

HOW TO CALCULATE INCOME FOR ELIGIBILITY

Definition of Income

The 2010 DPA Loan Program uses the Section 8 definition of income. This definition may include as income sources that are not counted using the IRS or Census definition of income.

Always use gross income to determine eligibility. Always anticipate income over upcoming 12 months. Income earned from assets (not its value) counts as income. If an asset does not earn interest, interest is imputed at a rate of 2%.

Rules & Requirements – 6 main points

- Determining whose income to count
- Anticipating income over upcoming 12 months
- Verifying income
- Assessing information
- Comparing income to income limits
- Timing of income certification

Determining

Knowing whose income to count is as important as knowing what income to count. In practice, this means that you must first determine the number of people that WILL LIVE in the house and then collect income information of those people. This includes significant others even if they are not going to be on the mortgage, but will be moving in.

The income of all people living in the household (related or not, with the exception of minors and full time students >18 yrs) is counted.

Anticipating

When verifying income for eligibility, assume the household's current circumstances will continue for the next 12 months unless there is verifiable evidence that shows otherwise.

Verifying

HUD prefers third party written verifications. If attempts to obtain a third party written verification fail, a follow up phone call requesting the information is preferred. If this fails, a copy of actual documents is acceptable. Attempts to obtain written or verbal verifications must be documented.

Assessing

It is important to clarify and understand the frequency (hourly, weekly, monthly) of receiving the income. For example, an employee who is paid twice a month may actually be paid twice a month (24 times/year) or every two weeks (26 times/year).

Also, it is important to verify whether overtime is an occasional occurrence or if it is predictable. Be sure to include anticipated increases/raises.

An annual salary is counted as annual income regardless of the payment schedule. Teachers are good examples. If a teacher's annual salary is \$30000, then \$30000 is the gross annual income whether or not the teacher is paid over a 9 or 12 month period. If the teacher works during the summer, don't forget to count those wages as income!

Comparing

Once the household and income information is established and verified, it's time to compare the information to the appropriate income limit to determine program eligibility.

Timing

Households must qualify at the time they close on the house. If it's been more than 6 months since income was verified, then income should be re-verified.

A preliminary determination of eligibility should be made right away. Because application processing is labor intensive, early screening for income eligibility can eliminate excessive work in processing eligible applicants.

www.hud.gov/offices/cpd/affordablehousing/training/calculator