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**Review and Amendment**

The Federal Home Loan Bank of Indianapolis's (FHLBank Indianapolis) Community Investment Department shall review these income guidelines at least annually. These Guidelines may be amended from time to time by the Community Investment Department by publication on the FHLBank Indianapolis website.

## **I. INCOME ELIGIBILITY REQUIREMENTS**

This document sets forth the FHLBank Indianapolis's income guidelines for the Affordable Housing Programs, which include the competitive Affordable Housing Program (AHP), Homeownership Initiative Programs as well as any programs requiring income qualification. To qualify a household for these programs, participating members and sponsors must use these Income Calculation Guidelines to calculate the household's annual income.

To be eligible for AHP and Homeownership Initiative Programs, households must have annual incomes of less than or equal to 80% of HUD area median income (AMI), based on the specified year, household size, and location (county/state) of the property. The member and sponsor, if applicable, must calculate the annual income of each household member using these income guidelines.

### **A. Rental and Homeownership (AHP Only)**

If a project is purchased, constructed, rehabilitated, and/or operated with funds from an income restricted federal, state, or local government program, project sponsors and owners will use the income calculation policy issued by and applicable to that program to qualify tenants for occupancy in AHP-assisted units. AHP project sponsors and members must identify whose method they will use and provide sufficient documentation for the FHLBank Indianapolis to verify income eligibility under the alternative method. If the project does not use funding from these other sources, the sponsor or owner must use the guidelines set forth below. Both household income and maximum rent calculations rely on HUD AMI data sets as the basis of the income restriction and rent affordability calculations.

All AHP funded developments require the project sponsor/owner to report, at the completion of the project in the initial monitoring review phase, each unit's household size, income including income year, unit size, and rent amount, broken down by tenant paid rent vs. total rent charged (for rental projects). With this information provided in FHLBI.GIVES, the maximum allowable incomes and rents will be calculated. The income targeting verified at the completion of the project must comply with the commitments made in the AHP application.

### **B. Minimum Eligibility Requirements (AHP Only)**

- At least 20% of an AHP assisted rental project units must be occupied by households with incomes at or below 50% AMI based upon income verifications obtained during the resident qualification and approval by the property owner or owner's agent.
- The rent on the designated affordable units may not exceed 30% of the AMI based upon unit size. For tenants receiving Sec. 8 Housing Assistance, only the

portion of rent due and payable by the tenant household, net of the rent subsidy and other charges are applied to the 30% maximum rent subsidy calculation.

*Maximum Rent Calculation Example:*

*Using the HUD AMI tables for a rental property located in Marion County Indiana, the maximum rent calculation uses the HUD rule of 1.5 persons per bedroom. Therefore, a three-bedroom apartment located in Marion County, Indiana would use the AMI figure for a 4.5 person household (1.5 x 3 bedrooms). The maximum unit income for this 3-bedroom apartment is based upon a 50% AMI, 6 person household - \$56,100 per the HUD AMI table. The rent may not exceed 30% of the maximum targeted income annually -*

*\$56,100 x .30 = \$16,830 per year / 12 months per year = \$1,402.50 maximum rent*

- A Tenant Income Certification (TIC), or comparable industry income summary document should be utilized for purposes of determining household income, certified by the household and sponsor/owner, and supported by the methods of verifying income as defined below.
- All AHP projects, regardless of other funding sources in the deal, require the submission of 3<sup>rd</sup> party income/asset support documentation at initial monitoring. If a project is unable to comply with this requirement it is recommended the award be withdrawn, or a decommitment/recapture will be likely.

### **C. Qualifying Income Event (AHP Only)**

- ***For rental projects that are occupied at the time of AHP application submission:*** A household must have an income meeting the income targeting commitments in the approved AHP application at the time of such submission.
- ***For rental projects that are not occupied at the time of AHP application submission:*** A household must have an income meeting the income targeting commitments in the approved AHP application upon initial occupancy of the rental unit.
- ***For owner-occupied projects (homeownership):*** An AHP eligible household must have an income that meets the income targeting commitments in the approved application at the time it is qualified by the project sponsor for participation in the project.

