

# Calculating Income & Assets

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Presented By

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## Defining & Verifying Income (IRS Regulation 1.42-5[b][2])

- HUD Definition of Income: Income is the “gross income (monetary or not) which is anticipated to be received on a ‘regular, recurring basis’ for the 12 month period following the effective date of the certification.”
  - For tax credit purposes, the “effective date” is the date the resident moves into the unit.
- All income is counted unless it is specifically excluded by HUD regulation (HUD Handbook 4350.3, Exhibit 5-1).
- Income does not have to be cash into the household.
  - May be paid to third parties on behalf of the household.
    - E.g., father (not living in the unit) making a car payment for a resident – even if paid directly to the bank.
- Groceries (gifts of food are never counted as income), but money for food is income.
- Periodic payments usually count as income:
  - Black lung sick benefits;
  - Veterans disability (except deferred disability payments for Section 8 recipients);
  - Dependent indemnity compensation for the widow of a service member killed in action.
  - Job training: Excluded, as long as job-training program is of limited duration (generally no more than one year).
  - Lump Sum Delays are not income.
    - Except processing delays for welfare or unemployment.

- Educational Assistance:
  - Count grants and scholarships in excess of tuition as income for students receiving Section 8 assistance, unless
    - Student is dependent of household (not a co-head); or
    - Student is age 24+ with dependent children.
  - Do not count any educational grant or scholarship for tax credit or RD residents (unless receiving Section 8)
  - On November 18, 2015, HUD changed the definition of “tuition.” Tuition is now defined as “the amount of money charged to students for instructional services which may be charged per term, per course, or per credit.”
    - This includes tuition and required fees.
    - Required fees include all fixed sum charges that are required of a large proportion of all students.
    - Examples of required fees include, but are not limited to:
      - Writing and science lab fees and fees specific to the student’s major or program (e.g., nursing program).
    - Expenses related to attending school must not be included as tuition. Examples include
      - Room and board;
      - Books;
      - Supplies;
      - Meal plans;
      - Transportation and parking;
      - Student health insurance plans; and
      - Other non-fixed sum charges.
- All pension funds paid to a former spouse by court order are excluded from income of person paying (counted for person receiving).

## Methods for Projecting and Calculating Annual Income

Per HUD Handbook 4350.3, Chg. 4, 5-5.A, a property owner is required to project or estimate the annual income that a family is expected to receive.

\*\*Generally the owner must use current circumstances to anticipate income, by annualizing *current* income. If information is available on changes expected to occur during the year, that information should be used to determine the total *anticipated* income from all known sources during the year.

## Employment Income

The Work Number and other State Government databases may be used to verify income of:

- Applicants;
- When EIV verification is not available; or
- For types of income not verified by EIV (Note: only certain HUD assisted properties may use EIV verification).

When verifying employment income, the following information should be obtained:

- Employment Date;
- Pay Rate
  - Hourly;
  - Weekly;
  - Bi-Weekly;
  - Semi-Monthly;
  - Monthly;
  - Annually
- Overtime;
- Bonuses;
- Commissions;
- Tips;
- Shift Differential
- Anticipated Raises

*Third Party Verification is the preferred method of verification when EIV cannot be used to verify income.*

- *EIV is used only to verify Social Security Income; EIV may verify the place of employment or unemployment benefits, but the amount of income must be verified via third party verification.*

## Types of Third Party Verification

- I. Written Third Party from the source, which includes:
  - a. Written verification on verification form;
  - b. Pay stubs;
  - c. Payroll summary;
  - d. Employer hire letters;
  - e. SSA Benefit Letter;
  - f. Bank Statements;
  - g. Child Support Payment Stubs, etc.

*Hand delivery of documents is not prohibited if the document is clearly authentic (may require oral follow up with source to determine validity).*

*Document should be current and complete (e.g., 4-6 consecutive pay stubs) and an unaltered original. **Photocopied documents generally should not be relied on!***

A tenant's notarized statement or signed affidavit regarding income is acceptable only if the information cannot be verified by another acceptable method. In these cases, the following is required:

1. Written note to the file explaining why third party verification is not possible; **or**
2. A copy of the date-stamped original request that was sent to the third party;
3. Written notes or documentation indicating follow up efforts to reach the third party to obtain verification; and
4. A written note to the file indicating that the request has been outstanding without a response from the third party.

