

Income & Asset Certification

Summary

Household income is the gross amount (before any taxes or deductions) of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation of all the adults of the household, as well as the gross amount of all unearned income from all members of the Household. Household income also includes income from assets, from all members of the Household. The income used for tax credit purposes is the *anticipated* income for the 12 months following the signing of the lease. All current sources of income must be verified at initial occupancy and annually thereafter depending on the recertification rules that apply to the property.

HUD Occupancy Handbook 4350.3, Chapter 5

Chapter 5, Sections 1 and 3, of the HUD Occupancy Handbook 4350.3 is used as a guide to determine income for the Tax Credit program. These sections are an excellent resource for managers and are included as Appendix N to this Manual.

Income – General Information

Household Income is —

- ◆ Based on actual household size
 - Household members do not have to be related
 - Based upon current income but calculated forward for the next 12 months.
 - When determining anticipated income, count any wages to be received by any minor who will be turning 18 within the next 12 months. Begin counting the wages from the date that the person turns 18, through the remainder of the 12-month period.
- ◆ Third-party certified at initial occupancy and at the first anniversary of the lease. Annual self-certifications of income are permitted after the first recertification (for 100% Low Income properties **only**).
- ◆ Third-party certified at initial occupancy and every year thereafter (tax credit properties with market rate units).
- ◆ Based on income limits provided by the Commission in effect at the time of initial occupancy or recertification.

Verification

- ◆ When calculating gross income, add all exact income and asset amounts together, then round the **final**, gross amount. Round up to be conservative, or use the standard rule that 49 cents and below rounds down, 50 cents and above rounds up to the next dollar amount.

Renting to a nonqualified household means the Unit is no longer considered affordable, credit cannot be claimed for the Unit, and recapture of credit is triggered.

Income and assets must be verified using the following methods, in order of acceptability:

- Third party verification
- Reviews of documents submitted by the Resident
- Resident certifications made under penalties of perjury (*only if first two types of verification cannot be obtained*).
- An Owner may accept a Resident's *notarized statement or signed affidavit* regarding the veracity of information submitted only if the information cannot be verified by another acceptable verification method.

Verification documents may not be older than 120 days prior to the certification effective date. If verification has aged past 120 days, new documents must be obtained.

When third-party verification is not available, Owners must document in the file efforts made to obtain the required verification and the reason the verification was not obtained. The Owner must include the following documents in the applicant's or Resident's file:

- ◆ A written note to the file explaining why third-party verification is not possible;
- or
- ◆ A copy of the date-stamped original request that was sent to the third party;
- ◆ Written notes or documentation indicating follow-up efforts to reach the third party to obtain verification; and
- ◆ A written note to the file indicating that the request has been outstanding without a response from the third party.

Determining Annual Wage Income

To determine annual income for fulltime employment, multiply:

- * **hourly wages by 2080**
- * **weekly wages by 52**
- * **bi-weekly wages by 26**
- * **semi-monthly wages by 24**
- * **monthly wages by 12**

To determine annual incomes for other than fulltime employment, multiply:

- * **hourly wages** by the number of hours the individual is expected to work per week x 52. If a range of hours is given, Owners or their agents must use the highest number of hours. If this puts them over, staff may need to contact the employer and clarify. In these instances, the Commission recommends getting written clarification from the employer.
- * **weekly pay** by the number of weeks the individual expects to work; if the pay is irregular, calculate a weekly average pay.
- * other periodic amounts (monthly, bi-weekly, etc.) by the number of periods the individual expects to work.

Use an annual wage without additional calculations. For example, if a teacher is paid \$15,000 a year, use \$15,000, whether the payment is made in 12 monthly installments, nine installments or some other payment schedule.

Overtime

When determining annual gross income, if the employer has indicated the Resident works overtime and gives a range of hours, Owners or their agents must always use the highest number of hours. For instance, if the employer has stated the Resident works 5-10 hours overtime, staff must use 10 hours multiplied by the overtime rate. If using the higher number of hours puts the Resident over the income limit, staff should clarify actual overtime hours worked by using the *Income Verification/Clarification by Telephone* form or request a recent pay stub that has year-to-date figures.

Year-to-Date Information

If Year-to-Date (YTD) information is not provided on the *Employment Verification*, obtain this information from a paystub. YTD information from the previous calendar year will also identify regular bonuses and overtime that must be included in the income calculations.

