is preferred over paystubs, as it verifies the hire date.</p> <p>VOE is preferred to verify allowances.</p> <p>See Employment Income in this document and the Instructions in the <i>Income Calculation Workbook</i> for tips on determination of pay rate, payroll frequency, thru date, and inclusion of bonus and commission income.</p> <p>When using paystubs, inquire as to hire date. If in current year verify date with employer via written confirmation or from first paystub and provide with Reservation documents.</p> <p>See Employment Income in this document and the Instructions in the <i>Income Calculation Workbook</i> for tips on determination of payroll frequency, total of regular/base hours, and determination of overtime and other income, including bonus, commission, tips, and shift differential.</p> <p>Teachers who have not started before closing, provide a copy of the contract or written offer of employment.</p>
<p>Seasonal employment Seasonal Workers – individuals who have periods of time off work, year over year. i.e., some Teachers, construction or manufacturing, trade work, landscapers, etc.</p>	<p>VOE should be obtained, together with tax returns over the last two years to verify any unemployment compensation or a year-to-date benefit letter and history. See Seasonal Workers.</p>	<p>Verify weeks employed to date, weeks off work during the year, average hours per week, and if unemployment is available. Include unemployment in Other Income in Workbook.</p>

Table 2: Self-employment, Farms, Corporation or Partnership

Source of Income	Income Documentation	Verification Tips
<p>Self-employment or farm income (Page 18)</p>	<p>Previous 2 years individual income tax returns (1040) including Schedules C or Schedule F. If prior year return is not available, a signed profit and loss statement from prior year will be accepted; except that after April 15 of the current calendar year, prior year tax return is required.</p> <p>Enrollment date of April 1, or after, provide a signed YTD profit and loss statement.</p> <p>Obtain a signed letter from applicant certifying the start date of the business or farm if within the last two years.</p>	<p>Refer to the supporting Schedules C or F in calculating income. If more than one household member is self-employed or an applicant operates more than one business, obtain schedules for each business, and calculate income separately.</p> <p>The <i>Income Calculation Workbook</i> provides data entry for only one business or farm on each household member worksheet. If an individual applicant has more than one business contact Bank staff to discuss options for income calculation.</p>
<p>S Corporation or Partnership (Page 19)</p>	<p>For an S corporation or a partnership, previous 2 years individual income tax returns (1040) including Schedule E. See above if prior year tax return is unavailable and for current year. Obtain a signed letter from applicant certifying the start date of the business if within the last two years.</p> <p>For S corporations and for partnerships, form 1120S K-1, or form 1065 K-1 previous 2 years.</p>	<p>Income from an S corporation or partnership. Refer to the supporting Schedule E in calculating income. Verify and calculate income in the same manner as self-employment income.</p> <p>Distributions of cash from an S corporation or partnership should be included in income if they exceed the amount of the applicant's investment. Distributions are reported in Schedule K-1.</p>

Table 3: Other Income (continues on next page)

Source of Income	Income Documentation	Verification Tips
<p>Payments in lieu of earnings (unemployment, workmen’s compensation, disability, or severance pay)</p>	<p>A current maximum benefits letter or letter from benefits administrator. A pay history for the last 12 months may be required to verify the number of weeks off per year for unemployment or disability.</p> <p>For unemployment paid to seasonal workers, obtain last two years tax returns. See Seasonal Workers for information on calculation of overtime income for seasonal workers.</p>	<p>Benefits, except unemployment paid to seasonal workers, should be annualized over 12 months, unless it is documented they will not continue. If they will not continue, use the maximum amount to be received in the current year derived from the maximum benefit letter and information regarding weeks off per year.</p>
<p>Periodic payments including Social Security or Supplemental Social Security Income</p>	<p>For Social Security or Supplemental Security Income, the most recent benefit letters.</p> <p>Bank statements are not acceptable documentation.</p>	<p>Include amounts received by adults on behalf of minors intended for the minor’s support.</p> <p>Verify the gross amount of periodic payment and use the gross amount in calculation of income.</p>
<p>Pension, retirement, or annuities including VA benefits, corporate or government pension, payments under annuity contracts or from insurance policies, or distributions from retirement accounts (401K, 403B, etc.)</p>	<p>For VA benefits, the most recent benefit letters.</p> <p>For annuities, pensions, or insurance policies, a benefit statement or benefit letter from payor.</p> <p>For distributions from retirement accounts (401K, 403B, etc.) obtain 1099R.</p>	<p>Benefit statements or letters should include amount and frequency of payment for correct income calculation. Verify the gross amount of periodic payments.</p> <p>Gross annual distribution from retirement accounts should be included in income, unless the 1099R indicates a total distribution (liquidation of account).</p>
<p>Rental income (units in the purchased dwelling)</p>	<p>Signed lease or estimated gross rent from appraisal if rental units vacant. See Rental Income for More Information.</p>	<p>Include 75% of gross rent in income. Rent should be annualized over 12 months.</p>

