

PB 11 B 03.01.12

HB 1040 METHOD

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PG #	MAJOR CHANGES
3	notarized affidavit details (marital separations)
4	income limit determination date
5	adjusted gross income is the taxable income (gross pay less any pre-tax plans) <u>less</u> eligible adjustments allowed
8	new verification process which changes the order of hierarchy and allows applicant-provided source documents
9	applicant-provided original or authentic document dated within 60-day period prior to date of Checklist
10	grantee required to obtain two current and consecutive pay stubs
10	grantee will view original document and make copy
14	clarification on income from assets – actual income from assets is included. Imputed (passbook rate) is not.
14-15	clarification on calculating adjustments to income
16	clarification regarding liquid assets over \$20,000 are required to invest
17	new examples 3 and 4
18	submission order
18	grantees need to calculate adjusted gross income for program eligibility AND gross income for mortgageability.
FORM	NEW Annual Household Income Worksheet which allows grantee to enter taxable amounts for program eligibility AND gross amounts for mortgageability, SIGNED AND DATED by staff
FORM	NEW worksheet for SE YTD income and expenses. Grantee can provide to SE applicants, if necessary.
FORM	Required Documents Checklist
DEL	Income Verification Cover Sheet

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
COMMUNITY DEVELOPMENT DIVISION

PB 11B – IRS FORM 1040

**INCOME AND ASSET GUIDEBOOK
FOR HOMEBUYER PROGRAMS**

Grant administrators of the Community Development Division (CD) funds must certify that program recipients meet the Housing and Urban Development (HUD) and Michigan State Housing Development Authority (MSHDA) eligibility requirements. CD has prepared this Guidebook for income determinations for homebuyer activities.

With this policy bulletin, effective May 1, 2009, MSHDA is implementing the IRS Form 1040 income definition for all homebuyer activities, in place of the Part 5 (or Section 8) definition. The IRS 1040 definition is permitted by HOME and CDBG regulations. MSHDA believes that this definition of income will be more familiar to homebuyers and more favorable to qualifying buyers for assistance.

MSHDA will continue to use the Part 5 method for rental and homeowner rehab activities.

The major differences between Part 5 and Form 1040 methods are:

- Child support payments are not included in the IRS Form 1040 definition of income;
- The IRS Form 1040 method counts only the taxable amounts of IRA distributions, pensions and annuities, and social security benefits;
- The IRS Form 1040 definition allows the deduction of alimony payments; and
- The IRS Form 1040 definition does not require inclusion of imputed income from assets, and does not require imputed or actual income in undistributed retirement accounts.

HUD guidance on income determinations is provided in the “Technical Guide for Determining Income and Allowances for the HOME Program”. This can be found at the HUD web-site at <http://www.hud.gov/offices/cpd/affordablehousing/library/modelguides/1780.cfm>.

A new guide is under development and will replace this one in the near future. It will be located at: <http://www.hud.gov/offices/cpd/affordablehousing/library/modelguides/>.

Note: In some cases, two or more Federal programs may provide assistance to a single program or project. When this is the case, the Grantee should be careful to comply with CD requirements as well as any additional requirements of other sources of funds.

The income method described herein is used to determine whether a household is under the HUD income limit to qualify for assistance. The amount of subsidy is determined by the amount of first mortgage the buyer/borrowers qualify for based on the income determination qualifying standards of the lender (as generally accepted by Fannie Mae and MSHDA’s homeownership division), subject to the limits on liquid assets contained in this guide.

HOUSEHOLD ELIGIBILITY REQUIREMENTS

Area Median Income (AMI) Limits

CD grant funds are reserved to benefit low-moderate income households and, depending on the type of program, the following maximum income limits apply:

- Homebuyer Assistance Programs households must have **adjusted** gross annual income:
 - **At or** under 80% AMI for CDBG and HOME funded activities; and
 - **At or** under to 120% AMI for NSP funded activities.

AMI limits are determined annually by HUD and are posted at the HUD website:

- For CDBG and NSP, the limits are published at <http://www.huduser.org/datasets/il.html>.
- For the HOME Program, the household income limits are published at <http://www.hud.gov/offices/cpd/affordablehousing/programs/home/limits/income/>.