#### **D. Determining Household Size / Whose Income to Include**

Household size is based on the number of people who will reside in the subject property being purchased or rehabilitated. Divorced borrowers who have joint custody of their children should include the children in their household count only if the child is to reside with the applicable custodial parent/guardian a minimum of 50% of the time. Any income received by an adult on behalf of a child, such as child support, social security etc., will be included in the income determination. Borrowers who do not have custody of children at least 50% of the time should not include the children in their household count. Students who are considered dependents and are not living at home while attending school should be included in the borrower's household count.

Please note that income of all household residents should be included in household income even if not on the application, mortgage, title, or note. Also, income of temporarily absent family members must be included (i.e., military personnel, rehabilitation facility).

<b>Household Member</b>	<b>Include Income?</b>	<b>Include in Household</b>
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	Yes	Yes
Dependent Student, 18 years or older	No	Yes
Dependent, 17 years or younger	No, except as referenced	Yes
Foster child	No	No
Live-in aide (related)	Yes	Yes
Live-in aide (unrelated)	No	No

#### **E. Income Calculation Workbook**

The Income Calculation Workbook (ICW) is a starting point and tool for gathering income verification documentation for each member of the household. Members should obtain income documentation for each source of income identified on the Income Calculation Workbook to submit with the file in .GIVES.

## **II. DOCUMENTING and CALCULATING ANNUAL INCOME**

The method used to determine annual income will vary depending on the type of income. However, in general, all “gross” current pay from all sources is used to determine the annual income of the household.

The calculations must be clearly documented in a way that ensures they can be easily recalculated and reconfirmed. The member should use the information contained in the source documents to perform the calculations. Income amounts used in the calculations must be “gross” pay, not “net” after payroll deductions.

**Household income documentation must be dated within 60 days of the enrollment date, the date when the file is submitted to FHLBank Indianapolis.**

**It is recommended to obtain a Verification of Employment (VOE) for wage earners. At any time, a VOE may be required to fully assess the household’s income.**

### **A. Income Inclusions and Exclusions**

The following are lists of items to be included or excluded from income calculations. These lists should be used as a starting point. They are not exhaustive and there may be exceptions. If you are unsure, please contact the FHLBank Indianapolis Community Investment Department for further direction and clarification.

#### **Income Inclusions:**

- The full amount (before any payroll deductions) of all wages and salaries, overtime pay, commissions, fees, tips, bonuses, and allowances for housing
- The full amount of periodic payments (total gross payments) received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support), annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic payments
- Self-Employment income: The net income, salaries, and other amounts derived from the operation of a business or profession.
- Payments in lieu of earnings, such as unemployment or disability compensation, worker’s compensation, and severance pay
- Public assistance payments, except as indicated in “What does not constitute ‘income’?” section, made to the head of household for the support of a minor, e.g., Temporary Assistance to Needy Families (TANF), Social Security Disability Insurance (SSDI), Aid for Dependent Children (AFDC) and Supplemental Social Security Income (SSI) or similar programs
- Disclosed child support payments.
- All regular pay of a member of the Armed Forces as well as those retired (VA Benefits)
- 75% of any gross rental income from real property
- Income paid in cash that is reported to the IRS, evidenced by the most recent 2 years of complete tax returns.
- Sec. 8 Housing Assistance - If the Sec. 8 assistance will continue as part of the Sec. 8 homeownership assistance, the amount of the Sec. 8 assistance is income.
- Income from assets and investments including interest, dividends, and other net

income of any kind from real or personal property shall be included.

- In general, withdrawals from investments will be treated as income only when the withdrawals are made on a regular basis, such as monthly, quarterly, semi-annually, or annually.