**Note - management is no longer required to wait 14 days after requesting third party verification, since other original documents are considered to be third party verification.**

*Owners may witness signatures in lieu of a notarized statement or affidavit.*

## Consent Forms

All residents age 18+ must sign consent forms enabling owners to verify income. For Section 8 purposes, if a tenant or any member of a tenant's family refuses to sign a Consent Form, the assistance to the household must be terminated (in a Section 202 PRAC or 811 PRAC, the tenant may be evicted).

Note: Per the example on Page 5-64 of HUD Handbook 4350.3, Chg. 4, documents may be mailed to absent household members for signature.

### A Note on Tips

Management must be aware that virtually anyone in the service industry receives tips. This includes wait staff, bartenders, manicurists, exotic dancers, barbers, etc. Tip income for this group must always be addressed.

According to the Fair Labor Standards Act, tips plus hourly wage must at least equal the minimum wage for non-tipped employees. The Federal minimum wage at the time of this Edition is \$7.25 per hour for non-tipped employees and \$2.13 per hour for tipped employees. (Just as a note of historical interest, the minimum wage was first established in 1938 at \$0.25 per hour.)

Employers must make up the difference in hourly minimum wage if tipped employees do not make enough in tips. If State minimum wages are higher, the higher rates should be used.

Certain categories of workers are not required to be paid minimum wage. These include:

- Independent contractors (only employees are entitled to the minimum wage);
- Casual babysitters;
- Workers on small farms;
- Companions for the elderly;
- Workers with disabilities;
- Federal criminal investigators;
- Fishing industry;
- Homeworkers making wreaths;
- Newspaper delivery and newspaper employees of limited circulation papers;
- Seaman on non-American vessels;
- Switchboard operators

Even if a business is exempt from the federal minimum wage law, they may still be covered under state or local law.

These are just some of the categories that are exempt from minimum wage laws, and anytime an applicant states that they make less than minimum wage, you should obtain an explanation from their employer as to which category of exemption they fall under.

The Fair Labor Standards Act (FLSA) provides for the employment of certain individuals at wage rates below the minimum wage. These individuals include student-learners (vocational education students), as well as full-time students employed by retail or service establishments, agriculture, or institutions of higher education. Also included are individuals whose earning or productive capacity is impaired by a physical or mental disability, including those related to age or injury, for the work to be performed.

Employment at less than the minimum wage is designed to prevent the loss of employment opportunities for these individuals. Certificates issued by the Department of Labor's Wage & Hour Division are required for this type of employment.

The *youth minimum wage* is authorized by the FLSA, which allows employers to pay employees under 20 years of age a lower wage for 90 calendar days after they are first employed. Any wage rate not less than \$4.25 an hour may be paid to eligible workers during this 90-day period.

Certain occupations are exempt from both minimum wage and overtime, including those noted under the minimum wage exemption, plus:

- \*Commissioned sales employees (in some cases, but not all);
- \*Computer Professionals, if paid at least \$27.63 per hour;
- \*Drivers, driver's helpers, loaders and mechanics if employed by a motor carrier;
- \*Salesmen, parts men, and mechanics employed by auto dealerships; and
- \*Executive, administrative, professional and outside sales employees.

*Note: The Department of Labor is considering raising the salary exception for the payment of overtime from the current \$23,660 per year to \$50,440.*

Additional information on state overtime requirements may be obtained at [www.dol.gov](http://www.dol.gov).

### "Temporary" Employment Income

Pursuant to 24 CFR §5.609(c)(9), owners and management agents of housing occupied by tenants who receive Section 8 benefits (and therefore LIHTC and RD properties also,) are to exclude from the calculation of annual income any temporary income payments received by those tenants from the U. S. Census Bureau. HUD Notice H 09-16, issued October 2, 2009, defines temporary as "employment income lasting no longer than 180 days and not culminating in permanent employment. **Employer verification of both the employment dates and income amount must be maintained in the tenant's file.**"

- ❖ Note – guidance from HUD has indicated that this definition applies to any temporary employment income – not just the income of census workers.

Military Verification: Be sure to use a military verification form that shows all allowances (all must be counted except “hostile fire pay”).

