

Downpayment Plus® Program Income Calculation Guidelines 2009 Program Year (Revised 8/2009)

Determining Household Income Eligibility:

Members must calculate the annual income for each household member age 18 years and older. The information will be totaled to determine the household's annualized income, which will then be used to determine whether the household is income eligible for Downpayment Plus® (DPP®) assistance. Eligible households must have annualized incomes of less than or equal to 80% of the area median income for the county in which the home purchased will be located. Members must collect and submit income documentation used to calculate a household's annualized income. This information will be collected using the DPP Beneficiary Questionnaire, a verification of employment, pay-stubs, and/or other source documents. Annualized household income will be determined by using the year-to-date earnings for the current calendar year.

Members will have to submit the following documentation to the DPP Administrator at the time of reservation:

- 1) DPP Beneficiary Questionnaire(s)
- 2) Income documentation for all sources of income
- 3) DPP Income Calculation Worksheet

Beneficiary Questionnaire Instructions:

Each member of the household age 18 years and older must complete the **Beneficiary Income Questionnaire**. (Parents or guardians can complete the questionnaire for dependent full time students living outside of the home) Be sure each section is completed thoroughly. The questionnaire will be the starting point to gathering income documentation for the sources identified on the questionnaire.

Member banks should be prepared to submit the completed and signed questionnaire for each household member, for each DPP transaction. These should be sent to the DPP administrator at the time the reservation for the grant is made.

No-Income Household Members:

Even if a household member is not employed or receiving income of any kind, each household member must complete the questionnaire and sign the certification at the bottom of the document. The completed questionnaire will act as verification that a household member has no income to report.

Gathering Income Documentation:

Member banks will need to provide income documentation for each source of income identified on the beneficiary questionnaire. **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 beneficiary holds more than one job; the member will have to obtain more than one verification document.

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It is critical the employment verification is completed accurately and thoroughly, as the information will be used to calculate the annual employment income. For other income sources, the beneficiary will need to provide documentation to confirm the periodic payment and how often it is received.

Calculating Annual Income:

These calculations must be clearly documented in a way that ensures the calculation can be easily recalculated and reconfirmed. The sources of income to be counted will be those identified on the Beneficiary Questionnaire. The member 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.

Depending on the type of income, the method used to determine the annualized income amount will vary. However, as a rule of thumb, all gross earned income, up to the date of qualification, from all sources, must be included in the calculation. Future earnings and income will then be estimated and added to the earned income amount.

1. Employment Income

In order to calculate the annual employment income, the following information is necessary; 1) gross earned income amount, 2) gross hourly wage 3) average weekly hours, and 4) the number of full weeks left in the year. The annual employment income is equal to the **year to date gross earned income plus future earnings**. 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 services, received up to the date of verification.

Future earnings will be calculated using the gross hourly wage, average hours per week, and the remaining full weeks in the year. A full week is defined as seven (7) days from the day of the week from the pay-stub date or date disclosed on the VOE. For example, if the pay-stub date is Thursday, June 18, 2009, the number of Thursdays left in the year will total twenty eight (28), or 28 full weeks.

Example

Pay-stub or VOE Date	Wednesday, June 16, 2004	
YTD Gross Income	\$16,695	
Hourly Base Wage	\$14.00	
Average Weekly Hours	40	
Full Weeks Left	28	
Calculation		
YTD Gross Income	\$16,695 x 100%	\$16,695
Future Earnings	\$14.00 x 40 x 28	\$15,680
	Total	\$32,375
	Total	\$32,375

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- **Average Hours**

If using a verification of employment, the average hours should be expressed as a finite number. However, if the average hours are expressed as a range, the high end of the range must be used in the calculation. For example, the range on the form is 24-30, use 30 hours as the average hours per week. If the average hours are not provided, the member 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 33.565, use 33.57 for average hours. If average hours exceed 40, use 40 hours to project base pay and calculate overtime forward as indicated below.

