

**Federal Home Loan Bank of Boston**  
Affordable Housing and Equity Builder Program  
Income Calculation Guidelines

**I. Introduction:**

The Federal Home Loan Bank of Boston (Bank) is using the following guidelines to verify household income and subsequently determine the eligibility of households participating in the Affordable Housing Program (AHP) or Equity Builder Program (EBP). These guidelines are based on the U.S. Department of Housing and Urban Development (HUD) regulation 24 CFR 5.609.

The purpose of this income calculation methodology is to accurately and completely measure the household’s **total income for the prospective 12 months** from the enrollment date (EBP) and/or move-in date or program qualification date (AHP), as they apply.

This may differ from your institution’s or organization’s policies and procedures or income calculations.

If you have a question on any of the information, or on income not specified in any category below, please contact your Community Investment Manager, the Equity Builder Program Manager, or any member of the Housing and Community Investment staff.

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## II. Income Calculation Methodology:

### A. Determination of Household for AHP and EBP

A “household” is defined as:

1. All members of the household must be accounted for, including children (even if temporarily absent).
2. Adults refer to household members ages 18 and older.
3. All adults in the household must be listed with income or a “Certification of Zero Income” must be signed and provided. (see section IV)
4. Indicate if a household member is an adult full-time student.
5. For a full-time working student of the household (18 years and older, excluding head of household and spouse), a maximum of \$480 of wage income will be included.
6. Unborn children are counted as members of the household for purposes of calculating household income.
7. Co-signers on a mortgage or lease agreement are not considered part of the household if they are not living in the residence.

### General Instructions for EBP:

1. For each enrollment, include the most recent year signed tax return or IRS tax return transcript for each adult member of the household.
  - Income sources for the current year should be compared against prior year’s income documentation (i.e. IRS Income Tax Return) for EBP enrollments.
  - Non-filing adult household members should provide a signed and dated letter of filing status.
2. Prospective refers to the annual time period beginning on the date the member submits the enrollment.
3. The online income calculator in the EBP system must be used.
4. If more than 90 days has elapsed since enrollment, the Bank reserves the right to request more current income documentation prior to disbursement.

### General Instructions for AHP (Rental and Homeownership):

1. A summary income-calculation coversheet must be used for each household when submitting income documents for review.
  - This is should include the move-in or date of qualification, unit number, the number of adults, the number of children, the sources of income, and the calculation used to determine prospective annual income.
  - A summary income-calculation coversheet provided to another funder will, generally, be acceptable, at the sole discretion of the Bank.

2. Section 8 housing voucher certifications, public housing authority certifications and/or referrals, or other similar documentation are insufficient as the sole documentation of income.
3. Sponsors, developers, and/or project owners are required to maintain the third-party income documentation for each tenant at the time of move-in (rental) or at the time of homebuyer qualification (homeownership) for review by members and the Bank at any time during development and the affordability retention period.
4. The Bank acknowledges that a sponsor/owner may be using other income calculation methodologies for other funders. The Bank reserves the right, in its sole discretion, to review and determine which methodology is appropriate and reasonable to calculate income-eligibility for the AHP.
5. The Bank reserves the right to request additional documentation, as needed, to confirm eligibility.

**B. Income Sources, Calculations and Documentation Requirements General Instructions: Include income from all adult members of the household even if only one person is on the application/enrollment, mortgage/note, or lease agreement.**

If a household member has a job(s), earning a wage through a W2, whether the job is permanent or temporary, full-time or part-time; documentation must be provided either in the form of paystubs or a verification of employment from the employer.

All income earned outside of employment must be reported, for all members of the household.

Based on the available data and depending on the type of income, the Bank reserves the right to determine which approach is the most reasonable to calculate the prospective total annual household income.

Explanations of any unusual income or calculation should be included in a separate document and submitted with the income documentation.

**1. Paystub – W-2 Wage Earners:**

Acceptable Third-Party Documentation:

- a. Paycheck earnings/deductions statements *for at least one current calendar month*; dated within 45 days of enrollment for EBP or move in/qualification for AHP.
- b. The borrower's name and address, pay-cycle and check dates, along with the employer name, must be clearly identified on the paystub.

