

Downpayment Plus® Program Income Calculation Guidelines 2011 Program Year

Determining Household Income Eligibility:

Determination of income eligibility will be made at the time the member bank makes a reservation for Downpayment Plus® (DPP®) assistance. 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 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. Household income will be determined by annualizing gross income from all sources. The Federal Home Loan Bank of Chicago has developed the DPP Income Calculation Worksheet, which must be used to document the annual income calculation.

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

- 1) DPP Disbursement Reservation Form
- 2) DPP Beneficiary Questionnaire(s)
- 3) Certification of Zero Income (if applicable)
- 4) Income documentation for all sources of income
- 5) DPP Income Calculation Worksheet (including Household Summary)

Beneficiary Questionnaire Instructions:

Each member of the household age 18 years and older must complete the Beneficiary Income Questionnaire. If the household member does not receive income of any kind, see next section. (Parents or guardians can complete the questionnaire or certification for dependent full time students living outside of the home) Be sure each section is completed thoroughly. The hire date for each job currently held must be provided. 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:

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

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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 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.

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:

Depending on the type of income, the method used to determine the annualized amount will vary. However, as a rule of thumb, all gross current pay from all sources is used to determine the annual income of the household.

The 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. Dates on the income documentation must be within 60 days of the DPP reservation.

A household must have a sufficient current stream of income to support the home purchase. That stream of income must be used to determine household income eligibility. For example, a full time student has little to no income currently; however, upon graduation they will start a new job and that employment income is used to qualify for the mortgage loan. The same employment income must be counted when determining income eligibility for DPP assistance.

Please note that income of cohabitating partners/spouses must be combined, even if only one of the partners/spouses is on the application, mortgage or note. Also, income of temporarily absent family members must be counted if that person intends to reside in the home or their income is being used for mortgage underwriting purposes.

1. 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 year to date other compensation. The larger value of the two calculations will be selected as annual employment income.

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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. Holiday/vacation hours and pay will be treated as base hours and wages for purposes of calculating annual income.

A. Calculation 1 – Annualizing Gross Income

To annualize YTD gross income, divide the YTD gross income by the pay periods to date. Then multiply the average by the total pay periods in a full year.

B. Calculation 2 – Annualizing Base Wage and Other Compensation

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

- Multiply hourly wages by 2080 hours;
- 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 the annual employment income, it is important to know how often the person is paid, i.e. their 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.

- Other Compensation

Income from overtime, tips, commissions, bonuses or equivalent income must be used to calculate annual income. If pay stubs or VOE show YTD overtime or other compensation, the amount will be annualized and included in the annual income calculation.

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

If the applicant does not expect to work additional overtime or receive other compensation on a regular and recurring basis, verification of this fact must be provided by the employer in writing. If written documentation is provided, FHLBC must review the calculation and approve an adjustment to the income calculation prior to the reservation being approved.

- Average Base Hours

If using a verification of employment, the base or regular hours should be expressed as a finite number. However, if the hours are expressed as a range, the high end of the

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range must be used in the calculation. For example, the range on the form is 24-30, use 30 hours as the hours per week. The weekly hours should not exceed 40. If the 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 and for the same current position. Do not round the average hours. If average hours exceed 40, use 40 hours to determine base pay and annualize overtime as indicated below. Consider holiday and vacation hours as regular hours and include in the average.

- **Hourly Wages or Shift Differentials**

When using an hourly pay schedule and an hourly wage is not disclosed on the pay-stub, find the hourly wage by taking base pay and divide by base hours.

If a person's base or regular wage varies, such as when working in different positions during the same pay period, where possible, treat as another position and determine the annual income for that position and include in total annual income. For example, a nurse may work during the day and night, but be paid different wages for morning versus evening hours. The paystub or VOE may include hours worked by shift and the respective wage. Determine the annual income for the morning hours and likewise calculate the annual income from the evening hours. Add these two annual amounts together to find total employment income.

If the different rates and positions are not broken out, but YTD hours are provided, find the average rate by taking YTD base income and divide by YTD hours. If YTD hours are not provided then use sum of the wages on the three paystubs and divide 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, and add to the total household income.

- **Semi-Monthly Pay Schedules**

A person is paid on a semi-monthly basis, when they are paid twice a month, on the same recurring schedule and the amount of income per pay period is the same. Typically a semi-monthly earner is paid on the 15th and 30th of each month. If pay-stubs are being used as verifications, these two tests need to be met. If not, consider the person to be paid bi-weekly.

- **Salaried Workers**

Annual salary amounts will be used as base wages and to this amount any additional non-salary income such as overtime, bonuses, commissions, tips, etc. will be added.

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Non-salary income will be treated as other compensation and will be averaged, annualized, and added to the salary amount.

- 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 the gross income, the amount of benefits can be excluded from the YTD gross income if the paystub shows a corresponding payroll deduction of the amount. The YTD gross income can be reduced by the lesser of the amount included or the amount deducted.

- Vacation Day Pay-Outs

If a person receives a lump sum payment for unused vacation days annually, treat this as non-recurring income. Subtract the payment from the YTD gross income and place the payment amount in the Income Source table on the Income Calculation Worksheet as "Other Income".

- Teachers

Persons 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. Follow the guidelines to determine their base pay and to this amount add any additional employment income they disclose on the beneficiary questionnaire.

If a substitute teacher is working under contract, the income should be calculated based on the terms of the contract. Otherwise a VOE must be used to verify their income. The VOE must provide the per diem amount the teacher receives. Income will be annualized 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. Annualize income by multiplying the per diem and the average number of days worked per month and multiply by 12.

- 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 is available during the off season. Use the standard calculation guidelines to determine annual income, while discounting the amount for off season time. Be sure to include any unemployment compensation the beneficiary has or may receive during the off season. Use hours listed on VOE, even if greater than 40.

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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.

- **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 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 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 a recurring or periodic schedule, calculate the annualized amount by taking the gross periodic amount and multiply by the number of periods in the year. For amounts that vary, use an average of the amount received to date and annualize. 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 2011 and receives SSI or SSD, the documentation confirming the amount must show the amount of SSI or SSD they will receive in 2011.

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 taking the YTD child support received, average, and annualize.

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.

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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, using the total number of self employed months during those years. 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. An appraisal or lease is needed to confirm the gross monthly rent amount. When using an appraisal, the highest rent amount listed will be used to calculate annual gross rental income.

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. All income of a full-time student, 18 years of age or older, if that person is the head of household, owner, or co-borrower
 3. Income of temporarily absent family members who intend to reside in the home
 4. Salaries received from a family-owned business
 5. 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 period receipts, including a lump sum payment for the delayed start of a periodic payment. Includes amounts received by adults on behalf of minors or by minors intended for their own support.
 6. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay
 7. Welfare assistance (excluding food stamps)
 8. Alimony and child support payments
 9. All regular pay, special pay and allowances of a member of the Armed Forces
 10. The net income, salaries, and other amounts derived from operation of a business or profession.
 11. 75% of any gross rental income from real property
 12. Income of non-occupying home owners or co-borrowers
 13. Lottery winnings paid in periodic or lump sum payments

- 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. All forms of student financial assistance 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

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- 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. Bank or financial statements verifying payments received from annuities, pensions, insurance policies, etc.
 5. Formal statement or history from recognized state or local authority or agency verifying alimony awards and child support payments. Court orders are acceptable as well.
 6. Completed and signed U.S. income tax returns, with Schedule C
 7. Completed and signed property appraisal or lease

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