Welcome to the …

Commonwealth of Kentucky
Neighborhood Stabilization Program

Today's topic:
Verifying Household Eligibility

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NSP-Verifying Household Eligibility

- The Neighborhood Stabilization Program establishes annual income limits for clients receiving assistance (homebuyers and renters).

- Household income must be calculated for several reasons, including:
  - **Eligibility**. To receive NSP assistance, households must have incomes at or below 120% of the area median income (AMI). To determine whether a household is eligible, you must know – and document – its annual income.

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NSP-Verifying Household Eligibility

- **Targeting of Funds**. Income determinations are needed to comply with NSP targeting requirements.

  - Statewide, at least 25% of Kentucky's allocation must be spent to provide permanent housing for households with incomes at or below 50% of AMI. *Check your funding agreement for the set-aside requirement for your program.*

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- **Occupancy of Rental Projects**. Households renting NSP-assisted units must also have incomes at or below 120% (or 50%, for set-aside units) of AMI.

  - This is an eligibility calculation, not a tenant payment calculation – more on that later.

- **Subsidy Amounts**. Annual income is used to determine eligibility. It will also be used later for calculating the adjusted gross income (for rental clients).

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- Three allowable methods – state had to choose one:
  - Annual income as defined in 24 CFR Part 5 (Part 5 annual income) – **Kentucky uses this one!!**
  - Annual income as reported under the Census long form for the most recent decennial census; and
  - Adjusted gross income as defined for purposes of reporting under Internal Revenue Service (IRS) Form 1040.

NSP-Verifying Household Eligibility

- Kentucky’s NSP Program uses the “Part 5” method to determine income, assets and household eligibility for NSP. (This is the same process used for most of Kentucky’s HOME funding.)

- Detailed guidance available in the *Technical Guide for Determining Income and Allowances under the HOME Program*:

http://www.hud.gov/offices/cpd/affordablehousing/library/modelguides/2005/1780.pdf

(Careful … the file is 3.25 MB)

NSP-Verifying Household Eligibility

- In terms of income eligibility, there are distinctive differences between HOME and CDBG. Remember, for household income eligibility, **HOME = NSP**

  - HOME does not allow a household self-certification of income; CDBG does (if verifiable).

  - HOME allows income information to be up to 6 months old (i.e., 180 days prior to written agreement with assisted household). CDBG is up to 12 months old.

  - HOME will not allow an actual IRS tax form itself as the sole source documentation; in some cases, CDBG allows the IRS 1040 long or short EZ.

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NSP-Verifying Household Eligibility

Two basic steps:

- How many people are in the household?
  - Some households include non-family members. Some you include as part of the household, some you don't (more later).

- What is the household's total income and assets?
  - Some assets generate income, some don't. And, for rental only, not all income has to be included as "income".

NSP-Verifying Household Eligibility

Who is included in "household"?

NSP-Verifying Household Eligibility

- **Who is in a "household"?**

  Everyone living in the residence, except:

  - Foster children;
  - Foster adults;
  - Live-in aides (except under unusual circumstances, a related person does not qualify as a live-in aide); and
  - Children of live-in aides.

Don't count these folks as household members, and don't include their assets or income (if any) when calculating gross household income.

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- **But do include:**
  - A child who is subject to a shared-custody agreement in which the child resides with the household at least 50 percent of the time.
  - Temporarily absent family members. Example: Family member employed as a construction worker at a temporary job on the other side of the state.

NSP-Verifying Household Eligibility

- **Decide whether to include:**
  - Permanently absent family members.

If a family member is permanently absent from the household (e.g., a spouse who is in a nursing home), the head of household has the choice of either counting that person as a member of the household, and their income, or specifying that the person is no longer a member of the household.

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Area Median Income

Includes income from employment, Social Security, etc.,

<u>and from assets</u>

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- **What is "area median income"?**
  - Each year, HUD issues income limits based on **household size** and **county of residence**.
  - NSP limits:
    - **30-, 50-, 60-, and 80% limits:**

http://www.dlg.ky.gov/NR/rdonlyres/D5D47BDB-1EE2-4E88-8646-4F2445FFE184/0/Kentucky30506080limits.pdf

    - **120% limits:**

http://www.dlg.ky.gov/NR/rdonlyres/693FE4A1-4745-46A3-9180-3EC8052098E2/0/NSP50and120incomelimits.xls

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- **Comparing household income to the HUD limits**
  - Find the geographic area on the HUD income limit chart.
  - Find the column that corresponds to the number of persons in the household (i.e., family size).
  - Compare the verified income of the household with the income limit for that household size.