<p>Rental income (from other owned property) *</p> <p>*Exclusions may apply to Home\$tart Buyers. Refer to Rental Income section below for details.</p>	<p>Previous 2 years Individual Income Tax Returns (1040). Refer to Schedule E. After April 15 of the current calendar year, this should include the prior year tax return.</p>	<p>A two-year average of income from rents is preferred. Use applicable period if owned less than 2 years.</p> <p>If units were acquired in the current year or a tax return has not been filed yet for the previous year, obtain leases and or appraisal, and calculate from 75% of gross rent.</p>
<p>Other Income: Income earning assets (interest, dividends, capital gains)</p>	<p>Previous 2 years Individual Income Tax Returns (1040). After April 15 of the current calendar year, this should include the prior year tax return.</p>	<p>Assets themselves do not need to be documented, only income from assets. Interest, dividends, or capital gains less than \$100 annually may be excluded.</p>
<p>Other Income: Government distributions including Native American and Native Alaskan tribal or corporation distributions, and Alaska Permanent Fund (PFD)</p>	<p>If the income is taxable provide the prior year tax return or the most recent 1099-Misc. Non-taxable provide a letter from the relevant funder to verify the amount of distributions.</p>	<p>The gross amount of the benefit should be included in annual income.</p>
<p>Other Income: Recurring cash contributions or gifts</p>	<p>Signed letters from donors including the amount and frequency of payment.</p>	<p>Include only regular payments from persons or organizations outside the household. Sporadic contributions or gifts should not be counted in income.</p>
<p>Un sourced cash deposits noted on bank statements</p>	<p>Entries that are \$500 or more must include a letter of explanation from the Buyer for the Bank’s review for each item.</p>	<p>For those items that cannot be sufficiently explained or excluded they will be included in the annual income.</p>

C. Household Members with No Income or Temporarily Laid Off/Leave of Absence, etc.

If an adult household member is not employed or receiving income of any kind, they will certify this on the Household Questionnaire.

Persons who are on temporary leave of absence or are laid off and expecting to return to their employer should be regarded as employed and a verification of income obtained from their employer. Their income should be included unless it is confirmed they do not expect to return to work within the next 12 months.

Persons who have received an offer of employment or employment contract but have not begun work should be regarded as employed. See [Verification of Employment from a Contract or Offer](#).

Typically, a household will include at least one adult household member with income. If there are no adult household members with income all applicants completing the *Household Questionnaire* form must explain what sources of funds they use to pay home expenses. The Bank will determine if these sources should be included in income. The Down Payment program requires the buyer to obtain a mortgage to participate in the program so it would be unlikely that a household with no income would be qualified for a mortgage.

D. Income Inclusions and Exclusions

The most common income sources of income are listed above in [Sources of Income](#). The list that follows includes additional income inclusions and exclusions. If you are unsure of the need to include or exclude a source of income, please contact the FHLB Des Moines for direction. The Bank, in its sole discretion, will approve the inclusion or exclusion of a source of income.

