FHLBank Chicago

AHP and DPP®
Income Calculations Guidelines

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I. INCOME ELIGIBILITY REQUIREMENTS

This document sets forth the income guidelines for the Federal Home Loan Bank of Chicago's (FHLBank Chicago's) Affordable Housing Programs, which include the competitive Affordable Housing Program (AHP), Downpayment Plus® (DPP®) program, and Downpayment Plus Advantage® (DPP Advantage®) program. To qualify a household for these programs, participating members and sponsors must use these Income Calculation Guidelines to calculate the household's annual income.

A. Home Ownership

Eligible households must have annualized incomes of less than or equal to 80% of HUD area median income (AMI), as published by the FHLBank Chicago, based on the specified year, household size, and location (county/state) of the property. The sponsor and member must calculate the annual income of each household member following the AHP and DPP Income Calculation Guidelines.

Each DPP grant application must be reviewed and approved by the FHLBank Chicago before the closing may occur.

B. Rental (AHP Only)

If a project is purchased, constructed, rehabbed, and/or operated with funds from a 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 Chicago 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.

At least 20% of AHP rental project units must be occupied by households with incomes at or below 50% AMI at time of move-in. At least 20% of the units must charge rents that are affordable to households at or below 50% AMI. A Tenant Income Worksheet (TIW) listing the current occupants of the project must be submitted once the project is occupied, based on data that is no more than 90-days old, and future submissions must be made upon request per the Monitoring Policy. For rental projects involving rehabilitation of existing housing that is occupied at the time of application, income targeting will be verified at the time of application. If a project is occupied at the time of disbursement, income targeting will be verified then; otherwise, it will be reviewed as part of the Project Completion Report. AHP project sponsors and members must calculate tenant income and compare it to the HUD AMI guidelines for the specified year, household size, and location of the property. Rental unit targeting must correspond to the income targeting commitments made in the AHP application.

II. BASIS FOR INCOME ELIGIBILITY

Income eligibility is based on the household's projected annual income. The member and sponsor must calculate the projected annual income of each household member 18 years or older (unless he or she is a dependent student) to determine total household income. The enrollment date is used to determine the applicable HUD income guidelines and the age of each household member. The enrollment date is the date when the member and/or sponsor determine whether the household is income-eligible for AHP/DPP assistance, using the income documentation requirements detailed below.

Income source information will be collected using the Household Member Questionnaire, and documents will be collected to verify the household's projected annual income. If updated income information or documentation is obtained after income eligibility has been confirmed by the FHLBank Chicago, that information must be forwarded to the FHLBank Chicago for review.

A. Determining Household Size

Household size is based on the number of people who will reside in the home being purchased or rehabilitated. Divorced or separated borrowers who have joint custody of their children should include the children in their household count, even though the children may only live in the household on a part-time basis. Borrowers who do not have custody 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.

B. Whose Income to Include

Income for co-borrowers must be included in household income calculations. Transactions including co-signors, guarantors, or other non-occupying co-borrowers are not eligible for an AHP/DPP grant.

Please note that income of cohabiting partners/spouses must be included in household income, even if only one of the partners/spouses is on the application, mortgage, title, or note. Also, income of temporarily absent family members must be counted if they intend to reside in the home or their income is being used for mortgage underwriting purposes.

Whose Income to Include

Household Member	**Include Income?**
Head of household	Yes
Spouse	Yes
Separated Spouse	No, if not residing in the home
Co-head/cohabiting partner	Yes
Temporarily absent household member	Yes, if he or she intends to reside in the home
Other adult, 18 years or older	Yes
Student, 18 years or older	No, ***unless*** he or she is head of household, spouse, partner, owner, or co- borrower
Dependent, 17 years or younger	No
Foster child	No
Live-in aide	No

C. Household Member Questionnaire

Each member of the household aged 18 years or older must complete the Household Member Questionnaire as a starting point for gathering income verification documentation. Household members aged 18 and older who do not receive any income must complete the Certification of Zero Income (see Household Members with No Income, below). Parents or guardians can complete these documents on behalf of dependent students living outside the home. The start date for each job currently held must be provided. Pending employment or income changes must be disclosed.