Year-to-Date Information (continued)

To calculate YTD wages, count the number of weeks from the date the YTD period starts to the end of the YTD period noted on the most current paystub. Then take the total YTD wages and divide them by the number of weeks in the entire period. Take the resulting amount and multiply it by 52 in order to project the applicant/Resident’s income for a full year.

Example: You are qualifying Tina for a unit in May and she is employed. You are unable to third-party verify her wages through her employer so you use her most current six consecutive paystubs to determine her income for the next 12 months. The most recent paystub lists her YTD wages, as of April 30, as \$5500.00. The paystub does note that she started her job January 25. Count the number of weeks between January 25 and April 30; if partial weeks are included, round the number of weeks down, not up. In this example, we’ll say the total number of weeks equals 13. Divide \$5500 by 13, which equals \$423.08 per week. Then multiply \$423.08 by 52 in order to project Tina’s wages for a 12-month period. In this case, Tina’s annual gross wages would be \$22,000.16.

You would complete the same calculation process for any tips/bonuses/commissions noted on Tina’s current paystub.

Remember that you cannot calculate gross annual wages from YTD figures unless you have verification of when the YTD period began.

Include Raises When Calculating Wages

Any pay raise that an applicant will receive within 12 months of signing the lease or their recertification must be included when determining income. Note that the pay raise must be confirmed in writing.

Example of anticipated increase in hourly rate:

February 1	Certification Effective Date
\$7.50 hour	Current Hourly Rate
\$8.00 hour	New rate to be effective March 15

(40 hours per week x 52 weeks = 2080 hours per year)

Annual income is calculated as follows:

<i>February 1 through March 15 = 6 weeks</i>	
6 weeks x 40 hours = 240 hours x \$7.50 =	\$ 1,800
<i>March 16 through January 31 = 46 weeks</i>	
46 weeks x 40 = 1840 hours x \$8.00 =	<u>\$14,720</u>
Total Annual Income =	\$16,520

Tips

Tip income must be included when determining annual gross income. Individuals working in the food industry or in personal services — e.g., hair stylists, baristas or manicurists — typically receive tips. If tip income is not separately listed on the *Employment Verification* form Owners or their agents must add an additional 20% of the verified gross annual income.

For individuals who work in the gaming industry, add in 40% of the verified gross annual income (if their tips are not listed on the *Employment Verification* form).

Owners or their agents are required to use the above percentage for tips unless the employer verifies a different tip amount.

Seasonal or Sporadic Wage Income

Residents employed in a seasonal line of work, such as landscaping, construction, or other jobs dependent on weather conditions, may collect unemployment or have another source of income during the “off” months. In such cases, Owners should complete the Commission’s *Seasonal Worker Statement* and both incomes should be used for the appropriate number of months. It is imperative that all income sources anticipated for the twelve month period following move-in be included in annual income.

Example: *An individual makes \$1,200 a month and typically works nine months per year and collects unemployment in the amount of \$600 a month for the remaining three months. The income is calculated as follows:*

$$\$1,200 \times 9 \text{ months.} = \$10,800$$

$$600 \times 3 \text{ months.} = \underline{1,800}$$

$$\$12,600 = \text{Total Annualized Income}$$

Owners may consider income from the preceding 12 months when calculating income for seasonal workers and workers with sporadic income.

There are several ways of verifying employment income:

Outside Agency Verifying Income

The Commission will accept employment verification forms from agencies who provide this employment information as a matter of course.

An example of such an agency is *The Work Number for Everyone*, which contracts with employers to provide employee information to housing providers and other benefit-providing entities. For more information on how to use *The Work Number for Everyone*’s documents as wage verification, please review the ***Tax Credit Compliance FAQs*** on our website.

**Written
Verification**

The **first** acceptable method of verifying wage income is to obtain written verification from the employer. Therefore, the first step in verifying wage income is to send the Commission's *Employment Verification* form to the employer. Please note that the Resident must sign this form, and it must be mailed or faxed to the employer. Upon completion, the form cannot be hand-carried or otherwise returned to the Owner directly by the Resident.

As a last resort, and only after three (3) documented attempts to obtain a verification over a two (2) week period fail, Owners may accept pay stubs to document employment income only if the Resident can provide the most recent six consecutive pay stubs to illustrate variations in hours worked and/or amounts received.

