# Income Calculation Guidelines

## Introduction

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I. **Introduction:**

The Federal Home Loan Bank of Boston (Bank) is using the following guidelines to verify household income and subsequently determine the eligibility of households participating in the Equity Builder Program (EBP), Housing Our Workforce (HOW) or the Affordable Housing Program (AHP) for homeownership initiatives.

There is a difference between EBP and HOW’s income thresholds. EBP is for *total households at or below 80 percent of the Area Median Income (AMI)*. HOW is serving total households with income greater than *80 percent and up to 120 percent AMI*. The income guidelines and calculations are standard for both homeownership initiatives.

These guidelines are based on the U.S. Department of Housing and Urban Development (HUD) regulation 24 CFR 5.609.

Income calculations are reviewed and approved by the Bank. Households are determined to be income-eligible based on the review of documents provided with the sole discretion of the Bank.

II. **Income Calculation Methodology:**

This income calculation methodology is applied to each submission to accurately and completely measure the household’s *total gross income for the prospective 12 months* from the enrollment date (EBP/HOW) and/or move-in date or program qualification date (AHP), as they apply.

It is important to note, that this may differ from your institution’s or organization’s policies and procedures or income calculations. Specifically, members will need to apply multiple underwriting techniques to appropriately calculate income eligibility for households.

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

III. **Determining Household Composition:**

A. **Determination of Household Size for AHP, EBP, and HOW**

   A “household” is defined as:
   
   a. All members of the household, who intend to reside in the subject property, must be accounted for regardless of relationship.
   
   b. All children (even if temporarily absent) are to be included, i.e. college students.
   
   c. Children who reside with parents due to joint custody, may be included in the household count.
   
   d. Unborn children are counted as members of the household for purposes of calculating household income.
   
   e. Co-signers/borrowers to mortgage/credit underwriting on the purchase transaction/lease agreement are not considered part of the household if they are not living in the residence and can be substantiated.

IV. **Determining and Disclosing Income:**
1. All adults in the household must disclose income received.
2. Adults refer to household members ages 18 and older.
3. Indicate and verify if a household member is an adult full-time student.
4. For a full-time working student of the household (18 years and older, excluding head of household and spouse), a maximum of $480 of wage income will be included. **NOTE:** additional documents to support full-time status as a student will be required. For example: current class enrollment transcript or letter from the registrar’s office verifying the full-time student status.
5. If an adult residing in the household receives no income from any identifiable source they will be required to provide an executed “Certification of Zero Income” statement.

**General Instructions for EBP/HOW:**

1. EBP/HOW Disclosure must be completed, executed, and provided at the time of enrollment by the member.
2. For each enrollment, include the most recent year federal tax return or IRS transcript for each adult member of the household.
   - Income sources for the current year should be compared against prior year’s income documentation (i.e. IRS Income Federal Tax Return) for EBP/HOW enrollments.
   - Non-filing adult household members should provide a signed and dated letter of filing status.
3. Prospective refers to the annual time period beginning on the date the member submits the enrollment.
4. The online income calculator in the EBP/HOW system must be used.
5. If more than 90 days has elapsed since enrollment, the Bank reserves the right to request more current income documentation prior to disbursement.

**General Instructions for AHP (Homeownership Initiatives):**

1. The sponsor should execute a disclosure statement with the household which provides that the sponsor is authorized to share income information with the member and the FHLBank Boston for determining eligibility to participate in the AHP.
2. A summary income-calculation coversheet must be used for each household when submitting income documents for review.
   - This is should include the move-in or date of qualification, unit number, the number of adults, the number of children, the sources of income, and the calculation used to determine prospective annual income.
   - A summary income-calculation coversheet provided to another funder will, generally, be acceptable, at the sole discretion of the Bank.
3. For each household, include the most recent year signed federal tax return, when available, for each adult member of the household.
   - Income sources for the current year should be compared against prior year’s income documentation (i.e. IRS Income Federal Tax Return).
   - Non-filing adult household members should provide a signed and dated letter of filing status.
4. Section 8 housing voucher certifications, public housing authority certifications and/or referrals, or other similar documentation are insufficient as the sole documentation of income.