- **Hourly Wages**

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, along with the average hours, and weeks remaining in the year. If the hours aren't disclosed, the standard 40 hours should be used.

- **Overtime Income**

If pay stubs or VOE show overtime income, the amount of overtime income must be projected forward for the rest of the year. When the documentation displays the YTD overtime amount, determine the weekly average, and project forward by multiplying by the number of full weeks left in the year. Add that result to the annual income from employment.

If YTD overtime income is not disclosed on the pay stubs or VOE, then the YTD Gross Income must be analyzed to determine if OT was earned. Determine the YTD Base Wages, by multiplying hourly wage by 40 hours by weeks worked to date. Compare the result to the YTD Gross Income listed on the income documentation. The difference between the YTD Gross Income and the YTD Base Wages, will be considered the YTD OT. Calculate the average OT by dividing the YTD OT by the number of weeks worked to date. Finally project OT by multiplying the average OT per week by the number of full weeks left in the year. Here is an example:

Pay-stub or VOE Date	Wednesday, 6/10/2009	
YTD Gross Income	\$21,000	
Hourly Base Wage	\$15.00	
Average Weekly Hours	40	
Weeks Worked	30	
Full Weeks Left	22	
Calculation		
YTD Base Wages	\$15 x 40 x 30	\$18,000
Difference	\$21,000 - \$18,000	\$3,000
Average OT per week	\$3,000/ 30 weeks	\$100
OT Projection	\$100 x 22 weeks	\$2,200

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If the applicant does not expect to work additional overtime, verification of this fact must be provided by the employer.

- **Other Compensation**

If other compensation, such as tips, commissions, and bonuses, are customary for the position, these should also be projected for the rest of the year. Take the weekly average amount and multiply by the number of full weeks left in the year. Add that result to the annual income from employment.

- **Semi-Monthly Pay Schedules**

If a beneficiary is paid on a semi-monthly basis, project the estimated earned income for the rest of the year by using the semi-monthly **pay periods for the months remaining**. Typically a semi-monthly earner is paid twice a month on the 15th and 30th of each month. For example, if the VOE says semi-monthly pay of \$1,500 and the YTD is thru 3/15/05, then there are 9.5 months left or 19 pay periods remaining. The projected pay is as follows $\$1,500 \times 19 = \$28,500$.

If using pay-stubs and only a semi-monthly wage is given with no other information about hourly wages or hours, use the semi-monthly wage given and project forward for remaining pay periods. 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 semi-monthly pay period. For example, the pay stubs show 76.67, 70, and 75.5 hours over three semi-monthly pay periods, the average hours are $222.17/3 = 74.06$ per pay period. Multiply 74.06 by the hourly wage and project for the remaining pay periods.

- **Salaried Workers**

If the VOE or pay-stub 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.

- **Teachers**

Beneficiaries working as teachers should provide a copy of their most recent teaching contract. The amount of the contract will be used as their annual income. If the contract is unavailable, a VOE must be obtained. To this amount add any additional employment income they disclose on the questionnaire.

If a substitute teacher is working under contract, the income should be calculated based on the terms of the contract. Otherwise the substitute must provide a VOE to verify their income. The VOE must provide the per diem amount the teacher receives. Income will be projected for the remainder of the year based on the average number of days worked per month multiplied by the per diem amount. The total income listed on the VOE should be divided by the per diem amount. This will give you the number of days worked to date. Take the number of days worked and divide by the number of full months worked to date. Project income for the remaining months based on the per diem and the average number of days worked per month.

- **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

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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 beneficiary 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.

For union workers who are assigned to jobs by their local union, a VOE from their local will be accepted. The VOE standards and income calculation are the same as for a seasonal worker.