**Verbal
Verification**

If written verification cannot be obtained, income may be verified verbally using the *Income Verification/Clarification by Telephone* form. The Owner or their agent must fill out the form completely and include back-up documentation (such as a pay stub). Please refer to the form instructions for more details.

Note that staff must document why written verification could not be obtained.

**Picture
Identification**

When a Social Security number or other acceptable identification number is not available, Owners should send a copy of the applicant/Resident's picture identification to the employer, along with the *Employment Verification* form, to verify that the applicant/Resident is their employee.

**Self-
Employment
Income
Verification**

When determining income from a business, staff must include salaries paid to adult family members, net income from the business, and other cash or assets withdrawn by any family member—except if the withdrawal is the reimbursement of cash or assets the family invested in the business. Owners or their agents can use the *Self-Employment Worksheet* to assist in calculating self-employment income.

When computing net income:

- ◆ **Do NOT deduct:** principal payments on loans, expenses for business expansion, or outlays for capital improvements;
- ◆ Do NOT deduct depletion or depreciation/sec. 179 expenses (lines 12 and 13 on Schedule C);

Self-Employment Income Verification (continued)

- ◆ Do **deduct**: business expenses; interest payments on loans (unless the expenses or loans are for business expansion or capital improvement); and depreciation computed on a straight-line basis.
- ◆ If the net income from a business is negative, it will be considered as zero income.
- ◆ As long as a Unit is the household's primary residence, they may use a portion of the Unit as their principle place of business, and claim associated expenses as tax deductions.

The following documents show income for the previous year. Owners or their agents must consult with Residents and use this data to estimate income for the next 12 months on the *Self-Employment Verification* form:

1. Signed copy of individual federal income tax return (1040) including all schedules and attachments for the following:
 - * Schedule C for Small Business
 - * Schedule E for Rental Property Income
 - * Schedule F for Farm Income

Note: If a Resident is employed by a business owned by the Resident's family, a copy of a recent pay stub, verifying year-to-date earnings, is also required.

2. Copy of Corporate or Partnership tax return (if applicable).
3. Audited or unaudited financial statement(s) of the business.
4. If Resident has been in business for less than one year, they should provide a Profit and Loss statement or business proforma *and* a notarized affidavit stating that s/he agrees to provide the required tax returns and self-employment documentation at the time of recertification.

If a Resident is engaged in a business partnership, staff must obtain a copy of the Partnership tax return as well as a copy of the Resident's personal tax return.

Note: All tax returns and related documents must be signed and dated by the taxpayer.

**Self-
Employment
Income
Verification
(continued)**

If an individual's only income is from self-employment, the net amount on Schedule C should be the same as the gross amount on the first page of the 1040. However, if the household had additional income, such as part-time wages and \$20,000 in savings (so there was interest and dividend income), the net amount from Schedule C should be used. Then staff must document the additional wages and savings funds via third-party verification.

**On-Site Staff
and
Management
Personnel**

Property management staff, such as managers, assistant managers, maintenance, or security personnel must be rent- and income- qualified unless they meet the requirements for a Common Area Unit as described in *Chapter 2, Federal Requirements*.

Any rental concession given, or the fact that the onsite employee is *not* receiving a rental concession must be noted on the *Employment Verification* form.

**Non-Wage
Income**

The following sources of non-wage income must be included when determining annual income:

**Social Security,
Supplemental
Security Income
(SSI)**

Include the gross amount (before deductions for Medicare, etc.) of periodic Social Security payments. This includes payments received by adults on behalf of minors or by minors for their own support. Note that Social Security Administration applies a Cost of Living Adjustment (COLA) increase to benefits once per year, typically by December 1st to be effective in the following calendar year.

Documentation Required:

The following items are required to verify income derived from the above:

- Copy of award or benefit statement. This statement is issued when benefit commences or when a change in the benefit occurs, such as a cost-of-living raise;
- or**
- Copy of award or benefit verification form completed by the agency or company providing the benefit.

**Social Security,
Supplemental
Security Income
(SSI)
(continued)**

Owners must use the **gross** Social Security/SSI benefits to calculate annual income. Copies of checks or bank statements showing **net** amounts (after Medicare deductions are taken) are acceptable *temporary* verification, provided a benefit statement or verification, as mentioned above, is forwarded within a reasonable time frame (generally, thirty days).