Income Inclusions:

1. Adoption assistance payments received as periodic payments from federal, state, or private agencies. Acceptable documentation is current benefit statement or letter from the applicable agency. Adoption assistance occurring as a one-time contribution or gift may be excluded.
2. Lottery or gambling winnings. Acceptable documentation includes the tax return (1040) or form 1099-Misc. Winnings in the current year may be documented by awards notifications and/or bank statements. Annualize over applicable period. Gambling losses in the current year may not be used to reduce income in the current year.
3. Net Farm Rental Income. Acceptable documentation is previous two year's Schedule E of the applicant's tax return (1040). See Part IV, line 40 of Schedule E. Average over applicable period. Losses are calculated as \$0 income.

Income Exclusions:

1. Interest, dividends, or capital gains less than \$100 annually when the last two years are totaled and averaged by 24 months.
2. Earnings from employment in excess of \$480 for full time students 18 years or older that are not the head of household or their spouse.
3. Income from the employment of children under the age of 18.

4. Non-recurring allowances for housing, vehicle, food, or wellness (e.g. relocation assistance).
5. Supplemental Nutrition Assistance Program (SNAP) benefits and Low-Income Home Energy Assistance Program (LIHEAP) benefits.
6. Public Assistance Cash benefits
7. Child support, Alimony and Maintenance
8. Earned Income Tax Credit (EITC) refunds.
9. Payments received for the care of foster children or adults.

NOTE: Children or adults receiving payments for foster care should not be included in the household unless they have income in addition to the foster care. Any income in addition to foster care should be included in income. (See [Who to Include in Household.](#))

10. Home care assistance paid by a state agency to offset the cost of services or equipment needed for a disabled household member. Earned wages by a household member who cares for another disabled household member are not covered by this exclusion and will be included in the household income.
11. Income of a live-in aide. (See [Who to Include in Household.](#))
12. Employer benefit for health, dental, or vision insurance or employer contribution to a Health Savings Account (HSA).
13. Employer benefit for retirement savings, including 401K or 403B.
14. Expense reimbursement received by a household member.
15. Lump sum additions to family assets (e.g., inheritances, insurance policy death benefit payments, payments under health or accident insurance, settlements for personal or property losses).
16. Sporadic or non-recurring contributions or gifts from entities or persons outside the household.
17. Tuition reimbursement and all forms of student financial assistance paid directly to a student or to their educational institution.

III. CALCULATING ANNUAL INCOME

The method used to calculate annualized income will vary depending on the type of income, and for income from employment the type of income verification obtained.

Calculation will be performed in the Bank's Income Calculation Workbook. In some cases, it may be necessary to perform calculation outside the Workbook to assist in income calculation, typically for Other Income. In that event the calculation must be documented in a way that ensures the calculation can be easily recalculated and reconfirmed. Explanation should be provided in the **NOTES** worksheet in the Workbook.

In calculating income, income amounts must always be gross amounts, not wages net of payroll deductions, or social security or other periodic payments net of insurance or other costs. In addition, there should be no adjustments to gross income even if allowed by other funding sources, such as the USDA or HUD.

A. Employment Income

Annual employment income is calculated from gross income for each job currently held. Annual income will be calculated by either 1) annualizing base wages or other compensation (shown in the *Income Calculation Workbook* as **Annualized Base Pay**), or 2) annualizing year-to-date gross income when base wages and other compensation are

not broken out (shown in Workbook as **Income Average**). The larger of the two calculations will be selected as annual employment income in the Workbook.

Gross income is defined as the full amount of all base wage or salary, overtime pay, commission, bonus, tips, and other compensation for services, including but not limited to vacation, personal, or sick time, and training pay. Employer paid retirement or health benefits, including employer contributions to Health Savings Accounts and expense reimbursements, are not included in gross income.

Calculation 1 – Annualized Base Pay

In the *Income Calculation Workbook*, base pay and other compensation are multiplied by the total number of pay periods per year determined from the hire date and thru date and the base pay rate. The standard calculations listed below will be used, depending on the base pay rate.

- Hourly: Multiply hourly wages by 2080 hours
- Weekly: Multiply weekly wages by 52
- Bi-weekly: Multiply bi-weekly wages by 26
- Semi-monthly: Multiply semi-monthly wages by 24
- Monthly: Multiply monthly wages by 12

Calculation 2 – Income Average

To annualize gross income, year to date gross income is divided by the number of pay periods to date, and then multiplied by the total number of pay periods in a full year based on the pay schedule.

