

Federal Home Loan Bank of Boston Equity Builder Program

Calculation of Household Income

The Federal Home Loan Bank of Boston (Bank) is using the following guidelines to verify household income and subsequently determine the eligibility of home buyers or households participating in the Equity Builder Program (EBP).

Purpose of Income Calculation Methodology

- The purpose of the Equity Builder Program is to facilitate home purchases by income-eligible households.
- Income eligibility refers to the prospective year in which the household is purchasing the home. Consequently, the purpose of this income calculation methodology is to accurately and completely measure the household's total income for the prospective year in which the household is purchasing the home.
- This may differ from your institution's policies.

If you have a question on any of the information, or on income not specified in either category, please contact your Community Investment Manager or other member of the Housing and Community Investment staff.

General Instructions:

1. The current Income Calculator spreadsheet must be used.
2. Income for the entire household must be included and documented.
 - a. All members of the household must be accounted for, including ages of children and status as full-time students.
 - b. All adults in the household must be listed or a statement/documentation must be included detailing that the individual has no income.
 - c. Adults refer to household members ages 18 and older.
3. Income from assets must be included.
 - a. Rental income for multi-unit owner-occupied housing must be included. The full rental income must be included, unless the member documents what percentage was used to qualify the household for underwriting. Can not be less than 75%.
4. Income documentation:
 - a. Can not be more than 45 days prior to enrollment date.
 - b. Must evidence current year income and going forward.
 - c. Most acceptable form of documentation is a current Verification of Employment (VOE).
 - d. See the list at the end of this document for other acceptable forms.
 - e. If using pay stubs, at least one calendar month's pay stubs are required.
5. Total on the Income Calculator spreadsheet must match the amount entered in the online enrollment.
6. Explain any unusual income or calculation in a separate document and include it with the income documentation. This document can be uploaded or sent via mail, email, or fax.
7. The Bank reserves the right to request more current income documentation prior to disbursement if more than 90 days have elapsed since enrollment.

To be included as income:

As a rule, if a source of income is to be included in the income used to qualify a home buyer or household for mortgage underwriting purposes, the source should be included to determine the eligibility for the Equity Builder Program.

Based on §5.609 of the U. S. Department of Housing and Urban Development (“HUD”) regulations (24 CFR 5.609), annual income shall include, but is not limited to:

a) Anticipated total income from all sources received by the household head and spouse (even if temporarily absent) and by each additional member of the household 18 years of age and older.

Please note that income of co-habiting partners/spouse must be combined, even if only one of the partners is on the application, mortgage, or note.

b) The full unadjusted amount (i.e., before any payroll deductions) of all wages and salaries. This includes all income of overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services. Include overtime income and/or bonuses that are received regularly. Regular and/or base wages/salaries are to be annualized separately from overtime, commissions, fees, tips and bonuses.

Please note: use gross income, including untaxed 401K income deducted from gross pay, not the net income of the household. If you use the W-2 to determine income, use Box 3 (Social Security wages) instead of Box 1 (Wages, tips, and salaries).

Annualizing regular/base wages or salaries based on the most recent year-to-date information and the length of time in the position (if less than the full current year) from either the VOE or current pay stubs is preferred.

Based on available information and documentation provided, the year-to-date or annual income reported on the VOE should corroborate the year-to-date amounts indicated on current pay stubs. In circumstances where the VOE lists the year-to-date income and hourly wages and hours per pay period worked, these will be compared for consistency.

In general, overtime pay, commissions, fees, tips and bonuses, and the income from other compensation for personal services should be averaged as follows:

- If income documentation is available for six (6) months or more of the current calendar year, it is preferred that the current year-to-date amounts be averaged with the prior calendar year amount over the actual time period, depending on the available data.
- If income documentation is not available for six (6) months or more of the current calendar year, overtime pay, etc should be averaged using the two prior calendar year earnings, based on the available data.