Income Review:

- a. (Full unadjusted year to date gross income, i.e., before any payroll deductions) from the most recent paystub will be used to annualize the household member's portion of the total household income, incorporating all overtime

- pay, commissions, fees, tips and bonuses, and other compensation. Net income will not be used.
- b. When a household member experiences a change in employment that occurs after January 1 of the current year, the employer **must** verify the date of hire.
- c. A signed and dated verbal verification form (i.e FreddieMac Form 90) is acceptable.

Calculation Applied:

Verified income will be converted to annual amounts, by the online income calculation system for EBP, or manually, or using an Excel spreadsheet for AHP using the following calculations.

Prospective income equals year-to-date gross income divided by the number of actual year-to-date pay periods, based on the check date, multiplied by number of pay periods in a calendar year. For example:

<u>Current Year</u>	<u>Check Date</u>	<u>Actual Pay Checks/Periods</u>	<u>YTD Earnings</u>
2014	07/24/2014	30 – weekly	19,857.77

Prospective income:  $\$19,857.77/30 = \$661.93 \times 52 = \$34,420.36$

Methods to Determining the Number of Actual Pay Checks/Periods

- a. EBP method used by the system – Determine length of pay period (weekly, biweekly, etc.). Count actual calendar days from January 1 to check date: 01/01 to 07/24 = 205 days; divide days by pay period:  $205/7 = 29.29$ ; always round up to whole number: 30 pay periods.
- b. Manual Method – Check date is a Thursday. Based on the 2014 calendar, count back the number of Thursdays including the check date, for 30 pay checks.

EXCEPTION: If the pay check date is before the period ending date, use the period ending date for the calculation.

**2. Verification of Employment (VOE) – FNMA Form 1005:**

Acceptable Third-Party Documentation:

- a. 100 percent completed and properly executed by the employer, Fannie Mae Form 1005 (VOE).
- b. Dated within 45 days of enrollment for EBP or move in/qualification for AHP.
- c. The effective paid-through date for base wages in the current year must be clearly identified in box 12B.

Income Review:

To determine the 12-month prospective income, income will be calculated or averaged, using the wages and pay periods identified on the VOE. Income will be adjusted for any expected pay increases during the prospective year.

Calculation Applied:

To annualize full-time employment income, multiply:

- Hourly wages by 2080 hours;
- Weekly wages by 52;
- Bi-weekly amounts by 26;
- Semi-monthly amounts by 24;
- Monthly amounts by 12.

Base Pay:

- If the wage earner works 40 hours per week and the hourly wage rate is expected to increase 2 percent from \$18.00/hour to \$18.36/hour 35 weeks into the future, the base wage income would be calculated.
  - For example:  $(\$18.00 \times 40 \text{ hours} \times 35 \text{ weeks}) + (\$18.36 \times 40 \text{ hours} \times 17 \text{ weeks}) = \$37,684.80$

Overtime Pay, Commissions, Fees, Tips and Bonuses, and Income from Other Compensation will be averaged as follows:

*Note: If data is not available for the two prior years, all available data including year-to-date earnings will be averaged and then annualized for qualifying purposes.*

- i. If overtime, commissions, fees, tips and bonus income documentation **is not** available for **three (3) months** or more of the current calendar year, overtime pay, etc. should be averaged using the two prior calendar year earnings, based on the available data, and annualized.
- ii. Averaging these sources of income must be based on the start date of employment if it was during this calendar year.
- iii. The current year-to-date overtime income will be averaged, with up to the two prior calendar years overtime income over the actual time period worked based on the available data, and annualized.
  - For example, if an employee has worked in a position for two and a half years and the overtime, etc. earnings over that period are reported and documented, and then these earnings should be averaged over the two and a half year period based on the available data.
- iv. For a year when no income was received, but income was realized in previous or subsequent years, the year is recorded as a zero and included in the average.
  - For example: 2010 = \$1,000, 2011 = \$0.00 but 2012 = \$1,000, the resulting calculation would be \$2,000/36 months averaged.
- v. If Box 14 for bonus income is not completed and left blank, the bonus income will be included in the calculation of total income.

- vi. If Box 14 for overtime income is not completed and left blank, the overtime income will be included in the income calculation.

**3. Verification of Employment (Other types of documentation):**

All non-Fannie Mae verifications of employment (such as Work Number) will be annualized using the year-to-date gross income. Refer to the Paystubs (item #1 of this section B) for details.