Options available for obtaining a SSA/SSI Benefit Statement when the Resident/Applicant cannot provide their own statement: :

Option One—The Resident/Applicant may print out a verification at the time of their certification interview by using the My Social Security website. The Resident/Applicant must have or create an account at www.socialsecurity.gov/myaccount to have access to their benefit information.

Option Two—The Resident/Applicant may call the regional office of the Social Security Administration at 1-800-772-1213

- Resident supplies his/her social security number, and requests a copy of his or her benefit statement for either Social Security or Supplemental Security Income.
- The Social Security Administration has stated that benefit statements are mailed out within one day of receiving the request.

Note: For guidance on including anticipated SSA/SSI benefits please review the *Tax Credit Compliance FAQs* on our website

**Alimony and
Child Support**

Any alimony or child support received by a Resident must be included when determining income.

Note: Child support **paid by** a resident is never deducted from their annual income.

Documentation Required:

Obtain *one* of the following items if alimony or child support is received:

- ◆ Copy of a separation or settlement agreement or copy of a divorce decree stating amount and type of support and payment schedule.
- ◆ Statement from the Office of Support Enforcement showing support amounts paid.

Alimony and Child Support (continued)

- ◆ A notarized statement from the person paying the support (when support agreement is informal and not established by a divorce decree or settlement agreement).
- ◆ A copy of the latest support check.
- ◆ Resident's statement of amount received; use *Child Support Affidavit* form.

In many cases, child support has been ordered but is not paid. Only the amount received should be counted. If nothing is being received, request the Resident check the appropriate box on the *Child Support Affidavit* form attesting to the fact that support payments are not being received, are not expected in the next 12 months, and that a reasonable effort has been made to collect the amounts due.

If there is court ordered support and reasonable efforts have not been made to collect the amounts due, such as opening a case with Support Enforcement, then the court ordered amount must be counted as income even though it is not being received.

Note: The *Child Support Affidavit* requires notarization.

Foster Child Income

Include in annual income all *unearned* income received by foster children. Include in annual income all unearned *and* wage income received by foster adults. Do **not** include in annual income any *state foster care payments* received by the household for their care of a foster child/adult

Public Assistance/ Welfare Income

The gross amount of welfare or public assistance received is considered income, including any housing assistance or vouchers for housing with the following exceptions (*which should not be included as income*):

- ◆ HUD housing assistance
- ◆ Plymouth Housing (Downtown Seattle only)
- ◆ Food stamps
- ◆ Shelter Plus Care

**Public Assistance/
Welfare Income
(continued)**

Documentation Required:

To verify income from welfare, a written statement from the welfare agency is required. The statement should address the type and amount of assistance the family is currently receiving and note any changes in assistance expected during the next 12 months. Owners or their agents may use the *Public Assistance Verification* form as documentation.

**Unemployment,
Disability,
Worker's
Compensation,
Severance Pay**

Include payments in lieu of earnings, such as unemployment, disability compensation, worker's compensation, and severance pay. Also include any payments that will begin during the next 12 months. Obtain a statement from the provider that verifies this amount.

Unemployment compensation must be included when figuring annual income and needs to be verified by any of the following:

- A completed *Unemployment Benefits Verification Request* form.
- Statement from Employment Security office showing payment dates and amounts.
- Statement from the Department of Labor & Industries, showing award amount and payment schedule.

Note: HUD income calculation rules (by which the Tax Credit program abides) require unemployment benefits be annualized for the next twelve months, regardless of documentation that benefits will end less than twelve months after the Resident certification. For more information, please see HUD Occupancy Handbook 4350.3, Chapter 5-Section 1 (under *Appendix N* on the Commission's website).

Military Pay

All of the following entitlements must be used to determine total income for military personnel (Active Duty and Reserves):

- ◆ Base Pay
- ◆ BAH (Basic Allowance for Housing – include in gross income **except** for military in certain counties, a list of which can be found on our website under the link to the Military Pay Verification form)

**Military Pay
(continued)**

- ◆ BAS (Basic Allowance for Subsistence; i.e., food)
- ◆ Family Separation Allowance.
- ◆ CA (Clothing Allowance)
- ◆ FDP (Foreign Duty Pay)

Also include additional pay for special assignments such as:

- ◆ sea duty
- ◆ flight duty
- ◆ submarine duty

And pay for specialty fields such as:

- ◆ explosives
- ◆ jumping

The following sources of military income do *not* need to be included when determining annual income:

- One-time payments such as a re-enlistment bonus. (This should be treated as an asset.)
- “Hostile Fire” pay. “Hostile Fire” is defined as combat in a hostile fire zone. The special pay to a family member serving in the Armed Forces who is exposed to hostile fire (e.g., in the past, special pay included Operation Desert Storm) is excluded.