- If third party verification cannot be obtained, the four to six most recent Leave & Earning Statements (“LES”) may be used. (Military personnel may obtain their LES online).
  - If using the LES, be aware of Basic Allowance for Housing Zip Code (“BAH ZIP”) and Clothing Allowance.
  - <http://militarypay.defense.gov/pay/is> is a good website for obtaining allowances.
  - When verifying the income of National Guard and Reserve, remember the two-week annual active duty for training (“ACDUTRA”) pay.

All income must be verified no more than 120 days prior to receipt of the verification by the owner (90-days for RD).

- The 120-days goes back from the date of receipt by the owner (if date-stamped); otherwise, 120-days back from effective date of TIC.

### Pensions and Social Security

- Use gross income, not net (don’t use bank statements that show direct deposit);
- Increase in Pensions and Social Security occur once each year. Award letters may be used, but if more than 120-days old, an update should be obtained.

To request a proof of income letter from SSA website, have the applicant/resident go to [www.socialsecurity.gov/myaccount](http://www.socialsecurity.gov/myaccount) (this can be done from your office).

>The fact sheet, *How to Create an Online Account* (Publication # 05-10540) provides step-by-step instructions on how to get a benefit verification letter.

To request a Proof of Income Letter from SSA’s toll-free number, call 1-800-772-1213.

This information is free and the tenant should receive the letter in the mail within ten days.

- Social Security increases will be announced each October. When publicly announced, the change should be considered in the calculation of income.

E.g., Social Security of \$600 / month in 2014;

Increase of 1.7% announced in October 2014;

Tenant moving in November 1;

Use \$600 for November and December (\$1,200)

Apply 1.7% increase for January – October 2015 ( $\$610.20 \times 10 = \$6,102$ )

Annual income is  $\$1,200 + \$6,102 = \$7,302$

- Increase will apply to Social Security, VA Pension, Railroad Retirement, and Civil Service Pensions.

*Note: No increase for 2016.*

## Income that May Not Last a full 12 Months

Section 5-5. A.1 of HUD Handbook 4350.3 states:

“Income that may not last for a full 12 months (e.g., unemployment compensation) should be calculated assuming current circumstances will last a full 12 months.” If changes occur later in the year, an interim recertification can be conducted to change the family’s rent.

*No interim is conducted for LIHTC purposes since income does not affect rent.*

### *Self-Employment Income*

1. Obtain “Self-employment Affidavit”
  - a. States how much gross and net business income the resident expects to make over the next 12 months.
2. Obtain documentation to support the Affidavit:
  - a. Federal tax return with supporting schedules (preferred)
    - i. Schedule C for most businesses;
    - ii. Schedule E for rental property, partnerships, and “S” Corporations; and
    - iii. Schedule F for Farm Properties

Note on tax returns:

Obtain transcript from the IRS – 1-800-908-9946; transcript will be sent to tenant at no charge within 10 days, and may also be ordered on-line. (*Self-prepared returns are not recommended.*) IRS Form 4506-T may also be used, but receiving the return could take longer.

- If tax return not available, other acceptable documents include:
  - \*Audited or Unaudited financial statements;
  - \*Accountant/bookkeeper statements; or
  - \*Other reasonable methods of verification

**Note:** *While it is an acceptable form of verification, a notarized statement or affidavit signed by the applicant should only be used when no other form of verification is possible. This is especially important for LIHTC properties.*

## Other Acceptable methods of verifying Income

1. Income Verification Services
  - a. For a fee, additional information can be obtained from the Work Number, 800-996-7556; First American Registry, 800-999-0350; or Verifax, 800-969-5100. Fees are valid project expenses for HUD and RD.  
**Information does not replace third party verification.**
2. Fax
  - a. Should have company name and fax number.
  - b. Oral follow up is strongly recommended.
3. E-Mail
  - a. Must have name of appropriate individual and firm
4. Internet
  - a. Must be a reputable source and viewable on a computer screen.
5. W-2 may be used as last resort, but only if
  - a. Employed with same employer for two years; and
  - b. Increases in income can be reasonably projected.

*Child Support:* Court ordered child support must be counted even if not being received, unless the applicant/resident can show that it is not being received and that reasonable attempts have been made to collect it.

