

## Determining Income/Part 5 Definition

The City of Rockford Community & Economic Development Department programs require beneficiaries to have a 12 month projected household income (income) at or below a program limit and/or a limit specified in an agreement. To assist in determining the income of a beneficiary using the Part 5 definition, use the following resources:

1. This document;
2. Chapters 1, 2, and 3 of the third edition of the Technical Guide for Determining Income and Allowances for the HOME Program dated January 2005;
3. Resources posted on <https://www.hudexchange.info/incomecalculator>;
4. City staff: Call, 779-348-7162, and ask for a Housing Rehabilitation Specialist. If questions are still unanswered, a City representative may request further guidance from HUD.

### DEFINITIONS

**Asset:** In general, an asset is a cash or non-cash item that can be converted to cash.

**Cash Value:** An asset's cash value is the market value less reasonable expenses required to convert the asset to cash.

**Income Verifier:** The person responsible for determining the income of an applicant/tenant is the income verifier.

**Market Value:** The market value is its dollar value on the open market.

**Passbook Savings Rate:** The Limits Sheet provided regularly by City staff discloses the latest passbook savings rate. Use this rate when calculating income from an asset that does not produce income. If an asset produces income, the actual income from that asset is included as income; e.g. interest on deposit accounts, dividends, rental income, etc.

**Source Documentation:** Any income and/or asset documents used to determine the applicants/tenants household income is source documentation. This includes but is not limited to check stubs, deposit account statements, tax returns if self-employed, etc.

### INCOME CALCULATOR

1. Use the income calculator (interactive tool) located at <https://www.hudexchange.info/incomecalculator> to assist in determining and to document in the file that an applicant/tenant is income qualified.
2. Print the summary page to keep in the applicant/tenant file along with the items indicated below. Only the applicant/tenant executing an agreement/lease sign the summary page along with the income verifier. It is not necessary to have all other household members 18 & older sign.
  - a. The most recent Limits Sheet, which includes the current income limits, provided regularly by City staff;

- i. To qualify, the applicant/tenant's income must be at or below the income limit at the time of assistance (execution of agreement and/or lease).
  - ii. Income stale dates 6 months from the most recent date of each source document. Only the source that has stale dated needs to be updated if there's a need to update income prior to executing an agreement/lease. However, some may choose to update all income & asset documentation.
  - iii. If the income limits increase, making it appear the applicant/tenant no longer qualifies, after an applicant/tenant is income qualified and before the source documents stale dates, do not disqualify the applicant/tenant. Assist the applicant/tenant as soon as possible before the source documents stale date.
- b. Source documentation.

**Notes when completing overtime fields within the interactive tool:**

The overtime fields include the non-regular pay items; e.g. overtime, bonuses, etc.

1. Determine what the year to date of all non-regular pay line items on the check stub are & convert them to a monthly amount. Insert the monthly amount for each of the 12 months.
2. Bonus
  - a. Insert a significant bonus occurring once a year or quarterly on the month it actually occurs.
  - b. Do not include a one-time bonus (union settlement, sign on bonus, etc.) if there is proof it will not reoccur. Proof may be, but is not limited to the following:
    - i. An income tax return which has a similar wage as the projected income without the bonus, or
    - ii. A statement from the employer.

INCOME

**NOTE:** Income verifiers must review at least two months of source documentation when determining income.

**Determining whose income to include:**

1. Include only the household members listed on the application or Household Affidavit.

A Household Affidavit documents the household members when an application does not have a "Household Member" section. It also documents household member changes when they change after the time of application and prior to providing the assistance.

2. When a married applicant/tenant applies for assistance on his or her own because their spouse is not a household member, the applicant must provide proof of residency for the absent spouse. This may be a separately filed IRS tax return of the applicant or proof of residency for the absent spouse. Proof of residency for the City is the same as required by the State of Illinois for proof of residency when applying for a driver's license.

State of Illinois proof of residency link:

[http://www.cyberdriveillinois.com/publications/pdf\\_publications/dsd\\_x173.pdf](http://www.cyberdriveillinois.com/publications/pdf_publications/dsd_x173.pdf)

3. When a married applicant applies for assistance on his or her own because their spouse is incarcerated, include the incarcerated spouse as a household member, and include their income in the income calculation. Incarcerated spouses do not have to be a household member and therefore, their income does not need to be included if there is proof demonstrating that the spouse will be in jail longer than the term of affordability and/or term of the agreement/lease.

4. Original household members claiming they are no longer a household member at the time of assistance must provide proof of residency as indicated in #2 above. The applicant would sign a Household Affidavit documenting the change in household members too.

**Alimony & Child Support:**

Document alimony and/or child support with a Divorce Decree and/or other legal documentation approved by the court.