Documentation Required:

A copy of the service member’s recent Leave and Earnings Statement (known as an “L.E.S.”) or a complete *Military Pay Verification* form. If an L.E.S statement is used, add the applicable annual clothing allowance.

Also, please note that there will be times when the L.E.S. will not show all entitlements or may show entitlements such as the BAH for a different locality. If this is the case, Owners or their agents must contact the Base Finance Officer to verify all income.

**Military Pay
(continued)**

At some properties BAH may be excluded from income. Please review the *Tax Credit Compliance FAQs* on our website for further information.

Additional HUD Guidance:

Owners are encouraged to be as lenient as is responsibly possible to support households where persons are called to active duty. This may include allowing a temporary guardian to move into an assisted Unit to care for dependents – income of such a person would be excluded from annual income.

**Pensions,
Veteran's &
other Periodic
Benefits**

Include payments from insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts.

**Pension Funds Paid to
a Former Spouse**

Federal government pension funds paid directly to Resident's former spouse pursuant to the terms of a court decree of divorce, annulment, or legal separation are not counted as annual income. The state court has, in the settlement of the parties' marital assets, determined the extent to which each party shares in the Ownership of the pension. That portion of the pension that is ordered by the court (and authorized by the Office of Personnel Management (OPM), to be paid to the Resident's former spouse is no longer an asset of the applicant/Resident and therefore is not counted as income.

However, any pension funds authorized by OPM, pursuant to a court order, to be paid to the former spouse of a Federal government employee is counted as income for a Resident receiving such funds.

VA Disability Income

Deferred income payments from the Veterans Administration, whether received monthly or in lump sums, are excluded from income. However, this does not apply to pension or regular, non-deferred disability payments.

**VA Aid & Attendance
Payments**

VA Aid & Attendance is an enhanced or special monthly pension benefit paid in addition to the basic pension. There is no statutory or regulatory exclusion for the A&A benefit. Accordingly, this benefit must be included as income. However according to HUD's RHIP Listserv Posting #284, any money received by the family that is specifically for, or in reimbursement of, the cost of medical expenses for any family member is excluded from annual income. Because of this, the owner must verify any amount provided for A&A which is used for medical expenses and exclude the verified amount. Any portion of the benefit not being used for medical expenses must be included as income.

VA Aid & Attendance Payments

Use the *Pension Verification* form to document these benefits, or obtain a copy of the Resident's benefits letter, quarterly statement, etc.

Annuities

An annuity is a contract sold by an insurance company designed to provide payments, usually to a retired person, at specified intervals. Annuities may be counted as either income or as an asset.

When to count as income:

- The insurance company managing the annuity indicates the household member is expected to receive **regular payments** from the annuity;

When to count as an asset:

- Count the annuity as an asset IF the household member has the right to withdraw the balance of the annuity at any time (even if there is a penalty incurred to do this).
- Remember to obtain the cash value of the annuity by subtracting from the current value any fees/penalties involved in withdrawing the entire balance.

Use the *Annuity or Stock Verification* form to document the income received from annuities, or else obtain a copy of the Resident's benefits letter, quarterly statement, etc.

On-Going Monetary or In-kind Gifts

Annual income includes any recurring monetary contributions or gifts regularly received from persons not living in the unit. This includes rent, utility payments and other payments (insurance, car, cellphone) regularly paid on behalf of the Resident

Documentation Required:

Verification of *continuing* gifts may be verified using either one of the following methods:

- A notarized statement or affidavit, signed by the person providing the assistance, stating the purpose, dates, and value of the monetary gifts.
- A notarized statement or affidavit from the Resident stating the purpose, dates, and value of the gifts. Use the *Gift Affidavit* form as necessary.