Hire Date/Pay Schedule/Thru Date/End Date vs. Check Deposit Date

In order to accurately calculate annual income from employment it is important to verify the persons hire date if they were hired in the current year. It is also important to verify how often the person is paid (their pay schedule) and the paid thru date.

- **Hire Date:** VOE's will typically include a hire date, so are preferred for this reason. If using paystubs, it will be necessary to verify the hire date if the person was hired in the current year. Verify the hire date with the employer or obtain other satisfactory documentation. For example, a copy of the person's first paystub can assist in verifying the hire date.
- **Pay schedule:** Pay schedules or "Payroll Frequency" include weekly, bi-weekly, semi-monthly, or monthly.

When using a VOE, pay schedule may or not be provided. If the pay schedule is not provided, the default pay schedule will be weekly.

When using paystubs, it will be necessary to deduce the pay schedule. It may be difficult determining a semi-monthly schedule versus a bi-weekly schedule.

If a semi-monthly schedule there will be 24 pay periods or pay checks in a calendar year. An applicant will be paid only twice a month, on the same recurring schedule. The pay periods will split each month equally, often as 1st thru the 15th and 16th thru the end of the month. If it is not clear that the person receives only two paychecks each month, consider the person to be paid bi-weekly.

If a bi-weekly schedule there will be 26 pay periods or paychecks in a calendar year. Bi-weekly pay periods will typically be exactly 14 days in length, and the

person will be paid on the same day every other week, sometimes receiving three paychecks in one month.

- **Thru date:** When using a VOE, enter a paid thru date as Thru Date in the Workbook for calculation of Income Average. A thru date should be provided in the VOE. Effort should be made to determine the thru date if not provided. If unable to obtain, use the date the form was completed as a default (accompanies signature at the bottom of the FNMA form).
- **End Date vs. Check Deposit Date:** When using a paystub, a paid thru date derived from the paystubs will be used for calculation of Income Average. Enter the paystub start and end date and the check/deposit date from three consecutive paystubs in the Workbook. Income will be calculated from the check deposit date. It will be calculated from the end date if a deposit date was not provided in the paystub.

Base Hours

Base or regular hours should be expressed as a finite number in the Income Calculation Workbook.

- **VOE:** Enter base hours in the *Income Calculation Workbook* as "Average Hours per Week". When using a VOE for verification, if hours are expressed as a range, the high end of the range must be used in the calculation. For example, if the range on the form is 24-30 hour per week, use 30 hours as the hours per week. The weekly hours should not exceed 40. If the hours are not provided in the VOE, the default for work-week hours will be 40.
- **Paystubs:** When using paystubs for verification, enter base hours paid from three (3) most recent paystubs in "Regular/Base Hours" in the *Income Calculation Workbook*. These paystubs must be consecutively dated. Do not round the hours. Include in regular/base hours all hours paid at the base rate including holiday/vacation hours, or personal or sick time. Do not include overtime hours in regular/base hours.

Base Pay Rate

Applicable base pay rate should be determined from the VOE or the paystub and entered in the Income Calculation Workbook. Pay rates include hourly, weekly, bi-weekly, semi-monthly, monthly, or annual.

Base Pay

Include in base pay all compensation that may be considered regular/base hours paid at the base pay rate.

- **VOE:** When using a VOE it will differentiate base pay from overtime, commissions, and bonus.
- **Paystubs:** When using a paystub include in base pay all compensation paid at the base pay rate including regular hours worked, vacation, holiday, personal, sick or other paid time off. Include training pay if paid at the same rate as base pay and it is substituted for regular/base hours. Include any retroactive pay if paid at the new base rate.

Overtime/Commissions/Bonus and other Recurring Income

Income from overtime, commissions, bonuses, tips, or other recurring income outside of

base pay must be annualized and included in calculation of annual income. Entry of this income verified by VOE or Paystubs will differ in the workbook as noted below.

If the applicant does not expect to work additional overtime or receive other compensation on a regular and recurring basis it may be excluded from income; however, verification of this fact must be provided by the employer in writing. If written verification is provided, FHLB Des Moines must review and, at the Bank’s discretion, approve the exclusion prior to the reservation or disbursement being approved.