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Income from wages and related sources

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- **How to calculate income …**
  - The Part 5 definition of annual income is the *gross amount* of *income of all adult household members*
  - Gross income = before any deductions
  - Use a "snapshot" of current income to project income for the next 12 months, allowing for any known changes

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- **Whose income to count …**
  - **Minors**
    - Don't count: Earned income of minors, including foster children (age 18 and under).
    - Do count: Unearned income attributable to a minor (e.g., child support, TANF payments and other benefits paid on behalf of a minor).
  - **Live-in aides**
    - If a household includes a paid live-in aide, the income of the aide is not counted. Except under unusual circumstances, a related person does not qualify as a live-in aide.

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- **Whose income to count …**
  - **Temporarily absent family members**
    - The income is counted regardless of the amount the absent member contributes to the household.
    - Example: A construction worker employed at a temporary job on the other side of the state earns $600 per week. He keeps $200 per week and sends $400 per week home. The entire amount ($600 per week) is counted.
  - **Adult students living away from home**
    - If counted as a member of the household in determining the household size, the first $480 of the student's income must be counted in the family's income. If the student is also the head of household or spouse, their full income must be counted.

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- **Whose income to count …**

Permanently absent family members

- Head of household has choice of counting as a member of the household and including income in household income, or specifying that the person is no longer a member of the household.

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- **Income: What to <u>include</u> (the major ones)**
  - Gross wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services.
  - Net income from a business (call us for details on how to calculate)
  - Interest, dividends, and other net income of any kind from real or personal property.

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- **Income: What to include (the major ones)**
  - The full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits.
  - Lump sums received due to delays in the start of periodic payments (Social Security, disability).
  - Payments in lieu of earnings (unemployment and disability compensation, worker's compensation, severance pay)

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- **Income: What to include (the major ones)**
  - All regular pay, special pay, and allowances of a member of the Armed Forces (with one exeption – more later)
  - Welfare Assistance. Temporary Assistance for Needy Families (TANF) program is counted as income. If it includes a housing allowance (shelter & utilities), call us for calculations.

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- **Income: What to include (the major ones)**
  - Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or from persons not residing in the dwelling.

Reference the full list in technical guide!

Shortcut to income inclusions-exclusions.pdf.lnk

NSP-Verifying Household Eligibility

- **Income: Don't count …**
  - Income from employment of children (including foster children) under the age of 18 years
  - Lump-sum additions such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains, and settlement for personal or property losses
  - Payments received for the care of foster children or foster adults

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- **Income: Don't count …**
  - Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
  - The full amount of student financial assistance paid directly to the student or to the educational institution.
  - Income of a live-in aide
  - Money received under HUD-funded training programs.

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- **Income: <u>Don't count …</u>**
  - Self-sufficiency program funds received by a person with a disability.
  - Money from a state agency to keep a family member with a developmental disability living at home (to offset the cost of services and equipment).
  - Public funds to pay for out-of-pocket expenses (special equipment, transportation, etc.) that specifically allow participation in a particular program.

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- **Income: Don’t count …**
  - Incremental earnings and benefits for participating in state or local employment training programs.
  - Special pay to a family member serving in the Armed Forces who is exposed to hostile fire.
  - Temporary, nonrecurring, or sporadic income (including gifts).
  - Money for a resident service stipend (PHA resident that helps with lawn maintenance, resident initiatives, etc.)

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- **Income: <u>Don't count …</u>**
  - Earnings over $480 for each full-time student 18 years old or older (excluding the head of household or spouse).
  - Adoption assistance payments in excess of $480 per adopted child.
  - Deferred periodic amounts from supplemental security income and social security benefits that are received in a lump sum amount or in monthly amounts.