5. Sponsors, developers, and/or project owners are required to maintain the third-party income documentation for each tenant at the time of move-in (rental) or at the time of homebuyer qualification (homeownership) for review by members and the Bank at any time during development and the affordability retention period.

6. The Bank acknowledges that a sponsor/owner may be using other income calculation methodologies for other funders. The Bank reserves the right, in its sole discretion, to review and determine which methodology is appropriate and reasonable to calculate income-eligibility for the AHP.

7. The Bank reserves the right to request additional documentation, as needed, to confirm eligibility.

V. Income Sources, Calculations and Documentation Requirements

General Instructions:

1. Income received by any/all adult members of the household (18 years or older) must be included, regardless of who is listed on the mortgage application, mortgage/note, or lease agreement.

2. If a household member has a job(s), earning a wage through a W2, whether the job is permanent or temporary, full-time/part-time or seasonal; documentation must be provided either in the form of paystubs or a verification of employment from the employer.

3. All income earned outside of employment must be reported, verified, and documented for all adult members of the household.

Please note: Based on the available data and depending on the type of income, the Bank reserves the right to determine which approach is the most reasonable to calculate the prospective total annual household income.

Explanations of any unusual income or calculation should be included in a separate document and submitted with the income documentation.

Wage Earners:

Paychecks:

Acceptable Third-Party Documentation:

a. Multiple paycheck(s) covering at least one current calendar month; dated within 45 days of enrollment for EBP/HOW or move in/qualification for AHP.

b. The borrower’s name and address, pay-cycle and check dates, along with the employer name, must be clearly identified on the paystub.

c. All documentation provided will be reviewed to determine consistency in earnings and YTD pay levels.
**Income Review:**

a. Gross earnings: Full unadjusted year to date gross income, i.e., before any payroll deductions from the most recent paystub will be used to annualize the household member's portion of the total household income, incorporating all overtime pay, commissions, fees, tips and bonuses, and other compensation. Net income will not be used.

b. When paystubs are provided, the YTD gross earnings must be sufficient to determine annualized earnings.

c. If the employee has received a recent raise and the paystub supports a higher hourly income, additional review will be required.

d. When a household member experiences a change in employment that occurs after January 1 of the current year, the employer **must** verify the date of hire.

e. A signed and dated verbal verification form (i.e. FreddieMac Form 90) is required.

**Calculation Applied:**
Verified income will be converted to annual amounts by the online income calculation system for EBP/HOW, or manually, or using an Excel spreadsheet for AHP using the following calculations.

**Please note:** There will be instances when the online calculation system cannot detect variances in rate of pay, pay cycles, differentials, breaks in employment, etc. A manual review and calculation will be required and should be performed in advance of submission by the member/sponsor.

Prospective income equals year-to-date gross income divided by the number of actual year-to-date pay periods, based on the check date, multiplied by number of pay periods in a calendar year. For example:

<table>
<thead>
<tr>
<th>Current Year</th>
<th>Check Date</th>
<th>Actual Pay Checks/Periods</th>
<th>YTD Earnings</th>
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<tr>
<td>2018</td>
<td>02/16/2018</td>
<td>7 – weekly</td>
<td>3,659.87</td>
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Prospective income: $3659.87/7 = $522.84 X 52 = $27,187.68

**Methods to Determining the Number of Actual Pay Checks/Periods**

a. EBP/HOW method used by the system – Determine length of pay period (weekly, biweekly, etc.). Count actual calendar days from January 1 to check date: 01/01 to 02/16 = 48 days; divide days by pay period days: 47/7 = 6.71; always round up to whole number: 7 pay periods.

b. Manual Method – Check date is a Friday. Based on the 2018 calendar, count back the number of Fridays including the check date, for 7 pay checks.

**EXCEPTION:**

1.) If the pay check date is before the period ending date, use the period ending date for the calculation.