If the household appears to be over income because the Divorce Decree and/or Court order discloses an amount higher than what is actually received, the applicant may provide the total received year to date (YTD). Project the annual support by dividing the YTD total by the number of weeks included in the YTD and then multiply that number by 52 weeks.

If the support payment is sporadic and unpredictable; and therefore, should not be included when calculating household income complete Attachment A or B, as applicable.

**Employment Verifications:**

Determine income using the guidance provided in Chapter 2 of the Technical Guide under *Review of documents*. When unable to review two full months of check stubs and/or the income is unclear, complete a third party verification (VOE). When the verification is still unclear, contact the employer directly, and document the file.

Some employers require the use of The Work Number ([www.theworknumber.com](http://www.theworknumber.com)) to obtain a VOE. There is a fee and you will need the following: (City employees – provide the information below to Susan to obtain a VOE)

1. Name
2. Social Security Number
3. Employer name or Code. If entering the employer name, give all the employer's names, the one on the check stub AND any other names the employer may be "doing business as;" e.g. APAC Customer Services, Inc. does business as NCO so both APAC Customer Services, Inc. and NCO would be entered.
4. Six Digit Salary Code

**Regular contributions/gifts received from organizations or non-household members:**

For each household member claiming they have no income, or for those who appear to have regular contributions or gifts from organizations and/or from non-household members, complete Attachment C or D.

**Documenting Unemployment:**

Obtain an Unemployment Insurance Finding (UI Finding). The income verifier uses the information below to determine the income.

- 1) Maximum Benefit Balance: The maximum amount the household member may be eligible to receive. It does not include Dependent Allowance, which is also available to the household member.
- 2) Benefit Year End Date: The last date the household member may receive benefits.
- 3) Weekly Benefit Amount
- 4) Dependent Allowance

**EXAMPLE:**

Current date: 6/3/2011  
Maximum Benefit Balance: \$525  
Benefit Year End Date: 6/9/2012  
Weekly Benefit Amount: \$105  
Dependent Allowance: \$41

Taking into consideration all the information above, the household member could receive a maximum of \$1,017; the Maximum Benefit Balance of \$525 plus \$492 (Dependent Allowance for the next 12 months). However, if the Maximum Benefit Balance had been greater than \$1,260, the household member could receive a maximum of \$1,752; the Weekly Benefit Amount for the next 12 months (\$105 X 12 = \$1,260) plus Dependent Allowance for the next 12 months (\$41 X 12 = \$492). Alternatively, if the Benefit Year End Date was 12/3/2011, the household member could receive a maximum of \$771; the Maximum Benefit Balance of \$525 plus Dependent Allowance for the next 6 months (\$41 X 6 = \$246).

**Self-employed Household Members:**

Self-employed household members submit their most recent year of tax returns. See TAX RETURNS section of this document for additional guidance.

1. For businesses started prior to reporting period, use Attachment E to determine income.
2. For businesses started during the reporting period, divide the net income by the number of weeks the business was active and then multiply that by 52 weeks, giving you the annual net income. Do the same for depreciation and complete Attachment E.
3. For businesses started after the reporting period, complete Attachment F to determine income. Divide the net income reported by the number of weeks the business was active and then multiply that by 52 weeks, giving you the annual net income.

**Note:**

1. Do not complete Attachment E if the applicant/tenant completes Attachment F.
2. It is not necessary to request a new tax return once the new year begins UNLESS it has been 6 months since the applicant/tenant was income qualified; i.e. the computer generated date on the income calculator summary page.

**Rental Income and/or potential rental income if assets are occupied free of rent:**

See Real Estate under the Assets section below for guidance.

## ASSETS & INCOME FROM ASSETS

**NOTE:** Income verifiers must review at least six months of source documentation when determining the cash value of a checking account. For all other assets, just one most recent statement is acceptable when determining the cash value of an asset.

### **Deposit Verifications:**

If the household member is unable to produce statements for deposit accounts/assets, obtain a third party verification. If there is a fee associated with obtaining a verification, the applicant/tenant pays the fee. However, the fee should never keep the applicant/tenant from being qualified for assistance.

Please ensure bank printouts have the bank name; e.g. bank produced statement, computer printout with URL present, printout with teller stamp & signature, printout on bank letterhead, etc.

Rushcard is a pre-paid visa which household members often use as a checking account. Rushcard owners have online access to print 6 months of statements.

If income [e.g. employment, Direct Express (social security), etc.] is provided through a debit card, collect 6 months of statements and treat as if it was a checking account.

### **Real Estate:**

As part of the application, request copies of lease(s). However, make sure it is clear that you may need additional documentation.

### **Determining the asset/cash value of the property:**

Use the Fair Market Value (FMV) as the cash value of a property. Use an online printout of the assessment or an appraisal (not more than 6 months old) as the source documentation. However, if the applicant is over income using this cash value, determine the actual cash value by collecting the documents indicated below & completing Attachment G.

