

**MSHDA**  
**EQUAL HOUSING**  
**OPPORTUNITY**

MICHIGAN DEPARTMENT OF LABOR AND ECONOMIC  
GROWTH  
MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
**TENANT BASED RENTAL ASSISTANCE PROGRAM**

**Income - Assets, Allowances, Expenses, Verifications & Calculations**

**Assets**

**Assets Include:**

- Bank Accounts
- Franchises
- Life Insurance policies
- Lump sum additions
- Personal Property held as Investments
- Retirement/Pension funds
- Trusts
- Assets disposed of for less than Fair Market Value
- Stocks, Bonds, Mutual Funds, etc
- IRA, Koegh, Annuities and similar retirement accounts

**Assets Exclude:**

- Necessary Personal Property
- Assets not accessible to family
- Business or farming operation assets
- Interest in Indian Land trusts
- Equity in Cooperatives & Manufactured Homes
- Vehicles/Special Equipment for disabled

If any family member indicates that they have assets (including savings, checking, CD's, IRA accounts, life insurance policies, etc.) obtain third party verification. Verify and include all assets owned by all family members, including those owned by family members under the age of 18.

The latest financial institution statements (i.e. checking accounts or other statements only provided on a quarterly basis) can be accepted as long as a six-month period is covered.

If the total cash value of the family assets are:

Less than or equal to \$5,000, use the actual income earned from assets (i.e., interest and dividends); or

Greater than \$5,000, use the greater of:

Actual income earned from assets, or

Imputed income from assets based upon passbook rate approved by HUD. (Imputed Income is HUD's approved passbook rate multiplied by the total cash value of assets).

**Stocks** – Determine the actual income by using ending balances on statements; multiply the number of shares by the current dividend rate. **NOTE:** If dividends are reinvested, actual income equals zero.

**Mutual Funds** – Determine actual income by using ending balances on statements; multiply the number of shares by the current dividend rate. **NOTE:** If dividends are reinvested, actual income equals zero.

**U.S. Savings Bonds** – Actual income always equals zero. The Cash Value of Bonds is added to household assets.

**Trusts** – Include funds received from the trust as income.

Include withdrawal of cash or assets from an investment as income, except when the withdrawal is reimbursement for cash or assets invested by the family.

When valuing assets, deduct the expenses involved in converting assets to cash, such as:

Penalties for premature withdrawal; and

Brokerage and legal fees; and

Settlement costs for real estate transactions.

**Assets Include:**

**Assets Disposed of for Less Than Fair Market Value**

If an asset worth more than \$5,000 is sold for less than fair market value (FMV), include the difference between fair market value and the actual payment received as an imputed asset. Applies to assets disposed of during the two years preceding admittance or re-examination.

Does not apply to assets disposed of as a result of a divorce or separation, foreclosure, or bankruptcy (vehicles, furniture, clothing, etc.).

If the Cash Value is less than \$5,000, the asset automatically falls below MSHDA's minimum threshold and further verification is not required. Document this by using the Supplemental Information Form (TBRA #31).

Imputed assets over \$5,000 are subject to the minimum HUD approved passbook rate for 2 years from the date of disposal.

- If a balance remains on the asset (mortgage) which requires payoff, subtract the balance as an expense to determine cash value.

Acceptable verifications of the disposition of assets for less than FMV include:

Receipts  
 Appraisals  
 Purchase agreements, etc.  
 A notarized tenant certification  
 Tax Statement

Use State Equalized Value (SEV) times 2 (two) to determine FMV or appraisal.

**Bank Accounts:**

1) *Savings Account:* Use Verification of Resources (TBRA #17) as the preferred method of third party verification. If no response is received from the financial institution after 28 days, use the most current statement provided by the applicant.

2) *Checking Account:* Third party completion of the Verification of Resources (TBRA #17) is the preferred method of verification. If no response from the financial institution is received after 28 days, use an average of the most recent six months of original statements provided by the applicant/tenant if the current balance and any applicable interest rate are evident. If the use of statements is necessary, document on a Supplemental Information Form (TBRA #31) that the original documents were viewed and the date. Physically reviewing a checkbook is not considered adequate verification.