2.) If the pay check date falls on January 1, the employee will need to provide the first paycheck received in that calendar year. If not available, the employer will
need verify the actual number of pay cycles represented in the YTD earnings being reviewed.

Verification of Employment (VOE) – FNMA Form 1005:
Acceptable Third-Party Documentation:
  a. 100 percent completed and properly executed by the employer, Fannie Mae Form 1005.
  b. Dated within 45 days of enrollment for EBP/HOW or move in/qualification for AHP.
  c. The effective paid-through date for base wages in the current year must be clearly identified in box 12B.
  d. Box 14 (Bonus and Overtime earnings) must be completed (Yes or No) if the breakout of earnings in box 12B shows receipt of current or past income.

Income Review:
To determine the 12-month prospective income, income will be calculated or averaged, using the wages and pay periods identified on the VOE. Income will be adjusted for any expected pay increases during the prospective year.

Calculation Applied:
To annualize full-time employment income, multiply:
  - Hourly wages by 2080 hours;
  - Weekly wages by 52;
  - Bi-weekly amounts by 26;
  - Semi-monthly amounts by 24;
  - Monthly amounts by 12.

Base Pay:
  a. If the wage earner works 40 hours per week and the hourly wage rate is expected to increase 2 percent from $18.00/hour to $18.36/hour 35 weeks into the future, the base wage income would be calculated.
     - For example: ($18.00 X 40 hours X 35 weeks) + ($18.36 X 40 hours X 17 weeks) = $37,684.80
  b. Updated: If the number of hours is reported as a range, use the highest number in the range (i.e.: if reported as 24-30 hours per week, enter 30).

Overtime Pay, Commissions, Fees, Tips and Bonuses, and Income from Other Compensation will be averaged as follows:

Note: If data is not available for the two prior years, all available data including year-to-date earnings will be averaged and then annualized for qualifying purposes.

- If overtime, commissions, fees, tips and bonus income documentation is not available for three (3) 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, and annualized.
• Averaging these sources of income must be based on the start date of employment if it was during this calendar year.
• The current year-to-date overtime income will be averaged, with up to the two prior calendar year(s) overtime income over the actual time period worked based on the available data, and annualized.
  o For example, if an employee has worked in a position for two and a half years and the overtime, etc. earnings over that period are reported and documented, and then these earnings should be averaged over the two-and-a-half-year period based on the available data.
• For a year when no income was received, but income was realized in previous or subsequent years, the year is recorded as a zero and included in the average.
  o For example: 2010 = $1,000, 2011 = $0.00 but 2012 = $1,000, the resulting calculation would be $2,000/36 months averaged.
• Updated: Bonus and Overtime income will be included in all cases.
  o Exception: If Box 14 is checked “Not Likely to Continue” and the employer can specifically verify and provide a statement of circumstances for the discontinuance of the income, the Bank will review and determine whether the income can be excluded.

VI. Verification of Employment (Other types of income documentation):
All non-Fannie Mae verifications of employment (such as Work Number) will be annualized using the year-to-date gross income. Refer to the Paystubs (item #1 of this section B) for details.

Self-Employment Income:
Household members who report their annual earnings to the IRS through a Schedule C, 1099 statement, own a C or S Corporation, or have an ownership interest in a partnership, are considered to be self-employed.
Acceptable Third-Party Documentation:
a. Completed signed copies of U.S. Individual Income Tax Returns (i.e., Internal Revenue Service 1040 Forms) and supporting schedules.
b. Completed signed copies of U.S. Business Income Tax Returns (i.e., Internal Revenue Service 1120 or 1065 Forms) and supporting schedules.
c. Signed and dated profit and loss statement is required after July 1 of the current calendar year.
d. Signed and dated letter from the household member(s) certifying the start date for the company or the incorporation date for the corporation/partnership if the date is not provided on the completed tax return.