Rental Income

For rental income from property owned by the Resident, request:

- IRS Form 1040 with Schedule E (Rental Income);

or

- Lessee's written statement identifying monthly payments due the Resident or copy of the Lease Agreement, and Resident's affidavit as to net income realized after mortgage interest, taxes, insurance and other rental expenses.

Note: If the net rental income is zero, then the property should be valued as an asset – see Real Estate Owned under assets.

Student Income**Non-wage Income**

The **non-wage** (unearned) income of **any** student in the Household **is counted in its entirety**.

Student Financial Assistance

Student financial assistance **is not** counted in determining income eligibility unless the household is receiving Section 8 Project Based or Voucher assistance. If the household **is** receiving Section 8 assistance, Financial Assistance may be excluded **if** the resident:

1) is living with their parents, **or**

2) is at least 23 years old and has dependent children.

If the student doesn't meet one of the above exceptions, then count any amount of financial assistance above and beyond the cost of tuition and fees.

“Financial assistance” includes educational entitlements, financial-aid packages, grants, scholarships and work-study programs. Student loans are never counted as income.

For additional information about how to count a student's financial assistance, see Chapter 5 of HUD's Occupancy Handbook 4350.3. Also see HUD's PIH Notice 2015-21, published in December 2015, which provides good examples of how to define “required fees and charges.”

Any monetary school-related assistance provided to the resident by individuals outside the household (like a parent) is counted toward the resident's gross income.

Additional Income Verification Guidelines

Wage Income

When fulltime students 18 years of age or older are dependents, only a small amount of their earned income will be counted. Count earned income up to a maximum of \$480 per year for fulltime students, age 18 or older, who are not the head of the family, spouse, or co-head. If the annual income is less than \$480, count all the income. If the annual income exceeds \$480, exclude the amount exceeding \$480.

- ◆ If an hourly wage is being verified, the employer must also provide the number of hours worked per pay period.
- ◆ If a year-to-date (YTD) figure is not provided on third-party wage verification, staff must obtain a recent pay stub from the Resident that shows the YTD figure. Calculation of the Resident's income must include the *greater* of the verified salary or the annualized YTD wages.
- ◆ If a Resident works overtime, the employer must provide the number of hours worked and the hourly rate. If the employer indicates a range of hours (e.g. 4-10 hours per week), always use the highest number of hours in the range.
- ◆ If a Resident receives a bonus, verify how much it is and how often it is received.
- ◆ If a Resident is receiving Social Security or SSI benefits, always use the gross amount of benefits. A benefit statement (received by the recipient in November or December each year) is acceptable verification throughout the following calendar year.
- ◆ If a Resident is receiving a rent subsidy from a government rental source (e.g. Section 8), do not count the subsidy as income. However, staff must obtain documentation verifying the Resident's rent portion and their subsidy portion and include this with the Resident's package. Rent assistance from non-profits and churches whose source was from private grants, foundations, or donations are all considered income.
- ◆ When calculating income, all verified amounts should be converted to **annual** amounts.

Income from Assets

- ◆ If a household receives very little income, their income fluctuates, or there is no solid third party verification of current and expected income, Owners should be prepared to certify the household's annual income by using verification of income received in the *previous* 12 months.

Annual income includes amounts derived from assets to which family members have access.

Assets are items of value that may be turned into cash. A savings account is a cash asset. The bank pays interest on the asset. The interest is the *income* from that asset. Some belongings of value are not considered assets. Necessary personal property (such as clothing, family car, wedding rings, T.V. and stereo) is not counted as an asset.

Types of Assets

Following is a listing of different types of assets with descriptions of the documentation needed to determine the asset value. In situations where Owners or their agents are not sure whether to include something as an asset, they should contact the Project's assigned Portfolio Analyst for assistance.

Net Household assets DO include:

Cash held in savings and checking accounts, safety deposit boxes, homes, etc.

Documentation Required:

Account statements, passbooks, certificates of deposit, verification forms, letters or documents from a financial institution or broker. Owners or their agents can use the *Deposit Verification* form if necessary.

- ◆ For savings accounts, use the current balance.
- ◆ For checking accounts, use the average balance for the last six months.

If a **bank** provides *less than six* months' worth of checking account activity (and refuses to provide six or more), the Owner may accept verification spanning less than 6 months. If a **financial institution** has provided current third-party documentation of the average balance in a checking account, even if it's less than 6 months' worth, that is acceptable, *unless* there are other facts/circumstances in the applicant's situation which create a question about their eligibility. In such a situation, obtaining applicant/resident-provided bank statements may be necessary or may be required by the Commission.