- **VOE:** VOE’s which have no entry of bonus, tips, overtime, or commission received in the current year, but it was received in prior years, should use the following calculation and entry method in the workbook. The previous two years’ (or applicable length of employment if less than two years) bonuses, tips, overtime, and commissions are averaged over the applicable period of employment prior to the current year.

The monthly amount should be listed in the applicable field in the Other section on the worksheet at the top of the form, x 12 to annualize it or as the annual average x 1.

For example, the Buyer has earned no overtime YTD and was employed for 18 months of the previous two years with the employer. They earned overtime in 2021 of \$2,500 and in 2020 of \$1,000. Total overtime earned is \$3,500.

$$\begin{aligned}
 & \$1,000 + \$2,500 = \$3,500 \text{ prior overtime income} \\
 & \$3,500 / 18 \text{ months prior year’s employment} = \$194.44 \text{ per month average} \\
 & \$194.44 \times 12 \text{ (months in a year)} = \$2,333.33 \text{ annual average}
 \end{aligned}$$

Other Income:

Income Source	Amount	Schedule	Total
Unemployment			\$0.00
Social Security (SSI)			\$0.00
Supplemental SSI			\$0.00
Pension/Retirement/Annuities			\$0.00
Rental Income			\$0.00
Capital Gains, Dividends, Interest			\$0.00
2 yr Avg of Bonus, OT, Tips, Comm			\$0.00
*Describe Other Income Below			\$0.00
		Total	\$0.00

VOE’s which have no previous year’s earnings should be entered as follows: Enter overtime, commissions, tips, and other recurring income including bonuses in the current year in the *Income Calculation Workbook*. Differentiate overtime from other recurring income. The Workbook will annualize these amounts by dividing the year-to-date amount by the number of pay periods, then multiplying that amount by the total number of pay periods in the year.

- **Paystubs:** Enter overtime, commissions, tips, and other recurring income including bonuses in the current year in the *Income Calculation Workbook*. Differentiate overtime from other recurring income. The Workbook will annualize these amounts by dividing the year-to-date amount by the number of pay periods, then multiplying that amount by the total number of pay periods in the year. See the instruction

below for income from shift differentials.

Position or Shift Differentials

A person’s pay rate may vary, such as when working in different positions or working day or night hours for the same employer for a different pay rate. When this occurs, there are various options for including the shift differential in the *Income Calculation Workbook*.

- **VOE:** When using a VOE provided by an employment verification service such as The Work Number, pay from shift differentials is typically included in the base pay, in which case it is annualized with base pay.

In the Fannie Mae form compensation from shift differential may be reported separately from base pay. In that case the differential amount may be included in Commissions/Tips and Other Income in the *Income Calculation Workbook*. It will be necessary to adjust the Average Hours per Week used to calculate Base Pay, and the employer should be asked to average base hours separately from hours at the differential rate of pay. For example, the applicant works 40 hours per week, but averages only 30 hours at the base rate of pay. An average of 10 hours is worked at a higher differential rate. In that case enter 30 Average Hours per Week to calculate Base Pay and include the differential compensation in Commissions/Tips and Other Income. The Workbook will annualize base pay at the base rate and average hours plus other income, and it will also calculate an income average from gross pay year to date. It will use the larger of the two in the applicant’s calculated income.

Verification	VOE				
Hire Date	1/1/2018				
VOE	If the Thru Date is not provided, enter the date the VOE ended.				Date.
	YTD per VOE	Per Pay Period	Annualized Base Pay	Income Average	
actual base pay year to date	Average Hours Per Week	30			
	Base Pay Rate	\$10.00	Pay Rate is	Hourly Pay Rate	
	Frequency	Weekly			
	Thru Date	8/31/2018	35 pay periods to date		
	Base Pay	\$11,000.00	\$300.00	\$15,600.00	
	Overtime		\$0.00	\$0.00	
	Commissions/Tips and Other Recurring Income				
actual differential year to date		\$4,200.00	\$120.69	\$6,275.86	
	(entire year)	\$15,200.00		\$21,875.86	\$22,712.64
	Gross Pay 2017				
	Gross Pay 2016				
				year to date gross	

- **Paystubs:** If the different positions/differential rates of pay are broken out in the individual paystubs, and year to date information is provided for each, it is suggested entering payroll information for each as a separate position in the *Income Calculation Workbook*. Each worksheet provides for data entry for up to four different positions.