e. IRS transcripts are not an eligible source of documentation for self-employed household members.
f. After April 15 of the current calendar year, the prior year tax return is required for review.
g. If the household member has filed an extension request with the IRS, verifying documentation is required.
Income Review and Calculation:

a. Prior to July 1 of the current calendar year, members/sponsors will review and include, an average of income, over the past three years using the most recent three years of executed filed Federal tax returns available. The result will be annualized. NOTE: The number of months will be rounded down to the nearest month based on actual start of the business.

b. Beginning on July 1 of the current calendar year, when income documentation is available for six months or more, a current year-to-date (YTD through June 30) profit and loss statement (P&L) must be signed, dated, and averaged with the prior two calendar years' signed tax returns over the actual period. The result will be annualized. NOTE: The number of months will be rounded down to the nearest month if the P&L statement is not as of month end.

c. Updated: Depreciation will be added back into the HH income when deducted from gross income levels on the Schedule C or Corporation/Partnership federal tax returns. If through third party independent verification it can be determined that the level of depreciation is not likely to continue, the Bank at its sole discretion may exclude.

d. 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 averaged and annualized using the data available for the period of time of self-employment or business operation.

e. If income documentation evidences an income loss to the household, the income for the effected tax year will be carried as a zero when completing the calculation for averaging.

f. Updated: If the business experienced a loss during a period of start-up, and then shows positive income in the subsequent year, the reviewer should exclude the start-up year and begin the income calculation with the next year demonstrating positive income.

Interest and Dividends for $100 or greater

Acceptable Third-Party Documentation:

h. Updated: Most recent year tax return or IRS transcripts

Other Net Income of Any Kind from Real or Personal Property:

Acceptable Third-Party Documentation:

a. Most recent month bank statement or most recent 1099 IRS statement

b. Brokerage statements verifying receipt of IRA distributions, annuity payments, insurance payments, etc.

c. Brokerage statements verifying stock portfolio earnings, dividends, and other interest income.

d. Most recent year tax return or IRS transcript

Income Review and Calculation:

a. Interest and dividend income are included in the total household income when the annual amount reflected on the tax returns or financial statements exceed $100 per filing year.
b. If the reviewer believes that the impact to the household income is significant, re-occurring, and likely to continue, then the interest/dividend/other income should be included.
c. If the assets are not going to survive the transaction, verifying documentation should be provided to support.

**Rental Income from Multi-Family Units/Roommates or Other Owned Real Estate:**

Acceptable Third-Party Documentation:

a. Actual leases or current records of rental payments received or anticipated to be received.
b. Copy of the completed appraisal report or other documentation of rental income for subject properties that generate rental income.

**Income Review and Calculation:**

a. Actual and known rental income must be included in the income calculation if the property is a multi-family property.
b. If the full actual rental income is known, then the full rental income must be included, unless the member documents the percentage that was used to qualify the household for underwriting. At a minimum, this cannot be less than 75 percent.
c. The rental income may be excluded from the income calculation when the rental income is only potential, expected based on appraised values, and is not actual income.
   o For example, an income-eligible household is purchasing a two-family property and the appraisal indicates that the market rent is $750 per month but the apartment is vacant, and the prospective owner does not have an agreement to lease the unit, this rent is only expected and is not actual and would therefore be excluded from the income calculation.

**Periodic Income Payments:**

Acceptable Third-Party Documentation:

b. Letters or case management forms from public assistance agencies.
c. Approved HUD Section 8 certificates.

**Income Review:**

Use the actual current amount/gross amount received from any of the following. **Do not gross up.**

- Social Security (include for minors or other dependents)
- Annuities
- Insurance policies
- Retirement funds
- Pensions
- Disability
- Death benefits
- Welfare Assistance
- Temporary Aid for Needy Families
Homeownership Assistance Programs- Income Calculation Guidelines

- Other similar types of period receipts

**Calculation Applied:**
Weekly/monthly income received should be annualized by the number of pay periods received; based on likelihood of continuance.