1. Most recent FMV
2. Mortgage loan(s) payoff amount. Most mortgage servicers charge a fee to provide payoffs. Therefore, a computer printout (stamped by the bank or on Bank letterhead), a monthly mortgage statement, or a printout from the internet are acceptable forms of source documentation.
3. Fees associated with the sale of property. Obtain fees through a local title company and/or Realtor. Generally, the fees are charges for title, prep of deed, revenue stamps, brokerage fees, release of mortgage recording fee, and clear water/septic/well inspection fees.

### **Determining the actual income from the property:**

Use leases to document the rent (income) from the property. When there are no leases because the unit is either vacant, or the tenant is not required to pay rent, figure the rent by determining the average of rents for several comparable (same number of bedrooms & bathrooms, building type, apartment v/s a house, etc.) units currently available within the area. However, if the applicant is over income using this method, determine the net rents by the following:

1. Determine annual rent based on leases or the average of rents in the area
2. Subtract allowable annual expenses:
  - a. Mortgage loan Interest,

- b. Real estate taxes,
- c. Insurance,
- d. Utilities,
- e. Repairs to the property; and
- f. Depreciation.

To determine allowable annual expenses when a unit is vacant or the tenant is not required to pay rent,

- i. Call an insurance company to ask what the insurance premium might be for a comparable property,
- ii. Look up the annual real estate taxes,
- iii. Use utility allowances provided by the Public Housing Authority or the City, and
- iv. Collect documentation of any other known expenses that are included in the allowable expenses listed above.

The Calculation for Net Rents Received is as follows:

Gross Rents - allowable expenses = Net Rents Received

If the source documentation is a tax return, obtain a certified tax return for the file (see tax return section below).

## TAX RETURNS

**Tax Returns:**

Request the most recent tax return & W2's (Federal & State).

If the tax returns are not Source Documentation, the application is being processed between January 1<sup>st</sup> and April 15<sup>th</sup>, and tax returns have not been filed, it is acceptable to receive the prior year tax return. *For example, it is now February 1, 2017, and the household member has not filed their 2016 tax returns yet; accept the 2015 tax returns (filed in 2016).*

If the tax returns are Source Documentation, and the application is being processed between January 1<sup>st</sup> and April 15<sup>th</sup> collect the tax returns due that year. *Using previous example above, obtain the 2016 tax returns required to be filed in 2017.*

When tax returns are Source Documentation, following the steps indicated below:

1. Request a Record of Account Transcript from the Internal Revenue Service (IRS) using Form 4506-T or by calling IRS directly at 1-800-908-9946.
2. Proceed with the application if the Record of Account matches the household member's tax return originally provided.
3. At closing, complete with the household member, Form 4506 (request a certified tax return), and submit it to the IRS. Ensure that the following is on the form:
  - a. The mailing address of the income verifier;
  - b. Mark the box "Note: If the copies must be certified for court or administrative proceedings, check here . . . . ."

- c. If household member is not paying the fee, mark the box “If we cannot find the tax return, we will refund the fee. If the refund should go to the third party listed on line 5, check here . . . .” so the check is returned to the income verifier if the IRS cannot complete the request.

A Federal **Record of Account** is an acceptable replacement of federal tax returns and/or W2’s. It is not an acceptable replacement of certified tax returns.

Request copies of the state tax returns by using form IL-4506. The household member generally pays the fee.

Obtain a **Wage & Income Transcript** for household members who were not required to file tax returns. A Wage and Income Transcript will show W-2, 1099, 1098 and Form 5498, IRA Contribution information. Information for the current tax year may not be available until July. Exceptions: Elderly and/or disabled persons on a fixed income are not required to file tax returns and therefore, no Wage and Income Transcript is necessary.

If the main household members [applicants/tenants expected to execute agreements/leases] have not filed tax returns and owes money to the Federal or State Government, deny the application.

Additional/clarification of policies for household members [not the main applicants(s)/tenants anticipated to execute the agreements/lease] unable to produce the Federal & State tax returns & W2’s:

1. If tax returns are being used as source documentation, the policies above must be followed. Deny applicants/tenants if unable to obtain necessary documentation.
2. If tax returns are NOT being used as source documentation, try obtaining a Federal Record of Account or Wage and Income Transcript, depending on the situation. If unable to obtain, note the file why. It is not necessary to deny the applicant if unable to obtain.









**Verification of Regular Contributions or Gifts**

Household Member: \_\_\_\_\_

| Type of Monthly Expense | Amount of Monthly Expense | Who pays for this monthly expense? | Does the person paying for the expense live in the home too? Circle Yes or No |
|-------------------------|---------------------------|------------------------------------|---|
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |
|                         |                           |                                    | Yes or No   |

I, the above named Household Member, swear that I do not earn or receive income other than listed here on this Verification of Regular Contributions or Gifts.