Household Size

Income limits are adjusted by household size; therefore, one of the first steps in determining eligibility is to determine the size of the household.

Some households may have members whose income, if any, is not considered when calculating annual income. **Do not** count the following household members when determining family size or annual income:

- Foster Children;
- Live-in Aides;
- Children of Live-In Aides;
- Unborn Children;
- Children Being Pursued for Legal Custody or Adoption who are not currently living with the household.

Note: A child in a shared-custody agreement and resides in the household at least 50% of the time can be counted as a household member.

All head of households must complete a “Family Composition” form.

Citizenship

Pursuant to the Welfare Reform Act in 1966 and Section 401 of Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), a Federal public benefit for public or assisted housing requires verification of legal residency in this country before providing assistance. Each household member must complete the “Declaration of Section 214 Status” form and attach documents as required.

For information about immigration services, contact the U.S. Citizenship and Immigration Services, Detroit District Office, 1-800-375-5283 or visit their website online at https://egov.uscis.gov/crisqwi/go?action=offices.type&OfficeLocator.office_type=LO.

Whose Income to Count

Income includes all taxable income according to the IRS definition that can be projected over the next 12 months, which are received by, or paid on behalf of:

- The head of household;
- Co-head, or spouse (even if temporarily absent); and
- Any other family member over 18 years of age (except full-time dependent students).

Grantees may exclude the income of full-time dependent students. However,

- the income of the head of household and spouse MUST be counted even if either or both are full-time students; and
- Student status of dependent household members 18 or older must be verified by the school they are attending in order to exclude their income.

Marital Separations. All parties with a legal interest in the property, including both spouses, must sign the lien agreement. A married applicant who is separated may be eligible if:

- Applicant can provide proof of separation (i.e., separate addresses, court documentation, etc.) and it is at least six months prior to the date of application, AND
- Separation status and income and/or support payments are verified by a Judgment of Separate Maintenance OR a notarized affidavit signed by the applicant.

Note: The notarized affidavit should state the following:

1. name and addresses of both parties,
2. date of separation,
3. date divorce proceedings will begin,
4. alimony payments are being made to either party and amount,
5. child support payments being made to either party and amount,
6. other payments and amount, and
7. other pertinent information regarding this separation.

For additional household eligibility requirements, refer to Policy Bulletin # 16.

Initial Eligibility

Grant administrators of CD program funds must certify that program recipients meet HUD and MSHDA annual income requirements for eligibility. Depending on the component, the timing of determining income eligibility may vary as follows:

- For Homebuyer programs (ADR, HPR and DPA), households must be determined income eligible at the time of purchase (closing).
- For new construction projects, the homebuyers must be eligible at the signing of the contract **between purchaser and grantee**.
- For lease-purchase programs, the homebuyer must be eligible at the time the lease is signed.

A verification document is valid for 6 months from date of the Checklist, so the verification or certification must be within 6 months of the dates noted above. If the Checklist is older than six months, the **entire** household income must be re-verified and income projected 12 months.

Income Limit

Use income limit in effect at the time household is determined to be income eligible (date Grantee staff signed and dated the "Annual Household Income Worksheet - HB" form).

INCOME ELIGIBILITY REQUIREMENTS

IRS Form 1040 Definition

The definition of **adjusted gross income** is **taxable income less** eligible adjustments allowed according to the IRS 1040 of all adult household members (except full-time **dependent** students) anticipated to be received during the coming 12-month period.

Taxable income is defined as gross pay **less** any pre-tax deductions for dental, health, vision, dependent care and/or flexible medical savings accounts, supplemental medical plan, pre-taxed parking, retirement contributions and annuity payments (403b, 401k and 457 deferred compensation). These deferred wages are not subject to income tax withholding at the time of deferral and are not reflected on an IRS Form 1040 as they are not included in the taxable wages on a W-2 form.

Calculating Income

Annual income is determined by estimating a household's **anticipated** total of taxable income over the next 12 months.