If the different positions/differential rates are broken out in individual paystubs, but not in year-to-date information (i.e., paystub provides only gross income year to

date), enter the regular/base hours and base pay from the individual paystubs, and include pay at the differential rate in Other Income. Enter the total of the year-to-date gross wages. The Workbook will annualize base pay at the base rate and average of base hours plus other income, and it will also calculate an income average from gross wages year to date. It will use the larger of the two in the applicant's calculated income.

Pay Stubs	Payroll Frequency			Recommended: Semi-Monthly		
	Enter number of Pay Periods to Date			18		
	Pay Stub 1 (Oldest)	Pay Stub 2 (Middle)	Pay Stub 3 (Newest)		Annualized Base Pay	Income Average
Start Date	8/16/2018	9/1/2018	9/15/2018			
End Date	8/31/2018	9/15/2018	9/30/2018			
Check/Deposit Date	8/31/2018	9/15/2018	9/30/2018			
Regular/Base Hours	58	62	60			
Base Pay Rate	\$10.00	\$10.00	\$10.00	Pay Rate is:	Hourly Pay Rate	
Differential	\$580.00	\$620.00	\$600.00	year to date gross	\$14,400.00	
Other Income	\$220.00	\$240.00	\$240.00		\$0.00	
Gross Wages	\$840.00	\$840.00	\$840.00	\$15,120.00	\$20,000.00	\$20,160.00

Verification of Employment from a Contract or Offer

It may happen that an applicant has recently obtained an employment contract or employment offer and will not begin work before closing a home purchase or being provided assistance. In that case use the employment contract or written employment offer for income verification. If the applicant has a contract or offer at application but will begin employment before closing a home purchase or being provided assistance, VOE or paystubs should be obtained. In DP Online, the Bank may elect to leave a reservation pending until income can be verified by a VOE or paystubs.

To calculate income from a contract or offer, use the VOE section of the Workbook. The hire date should be the date the person will begin the position if known, otherwise the date of the contract or the offer of employment. The annual base should be used as base pay rate. If not specified calculate the annual base from information provided. Assume 40 average hours per week and weekly payroll frequency if that information is not provided. As the position has not started do not include base pay. Use the year end date as the thru date.

In the example that follows, an applicant has obtained a salaried position verified by an employment offer. Annual salary is \$60,000. The date the applicant will begin work was not given. The date of the offer of employment was April 15 will be the default hire date. The average hours per week and payroll frequency were not given so the default, 40 average hours per week and weekly pay, was entered. There is no base pay as yet so thru date will be the year end date. Pay periods from April 15 were calculated automatically. The \$60,000 annual salary was calculated.

Verification	VOE			
Hire Date	4/15/2018			
VOE If the Thru Date is not provided, enter the date the VOE was signed as the Thru Date.				
	YTD per VOE	Per Pay Period	Annualized Base Pay	Income Average
Average Hours Per Week	40			
Base Pay Rate	\$60,000.00	Pay Rate is	Annual Pay Rate	
Payroll Frequency	Weekly			
Thru Date	12/31/2018	38 pay periods to date		
Base Pay		\$1,153.85	\$60,000.00	
Overtime		\$0.00	\$0.00	
Commissions/Tips and Other Recurring Income		\$0.00	\$0.00	
Gross Pay (Current Year)	\$0.00		\$60,000.00	\$0.00

Additional income such as overtime, commissions, or bonus that may be expected should be included in income. Follow up with the employer for more information if this compensation is referenced in an offer but amounts are not given. This income may be excluded at the discretion of the Bank if amounts cannot be verified. It will be necessary to calculate this income separately and include this in Other Income in the *Income Calculation Workbook*. Include explanation of income calculation in **Notes** in the Workbook.