This Affidavit is made for the City of Rockford with the full knowledge that said city relies on the validity of this statement to determine eligibility for a loan/grant through the Department of Community & Economic Development.

Household Member Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Total Monthly Expenses paid by others, not currently occupying the home: \_\_\_\_\_

Calculated by: \_\_\_\_\_ Date: \_\_\_\_\_



**VERIFICATION OF INCOME FROM BUSINESS**

|  |   |
|--|---|
| <p><b>City of Rockford<br/>Community &amp; Economic Development<br/>Department/Neighborhood Development<br/>Division<br/>425 East State Street<br/>Rockford, IL 61104</b></p> <p>AUTHORIZATION: Federal Regulations require us to verify Business Income of all members of the household applying for participation in the Federally funded program which we operate and to reexamine this income periodically. We ask your cooperation in supplying this information. This information will be used only to determine the eligibility status and level of benefit of the household.</p> <p>Your prompt return of the requested information will be appreciated. A self-addressed return envelope is enclosed.</p> | <p>Based on business transacted from _____ to _____</p> <p>1. Gross Income \$ _____</p> <p>2. Expenses</p> <p style="padding-left: 20px;">(a) Interest on loans \$ _____</p> <p style="padding-left: 20px;">(b) Cost of goods/materials \$ _____</p> <p style="padding-left: 20px;">(c) Rent \$ _____</p> <p style="padding-left: 20px;">(d) Utilities \$ _____</p> <p style="padding-left: 20px;">(e) Wages/salaries \$ _____</p> <p style="padding-left: 20px;">(f) Employee contributions \$ _____</p> <p style="padding-left: 20px;">(g) Federal Withholding Tax \$ _____</p> <p style="padding-left: 20px;">(h) State Withholding Tax \$ _____</p> <p style="padding-left: 20px;">(i) FICA \$ _____</p> <p style="padding-left: 20px;">(j) Sales tax \$ _____</p> <p style="padding-left: 20px;">(k) Other: _____ \$ _____</p> <p style="padding-left: 40px;">_____ \$ _____</p> <p style="padding-left: 40px;">_____ \$ _____</p> <p style="padding-left: 40px;">_____ \$ _____</p> <p style="padding-left: 20px;">(l) Straight line depreciation \$ _____</p> <p style="padding-left: 40px;">Total Expenses \$ _____</p> <p>3. Net Income \$ _____</p> |
| <p>RELEASE: I hereby authorize the release of the requested information.</p> <p>_____</p> <p>(Signature of Applicant)</p> <p>Date: _____</p> <p>Or a copy of the executed "HOME Program Eligibility Release Form," which authorizes the release of the information requested, is attached.</p>   | <p>Signature of _____ or<br/>Authorized Representative</p> <p>_____</p> <p>Title: _____</p> <p>Date: _____</p> <p>Telephone: _____</p>  |
| <p><b>WARNING:</b> Title 18, Section 1001 of the U.S. Code states that a person is guilty of a felony for knowingly and willingly making false or fraudulent statements to any department of the United States Government.</p>   |   |

**EQUITY ANALYSIS WORK SHEET**

PREPARED BY: \_\_\_\_\_ DATE: \_\_\_\_\_

PROPERTY ADDRESS: \_\_\_\_\_

PROPERTY OWNER: \_\_\_\_\_

SUGGESTED LIST PRICE: \_\_\_\_\_

|  |           |
|--|-----------|
| 1 <sup>ST</sup> Mortgage   | \$        |
| Interest            %per day for            days =                                 | \$        |
| 2 <sup>nd</sup> Mortgage   | \$        |
| Interest            %per day for            days =                                 | \$        |
| Title Charges  | \$        |
| Prep of Deed   | \$        |
| Revenue Stamps (\$1.50 per thousand)   | \$        |
| Brokerage Fee  | \$        |
| Record Release of Mortgage   | \$        |
| Previous Year's Real Estate Taxes (closing after September 1 <sup>st</sup> )       | \$        |
| Current Year's Real Estate Taxes (Prorated            /day for            days = ) | \$        |
| FHA/VA Down Payment Assistance   | \$        |
| FHA/VA Closing Cost Assistance   | \$        |
| FHA/VA Required Repairs Up To  | \$        |
| Termite Inspection   | \$        |
| <b>Clear Water/Septic/Well Inspection</b>  | <b>\$</b> |
| <i>TOTAL APPROXIMATE EXPENSES</i>  | \$        |
|  |           |
| <b>APPROXIMATE NET PROCEEDS</b>  | <b>\$</b> |