Use the family's current income to anticipate the family's expected annual income projected for the next 12 months (from the date of application). Sporadically received income, or income where the amount received is not consistent must be treated as irregular income, and the procedures described below for annualizing irregular income must be used to anticipate annual income for the next year.

Use averages and estimated amounts when necessary.

Use gross income and include holiday pay in determining gross income.

Include all tips, bonuses, scheduled pay increases or other additional amounts. If Third Party Verifications (TPV) indicate an expected change in income (i.e. pay increase), include the change in calculations to obtain the closest possible estimate. Multiple entries on income calculation sheet may be required.

Example: A participant starts a new job and the employer indicates an anticipated increase after six months. Calculate and enter six months at current wage and six months at the increased wage to get the best estimate of the next 12 month's earnings.

Convert all income to an annual figure by multiplying the pay rate by frequency of payment.

- Multiply hourly wages by the number of hours worked per year.
Full-time employment (40 hours a week and no overtime) is 2,080 hours
(40 hrs X 52 weeks = 2080 hours)
(10 hours a week X 52 weeks = 520 hrs per year)
- Multiply weekly wages by 52.
- Multiply bi-weekly wages by 26 (every 2 weeks).
- Multiply semi-monthly wages by 24 (2 times per month).

- Multiply monthly wages by 12.
- Multiply daily wages by 260 (full time and no overtime).
- To convert monthly amount to weekly, divide by 4.3.
- Round total calculation up to the nearest dollar at .50 and above (except SS payments, which are always rounded down).

Note: Federal and State wage laws require employers to pay time and a half in excess of 40 hours for most occupations. If earnings verification shows more than 40 hours worked but does not indicate overtime paid, verify with employer if overtime is paid or not.

Calculating Irregular Income

Irregular income is defined as income received in an unpredictable manner, such as income from seasonal employment, households with irregular income from temporary work agencies, or alimony.

When determining irregular income, use the most recent verification providing the *required information* available. Use only the actual amounts received for the previous 12 months to project the upcoming 12 months.

If the less than 12 months of income is verified, divide the year-to-date (YTD) total by the amount of actual weeks the total covers to obtain an average weekly income. Multiply the weekly income amount by 52 weeks for a projected 12 month income.

Types of TPV may vary and it is often difficult to determine annual income based on the information provided. When this is the case, it is necessary for Grantee to contact the source to clarify information and document same.

Convert the following irregular income to an annual figure as follows:

- School Employment – Most schools are in session 37 weeks a year: calculate at 37 weeks worked and 15 weeks off unless verification documents specifically note otherwise. School employees usually have a choice of being paid their yearly salary spread out over 37 weeks or 52 weeks.
- Unemployment Benefits – Multiply the gross weekly benefit by the number of weeks remaining in the eligibility period. Grantees must be sure to consult with employers for the possibility of a return to employment and/or check with the unemployment office on the possibility of an extension of benefits.
- Irregular Income (including wages, overtime, commissions etc) – Use the most recent verification available. Divide the YTD amount by the number of actual weeks to receive an average weekly amount. Multiply the average weekly amount by 52 weeks.

Example:

A check stub dated June 3, 2005 (22 weeks)

Total received (YTD total) \$ 814.00

YTD divided by 22 weeks equals weekly average: $814/22 =$ 37.00

Weekly average x 52 weeks equals annual average: $37 \times 52 = 1924.00$
(Round off to whole dollar amount)

VERIFICATION PROCESS

All head of households must complete a “Family Composition” form.

A “Checklist” form must be completed for each household member that is 18 years old and older. Each item on the Checklist marked “yes” relative to income and assets must be verified.

A verification document is valid for 6 months from date of the Checklist. If the Checklist is older than six months **prior to the recipient actually receiving the assistance**, the **entire** household income must be re-verified and income projected 12 months. For ADR new construction, the Checklist and verifications are valid regardless of the amount of time between verification and closing.

See Household Eligibility Requirements – Initial Eligibility and Annual Recertification for more information.

Grantee will verify the accuracy of the information and calculate the family’s household income using the “**Annual Household Income Worksheet - HB**” form.