Gross Assets Less Than \$5,000

- ◆ If a bank verification shows *more* than six months' worth of checking account activity, use the average balance based on the total number of months (e.g., if statement shows 9 months, divide by 9 for accurate average).
- ◆ If a household has indicated on their REA that their gross assets total less than \$5,000, have them complete the *Under \$5,000 Asset Certification/Sworn Statement of Net Family Assets* form. There is never any need to third-party verify assets totaling *less than* \$5,000 unless there are other facts/circumstances in the applicant's situation which indicate a conflict with their REA or which create a question about their eligibility.

Stocks, Bonds, Treasury Bills, Certificates of Deposit, Money Market Funds

The primary income from these types of assets is interest and dividends. Income can also be gained from the sale of either stocks or bonds for a profit.

Documentation Required:

Broker's quarterly statements showing value of stocks or bonds, or quotes from a stockbroker as to net amount family or household would receive if they liquidated securities, less any penalties/fees for early withdrawal of funds. If appropriate, Owners or their agents can also use the *Annuity or Stock Verification* form to verify stocks.

Trusts

A trust is generally considered a legal arrangement regulated by state law in which one party holds property for the benefit of another. A trust can contain cash or other liquid assets or real or personal property that could be turned into cash. Trust assets are typically transferred to the beneficiary upon the death of the grantor. There are two types of trusts, revocable and non-revocable (irrevocable trusts).

Revocable Trusts

The grantor of a revocable trust can change this type of trust as often as she/he wishes and, therefore, has access to this asset at any time. Count this trust as an asset.

**Individual
Retirement,
Keogh, and
401(k) Accounts****Non-revocable Trusts (Irrevocable Trusts)**

This is a trust agreement allowing an individual to permanently transfer assets during his/her lifetime to someone else.

Trusts which are not revocable by or under the control of any member of the family are *not* considered assets.

As long as the trust exists, the actual income distributed to the Resident from such a trust must be counted when determining Annual Income. (As with all income, this is the gross amount received before taxes or other deductions.)

If there is no income distributed from the trust, then do not count any income from the trust (e.g., income from the trust that is reinvested into the trust.)

These are included because participation is voluntary and the holder has access to the funds, even though a penalty may be assessed.

While the individual is employed, include only amounts the family or household can withdraw without retiring or terminating employment.

If benefits will be received in a lump sum, include the total dollar value of the benefits as an asset. If benefits will be received through periodic payments, then they will be treated as part of the estimated annual income.

When periodic payments and/or withdrawals of cash or assets are being made from an investment account where the household has access to the remaining balance of the account, the payments/withdrawals should be calculated and compared to the investment earnings on the account.

The higher of the two should be counted towards total household income – either the periodic payments/withdrawals as income *or* the earnings on the asset as income from assets.

If the household has no access to the remaining balance in the investment account, such as an annuity which has been annuitized, then the periodic payments/withdrawals should be counted as income and the investment account not valued as an asset.

This does not apply to checking, savings, or money market accounts, which typically have multiple deposits and withdrawals on a regular basis. These types of accounts should always be valued as assets.

Real Estate Owned

Include the current market value of all properties owned *minus*:

- any unpaid balance on any loans secured by the property AND
- any reasonable costs incurred to sell the asset—penalties, broker fees, etc.

Use the *Real Estate Evaluation Worksheet* to calculate income from real estate owned by an Applicant/Resident.

Mortgage or Deed of Trust

Occasionally, when an individual sells a piece of real estate, the seller may loan money to the purchaser through a mortgage or deed of trust. This may be referred to as a “contract sale.”

A mortgage or deed of trust held by a Household member is included as an asset. Payments on this type of asset are often received as one combined payment which includes interest and principal. The value of the asset is determined by calculating the unpaid principal as of the effective date of the certification. Each year this balance will decline as more principal is paid. The interest portion of the payment is counted as actual income from an asset.

Personal Property Held as an Investment

Include gems, jewelry, coin collections, or antique cars held as an investment. A Resident’s wedding ring and other personal jewelry are NOT considered assets.