**Income Exclusions:**

- Employer-paid and provided fringe benefits or reimbursements - regardless of whether the benefits are reported on an employee wage statement (W-2). Fringe benefits or reimbursements may include, but are not limited to: childcare, medical/life insurance, stock options including restricted stock units, discounts for merchandise, entertainment, educational allowance, mileage, and charity donations in employee's name or any reimbursement of actual work expenses
- Income from the employment of children under the age of 18
- Income directly received by or for foster children or foster adults, unless the foster adult is a primary household member (i.e., a household member in title for the property or lease, and/or the spouse of any such person)
- Adoption subsidies/stipend allowances
- Lump-sum additions to family assets (e.g., inheritances, capital gains, insurance policy death benefit payments, settlement for personal/property losses, medical expense reimbursement, lottery/gambling winnings, one-time disability payments, stock option payouts, or other similar one-time payments)
- Home care assistance paid by a state agency to offset the costs of services or equipment needed for a disabled household member
- Income of an unrelated live-in aide
- All forms of student financial assistance paid directly to a student educational institution or veteran
- Deferred periodic payments of supplemental security income and Social Security benefits that are received in either a lump sum or in prospective monthly amounts.
- Earned income tax credits
- Unreliable, temporary, and non-recurring income (e.g., gifts, employee stock option buyouts)
- The value of food stamp allotments
- The Special Pay to a family member serving in the Armed Forces who is exposed to hostile fire
- Signing bonus (e.g., Job or Military signing bonus)
- Loan advances from a reverse mortgage
- Medical, childcare and arrears payment in child support
- One-time withdrawals from retirement accounts

**Household income documentation must be dated within 60 days of the enrollment date, the date when the file is submitted to FHLBank Indianapolis.**

**B. Employment Income**

Gross annual employment income must be determined for each job currently held. Gross income is defined as the full amount (before any payroll deductions) of all wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation.

**a. Base Pay**

Regular, holiday, vacation, sick, and paid time off (PTO) pay will be treated as base hours and wages for the purposes of calculating annual income.

**Documentation**

A minimum of 2 consecutive paystubs, representing a minimum of 28 days, reflecting year-to-date (YTD) gross income, overtime, bonus, and other gross income is required.

AHP Rental – either 2 consecutive paystubs, representing a minimum of 28 days, reflecting year-to-date (YTD) gross income, overtime, bonus, and other gross income required or a fully completed Fannie Mae, state, or any standardized Verification of Employment (VOE) form is accepted.

**Calculation**

Annual income will be calculated by either (1) annualizing YTD gross income or (2) averaging the gross period income of submitted check stubs and multiplying by the number of pay periods per year. If a VOE shows historical tips/bonuses/commissions, this must be reflected in income calculations for the current income.

**b. Seasonal/Irregular Income (i.e., construction workers, farm workers, etc.)** All

seasonal income earned by any household member must be fully documented. Seasonal income is eligible for qualifying purposes if the income is represented on at least the 2 previous tax years' returns.

**Documentation**

In addition to the requirement for pay stubs, the 2 most recent years' tax returns complete with W-2 and 1099 statements must be submitted to demonstrate a 2-year history of the seasonal income. A VOE that clearly explains the nature of the seasonal or irregular employment, including the specific dates when employment begins and ends, is also required. The employer should also indicate whether unemployment compensation is available during the off-season. Income documented by 1099 statements will be evaluated as *Self-Employment Income*. All seasonal income earned by any household member must be fully documented.

**Calculation**

Income earned/received during off periods should be included. The income should be compared against prior earning periods as provided by the employer.

*Note: FHLBank Indianapolis, in its discretion, may consider documented seasonal income of less than 1 year for secondary household members.*

**C. Self-Employment Income**

Self-employment income is considered stable and eligible for qualifying purposes if the income has been received for 2 full tax years.

**Documentation**

Not less than the most recent two years of completed, signed, and filed U.S. income tax returns, including all supporting schedules, both individual and business, where applicable, are required to demonstrate at least 2 full years of self-employment income. An additional tax return may be necessary in some cases. A current year-to-date Profit & Loss Statement is also required.

**Calculation**

The income is to be calculated by taking an average annual net income based on the most recent 2 full years of tax returns. Deductions in income for depreciation, amortization, depletion, and other non-cash deductions shall be added back to adjusted income. If the tax returns indicate a loss, the income for the affected tax year will be reflected as a zero when averaging the income. FHLBI will review the Profit & Loss Statement to determine if the most recent income documents for self-employed individuals are over the maximum AMI limits and if so, the household would be ineligible.