D. Income Documentation

Members/sponsors will need to provide income documentation for each source of income identified on the Household Member Questionnaire:

- For **AHP** eligibility, household income documentation must be dated within 120 days of the closing/settlement date noted on the final closing disclosure or the initiation of rehabilitation.
- For **DPP** eligibility, household income documentation must be dated within 120 days of the scheduled closing/settlement date.

The Fannie Mae Request for Verification of Employment (VOE) form is the preferred document to confirm employment income. However, an individual's three (3) most recent paystubs may be used instead. The paystubs must be consecutively dated. Only one type of document is required (the VOE form or paystubs), not both, unless requested upon review. If the borrower holds more than one job, verification documents for each job must be obtained.

For other income sources, the borrower will need to provide documentation to confirm the amount and frequency of any periodic payment.

The FHLBank Chicago must be updated regarding any changes affecting annual income or knowledge of previously unreported income. Changes in employment must be disclosed.

1. Examples of Income Source Documents

- Completed and properly executed VOE form or a verification that is substantially equivalent, ***or*** three consecutively dated paystubs that include the required information
  (i.e., company name and year-to-date income)
- Social Security or Supplemental Security Income notices
- Benefit statements verifying payments received from annuities, pensions, insurance policies, etc.
- Formal statement or history from recognized state or local authority or agency verifying alimony awards and child support payments; court orders are also acceptable
- Completed and signed U.S. income tax returns, with all supporting schedules
- Completed and signed property appraisal or lease for any current or potential rental income

2. Household Members with No Income

If a household member is not employed or receiving income of any kind, he or she should complete and sign the Certification of Zero Income. The Certification will act as verification that a household member has no income to report.

III. CALCULATING ANNUAL INCOME

The method used to determine the annualized amount 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 Income Calculation Workbook is used to report household income to the FHLBank Chicago via the AHP Online or DPP Online system.

The calculations must be clearly documented in a way that ensures they can be easily recalculated and reconfirmed. The sources of income used in these calculations will be those identified on the Household Member Questionnaire. 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.

Any income information used to qualify an applicant for the first mortgage or used as a compensating factor must be disclosed and included in the income calculation. For example, if a student has little or no current income but is starting a new job upon graduation, and that employment income is used to qualify for the mortgage loan, the same employment income must be counted when determining AHP/DPP grant income eligibility.

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 FHLBank Chicago Community Investment 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 other compensation for personal services
- All income of a student 18 years or older, if that person is the head of household, spouse, partner, owner, or co-borrower
- Income of temporarily absent family members who intend to reside in the home
- Salaries received from a family-owned business
- The full, gross amount of periodic payments 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 payment for the delayed start of a periodic payment; include amounts received by adults on behalf of minors, or payments received by minors that are intended for their own support
- Payments in lieu of earnings, such as unemployment or disability compensation, worker's compensation, and severance pay
- Welfare assistance (excluding food stamps)

- Alimony/maintenance and child support payments
- All regular pay, special pay, and allowances of a member of the Armed Forces
- The net income, salaries, and other amounts derived from operation of a business or profession
- 75% of any gross rental income from real property
- Lottery winnings received in periodic or lump-sum payments
- Wellness pay (including health savings account and/or tobacco credit)
- Allowances for housing, transportation, food, etc.

Income Exclusions:

- Income from the employment of children under the age of 18
- Income from dependent children who are students
- Payments received for the care of foster children or adults, guardianship pay or adoption assistance
- Lump-sum additions to family assets (e.g., inheritances, capital gains, insurance policy death benefit payments, stock option payouts)
- Taxable Life insurance
- Medical expense reimbursement received specifically for the medical expense of a household member
- Reimbursements for tuition, travel, etc.
- Home care assistance paid by a state agency to offset the costs of services or equipment needed for a disabled household member
- Income of a live-in aide
- All forms of student financial assistance paid directly to a student, educational institution, or veteran
- The amount of Section 8 vouchers used to pay for monthly mortgage payments
- Stock options
- PTO Pay-Outs
- Medical Opt-Out payment(s)
- Employee referral bonus
- Sign-on bonus
- Gift cards
- Arrears payments in child support
- IRA withdrawals
- Remote work allowance

B. Employment Income

Annual employment income must be determined for each job currently held. Annual income will be calculated by either (1) annualizing year-to-date (YTD) gross income or (2) annualizing base wages and other compensation. The larger value of the two calculations will be selected as annual employment income.