Net Household assets do NOT include:

- * Necessary personal property such as clothing, furniture, cars (those for personal use), etc.
- * Interests in Indian trust land.
- * Term life insurance policies (i.e., where there is no cash value).
- * Assets that are part of an active business are not considered part of the household assets; however, property that is being held as an investment and not as the main business activity is considered an asset.
- * Assets that are **not** accessible to the Resident and provide no income are **not** considered part of household assets.

Example: A victim of domestic violence owns a house jointly but because of the domestic situation, receives no income from the asset and cannot convert the asset to cash.

Lump-Sum Receipts

Generally, lump sum amounts received by a Household are considered assets, not income. Include inheritances, capital gains, one-time lottery winnings, settlements on insurance, and other claims or lump-sum payments received because of delays in processing unemployment, social security, welfare, or other benefits as assets.

Lump-Sum Receipts (continued)

For a more detailed discussion of what types of lump sum receipts are counted as assets and what are counted as income, please review the HUD Handbook 4350.3, Chapter 5, Section 1.P (found under Appendix N on our website).

Instructions for Valuing Assets

In computing assets, Owners or their agents must use the **cash** value of the asset; that is, the amount the individual or household would receive if the asset were converted to cash. Cash value is the market value of the asset minus any loans secured by the asset, such as a mortgage on rental property, and less any reasonable costs that would be incurred in selling or converting the asset to cash.

Expenses which may be deducted include:

- Penalties for withdrawing funds before maturity.
- Broker/legal fees assessed to sell or convert the asset to cash.
- Settlement costs for real estate transactions.

For non-liquid assets, enough information should be collected to determine the current cash value—the net amount the Household would receive if the asset were converted to cash.

If an applicant/ Resident has sold his/her home within the past two years (either a private residence or rental) for cash, request:

- ◆ Copies of closing documents (*Closing Disclosure* form, formerly known as a HUD 1 Statement) showing the selling price, the distribution of the sales proceeds, and the net amount to the Resident.
- ◆ A statement from the Resident explaining what they did with the proceeds.

**Assets
Disposed of for
Less than Fair
Market Value**

If an asset was disposed of for less than fair market value, the value of the asset must be counted for a two year period following its disposition. See *Appendix N – HUD Handbook 4350.3* for additional information on how to calculate assets disposed of in this manner.

**Calculating
Income from
Assets**

If net Household assets **exceed \$5,000**, the annual income must include the greater of:

- ◆ Actual income from assets
- OR**
- ◆ A percentage of the value of Household assets based upon the current passbook savings rate as established by HUD. This is called imputed income from assets.

Example of Calculating Income from Assets:

Type of Asset	Cash Value of Asset	Imputed Value x 2%	Actual Income Per Year
Checking Account	\$300.00	\$6.00	\$0.00
Savings Account	\$2,000.00	\$40.00	\$60.00
Certificates of Deposit	\$10,000.00	\$200.00	\$526.00
Rental Property	\$15,000.00	\$300.00	\$0.00
Totals	\$27,300.00	\$546.00	\$586.00

**Household Assets
Greater than
\$5,000.00**

Since total assets **exceed \$5,000**, imputed income must be calculated as follows:

$$\text{Total Assets} \times 2\% (\$27,300 \times .020) = \$546.00$$

In this example where 2% was used as the HUD passbook savings rate, annual income must include the **\$586.00** (actual income) because it is greater than the imputed income received on the assets.

Note: HUD may change the passbook savings rate annually. The Commission continues to use 2% on our forms and in our Web Based Annual Reporting System (WBARS). Owners may choose to use the actual published rate in place of the 2%.

**Household Assets
Less than \$5,000.00**

If Household assets are **less than \$5,000**, the applicant/Resident may complete the *Under \$5,000 Asset Certification or Sworn Statement of Net Household Assets* form instead of verifying all household assets. The asset income noted on that form must then be added to the gross annual income total for the Household.

**Types of
Excluded and
Included
Income**

For a list of all income types to be excluded or included when determining eligibility, please review *Appendix N, HUD Handbook 4350.3* at the end of this Manual.

**Additional
Income and
Asset
Information**

For more tips and reminders regarding what sources and forms to use to verify income (and assets), refer to the calculation and verification sections from HUD Handbook 4350.3, excerpted in *Appendix N* of this Manual as well as the **Tax Credit Frequently Asked Questions** document on our website.