- **Position <1 Year**

If the beneficiary has been in their current position less than one year, it is not necessary to confirm the earnings from the prior employer. For beneficiaries who switched jobs during the year: a verification of employment from the prior employer or the last pay-stub for the job can be used to determine the earned income from the previous job. However, for various reasons, contacting the prior employer may not be feasible. If either form of verification is not obtainable, calculate income earned in the prior position by using the base wages of the current job.

Beneficiaries who were full time students or took time off during part of the year: Calculate income as normal, and add the base wages of the current job for the part of the year spent in school or not working.

- **ITIN Holders**

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. Providing DPP 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 beneficiary is working under an ITIN number, rather than a social security number, the annual income is calculated using the same income calculation guidelines stated above. The collection of a VOE listing the buyer's hire date or three consecutive pay stubs (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 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.

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 received to date and project forward. Verification of non-employment income must be obtained for the year in which the household is being qualified for assistance. For example, if the person is being qualified in 2009 and receives SSI or SSD, the documentation confirming the amount must show the amount of SSI or SSD they will receive in 2009.

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3. Self-Employment Income

For self-employed persons, the calculation will include year to date net earnings as well as projected net income for the remainder of the year. A household's self employment net income will be calculated by taking the net income from each year and grossing it up by any depreciation or amortization taken in that year. Grossing up means to add back the amount of depreciation or amortization to the net income amount and then use these adjusted numbers in the calculation. If the resulting income is negative, count the income for that year as \$0.

The beneficiary 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 beneficiary's two most recent tax returns will also be needed. Future earnings will be based on the monthly average of the adjusted income from the two most recent years. The average should be calculated based on the total number of self employed months. If the beneficiary has less than two years of self employment history, the monthly average of 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 income should be included and projected forward.

4. Rental Income

Rental income must be included in the household income calculation. Rental income is defined as 75% of the annual gross rental income to be received.

5. Income of Non-occupying Owners

Income from all property owners must be included in a household's annual income calculation. If there is a co-owner or co-borrower who will not reside in the home being purchased or rehabbed with DPP assistance, the income of the non-occupying owner must be collected and counted when determining a household's income eligibility.

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Income Inclusions and Exclusions:

What follows is a list of income inclusions, exclusions, and source documents. The list is to be used as a starting point, and is not exhaustive. There may be exceptions to the list and if you are unsure, please contact the DPP Administrator for further direction and clarification.

- Income Inclusions
 1. The full amount (before any payroll deductions) of all wages and salaries, overtime pay, commissions, fees, tips, bonuses and other compensation for personal services
 2. The full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of period receipts, including a lump sum payment for the delayed start of a periodic payment
 3. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay
 4. Welfare assistance (excluding food stamps)
 5. Alimony and child support payments
 6. All regular pay, special pay and allowances of a member of the Armed Forces
 7. The net income derived from operation of a business or profession.
 8. 75% of any gross rental income from the real property
 9. Income of non-occupying home owners or co-borrowers

- Income Exclusions:
 1. Income from the employment of children under the age of 18 years
 2. Income from dependent children who are half or full-time students
 3. Payments received for the care of foster children or adults
 4. Lump sum additions to family assets (e.g. inheritances, capital gains, insurance policy death benefit payments)
 5. Medical expense reimbursement received specifically for the medical expense of a household member
 6. Home care assistance paid by a state agency to offset the costs of services or equipment needed for a disabled household member
 7. Income of a live-in aide
 8. Education scholarships paid directly to a student, educational institution, or a veteran
 9. The amount of Section 8 vouchers used to pay for monthly mortgage payments
 10. Tuition reimbursement, if non-taxable income

- Income Source Documents
 1. Completed and properly executed Request for Employment Verification forms
 2. Three consecutively dated pay-stubs from the qualifying period
 3. Social Security or Supplemental Income notices
 4. Financial statements verifying payments received from annuities, pensions, insurance policies, etc.
 5. Court orders verifying alimony awards and child support payments
 6. Completed and signed U.S. income tax returns, with Schedule C

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