



# Home Sweet Home Downpayment Loan Program Income Calculation Guidelines

## **Determining Household Income Eligibility**

The Home Sweet Home Program regulations require that the income of all household members age 18 and older anticipated to be received in the coming 12-month period be included in the determination of annual income. Income includes household income (such as wages, SSI, etc.) and income from assets (such as interest on bank accounts, retirement accounts, etc.).

Eligible households must have annual incomes of less than or equal to 80% of the area median income for the county in which the home purchased will be located, adjusted for family size. (See Income Limits sheet.)

Lenders will have to submit the following documentation to HBC Services at the time of reservation:

- 1) Reservation Form
- 2) Certificate of Borrower Eligibility
- 3) Income Calculation Worksheet
- 4) Income documentation for all sources of income

## **Determining Whose Income to Count**

Lenders must count the income of all household members age 18 and older. Do not include income of the following household members – foster children, live-in aides (and their children), unborn children, and children being pursued for legal custody or adoption who are not currently living with the household.

*Please review Appendix A for all inclusions*

## **Gathering Income Documentation**

Lenders will need to provide income documentation for each source of income identified on the Income Calculation Worksheet. The preferred income document of choice to confirm employment income is the Fannie Mae Request for Employment Verification form. Best efforts must be made to obtain this form. However, if unavailable, the three (3) most recent pay-stubs can be used. These pay-stubs must be consecutively dated. Only one or the other type of employment income document is required, not both. If the household member holds more than one job; the lender will have to obtain more than one verification document.

For non-employment income sources, the household member will need to provide documentation to confirm the periodic payment and how often it is received.

For business income (self-employed household member), the household member will need to provide a YTD income statement or schedule of receipts and the IRS's Schedule C form or the equivalent from the household member's two most recent tax returns.

For income from assets, the household member will need to provide recent bank statements\*, retirement statements, mortgage statement and most recent property tax bill.

## **Anticipating Income**

A “snapshot” of the household’s current circumstances will be used to project future income. The sources of income to be counted will be those identified on the Income Calculation Worksheet. The lender should use the information contained in the source documents to perform the calculation. Income amounts used in the calculation should be on a pre-tax basis and include any allowable pre-tax deductions such as 401K contributions or health insurance premiums.

### **1. Employment Income**

Gross earned 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 for personal activities.

#### **• Hourly Wages**

If using a VOE, the average hours and hourly wage should be expressed as finite numbers. However, if the average hours are expressed as a range, the high end of the range must be used in the calculation. If the average hours are not provided, the lender should make best efforts to have the VOE completed accurately. The default for average work week hours will be 40, if not documented on the VOE.

If using pay-stubs, take the average of all hours indicated on the three (3) most recent pay-stubs. These pay-stubs must be consecutively dated. Carry out the average hours to the second decimal place. Example – Average hours 43.565, use 43.57 for average hours.

In order to determine an hourly wage, if not disclosed, annualize the gross base pay amount, and divide the annual amount by the standard 2,080 annual work hours. If a monthly wage is disclosed, multiply by 12; if weekly, multiply by 52; bi-weekly, multiply by 26; bi-monthly, multiply by 24; and annually, multiply by 1. Take the result and divide by 2,080 to get the hourly wage. The resulting hourly wage should then be used in the income calculation. If the hours aren't disclosed, the standard 40 hours should be used.

#### **• Bi-Monthly Pay Schedules**

If a household member is paid on a bi-monthly basis, project the estimated earned income for the year by using the bi-monthly pay times 24 pay periods. Typically a bi-monthly earner is paid twice a month on the 15th and 30th of each month.

If using paystubs, and only a bi-monthly wage is given, with no other information about hourly wages or hours, use the bi-monthly wage given and project forward for 12 months. If, however, the pay-stub discloses hours per pay period, hourly wage, and other income, then you must determine the average hours based on the bi-monthly pay period.

#### **• Salaried Workers**

If the VOE or paystub clearly indicates the individual is on salary and provides an annual salary amount, use this amount as the annual income. To this amount add any additional non-salary income such as bonuses, commissions, tips, etc.

#### **Seasonal Workers**

A VOE will be required for seasonal workers. The employer should document on the VOE the seasonal nature of the employment and expected employment schedule. The employer should also indicate whether unemployment is available during the off season. Use the standard calculation guidelines to determine annual income, while discounting the amount for off season time. However, be sure to include any unemployment compensation the household member has or may receive during the off season. The 40-hour standard work week will not apply to seasonal workers. The number of hours listed on the VOE will be used instead.

**Other Compensation**

If other compensation is customary for the position, this should also be projected for the next 12 months. Add that result to the annual income from employment.

**• Position <1 Year**

If the household member has been in their current position less than one year, it is not necessary to confirm the earnings from the prior employer. Earnings from the current employer will be projected for the next 12 months.

**2. Non-Employment Income**

For other income received on recurring or periodic schedules, calculate the annualized amount by taking the periodic amount times the number of periods in the year. For amounts that vary, use an average of the amount earned to date and project forward. Examples of this type of income include Social Security, annuities, pensions, disability compensation, etc.

**3. Business Income**

The net income from the operation of a business or profession must be calculated. See Appendix A Category 2 for what is to be included in the income calculation. The household member should be prepared to supply an income statement or schedule of receipts for this purpose. The IRS's Schedule C form or the equivalent from the household member's two most recent tax returns will also be needed. Future earnings will be based on the monthly average of the net income from the two most recent years.

If the household member has less than two years of self employment history, the monthly average of net income will be based on the number of self employed months including those in the current year.

In cases where a business is started in the same year as the year of qualification, the YTD net income should be projected forward for 12 months. However, if the YTD figure is negative (net loss), the net loss will not be counted or projected forward.

## Appendix A – Income Inclusion

<b>General Category</b>	
1. Income from Wages, Salaries, Tips, etc.	The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal activities.
2. Business Income	The net income from the operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness shall not be used as deductions in determining net income. 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 reimbursement of cash or assets invested in the operation by the family.
3. Retirement and Insurance Income	The full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount (except as provided in number 14 of Income Exclusions).
4. Unemployment and Disability Income	Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay (except as provided in number 3 of Income Exclusions).
5. Alimony, Child Support and Gift Income	Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or persons not residing in the dwelling.
6. Armed Forces Income	All regular pay, special pay and allowance of a member of the Armed Forces (except as provided in number 7 of Income Exclusions).