Teachers (Full time)

If applicants are working as teachers a copy of their current teaching contract should be obtained. Additional income (*i.e.*, summer school, meetings, tutoring) is typically included in their contract or broken out as a separate contract. If there is income being received which is not captured in the main contract the individual contracts will need to be provided. The amount of the contract plus any additional income will be used to calculate annual income. Verify if the teacher is paid year-round and if not then the teaching income will be entered as seasonal.

If a teacher has not begun employment, follow the instruction above in [Verification of Employment from a Contract or Offer](#) to perform the income calculation. If the teacher has begun employment obtain a VOE or paystubs in addition to the contract. If the contract is unavailable or not obtained, a VOE and confirmation from the employer verifying the contract is not available must be obtained. Follow guidelines for income calculation using a VOE or paystubs as applicable, including calculation of base pay and additional income. If the additional income is not yet reflected in the VOE or paystubs, it must be included in Other Income. Please note that for teachers leaving one school district for another, in or out of state, or receiving pay on their prior years contract at the time of enrollment should have their income entered as follows.

If the new contract has been provided and it is with the same district enter the new base pay and an average of historical contractual work *i.e.*, softball coach, tutoring, substitute teaching to be most conservative.

If with a new district only enter the new contract based pay regardless of receipt of previous position pay.

If the new contract is not available yet based on time of year use the current contract and any other pay received as noted above.

Per Diem Pay

Applicants may be paid on a per diem basis, for example, a daily per diem (substitute teacher), mileage per diem (trucker), or units per diem (farm or factory worker). If income cannot easily be calculated in the VOE or paystubs sections of the Workbook, annual income may be calculated by dividing the gross income year to date listed on the VOE or paystubs by the pay periods to date, then multiplying that number by the total of pay periods in a year. Income calculation may be explained in NOTES in the *Income Calculation Workbook* and annual income included in Other Income.

Seasonal Workers/Part-Time/Variable Income

The two most recent tax returns, a maximum benefits letter for unemployment, and a VOE will be required for seasonal workers. VOE should include information on the number of weeks worked and not worked. VOE will be used for calculation of income from employment. Follow instructions for calculation of seasonal income in the *Income Calculation Workbook*. Tax returns will be used to verify any unemployment compensation the applicant has received or may receive during the off-season. If there has been unemployment compensation in prior years include an average of the last two years in the Other Income section of the Workbook if they are not currently receiving unemployment.

As Seasonal Pay may not account for current year to date OT, Tips, Commission or Bonus use the prior year's averages as noted in the VOE section for that category to calculate this income if the buyer has previous years income earnings in this position. The Workbook provides for data entry for only one seasonal job per household member. If a household member holds more than one seasonal job, contact Bank staff to discuss options for including additional seasonal employment.

Part-Time work or Variable Work which cannot provide current year to date information or the three most recent paystubs as of the enrollment date due to insufficient time worked in the current year or irregular work schedule in which seasonal calculations are impractical to capture income accurately.

A VOE will be needed to complete the workbook. The previous two year's earnings, or applicable period of time over the last two years the buyer was employed, may be averaged if there has been insufficient income year to date to capture an annualization that is representative of the buyers' typical earnings.

Vacation Day Pay-Outs

If a person receives a lump sum payment for unused vacation days annually it should be included in income, but do not calculate with employment. Subtract the payment from applicable paystub or the year-to-date gross income and include the amount in the Other Income section of the *Income Calculation Workbook*.

B. Self-Employment or Farm Income

For self-employed persons or farms, individual income tax returns (1040) from the previous two years including Schedule C or F, will be required. A signed profit and loss statement from the applicant are required on or after April 1 of each year. In addition, obtain a signed letter from the applicant certifying the start date for the business or farm if within the last two years. See Table 2 in [Sources of Income/Income Documentation](#) in these Guidelines for more information.

Calculated income from the average of the net profit from a Schedule C or F over the two most recent years. If the applicant has fewer than two years of self-employment or farm

history, the monthly average will be based on the number of months in business, including those in the current year. After April 1 of the current year average will be based on months in the current year and the prior year. If the net income for any period is negative, count the income for that period as \$0.