In the past, CD allowed verification from other funding sources that were consistent with or “substantially equivalent” to the Section 8 existing standard. However, many of those documents do not include all the information required under the Form 1040 method. Therefore, effective immediately, **CD will only accept verification of income and assets as outlined in this Guidebook and on the forms contained herein.**

Level of Verifications Hierarchy

Gross income must be verified using the following hierarchy as set forth by HUD.

Pursuant to HUD Notice PIH2010-19 (HA) issued May 17, 2010, there have been changes to the TPV process outlined below. The Level of Verifications Hierarchy has been streamlined to allow applicant-provided documents and, therefore, the traditional third party verification form sent to the third party may not be required. Grantee should begin with the highest level of verification techniques. If the income report does not contain employment and/or income information needed, Grantee should attempt the next level of verification.

The five levels of verification, in order of acceptance to HUD, are identified below:

1. Up-front income verification (UIV)
2. Review of original source documents (provided by Applicant)
3. Third party verification, written
4. Third party verification, verbal
5. Family certification (notarized statement)

1. Up-Front Income Verification (UIV)

Up-front income verification (UIV) is the verification of income through an independent source that systematically and uniformly maintains income information in computerized form for a large number of individuals. UIV replaces, to a large extent, the more time consuming and less accurate TPV process of contacting individual employers identified by the family or reviewing outdated income verification documents.

Current UIV resources available to Grantees include:

- Private sector databases. MSHDA recommends using “The Work Number” who provides automated employment and income verifications.

The Work Number has a “Standard Service” which will provide income verification to the Grantee within 5 business days via fax. **The cost for a non-profit is approximately \$7 and includes income and employment verification.** The Grantee may access and register at www.theworknumber.com or (800) 660-3399. See Attachments section.

The Grantee must have incoming FAX capability and register as a “Social Services User” with an Agency Type identifier of “Housing Authority.” The “Standard Service” Registration Agreement requires confidentiality with regard to any information obtained.

After completing the one-time registration, the Grantee can order verifications at any time by accessing the website and entering their FAX number, employer code number, and employee Social Security number. All information provided is current as of the most recent pay period.

Note: More employers are added to the website continuously. Current registered companies include major employers such as: Burger King, City of Detroit, Coca-Cola, Fifth Third Bank, Hardee’s, Home Depot, JC Penney, K-Mart, Kroger, McDonalds, Meijer, Pepsi Cola, Sears, Wal-Mart, etc.

2. Original Source Documents Provided by Applicant

If an UIV is not obtained, the Grantee must review original source documents provided by the applicant to verify income and assets.

An original or authentic document generated by a third party source dated within a 60-day period preceding date on Checklist or Grantee request date. Documentations originated from a third party source and in the possession of the applicant are allowed. The Grantee may, at its discretion, reject any applicant-provided documents and move to the next level of hierarchy.

Examples of acceptable applicant-provided documentation (generated from a third party source) include, but are not limited to:

- Pay stubs
- Payroll summary report
- Employer notice/letter of hire/termination
- SSA benefit verification letter
- Bank statements

Grantee is required to obtain, at a minimum, two current and consecutive pay stubs. For new income sources or when two pay stubs are not available, the Grantee should project income based on a written third party verification form.

**Original and authentic verification documents are preferred.
Grantee will photocopy for project file and return originals to applicant.**

Refer to the “Level of Verifications Chart” in Attachments section of this Guidebook for acceptable applicant-provided documents.

Note: Financial institution statements that reflect direct deposit amounts are not acceptable. Since direct deposit financial documents do not identify gross amounts or deductions, Medicare deductions, gross wages, etc., specific information must still be obtained from the source.

Under no circumstances may a copy of a U.S. Treasury issued check be retained in an applicant file.

3. Third Party Verification – Written

If UIV method is not available or original source documents are not provided by applicant or accepted by Grantee, a written TPV is used to verify information directly from the source and must be requested by the Grantee via first class mail, e-mail, fax, drop off at source, etc. **The applicant CANNOT hand carry any verification documents to or from the source.**

The Grantee must obtain applicant release signatures at the top of the applicable verification forms, **OR** attach a copy of the “Authorization for Release of Information and Privacy Act Notice” form with the words “see attached authorization form” written on the applicant signature line of the applicable verification form prior to sending to the source.