-When child support is received, it should be third party verified if possible. If not possible, a notarized affidavit from the resident may be accepted. This affidavit should also state why third party verification is not possible.

- Documentation for households not receiving support (when there is no court order):

- Affidavit from resident is acceptable if it states:
  1. No support is received;
  2. Whether or not the resident intends to pursue support; and

The resident will notify management if support is received.

*Recommendation:* while not a HUD or IRS requirement, it is recommended that requests be made to Child Support Enforcement regarding potential open child support cases (some states do require this for LIHTC purposes).

*Note:* Almost every household with children will require some type of child support documentation. In 1990, 28% of U.S. births were to unmarried females; in 2000 it was 33.2% and in 2010, 40.8%.

## Basic Income Calculation Rules

\*To annualize full time employment, multiply:

- Hourly wages by 2,080 hours (if working 40 hours per week);
- Weekly wages by 52;
- Bi-weekly amounts by 26;
- Semi-monthly amounts by 24
- Monthly amounts by 12

Note: do not use 4-week months!

- E.g., person is paid \$500 per week.
  - $\$500 \times 4 \text{ weeks} = \$2,000 \times 12 \text{ months} = \$24,000$  (wrong)
  - $\$500 \times 52 \text{ weeks} = \$26,000$  (correct)

\*Use an annual wage without additional calculations. For example, if a teacher is paid \$40,000 per year, use \$40,000 whether paid over 9 months or 12.

- If paid over nine months, teacher would receive \$4,444.44 per month;
- If paid over 12 months, teacher would receive \$3,333.33 per month.

\*Use current circumstances to project income, unless verification forms indicate that a change is expected.

\*If Government benefits have been reduced due to prior overpayment, use the current amount (until the original amount is reinstated).

\*While a -o- income certification is acceptable, households with no discernable means of support should be avoided.

**Note: Using Year-to-Date Income.** YTD income is a tool, and is not always the appropriate way to calculate income.

Two things must be known: (1) Employment start date, and (2) pay periods.

\*Methodology depends on circumstances. Example: an applicant is paid on the 1<sup>st</sup> and 15<sup>th</sup> of each month. The employee has worked with the same company for three years, and the YTD income through July 15, 2015 is \$9,100. There have been 14 paydays to this point; if paid twice each month, there will be 24 pay periods in the year. Formula:

\*\* $\$9,100 \div 14 = \$650$  per pay period;

\*\* $\$650.00 \times 24 = \$15,600$

Annual pay is \$15,600.

\*\* Another example: applicant is paid each Friday. The employee has worked for the same company for three years, and the YTD income through July 17, 2015 is \$9,100.00.

There have been 29 paydays to date.

\*\* $\$9,100 \div 29 = \$313.79$  per week.

\*\* $\$313.79 \times 52 = \$16,317.24$

Look at a calendar: July 17, 2015 was a Friday. The first Friday in January was January 2; count the paydays.

*YTD income must be done carefully to ensure that pay periods are correctly considered!*

### Calculating Raises

\*\* Resident makes \$8.00 per hour and will receive a 4% raise.

$-\$8.00 \times 1.04 = \$8.32$

Overtime - by federal law, when overtime is required, it is to be paid at 1.5 times the regular hourly rate, so, if person makes \$10 per hour, the overtime rate is \$10 X 1.5 or \$15.00 per hour.

*A note on "rounding:" HUD permits normal rounding for data entry on the 50059. There is no such explicit authority for the LIHTC program, so take care to ensure that rounding does not impact eligibility.*

## Verification and Calculation of Assets for Affordable Housing Properties (Section 8/LIHTC/HOME/HOPE VI/Rural Development)

Asset verification and calculation of asset income must be done in accordance with requirements of HUD Handbook 4350.3, Chg. 4.