If more than one household member is self-employed or an applicant operates more than one business, obtain schedules for each business and calculate income for each separately. The *Income Calculation Workbook* provides data entry for only one business or farm on each household member worksheet. If an individual applicant has more than one business contact Bank staff to discuss options for income calculation.

S Corporations or Partnerships: An applicant may be engaged in a business organized as an S corporation or a partnership. Documentation must include individual income tax returns 1040 from the previous two years, including Schedule E, and form 1120S K-1 for an S corporation and form 1065 K-1 for a partnership. Use the income from the S Corporation or partnership reported in Schedule E in income calculation.

As of April 1, for the current year, a signed profit and loss statement from the applicant is required. In addition, obtain a signed letter from the applicant certifying the start date for the business, corporation or partnership if within the last two years. See Table 2 in [Sources of Income/Income Documentation](#) in these Guidelines for more information.

Calculate income from an S corporation or partnership in the same manner as self-employment income.

The *Income Calculation Workbook* does not provide a data entry location for income from S corporations or partnerships. If there is space, utilize the Self-employment Income location. Otherwise include the income in Other Income. If included in Other Income provide Notes on income calculation in the Workbook.

S corporations and partnerships may distribute cash to owners and partners as dividends or capital gains, in which case this will be reported in the applicant's individual tax return and included in Other Income. Distributions may also be taken as a withdrawal of the applicant's investment or previous earnings. These distributions should be included in income if they exceed the amount of the applicant's investment. Distributions for corporations are reported in the form 1120S K-1. Look for applicable distributions, with reference code D. For partnerships use form 1065 K-1. Look for partner's capital account analysis and for distributions. Include average of applicable distributions from the previous two years in Other Income. Provide **Notes** on income calculation in Workbook.

C. Non-Employment (Other) Income

Verification documentation of non-employment income must be the most current for the applicant. For example, if a person is being qualified in the current year and receives SSI or Supplemental Social Security, the documentation confirming the amount must show the amount of SSI or SSS they will receive in the current year. In addition, always use gross amounts of periodic payments such as SSI or SSS.

In general, for non-employment income received in the same amount on a recurring or periodic schedule, enter the payment amount and the frequency of payment (the schedule) in the *Income Calculation Workbook*. The Workbook will calculate the annualized amount by multiplying the gross periodic amount by schedule. For amounts that vary, calculate the amount received over the previous 12 months and annualize it. In these cases, provide information on income calculation in **Notes** in the Workbook.

See Table 3 in [Sources of Income/Income Documentation](#) and [Income Inclusions and Exclusions](#) in these Guidelines for sources of non-employment income, information on supporting documentation, and additional instruction on calculation of non-employment income.

D. Rental Income

If the property is a multi-unit property rental income must be included in household income. Provide a lease or rental agreement for units that are rented. An appraisal is needed to confirm the gross monthly rent amount if there are units that are not rented. When using an appraisal, the highest rent amount listed for a unit will be used in the calculation. Annual rental income will be calculated from 75% of the gross rent.

NOTE: For AHP only - owner-occupied rehabilitation projects, rents in a multi-unit dwelling may be excluded if the applicant can demonstrate from tax return that no rent is being received.

If the applicant has income from rental properties other than the property being purchased, the annual rental income of those units must be included in household income. This income will be reflected in the applicant's individual income tax return (1040), in Schedule E. Calculated income will be based on the average of the rent income from line 26 of Schedule E over the two previous years. If the units are owned less than two years, calculate over the applicable period. If the applicant acquired units in the current year, leases and/or appraisal should be obtained for those units, and annual rental income for those units calculated from 75% of the gross rent. Provide information on the income calculation in Notes of the Income Calculation Workbook.

IV. HOUSEHOLD SUMMARY PAGE

Once the *Income Calculation Workbook* has been completed and the household appears income-eligible, the Workbook should be saved in .xls format. The Household Summary tab should be printed. The homebuyer/co-buyer and other income earning adult household members should sign and date the form certifying the income information provided is true, accurate, and complete.

The member will then scan the signed Household Summary and save it as a .pdf document. The .pdf document will be uploaded into DP Online or AHP Online for grant reservation or disbursement.