*Note: FHLBank Indianapolis, in its discretion, may consider documented self-employment income of less than 2 years for secondary household members.*

**D. Social Security / Supplemental Security Income****Documentation**

The current year's award letter or a current benefits statement from the Social Security Administration dated within 60 days of the household's date of enrollment in the respective Bank program.

**Calculation**

For income received on recurring or periodic schedules, calculate the annualized amount by taking the periodic amount multiplied by the number of periods in the year. For amounts that vary, use an average of the amount earned to date and project forward.

**E. Annuities / Pensions / Insurance / Disability****Documentation**

Most recent financial statement of benefit, award or pension letter confirming the gross payments and frequency of payment.



**Calculation**

For income received on recurring or periodic schedules, calculate the annualized amount by taking the periodic amount multiplied by the number of periods in the year. For amounts that vary, use an average of the amount earned to date.

**F. Child Support****Documentation**

Court-ordered documentation evidencing a minimum of 6 months of the most recent child support payments. Additional payments or supporting documentation may be requested. Documentation from the court system should reflect the current amount of child support due and paid. Medical, childcare and arrearage payments should be excluded from child support income if amounts are itemized. A copy of the divorce decree and child support collection report may be required to further document required payments. If the amount required by agreement is not being received, the actual amount received must be documented from state or local entity responsible for enforcement of payment.

**Calculation**

For income received on recurring or periodic schedules, calculate the annualized amount by taking the periodic amount multiplied by the number of periods in the year. For amounts that vary, use an average of the amount earned to date and project forward. For example, if child support is not received regularly, verify the amount received during the last 6 months (at a minimum, 6 months) and divide by 6 to calculate an average monthly amount.

**G. Unemployment Income**

Annualized income shall include any and all unemployment income received during the calendar year.

**Documentation**

Most recent award or benefit letter prepared by the authorizing agency along with schedules reflecting payments received YTD or similar documentation.

**Calculation**

For other income received on recurring or periodic schedules, calculate the annualized amount by taking the periodic amount multiplied by the number of periods in the year. For amounts that vary, use an average of the amount earned to date and project forward. For example, if unemployment is not received regularly, verify the amount received during the last 6 months, and divide by 6 months to calculate an average monthly amount.

## H. Income from Assets

### **Documentation (AHP Exempt)**

The following documentation is required:

- Recent financial statements reflecting gross benefits
- Previous year's IRS 1099 form, if only received once annually

### **Calculation**

Include all income-eligible assets that household members are currently receiving. If using a 1099, include the previous year's gross benefit amount. If documentation reflects income is received monthly, quarterly or semi-annually, calculate the income by dividing the YTD amount shown by the number of payments represented in the documentation and multiply by frequency received to arrive at the annual income. For amounts that vary, use an average of the amount earned to date.

### **AHP Only:**

Interest income generated from assets as found on bank or other investment/financial institution statements is included in the annual income calculation. The amount of interest income reflected, using state or HUD guidelines, shall be the greater of the projected annual interest based upon the earnings reflected on monthly, quarterly, or annual bank, savings, or investment account statements. If total assets exceed \$5,000, interest income is calculated using the HUD passbook savings rate (currently 0.6%).

Example: ABC Bank's statement reflects Susie Saver maintains an average \$8,000 balance in her savings account on which she earns 0.5% interest annually or \$40/year. Applying the HUD passbook saving rate of 0.6% to the \$8,000 average balance, Susie Saver would earn \$48/year in interest. Therefore, the higher amount of \$48 would be used in the calculation of interest income.

## I. Rental Income

### **Documentation**

A current executed lease agreement or comparative market rent rate must be included for rent producing properties. Market rents, based on location and bedroom count, can be found on the HUDuser website:

<https://www.huduser.gov/portal/datasets/fmr.html>

### **Calculation**

Rental income is defined as 75% of the gross annual rental income.

## J. No Income

### **Documentation**

If an adult household member (age 18+) is not employed or receiving income of any kind, he/she must complete and sign the Certification of Zero Income. The Certification will function as verification that a household member has no income to report.