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- **Income:** **Don't count …**
  - Refunds or rebates under state or local law for property taxes paid on the dwelling unit.
  - Food Stamps
  - Payments to volunteers through AmeriCorps, VISTA, Retired Senior Volunteer Program, Foster Grandparents Program, etc.
  - Low-Income Home Energy Assistance Program (LIHEAP).

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- **Income: Don't count …**
  - Scholarships funded under Title IV of the Higher Education Act of 1965
  - Earned income tax credit refund payments, including advanced earned income credit payments
  - Payments from programs under the Job Training Partnership Act
  - Any amount of crime victim compensation under the Victims of Crime Act

NSP-Verifying Household Eligibility

- **Income:** **Don't count …**
  - The value of child care under the Child Care and Development Block Grant Act of 1990.
  - Allowances, earnings, and payments under the Workforce Investment Act of 1988.

Reference the full list in technical guide!

Shortcut to income inclusions-exclusions.pdf.lnk

NSP-Verifying Household Eligibility

- **How to calculate income …**
  - If a wage earner makes $10 an hour and regularly works 40 hours per week, project:
    - 10 x 40 = 400
    - 400 x 52 weeks = $20,800

OR

- $10/hour x 2,080 work hours in year = $20,800

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- **Other examples …**
  - **If a wage earner is salaried and is paid $900 every two weeks: $900 x <u>26</u> = $23,400**
  - **If a wage earner is salaried and is paid $1,200 twice monthly: $1,200 x <u>24</u> = 28,800.**

- Hourly: 2,080 hours in a year
- Bi-weekly: 26 pay periods in a year
- Bi-monthly: 24 pay periods in a year

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- **Other examples …**
  - Social Security benefit of $680 monthly + $680 x 12 = $8,160 per year
  - Child support of $100 per week + $100 x 52 = $5,200
  - Unemployment of $250 per week (assume status remains the same when projecting forward one year, unless circumstances will definitely change); $250 x 52 = $13,000.

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- The 16-year-old daughter works at the local pizza place, earning $8 per hour and averaging 10 hours each week. She works all 52 weeks of the year. Her contribution to the household's income is …
  - Zero! (Do not count earned income from minors)

- Her twin has a developmental disability, for which the household receives $221 in SSDI each month. So, her contribution to the household income is …
  - $221 x 12 = $2,652 (Do count unearned income on behalf of minors)

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- Be aware of variations in pay! If the wage earner receives a 25 cent per hour raise every July (assuming you are projecting forward for Jan.-Dec.), the base wage for the first six months is $10; the base wage for the remainder of the year is $10.25.

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- Example
  - John earns $8.50 per hour as a mechanic's assistant, 40 hours per week, with no overtime allowed. Historically, he receives a 30-cent raise each year – probably three months from now. He will also receive a $200 holiday bonus.
    - 2,080 work hours in a regular year (40-hour week, 52 weeks a year)
    - 2080/4 = 520 hours per quarter. John will earn $8.50 per hour during the first quarter, and $8.80 the remaining three quarters.
    - 520 x $8.50 = $4,420; 1,560 remaining hours in year x $8.80 = $13,728
    - Wages are $4,420 + $13,728 = $18,148
    - Plus $200 holiday bonus = **TOTAL ANNUAL GROSS INCOME OF $18,348**

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- Example
  - Jane earns $9.00 per hour and is seasonally employed by the local landscaping outlet. She works 26 weeks per year (depending on weather, from around April to September). She explains that for four weeks in May, she will work 5-7 hours of overtime each week.
    - 26 weeks @ $9/hour (26x40x9) = $9,360 (base pay)
    - For four weeks, she will average six hours overtime each week
    - 4 weeks x 6 hours = 24 hours that include overtime
    - Overtime rate of $13.50 – base pay of $9 (included above) = 4.50 per hour differential
    - $4.50 per hour differential x 24 hours = $108 in overtime pay
    - $9,360 + $108 = TOTAL ANNUAL GROSS INCOME OF $9,468

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- Example
  - John and Jane have a child with a disability, for whom they receive $221 per month in SSDI.
    - Unearned income on behalf of minor – count as part of annual gross income!
    - $221 x 12 months = $2,652 per year **(TOTAL ANNUAL GROSS INCOME)**
  - Complete income portion of annual income worksheet!