Note: Multiple forms may be needed to accommodate several sources. For example, three separate Verification of Resource forms are needed if the applicant has three savings accounts at three different financial institutions.

The signed verification forms are submitted by the Grantee directly to the verification source who then returns the document(s) directly back to Grantee. **The applicant CANNOT hand carry any verification documents to or from the source.**

The Grantee will submit the 1st request for written TPV directly to each source.
If not returned by source within 14 days, a 2nd request for written TPV is made.
Allow source 7 days to respond to 2nd request for written TPV – for a total of 21 days.

Use the “Third Party Verification (TPV) Monitoring” form to document.

In order to be acceptable as a written TPV, the verification must come directly from the source and all required data must be present. In addition, depending on the method of communication, the following applies:

Mailed verifications – When possible include the envelope as proof that the verification was received from the TPV source. If more than one verification is received in an envelope, Grantee should notate date, and sign on each verification form that it was received with other verifications from the source. Date stamps are acceptable.

Faxed verifications must identify the source's name encoded on the faxed documents or the cover sheet showing the source's name must be stapled to the document.

E-mail verifications must identify the source's name or notate, date and sign on the form that the verification came from source by e-mail.

Other verifications – for example, the Grantee stopped by a source's place of business and picked up verification directly from source. Grantee must notate on form that verification was picked up directly from the source by the Grantee, date and sign.

The Exceptions noted below are acceptable reasons to skip either 1st and/or 2nd written TPV attempts.

Fee Requests from TPV Source. MSHDA does not require Grantee or applicants to pay a fee for verifications to the TPV source. If a service request fee is charged by the TPV source to complete a verification form, keep a copy of the fee request document or an e-mail from the source identifying the source name, address, phone number, and fee amount. Notate on document "MSHDA will not pay fees" and place a copy of the fee request and/or e-mail in the file. Go to the next level of TPV hierarchy.

Letters of Refusal to Provide Verification from TPV Source. When a TPV source refuses to provide requested information, the letter of refusal will be reviewed by the Grantee and, if approved as an exception, will be retained in the project file. This will allow the Grantee to move to the next level of TPV hierarchy.

4. Third Party Verification – Verbal

If UIV method is not available or original source documents are not provided by applicant or accepted by Grantee, and written TPV form is not obtained, Grantee must initiate verbal contact with the source identified on the Checklist (i.e. supervisor, personnel department, etc.) to obtain the necessary verification.

The name of contact person, required data (including overtime, premium and pay increases), date and time contacted, and Grantee signature must be notated.

5. Family Certification (Notarized Statement)

If the above verifications were unsuccessful and the family did not have original documents to provide, then family certification is required.

Family certification is a notarized statement signed under penalty of perjury in the presence of a witness. Grantee may accept a notarized statement or affidavit from the family that declares the

family's total monthly or annual income and assets verification. Grantee must document why this party verification was not available.

This method should be used only as a last resort when unable to obtain any type of third party verification.

Income Tax Returns

A signed copy of the most recent complete federal tax return must be provided for all applicants, spouse, and other adult household members (except full-time dependent students).

All applicants and other adult household members must sign an IRS Form 4506-T "Request for Transcript of Tax Return". This allows MSHDA to request a transcript of your tax return from the IRS, if needed.

The most current 2 years of tax returns must be provided for the following individuals:

- Taxable refunds, credits or offsets to state and local income taxes
- Business income or (loss)
- Self employed
- Capital gains or losses
- Rental real estate, royalties, partnerships, S corporations, trusts, etc.
- Farm income or loss

If an applicant or other adult household member was not required to file a tax return, a notarized affidavit must be provided.

DETERMINATION OF INCOME

What Income to Include

Following are sources of income that must be included (and the basis for estimating the amount of income). See "Calculating Income" below for detailed information on how to calculate amounts.