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 for personal services. 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.

1. Calculation 1 – Annualizing YTD Gross Income

To annualize the YTD gross income, divide it by the number of pay periods to date, then multiply that average by the total number of pay periods in a full year.

2.Calculation 2 – Annualizing Base Wages and Other Compensation

To annualize base wages, multiply base wages per period by the total number of pay periods per year. The standard calculations listed below will be used, depending on the pay schedule.

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

In order to accurately calculate annual employment income, it is important to know how often the person is paid (i.e., his or her pay schedule). If the income documentation indicates an annual salary amount but does not provide a pay schedule, the default pay schedule will be weekly.

a. Average Base Hours

If using a VOE, express the base or regular hours as a definite number. However, if the hours are given as a range, the high end of the range must be used in the calculation. For example, if the range on the form is 24–30, use 30 as the hours per week. The weekly hours should not exceed 40. If the hours are not provided, the member should use best efforts to have the VOE completed accurately. The default for average workweek hours will be 40, if not documented on the VOE.

If using paystubs, calculate the average of the hours indicated on the three (3) most recent paystubs. These paystubs must be consecutively dated and for the same current position. Do not round the average hours. If the average hours exceed 40, use 40 hours to determine base pay and annualize overtime as indicated below. Consider paid time off (PTO), holiday, sick, and vacation hours as regular hours and include those in the average.

b. Hourly Wages or Shift Differentials

If using an hourly pay schedule, when an hourly wage is not disclosed on the paystub, find the hourly wage by dividing base pay by base hours.

If a person's base or regular wage varies (e.g., when the individual works in different positions during the same pay period), where possible, treat each base wage as a different position and determine the annual income for that position before including it in the total annual income. For example, a nurse who works during the day and night may be paid different wages for morning versus evening hours. The paystub or VOE may reflect hours worked by shift and the respective wage. Determine the annual income for the morning hours as one calculation, and the annual income for the evening hours as a separate calculation. Add these two annual amounts together to calculate total employment income.

If the different rates and positions are not broken out but YTD hours are provided, find the average rate by dividing YTD base income by YTD hours. If YTD hours are not provided, divide the sum of the wages on the three paystubs by the sum of the hours on the three paystubs.

When shift differentials are shown, treat the YTD income as *other compensation* and find the average of the YTD income, annualize it, and add the result to the total household income.

c. Other Compensation

Income from overtime, tips, commissions, bonuses, or equivalent income must be included when calculating annual income. If the paystub or VOE shows YTD overtime or other compensation, the amount must be annualized and included in the annual income calculation.

When the documentation shows the YTD overtime or other compensation amount, determine the pay period average by dividing the YTD overtime or other compensation by the number of pay periods to date. To annualize income, multiply that average by the total number of pay periods in a full year. Add that result to the annual employment income.

If the individual's paystub or VOE shows overtime or other compensation but he or she does not expect to work additional overtime or receive other compensation on a regular and recurring basis, the employer may submit an explanation in writing. The Federal Home Loan Bank of Chicago will review for a possible adjustment.
If a VOE shows historical overtime/bonuses/commissions, this must be reflected in income calculations for the current year using the higher amount of those received in the two prior years.

If written documentation is provided, the FHLBank Chicago must review the calculation and approve an adjustment to the income calculation before the reservation/ disbursement may be approved.

d. Semi-monthly Pay Schedules

Under a "semi-monthly" pay schedule, the individual is paid twice each month (i.e. 15th and 30th) on the same recurring schedule. Otherwise, consider the person to be paid bi-weekly.

e. Salaried Workers

Annual salary amounts will be used as base wages. Any non-salary income, such as overtime, bonuses, commissions, tips, etc., will be treated as *other compensation* and must be averaged, annualized, and added to the salary amount.

f. Health and Insurance Benefits

Some employers document health and/or insurance benefits by including the amount in an employee's YTD gross income. When annualizing gross income, the member or sponsor may exclude the amount of benefits if the paystub shows a corresponding payroll deduction of that amount. The YTD gross income can be reduced by the lesser of the amount included or the amount deducted.

g. Teachers

Persons working as teachers should provide a copy of their most recent teaching contract. Additional income (e.g., summer school, meetings, tutoring) should also be included. The amount of the contract plus any additional income will be used as their annual income. In addition to the contract, provide a copy of the most recent paystub. If the contract is unavailable, a VOE must be obtained. Follow the guidelines in this document to determine the teacher's base pay, and add any additional employment income disclosed on the Household Member Questionnaire.