Example: Tenant just opened checking account three months ago so financial institution can only provide a three month average. Documentation on the Supplemental Information Form (TBRA #31) must have notation explaining it is a new account and additional information is unavailable.

3) *Certificate Of Deposit (CD):* Use the Verification of Resources (TBRA #17) to verify. In EHS, enter the cash value of CD and the interest rate. EHS determines actual income by multiplying the current cash value of the CD by the designated interest rate. Determine the cash value by subtracting any penalty for early withdrawal or termination from the total value of the CD.

- $CD\ amount - penalty = Cash\ Value$
- $CD's\ Cash\ Value \times interest\ rate = Actual\ Income$

**Franchises:**

A franchise that an individual owns (or is making payments on) is an asset.

To determine the value of the franchise:

Obtain a local appraisal of the franchise, as provided and paid for by the applicant/participant (a.k.a. the franchisee); or  
The value of a franchise is usually 75% of gross income as identified on Federal Tax Schedule C.

### **IRA, 401K, KEOGH, and Similar Retirement Accounts:**

The value of each retirement plan equals the amount of money the person can currently withdraw from the plan minus penalties for early withdrawal. Deduct any early withdrawal penalty, but not the amount of any taxes due.

Do not consider funds available if the person must quit or retire from their job to withdraw any money.

### **Life Insurance (Cash Value Of Whole Life Insurance)**

Consider a life insurance policy as an asset if it generates a 'cash surrender value' (CSV). CSV identifies the payment the policy owner receives by canceling the policy before it matures or before the insured dies. The value may be entitled 'benefits/ cash surrender value' or Cash Value of the policy.

Include the CSV as an asset, minus any penalties or fees for early withdrawal.

Do not include Term Insurance as an asset if it does not generate a CSV.

Require a letter or statement from the life insurance company/agent to verify the policy, current cash value, and any penalties or fees for termination or early withdrawal.

### **Lump Sum Additions**

Lump Sum payments are an asset. Interest accrued on lump sums is income. If the payment is received on a recurring basis, it is not a lump sum and is therefore considered income.

Examples of lump sums that are considered assets:

- Inheritances
- Insurance payments
- Health and accident insurance or malpractice suits
- Workman's Compensation
- Social Security and SSI lump sum payments
- Capital gains
- Settlement for personal or property losses
- Lottery winnings

Deduct legal fees when an attorney assists in the recovery of lump sum compensation.

### **Personal Property Held as an Investment**

Personal property held as an investment, such as gems, jewelry, coin or stamp collections, antique cars, etc, are considered assets.

Require a letter/documentation from a reliable source regarding the current cash value of the investment.

### **Real Estate, Property Ownership, Land Contracts**

Acceptable verifications of ownership include (but are not limited to):

- Deed
- Title Policy
- Closing statement
- Tax bill
- Divorce agreement
- Partnership agreement
- Property tax statements

#### *1) Real Estate Ownership:*

The *Cash Value* of the property is the current market value *less* the indebtedness (outstanding loans) and any reasonable costs (i.e. broker fees, closing costs, etc.) necessary to sell the asset.

Use the State Equalized Value (SEV) vs. 'assessed value' of property listed on the tax bill. The SEV multiplied by two equals the value of the property.

If the property was purchased within the last 12 months, use the actual purchase price as documented by the family.

- Verify the indebtedness and fees necessary to sell the asset (i.e. amortization schedule).

Example of how to calculate cash value of property:

SEV = \$50,000

SEV x 2 (equals actual market value of property)	\$	100,000
Less: HUD Asset Expenses:		

Broker Fee (7%)	(\$ 7,000)	
Legal Fee	(\$ 0)	
Settlement Costs	(\$ 1,000)	
Mortgage Balance*	(\$ 20,000)	
Total Asset Expense Deduction	28,000	(\$ 28,000)
Equals: Cash Value of Asset		\$ 72,000

\*Mortgage Balance as of effective date of re-examination

## 2) Joint Ownership of Property:

Include the percentage *actually owned* by the household as an asset.