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NSP-Verifying Household Eligibility

Income from assets

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- **Calculating household assets**
  - NSP – no “spend-down” requirement, ***BUT***
  - Each agency should have liquid assets policy (method to determine appropriate amount of homebuyer contribution)
  - Income from assets is part of annual income under the Part 5 definition.

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- **Calculating household assets**
  - To comply with Part 5, you must know:
    - (1) what to include as assets,
    - (2) how to compute the market and cash value of those assets, and
    - (3) how to determine the income from the asset to be included in annual income.

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- **Calculating household assets**
  - In general, an asset is a cash or non-cash item that can be converted to cash.
  - As with income, there are things to count, and things to exclude (more in a moment)
  - Asset income is the income earned – e.g., interest on a savings account – *not the value of the asset*.

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- **Assets include:**
  - Cash in savings accounts, checking accounts, safe deposit boxes, homes, etc.
    - For savings accounts, use the current balance.
    - For checking accounts, use the average 6-month balance.
  - Equity in rental property or other capital investments.
    - Equity is the estimated current market value of the asset less the unpaid balance on all loans secured by the asset and all reasonable costs (e.g., broker fees) that would be incurred in selling the asset.

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- **Assets include:**
  - Cash value of stocks, bonds, Treasury bills, certificates of deposit, mutual funds, and money market accounts.
  - Individual retirement, 401(K), and Keogh accounts (even though withdrawal would result in a penalty).
  - Retirement and pension funds.
  - Personal property held as an investment (gems, jewelry, coin collections, antique cars, etc.)

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- **Assets include:**
  - Cash value of life insurance policies available to the individual before death (e.g., surrender value of a whole life or universal life policy).
  - Lump sum or one-time receipts, such as inheritances, capital gains, lottery winnings, victim's restitution, insurance settlements.
  - Mortgages or deeds of trust

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- **Assets do not include:**
  - Personal property such as clothing, furniture, cars, etc.
  - Assets not accessible to and that provide no income for the applicant (burial policies, etc.).
  - Term life insurance policies (i.e., where there is no cash value).
  - Assets that are part of an active business (excluding rental properties held as an investment and not main occupation)

NSP-Verifying Household Eligibility

Shortcut to asset inclusions-exclusions.pdf.lnk

For most assets, calculating cash value and the income from the assets is straightforward.

- Special rules apply if:
  - Assets produce little or no income
  - Assets are disposed of for less than fair market value.

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- **Assets that produce little or no income**
  - Assumes increased payment ability, even if assets don't produce income. (For example, land that is not rented or otherwise used to produce income.)
  - Requires that "imputed" income be calculated based on a passbook savings rate x cash value of all assets.
  - Only applies if the total cash value of **all** assets is more than $5,000.

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- **Assets disposed of for below fair market value**
  - Assets sold/given away for less than fair market value = voluntary reduction in ability to afford housing.
  - Rule requires:
    - Any asset disposed of for less than fair market value during the two years preceding the income determination be counted as if the household still owned the asset.
    - The amount to be included as an asset is the difference between the cash value of the asset and the amount that was actually received (if any).

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- **Calculating household assets**
  - An asset's cash value is the market value less reasonable expenses required to convert the asset to cash, including:
    - Penalties or fees for converting financial holdings.
    - Costs for selling real property.
    - Only the cash value (not market value) is counted. If more than one person owns an asset, prorate according to the applicant's percentage of ownership

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- **Examples:**
  - John and Jane have a six-month average of $1,436 in a non-interest-bearing checking account. The asset value is

    $1,436

  - The household has $2,325 in a savings account bearing ½ of one percent interest. The actual income from the asset is

    $11.63 (projecting forward for a year: balance x 0.005 = $11.63

  - Vacant land (not rented, no other income) valued at $10,000. "Imputed" annual income is

    $200. $10,000 x HUD's 2% passbook rate

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Pulling it all together …

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- Annual income worksheet
  - Enter all sources of income; if household member has none, put name and “none”
  - Enter all assets (if none, note)
  - Worksheet calculates imputed if needed
  - Check gross annual against HUD income charts for household size/county

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- **Are John and Jane eligible for NSP assistance?**
- **If yes:**
  - **What is their gross income from wages, salaries and other sources?**
  - **What is their income from assets?**
  - **What is their total gross annual income?**
  - **Which percentage of area median income are they within?**