**4. Self-Employment Income:**

*Household members that report their annual earnings to the IRS through a C schedule, 1099 statement, own a C or S Corporation, or an ownership interest in a partnership, are considered to be self-employed.*

Acceptable Third-Party Documentation:

- Completed signed copies of U.S. Individual Income Tax Returns (i.e., Internal Revenue Service 1040 Forms) and supporting schedules.
- Completed signed copies of U.S. Business Income Tax Returns (i.e., Internal Revenue Service 1120 or 1065 Forms) and supporting schedules.
- Signed and dated profit and loss statement for the most current calendar year.
- Signed and dated letter from the household member(s) certifying the start date for the company or the incorporation date for the corporation/partnership if the date is not provided on the completed tax return.

Income Review and Calculation:

- a. If the YTD P&L will be for a period **less than six months** of the current calendar year, the income used for that household member will be averaged using the prior three calendar years' tax returns and then annualized.
- b. Beginning on July 1 of the current calendar year, when income documentation **is available for six months** or more, a current year-to-date profit and loss statement (YTD P&L through June 30) must be signed, dated, and averaged with the prior two calendar years' tax returns over the actual time period. The result will be annualized.
- c. If the income data is not adequate to meet the two guidelines above because the person has not been self-employed or operated the business for a sufficient period of time, then the income should be averaged and annualized using the data available for the period of time of self-employment or business operation. If the business has only been in operation for two years, then average based on this two-year history and annualize.
- d. If income documentation evidences an income loss to the household, the income for the effected tax year will be carried as a zero when completing the calculation for averaging.
- e. 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 a reimbursement of cash or assets invested in the operation. Expenditures for business expansion or amortization of capital indebtedness shall not be used as deductions in determining net income.

**5. Interest, Dividends, and Other Net Income of Any Kind from Real or Personal Property:**

Acceptable Third-Party Documentation:

- a. Most recent month bank statement or most recent 1099 IRS statement
- b. Brokerage statements verifying receipt of IRA distributions, annuity payments, insurance payments, etc.
- c. Brokerage statements verifying stock portfolio earnings, dividends, and other interest income.
- d. Most recent year tax return or IRS transcript.

Income Review and Calculation:

- a. Interest and dividend income is included in the total household income when the annual amount reflected on the tax returns or financial statements exceed \$100 per filing year.
- b. If the reviewer believes that the impact to the household income is significant, re-occurring, and likely to continue, then the interest/dividend/other income should be included.

**6. Rental Income From Multi-Family Units or Other Owned Real Estate:**

Acceptable Third-Party Documentation:

- a. Actual leases or current records of rental payments.
- b. Copy of the completed appraisal report or other documentation of rental income for subject properties that generate rental income.

Income Review and Calculation:

- a. Actual and known rental income must be included in the income calculation if the property is a multi-family property.
- b. If the full actual rental income is known, then the full rental income must be included, unless the member documents the percentage that was used to qualify the household for underwriting. At a minimum, this cannot be less than 75 percent.
- c. The rental income may be excluded from the income calculation when the rental income is only potential, expected based on appraised values, and is not actual income.
  - o For example, an income-eligible household is purchasing a two-family property and the appraisal indicates that the market rent is \$750 per month but the apartment is vacant and the prospective owner does not have an agreement to lease the unit, this rent is only expected and is not actual and would therefore be excluded from the income calculation.

**7. Periodic Income Payments:**

Acceptable Third-Party Documentation:

- a. Current year Social Security/pension statement/retirement award letter.
- b. Letters or case management forms from public assistance agencies.
- c. Approved HUD Section 8 certificates.

Income Review:

Use the actual current amount/gross amount received from any of the following.

Do not gross up.

- Social Security (include for minors or other dependents)
- Annuities
- Insurance policies
- Retirement funds
- Pensions
- Disability
- Death benefits
- Welfare Assistance
- Temporary Aid for Needy Families
- Other similar types of period receipts

Calculation Applied:

Weekly/monthly income received should be annualized by the number of pay periods received; based on likelihood of continuance.

**8. Unemployment and Payments in Lieu of Earnings:**

Acceptable Third-Party Documentation:

- a. Most recent year state agency documentation.
- b. Most recent year IRS filing statements.

Income Review:

Income such as unemployment, disability compensation, workers compensation, and severance pay must be included.

Calculation Applied:

Weekly/monthly income received should be annualized by the number of pay periods received; based on likelihood of continuance.