1. **Wages, salaries, tips, etc.** Use current amount(s) and project forward.
2. **Taxable interest.** Use current amount(s) and project forward.
3. **Dividends.** Use current amount(s) and project forward.
4. **Taxable refunds, credits, or offsets of state and local income taxes.** Use 2 year average.
5. **Alimony received.** Review past 12 months and project forward.
6. **Business income or (loss).** Use 2 year average for business and/or self-employed.
7. **Capital gains or (losses).** Use 2 year average.
8. **Other gains or (losses).** Usually one time from sale of business assets and not projectable.
9. **IRA distributions.** Use taxable amount based on current distributions and project forward.
10. **Pensions and Annuities.** Use taxable amount based on current monthly/quarterly distributions and project forward. See worksheet in IRS Form 1040 Instructions.
11. **Rental real estate, royalties, partnerships, S corporations, trusts, etc.** Use 2 year average from Schedule E.
12. **Farm Income or (loss).** Use 2 year average from Schedule E.
13. **Unemployment compensation.** Review current payments and project forward. See "Calculating Irregular Income" below.
14. **Social Security Benefits.** Use current benefits statement and the worksheet in IRS Publication 915 to project the taxable amount.
15. **Other income.** This line is used to report income not reported elsewhere on Form 1040 or supporting schedules, including:
 - prizes and awards;
 - gambling, lottery or raffle winnings;
 - jury duty fees;

- income from the rental of property if not in the business of renting such property; (Use 2 year average if there is a history. If not, use last 12 months to project forward.)
- taxable distributions from educational and health savings plans;
- taxable scholarships.

Income from Assets

For homebuyer programs, there are two considerations with regard to assets (1) the **actual income from assets** for all adult family members must be included as household income and (2) the **cash value of liquid assets** must be reviewed to determine if an investment is necessary.

Actual Income from Assets The IRS Form 1040 method requires **actual income** from assets to be included in the income calculation. It does not, however, require the **imputed income** (HUD passbook rate) from assets to be calculated or included. The following actual income from assets are to be **included**:

- Taxable interest,
- Dividends,
- Prizes, awards, and
- Gambling, lottery, or raffle winnings.

It also requires distributions from retirement accounts to be included as income.

Cash Value of Liquid Assets. All assets must be reviewed to determine if an investment is required. See “Determination of Liquid Assets” for more information.

Grantee will obtain verification of assets for all adult family members (excluding full-time dependent students) who indicate they have assets on the Checklist (including savings, checking, CD’s, IRA accounts, life insurance policies, etc.). By checking “No” and signing the Checklist, it is sufficient verification that an adult member does not have assets and further verification is not required (except that one year tax return is required.)

Exclusions from Income

Items that are specifically excluded from income include:

1. Child support.
2. Money or property that was inherited, willed or given as a gift.
3. Life insurance proceeds received as a result of someone's death

Adjustments to Income

Adjustments to income are allowed to the extent they would appear on the IRS 1040 form in the “Adjusted Gross Income” section.

If the applicant is under the income limit (80% AMI for HOME and CDBG, or 120% AMI for NSP) without calculating adjustments then they are program eligible and no further action is required. If the applicant exceeds the income limit, the following adjustments can be considered to qualify the applicant for program eligibility IF there is a reasonable basis for the adjustment over the next 12 months. Unless noted below, Grantee should (1) obtain proof of current amounts and project forward OR (2) use amount listed on the previous year's tax return.

1. **Educator expenses.**
2. **Certain business expenses of reservists etc.**
3. **Health Savings Account deduction (attach form 8889).**
4. **Moving Expenses.** Generally not projectable.
5. **One-half self employment tax.** Attach Schedule SE or project forward using IRS Form 1040-ES.
6. **Contributions to Self Employed SEP, SIMPLE, and Qualified plans.**
7. **Self-employed health insurance.**
8. **Penalty on early withdrawal of savings.** Generally not projectable.
9. **Alimony paid.** Provide divorce decree, proof of payments and project forward.
10. **IRA deduction.**
11. **Student loan interest deduction.**
12. **Tuition and fees deduction.** Must have verification of school enrollment and project forward.
13. **Domestic productions activities deduction.**

For additional information and worksheets, see the IRS Form 1040 Instructions publication.