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NSP-Verifying Household Eligibility

How to document income and assets

NSP-Verifying Household Eligibility

- **How to document income and assets**
  - Use third party verifications, or source documentation, or a combination of the two.
  - Third party = “not provided by household members”

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- **Third party verification forms …**
  - Alimony/child support
  - Assets on deposit (checking, savings)
  - Child support
  - Employment
  - Income from a business
  - Military service
  - Pension/annuities
  - Public assistance
  - Recurring contributions (can be “informal support”)
  - Social Security
  - Unemployment
  - Veterans Administration benefits

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- **Homebuyers: Third party verifications …**
  - Written request to the third party (e.g., employer, Social Security Administration, or public assistance agency) and written verification of income (or assets).
  - Conversations OK, but document through memo to file and include contact person, information provided and received, and date of call. Fax and email from the third party are also OK.

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- **Homebuyers: Third party verifications …**
  - You must get a written release from the household authorizing the third party to release information.
  - Some banks may charge a fee. You can use several months' bank statements instead. Or, you can pay the fee with either admin or project funds (delivery cost). Either way, low-income beneficiaries must not be required to pay for verifications as a condition of receiving assistance.

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- **Homebuyers: Source documentation …**
  - Documents provided by the household (e.g., pay stubs, tax returns, etc.) can be used as an alternative to third party verifications.
  - If a copy of a tax return is needed, IRS Form 4506 "Request for Copy of Tax Form" must be completed and signed.)
  - Copies of documents should be retained in project files.

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- **Homebuyers: Source documentation …**
  - Easier to get than third-party verifications, but requires closer review
  - Example: Pay stubs may not provide sufficient information about the average number of hours worked, overtime, tips, and bonuses. You may also need to contact the employer to accurately project annual income.

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- **Homebuyers: Source documentation …**
  - Bank statements: Six months; savings = current; checking = 6-month average the balances/interest income. (Watch for sudden changes)
  - Pay stubs: 12 months. Check for bonuses, commissions, tips, seasonal overtime
  - Social Security: Annual letter to recipient.
  - Unemployment: Notification letter

NSP-Verifying Household Eligibility

- **Rental: Source documentation …**
- When?
  - For NSP, only at initial occupancy and unit turnover (new tenant).
  - Annual re-certifications are not required.
- How? Either:
  - Review source documents, retain copies, and document the file.
  - Document using a statement from another government program.

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- **Rental: Source documentation …**

If using a statement from the administrator of another government program, it must:

- State the annual (gross) income of the household.
- Indicate the family size, or provide the current income limit for the program and a statement that the family's income does not exceed that limit.

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- **Timing of income/asset verifications …**
  - Households MUST be eligible at time assistance is provided (no earlier than 180 days prior to written agreement with the household – mortgage, note, purchase contract, etc.)
  - If using third party, all documentation (including application) dated within 180 days prior to written agreement.
  - Pre-sold vs. spec houses

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NSP-Verifying Household Eligibility

- **Timing of income/asset verifications …**
  - Screen early using application for program participation – include disclosures for household size, composition, income, assets, etc.
  - Timing – verify too early, and some may need to be re-done to meet the 180 days prior. Verify too late, and it can delay closing (and cause unexpected speed bumps structure of financial assistance)

NSP-Verifying Household Eligibility

- **Timing for lease-purchase:**

  Homebuyers are required to qualify as low-income:

  - In the case of a contract to purchase existing housing, at the time of purchase;
  - In the case of a lease-purchase agreement for existing housing or for housing to be constructed, at the time the agreement is signed; or
  - In the case of a contract to purchase housing to be constructed, at the time the contract is signed.

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- Account for all earned income. Include annual cost of living adjustments (COLAs), bonuses, raises, and overtime pay.

- For applicants with steady employment, there should be only slight variations in gross wages on monthly or bi-weekly pay stubs. For this, use three consecutive month's worth of income documentation to project income over the following 12-month period.

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- For applicants whose annual employment is less stable or isn't over 12 months (e.g., seasonal laborers, construction workers, teachers), review wage documentation for the entire previous twelve-month period.