Obtain one of the documents identified as an acceptable verification of ownership and verify percentage of ownership using one of the following methods:

- If one name is on documentation, assume 100% as an asset
- If two names are on documentation, assume 50% as an asset
- If three names are on documentation, assume 33.33%
- If unable to determine joint ownership, assume 100% ownership.

## 3) Land Contracts:

The sale of property on a land contract is considered an asset (i.e., principal payments) since the interest paid by the buyer on the sale is considered income to the seller. The balance of the payment (i.e. principal, taxes, insurance) is considered liquidation of an asset and is *not* counted as income. If no changes have occurred, re-verification on an annual basis is not required.

### Acceptable verifications of interest paid (income of seller) on land contract sale:

Documentation from the seller's accountant, attorney, real estate broker, or financial institution, verifying the interest due for the next 12 months.

A copy of the check paid by the buyer that shows a breakdown of amounts paid for principal and interest.

An amortization schedule identifying interest for the next 12 months following the effective date of the (re) examination.

The value of the asset includes the current principal balance less any outstanding indebtedness owed on the property.

### Acceptable verification of a land contract sale:

Copy of land contract.

Copy of amortization schedule identifying present balance owed to the family.

Letter, document, or form substantiating the indebtedness. A financial institution could provide documentation or the seller must provide a notarized Personal Note or Land Contract as verification.

#### 4) *Rental Property Owned by Family*

The net income received from rental property, adjusted for changes expected during the next 12 months, is included as Asset income. All relevant expenses (utilities, taxes, maintenance, insurance, principal and interest payments, etc.) paid by the family must be verified and deducted from gross rental income.

##### Acceptable documentations to verify rent and expenses:

###### *Gross Rent*

###### Copy of the Lease Agreement

- Lessee's notarized statement identifying monthly payments
- Copy of three months of canceled checks or money orders, rent receipts, etc.

###### *Utilities*

- Copy of Schedule E of Federal 1040 tax return from the most recent year.
- Third party verification from utility company
- Estimated monthly expense calculated from the TBRA utility chart
- Actual utility bills for a one-year period (compute monthly average).

###### *Insurance*

- Copy of insurance statement
- Schedule E of Federal 1040 tax return from the most recent year.

###### *Escrow statement*

###### *Maintenance/Other Expenses*

- Paid receipts
- Schedule E of Federal 1040 tax return from the most current year.

*Taxes*

- Copy of tax receipt from governing municipality
- Canceled check verifying same
- Bank statement evidencing payment of taxes
- Schedule E of Federal 1040 tax return from the most recent year.

*Principal and interest payments*

- Copy of financial institution statement evidencing payment history
- Amortization schedule identifying outstanding debt and monthly principal and interest payments

Value of the Asset – (See example at beginning of this section to determine Cash Value of Property.)

- Letter or documents from a financial institution, broker, etc.
- Written quote from a licensed real estate agent or certified property appraiser, estimating the net market value (sales price less broker's fees, settlement costs, etc.) of the property.
- Real estate tax statements that identify the SEV. Multiply the SEV by 2 to determine the property's value.
- Family's notarized statements or signed affidavits verifying the value of the property.

Example of Actual Income from Rental Property:

Gross Rent from Rental Property (annual)		\$ 7,200
Utilities	\$	1,000
Insurance	\$	500
Taxes	\$	2,000
Maintenance/Other Expenses	\$	<u>300</u>
Less: Total Expense Deduction		3,800
Equals: Actual Income from Rental Property		<u>\$3,400</u>

- 5) *Equity In Real Property Or Other Capital Investments:* Equity equals the estimated current market value of the asset less the unpaid balance on all loans secured by the assets and all reasonable costs (such as brokerage fees) that would be incurred in selling the asset.