**9. Housing Assistance:**

Acceptable Third-Party Documentation:

- a. Approved HUD Section 8 certificates.
- b. Letters or case management forms from public assistance agencies.

Income Review:

- a. In the case of homeownership, Section 8 rental assistance should not be counted as income if that assistance will end when the household closes on the purchase of a home.
- b. If the Section 8 assistance will continue as Section 8 homeownership assistance, the amount of the Section 8 assistance should be shown as income.

Calculation Applied:

Weekly/monthly income received should be annualized by the number of pay periods received; based on likelihood of continuance.

**10. Alimony and Child Support:**

Acceptable Third-Party Documentation:

- a. Court orders and/or state agency documentation verifying alimony awards and child support income
- b. Copies of checks, payment records or most recent 3 months bank statement(s), to verify receipt.

Income Review:

- a. Child support and/or alimony should be counted if received regularly
- b. Income should be reviewed based on the higher of actual amounts received as compared to court ordered documents; annualized.
- c. Payments received for amounts in arrears will be included when received regularly and documented for the duration of the arrears payments.
- d. Lump sum arrear payments should not be included in the income calculation.

Calculation Applied:

Weekly/monthly income received should be annualized by the number of pay periods received; based on likelihood of continuance.

**11. All Regular Pay, Special Pay and Allowances of a Member of the Armed Forces:** *Does not include special pay to a family serving in the Armed Forces who is exposed to hostile fire.*

Acceptable Third-Party Documentation:

- a. Most recent year military earnings statements.
- b. Most recent year IRS filing statements.

Income Review:

Income should be reviewed and calculated in the same manner as paystub recipients.

Calculation Applied:

Weekly/monthly income received should be annualized by the number of pay periods received; based on likelihood of continuance.

**12. Other Income/Seasonal Income and Calculation:**

- a. Annual wages when paid in less than 12 months:
  - o Annual wages should always reflect a full 12-month income period, regardless of the pay schedule.
  - o For example, if a school teacher earns a gross annual salary of \$37,000, the \$37,000 should be used as annual salary whether the teacher is paid over only nine months or throughout the year.
- b. Seasonal earnings or other types of unique income must be included.
  - o For example: if a household member works a second job during peak holiday times, during the summer months or during growing seasons, the income received during this period must be added to the annualized income for that household member. The employer should verify the pay level and the number of weeks that the income was received in prior years along with an estimate for the next 12 months. The calculation will be based on the prospective pay level multiplied by the estimated number of weeks or hours for the next prospective 12 months' pay period(s). This total amount will be included in the total annualized income for that household member. The income should be compared against prior earning periods as provided by the employer.
- c. Seasonal and/or other types of unique earnings that are not included in the annualized income for the household require an exception from the Bank. The member will be required to provide an explanation supporting the omission of the income.

**III. Income to be Excluded:**

Based on §5.609 of the HUD regulations (24 CFR 5.609), annual income is *not* to include, but is not limited to, the following:

- a. Income from the employment of children (including foster children) under the age of 18 years;
- b. Payments received for the care of foster children, disabled or elderly adults, in the care of an identified household member;
  - o The homebuyer must provide a copy of the contract identifying the terms and conditions of the employment agreement, the amount of wages earned monthly, and any rental income received.
  - o The individual being cared for will not be included in the household count and will not be required to sign or disclose any personal information to the Bank, for income qualifying purposes.
  - o The income will not be included in the household's total income unless it is received as a rental payment.
- c. One time, lump sum additions to family assets (e.g., inheritances, capital gains, insurance policy death benefit payments, settlement for personal/property losses, medical expense reimbursements);
- d. Income of a live-in aide;

- e. Educational scholarships paid directly to a student, educational institution, or a veteran;
- f. Earned income tax credits;
- g. Unreliable and non-recurring income (e.g., gifts, employee stock option buyouts, etc.) As indicated earlier, overtime pay, commissions, fees, tips and bonuses do not constitute unreliable and non-recurring income as defined here;
- h. The value of food stamp allotments (per §913.106 of the HUD regulations);
- i. Earnings in excess of \$480 for each full-time student 18 years old or older (excluding the head of the household or spouse); and
- j. Do not include special pay for Armed Forces exposed to hostile fire.

**IV. Certification of Zero Income:**

All adult household members, who will reside in the property, but are not working or do not receive any income from any sources, will need to execute a Certificate of Zero Income form.