DETERMINATION OF LIQUID ASSETS

All CDD-funded homebuyers are eligible for a subsidy limited to the amount needed to make the unit affordable (principal reduction), down payment and closing cost assistance. The amount of homebuyer subsidy is limited to \$30,000 for ADR and \$10,000 for HPR. Exceptions to these limits may be granted on a case-by-case basis.

NOTE: In cases where ADR units remain unsold after months of aggressive marketing, MSHDA CDD may allow the grantee to offer a deeper homebuyer subsidy as an incentive to potential buyers. Grantees must receive prior approval on a unit-by-unit basis.

IF an ADR or HPR homebuyer has liquid assets which exceed the allowable Total Cash Value of \$20,000 THEN the homebuyer is required to invest. See Policy Bulletin 16.

Liquid Assets include:

- Cash;
- Savings accounts;
- Checking accounts;
- Certificates of deposit;
- Savings amount for an Individual Development Account (IDA);
- Total balance of any joint accounts;
- Money market or mutual fund accounts;
- In trust for accounts – providing the amount is accessible;
- Any other bank accounts;
- Any stock or bonds;
- Funds from gift letters;
- Any funds derived or to be derived from the sale of real property, any mobile home or other property prior to loan closing. Documentation showing net proceeds from any such sale is required;
- Amount used or borrowed from a life insurance policy, IRA or 401k (less penalty) but not including the undistributed amounts; and
- Equity in any real property.

The **Cash Value** of an asset is the value of the asset less fees, costs, penalties and/or indebtedness.

Example 1: Mary wants to buy an ADR home which has an appraised value of \$100,000. She qualifies for a mortgage in the amount of \$75,000. Mary has \$25,000 in liquid assets and, therefore, must apply \$5,000 (the amount in excess of \$20,000) toward the purchase of her home.

Example 2: Before considering their liquid assets, the Smith family needs \$30,000 in Homebuyer Subsidy to purchase an ADR home appraised at \$90,000. They qualify for a \$60,000 mortgage and have liquid assets of \$22,000. The Smiths will need to apply

\$2,000 of their excess liquid assets toward the purchase and will receive a Homebuyer Subsidy of \$28,000.

Example 3: Cindy Brown will purchase a home using the HPR model and is eligible to receive \$14,000 in closing cost and rehabilitation assistance. She has liquid assets of \$24,000. MSHDA's policy requires the buyers to contribute the amount of liquid assets in excess of \$20,000. Cindy will contribute \$4,000 and receive a homebuyer subsidy in the amount of \$10,000.

Example 4: Evan and Kathy Wright are applying for a HPR home. Upon review of the Wright's debt and income, it appears that they are eligible to receive \$15,000 in closing cost and rehabilitation assistance. It is also determined that the Wright's have \$40,000 in liquid assets. MSHDA's policy requires the buyers to contribute the amount in excess of \$20,000, which would be \$20,000. The Wright's are **not** eligible to receive assistance with the purchase and rehabilitation of this unit.

RECORDS AND SUBMISSION REQUIREMENTS

File Documentation

Upon completion of the determination of household eligibility, each assisted household file should have the following documentation, listed in order of submission:

1. Annual Household Income Worksheet - HB
2. Family Composition
3. Authorization for Release of Information and Privacy Act Notice
4. Declaration of Section 214 Status
5. Signed IRS 4506-T "Request for Transcript of Tax Return" for each adult household member (except full-time dependent students)
6. Checklist(s) for each adult
7. Copies of source documents and/or written verification forms
8. Most recent year's tax return for each adult household member (or one for spouses filing joint). Two years if self-employed.
9. School Verification Form(s) – if applicable
10. Third Party Verification (TPV) Monitoring log

Submitting Income Documentation to MSHDA

All Grantees must submit hard copies of income packet in the above submission order to their CD Specialist when:

- Gross annual income falls within \$5,000 or 10% of the upper income limit for an CD program, or
- Applicant is self-employed, or
- Upon request by CD Specialist.

For all applicants, calculate annual income for program eligibility and mortgageability and file all documentation and worksheets in the project file to be reviewed on-site by the CDS during a monitoring visit.