## Retirement/Pension Funds

Include any benefits received through periodic payments, including Veterans Affairs (VA) and GI payments.

Before retirement - Include only those amounts the family can withdraw without retiring or terminating employment.

After retirement - Include as an asset any monies the applicant/participant elects to receive as a lump sum after retirement or termination of employment.

## Stocks, Bonds, Mutual Funds, etc.:

### 1) *Stocks:*

- The cash value equals the amount the asset currently sells for, less brokerage charges and any fees/penalties if the asset was sold immediately.
- Document stock ownership (i.e. current statement).
- Determine the current value of the stock(s) by checking a newspaper or other source, such as the Internet. Record the source of the stock values on a TBRA #31.
- Determine brokerage charges by contacting a broker or obtain a statement from the broker.
- Determine the *cash value* by using ending balances on statements; multiply the number of stocks by the current value of the stocks *minus* brokerage charges/penalties if stock was sold immediately.
- Determine the *actual income* by using ending balances on statements; *multiply* the number of shares by the current dividend rate.  
**Note:** If dividends are reinvested, actual income equals zero.

### 2) *Mutual Funds:*

- The cash value equals the amount the asset currently sells for, less brokerage charges and any fees/penalties if the asset was sold immediately.
- Document mutual fund balance (i.e. current original quarterly/monthly statement).
- Determine the Cash Value using ending balances on statements. Determine the Share Balance by multiplying the number of shares by the current value of the share (minus any penalty/fees if funds were sold immediately).
- Determine Actual Income by using ending balances on statements; multiply the number of shares by the current dividend rate.  
**Note:** If dividends are reinvested, actual income will equal zero.

### 3) *U.S. Savings Bonds:*

The U.S. Treasury Department issues Savings Bonds. They are registered (owned exclusively by the person(s) named on them) and non-marketable (may not be sold).

I-Bonds are sold at face value.

Series EE Savings Bonds are sold at half the face value (mature after 30 years). Interest is earned (accrued) monthly; interest is compounded semi-annually. Earnings are paid out when the bonds are redeemed.

Series HH Savings Bonds earn and payout interest semiannually. The face value of Series HH Bonds is paid when redeemed.

The money placed in savings bonds is available after six months; if redeemed earlier than five years from the issue date; the penalty is equal to three months of earned interest.

Actual *income* always equals zero. The Cash Value of Bonds is added to household assets.

The Cash Value (or current value) of a U.S. Savings Bond equals the amount the owner could get if the bond were cashed today. *If the bond has not reached maturity*, Cash Value is always less than the face value on the bond.

- U.S. Treasury has a website at [www.savingsbonds.gov](http://www.savingsbonds.gov) where detailed information on U.S. Savings bonds and their current value (Savings Bond Calculator) is available.
- The current value of a bond may also be determined by contacting a Financial Institution and requesting the day value of the bond. Document the contact and the current value of the bond on a TBRA #31.

#### 4) *Securities bought on Margin*

If a security was not paid in full at the time of purchase (bought on margin), the securities firm made a loan to the buyer. Deduct the balance owed from the current price if brokerage account statement verifies the margin balance.

#### 5) *Money Market Funds:*

These funds are similar to a passbook savings account, except the interest rate on the money market funds usually exceeds the passbook rate. Include the Cash Value of the money market fund as an asset.

### **Trusts:**

The cash value of trusts that are available to, and may be withdrawn by, the household. Include funds received from the trust as income. Do not include irrevocable trusts.

### **Assets Exclude:**

**Necessary personal property and day-to-day living needs, such as clothing, furniture and automobiles**

**Vehicles and other specially equipped items for the disabled.**

**Business or farming operation assets.**

**Note:** Consider rental properties as personal assets held for an investment rather than business assets, unless real estate is the applicant/participant's primary occupation.

**Assets not accessible to the family or which provide no income for the family.**

**Equity in owner-occupied cooperatives and manufactured homes in which the family resides and equity accounts in HUD homeownership programs.**

**Interest in Indian Trust lands.**

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