**Unemployment and Payments in Lieu of Earnings:**
**Acceptable Third-Party Documentation:**
- Most recent year state agency documentation.
- Most recent year IRS filing statements.

**Income Review:**
Income such as unemployment, disability compensation, worker’s compensation, and severance pay must be included.

**Calculation Applied:**
Weekly/monthly income received should be annualized by the number of pay periods received; based on likelihood of continuance.

**Housing Assistance:**
**Acceptable Third-Party Documentation:**
- Approved HUD Section 8 certificates, must be current with 45 days of enrollment/lease-up.
- Letters or case management forms, dated with 45 days of enrollment/lease-up from public assistance agencies.

**Income Review:**
- In the case of homeownership, 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.

**Calculation Applied:**
Weekly/monthly income received should be annualized by the number of pay periods received; based on likelihood of continuance.

**Alimony and Child Support:**
**Acceptable Third-Party Documentation:**
- **Updated:** Court orders and/or state agency documentation verifying alimony awards and child support income. If the member submits bank statements, the HCI staff member must determine if any large deposit result in additional potential income sources. Non-disclosure of additional cash or income is a red flag and HCI staff member has the right to deny the Enrollment.
- Copies of checks, state payment records or child support enforcement, to verify receipt.
Income Review:

a. **Updated**: Child support and/or alimony should be counted in all instances, specifically when court ordered. If third party independent documentation can be provided indicating non-receipt of income, the Bank at its sole discretion will review and determine if the income can be excluded.

b. Income should be reviewed based on the higher of actual amounts received as compared to court ordered documents; annualized.

c. Payments received for amounts in arrears will be included when received regularly and documented for the duration of the arrears payments.

d. Lump sum arrear payments should not be included in the income calculation.

Calculation Applied:
Weekly/monthly income received should be annualized by the number of pay periods received; based on likelihood of continuance.

All Regular Pay, Special Pay and Allowances of a Member of the Armed Forces:
*Does not include special pay to a family serving in the Armed Forces who is exposed to hostile fire.*

Acceptable Third-Party Documentation:

a. Most recent year military earnings statements.

b. Letter from the command verifying national guard training pay (prospective).

c. Most recent year IRS filing statements.

Income Review:
Income should be reviewed and calculated in the same manner as paystub recipients.

Calculation Applied:
Weekly/monthly income received should be annualized by the number of pay periods received; based on likelihood of continuance.

VII. Other Income/Seasonal Income:

a. Annual wages when paid in less than 12 months:
   o Annual wages should always reflect a full 12-month income period, regardless of the pay schedule.
   o 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.

b. Seasonal earnings or other types of unique income must be included.
   o For example: if a household member works a second job during peak holiday times, during the summer months or during growing seasons, the income received during this period must be added to the annualized income for that household member. The employer should verify the pay level and the number of weeks that the income was received in prior years along with an estimate for the next 12 months. The calculation will be based on the prospective pay level multiplied by the estimated number of weeks or hours for the next prospective 12 months’ pay period(s). This total amount will be included in the
total annualized income for that household member. The income should be compared against prior earning periods as provided by the employer.

c. Seasonal and/or other types of unique earnings that are not included in the annualized income for the household require an exception from the Bank. The member will be required to provide an explanation supporting the omission of the income.

VIII. Income to be Excluded:
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, disabled or elderly adults, in the care of an identified household member;
   - The homebuyer must provide a copy of the contract identifying the terms and conditions of the employment agreement, the amount of wages earned monthly, and any rental income received.
   - The individual being cared for will not be included in the household count and will not be required to sign or disclose any personal information to the Bank, for income qualifying purposes.
   - The income will not be included in the household’s total income unless it is received as a rental payment.

c. One-time, 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;

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

i. Earnings in excess of $480 for each full-time student 18 years old or older (excluding the head of the household or spouse); and

j. Do not include special pay for Armed Forces exposed to hostile fire.

IX. Certification of Zero Income:
All adult household members, who will reside in the property, but are not working or do not receive any income from any sources, will need to execute a Certificate of Zero Income form.