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- Averaging these sources of income must be based on the start date of employment if it was during this calendar year.
- Seasonal overtime or other earnings or any other exceptions or reasons why annualizing such income would not be appropriate must be explained in writing by the member financial institution.

c) The reported net income derived 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. This figure should be averaged as follows:

- If income documentation is available for six (6) months or more of the current calendar year, it is preferred that the current year-to-date profit & loss statement (YTD P&L) be averaged with the prior two calendar years' worth of tax returns over the actual time period, depending on the available data.
- In instances where a YTD P&L is not available or the YTD P&L is for a period less than six (6) months of the current calendar year, this income should be averaged using the prior three calendar years' worth of tax returns.
- If the income data is not adequate to meet the two guidelines above, because the person has not been self-employed or operated the business for a sufficient period of time, then the income should be annualized using the data available for that period of time of self-employment or business operation (e.g. if the business has only been in operation for two years, then averaging based on this two-year history.)

d) Interest, dividends, and other net income of any kind from real or personal property. Expenditures for amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation is permitted only as authorized in paragraph c).

e) The full amount of periodic payments received from social security, annuities, insurance policies, housing payments such as Section 8, 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.

Section 8 rental assistance should not be counted as income if that assistance will end when the household closes on the purchase of a home. If the Section 8 assistance will continue as Section 8 homeownership assistance, the amount of the Section 8 assistance should be shown as income.

f) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay.

g) Welfare Assistance.

h) Alimony and child support payments.

Please note that child support and/or alimony should be counted if received regularly, and should be based on the actual amounts received.

i) All regular pay, special pay and allowances of a member of the Armed Forces.

Not considered income:

Based on §5.609 of the HUD regulations (24 CFR 5.609), annual income is *not* to include, but is not limited to, the following:

a) Income from the employment of children (including foster children) under the age of 18 years;

b) Payments received for the care of foster children;

c) Lump sum additions to family assets (e.g., inheritances, capital gains, insurance policy death benefit payments, settlement for personal/property losses, medical expense reimbursements);

d) Income of a live-in aide;

e) Educational scholarships paid directly to a student, educational institution, or a veteran;

f) Earned income tax credits;

g) Unreliable and non-recurring income (e.g., gifts, employee stock option buyouts, etc. As indicated earlier, overtime pay, commissions, fees, tips and bonuses do not constitute unreliable and non-recurring income as defined here.); and

h) The value of food stamp allotments (per §913.106 of the HUD regulations).

Acceptable documentation of income:

Acceptable forms of income source documents may include the following:

a) Completed and properly executed (in ink, no white-out) verification of employment letters;

b) Paycheck earnings/deductions statements *for at least one calendar month*;

c) Completed and signed copies of U.S. Individual Income Tax Returns (i.e., Internal Revenue Service 1040 Forms) and supporting schedules (*Please note that Income Tax Returns are accepted as the sole documentation only in the first three calendar months of the year.*);

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- d) Year-end Wage and Tax Statements (i.e., Internal Revenue Service W-2 Forms)
(Please note that W-2 Forms are accepted as the sole documentation only in the first three calendar months of the year.);
- e) Social Security Supplemental Income notices;
- f) Brokerage statements verifying payments received from annuities, pensions, insurance policies, etc.;
- g) Brokerage statements verifying stock portfolio earnings, dividends, and other interest income;
- h) Letters or case management forms from public assistance agencies;
- i) Approved HUD Section 8 certificates;
- j) State housing agency verifications of income; and
- k) Court orders verifying alimony awards and child support payments, with copies of checks or payment records to verify payments.

Annual Income Calculations:

Verified income at the time of enrollment must be converted to annual amounts by using the following calculations:

To annualize full-time employment income, multiply:

• Year-to-date income divided by number of pay periods multiplied by number of pay periods in a calendar year;

- hourly wages by 2080 hours;
- weekly wages by 52;
- biweekly amounts by 26;
- semi-monthly amounts by 24;
- monthly amounts by 12.

Note: Overtime pay, commissions, fees, tips, and bonuses must be considered in addition to the base or hourly pay calculations. Please include all pay amounts, averaged according to the instructions discussed previously in this document.

To annualize income from anything other than full-time employment, multiply:

- hourly wages by the number of hours the family expects to work annually;
- average weekly amounts by the number of weeks the family expects to work;
- other periodic amounts (monthly, biweekly, etc.) by the number of periods the family expects to work.

Annual wages should always reflect a full 12-month period, regardless of the pay schedule. For example, if a school teacher earns a gross annual salary of \$37,000, the \$37,000 should be used as annual salary whether the teacher is paid over only nine months or throughout the year. If a family indicates that income might not be received for the full 12 months, i.e. unemployment compensation, the owner should still annualize the income, i.e., income benefits may be extended.