If a substitute teacher is working under contract, his or her income should be calculated based on the terms of the contract; otherwise, a VOE must be used to verify the income. The VOE must provide the per diem (i.e., daily rate) amount the teacher receives. Income will be annualized by multiplying the average number of days worked per month by the per diem amount, and then multiplying the result by 12. The number of days worked to date is calculated by dividing the total income listed on the VOE by the per diem amount. Divide the number of days worked by the number of full months worked to date. Annualize income by multiplying the per diem by the average number of days worked per month, and then multiplying by 12.

h. 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 compensation is available during the off-season. Use the employment income calculation guidelines detailed above to determine annual seasonal income, discounting for off-season time. Include any unemployment compensation the borrower has received or may receive during the off-season in the "Other Income" section. Use the number of weekly hours listed on the VOE, even if it exceeds 40.

i.Tradesmen – Union Referrals/Short-Term Jobs

Tradesmen who are assigned or referred to short-term jobs by their local union will be treated as self-employed workers. VOEs may be obtained from either their local union or each of their current year's employers. Additionally, the two most recent years' tax returns must be provided.

j. ITIN Holders

Individual Taxpayer Identification Number (ITIN) holders who have filed federal income tax returns for at least the two preceding years, and who are able to document consistent earnings, are eligible to apply for DPP grants. The decision to provide DPP grants to ITIN holders is at each member's discretion. ITIN holders whose income is used to qualify the household for the first mortgage financing must meet the above ITIN requirements.

If the borrower is working under an ITIN rather than a social security number, annual income is calculated using the guidelines in this document. A VOE listing the borrower's hire date, or three consecutive paystubs (as required by the income calculation guidelines), can be used to demonstrate consistent earnings. In addition to the standard income documentation, ITIN holders must also supply copies of their federal income tax returns for the preceding two years. Returns must be signed by the filer and preparer (if applicable). If the returns are unsigned (as is the case for those filing via the Internet), a filing confirmation must be submitted. The name on the income verification documents must match the name on the tax returns.

C. Non-employment Income

For other income received on a recurring or periodic schedule, calculate the annualized amount by multiplying the gross periodic amount by the number of periods in the year. For amounts that vary, calculate an average of the amount received to date and annualize it. Verification of non-employment income must be obtained for the year in which the household is being qualified for assistance. For example, if the borrower is being qualified in 2017 and receives Supplemental Security Income (SSI) or Social Security Disability (SSD), the documentation confirming the amount must show the amount of SSI or SSD he or she will receive in 2017.

For child support, only use the current ordered amount of support, and do not include amounts for arrears or past-due support. If child support is not received regularly, and this fact is documented, determine annual support by averaging the YTD child support received and annualizing that average.

D. Self-Employment Income

For self-employed persons, the calculation will include YTD net earnings plus projected net income for the remainder of the year. The borrower must supply an income statement (profit and loss statement) or schedule of receipts for this purpose. Full tax returns from the previous two years, including an IRS Schedule C or the equivalent, will also be required. For Corporations, Partnerships, and LLC businesses, the business tax returns as well as the personal tax returns are required.

Future earning projections use the monthly average of the previous two years' net income with any depreciation or amortization added back. If the resulting adjusted income is negative, count the income for that year as $0.

If the borrower has fewer than two years of self-employment history, the monthly average will be based on the number of self-employed months, including those in the current year. If a business has been started in the same year as the year of qualification, the YTD income is averaged and projected forward.

E. Rental Income

If the property being purchased is a two-unit property, rental income must be included in the household income calculation. A current appraisal or lease is needed to confirm the gross monthly rent amount. When using an appraisal, the highest rent amount listed for the two units will be used to calculate annual gross rental income.

If the borrower owns other real estate, rental income must be included in the household income calculation. A current appraisal with a market value of rents or a lease agreement is required.

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