### Examples of Assets

- Cash held in checking and savings accounts, safe deposit boxes, homes, etc.;
  - Cash on hand and safe deposit boxes – obtain affidavits (no verification required);
    - Cash is always an asset and should be specifically asked about.
  - For savings accounts, use current balance;
  - For checking, use average balance for most recent six months;
  - Assets held in foreign countries are considered assets.
- Revocable trusts; (details later)
- Equity in rental property or other capital investments;
  - Include the current fair market value less any (a) unpaid balance on any loans secured by the property; and (b) reasonable costs that would be incurred in selling the asset.
- Stocks, bonds, Treasury bills, certificates of deposit, mutual funds, and money market accounts;
  - Interest or dividends earned are counted as income from assets even when the earnings are reinvested.
- IRA's, 401k, Pensions, etc.;
  - Regular withdrawals count as income (details later)
- Cash value of life insurance policies available to the tenant before death;
  - Whole life/Universal life
  - Term life is not an asset
- Personal property held as an investment
  - Gems
  - Jewelry
    - Personal jewelry is not considered an asset
  - Coin Collections
  - Antique Cars

### Disposition of Assets

Head of HH, spouse or co-head must give written certification as to whether any family member did/did not dispose of assets for less than Fair Market Value (FMV) two years prior to application or recertification.

Disposition certification must list all assets disposed of for less than FMV, dates disposed of, amount received, and market value at time of disposition.

-There is no specific form for this certification. (Detailed discussion later)

\*\*\*ASSETS ARE AN INCOME ISSUE

### Definition of Annual Income

\*4350.3, Para. 5-4

- 1) All amounts, monetary or not, that go to or are received on behalf of the family head, spouse or co-head (even if a member is temporarily absent); or
- 2) All amounts anticipated to be received from a source outside the family during the 12-month period following admission or annual recertification effective date.

Annual income includes amounts derived during the 12-month period from assets to which any member of the family has access.

### What about assets from an Active Business?

In addition to net income, owners must count any salaries or other amounts distributed to family members from the business, and cash or assets withdrawn by family members, except when the withdrawal is a reimbursement of cash or assets invested in the business.

Assets used as part of an active business (e.g., lawnmowers, hairdryers, bank accounts, etc.) are not counted as personal assets.

## Lump Sum Payments

- i. Generally, lump sum amounts received by a family, such as inheritances, insurance settlements, or proceeds from sale of property are considered assets, not income. However,
  - a. While settlement payments from claim disputes over welfare, unemployment, or similar benefits are counted as assets, *lump sum payments caused by delays in processing periodic payments for unemployment or welfare assistance are included as income.*
  - b. Lottery winnings paid in one payment are treated as assets. If paid in *periodic payments* they are treated as income.

## Calculating Income from Assets

Annual income includes amounts derived from assets to which family members have access.

What is an asset? Assets are items of value that may be turned into cash. However, necessary personal property is not considered an asset.

The calculation to determine the amount of income from assets considers both of the following:

1. Total cash value of the family assets; and
2. Amount of income those assets are earning or could earn.

The rule for calculating income from assets differs depending on whether the total cash value of assets is \$5,000 or less, or is more than \$5,000.

## Determining Cash Value of Assets

The “cash value” of an asset is the market value less reasonable expenses that would be incurred in selling or converting the asset to cash. Examples include:

- Penalties for premature withdrawal;
- Broker and legal fees; and
- Settlement Costs for real estate transactions.

*Keep in mind that a family is not required to convert an asset to cash.*

### Assets Owned Jointly

If more than one person owns an asset, prorate the value of the asset according to the percentage of ownership. If no percentage is specified, prorate evenly.

If an individual does not effectively own an asset, do not count it as an asset.

- E.g., asset is held in an individual's name but the asset and income from the asset accrue to the benefit of someone who is not a member of the household and the other person is responsible for income taxes for the asset.
  - This is common for 'seniors' who have joint accounts with their children.

### Income from Assets with Cash Value of \$5,000 or Less

Count actual income only; never impute income when the total cash value of the assets is \$5,000 or less.

- *Note: for LIHTC projects only, assets of \$5,000 or less may not require verification.*

### Income from Assets with Cash Value Greater than \$5,000

Income will be the greater of

- Actual income from assets; or
- A percentage of the value of family assets based upon the current passbook savings rate as established by HUD. This is called *imputed* income from assets. This is an "assigned" amount that cash could earn if it were in a savings account.
  - Current imputed rate is .06%.

## Calculating Income from Specific Types of Assets

### Real Estate

#### Establish Fair Market Value

- Assessment
- Appraisal
- Real Estate Listing
- Brokers Statement
- Bona Fide Sales Contract

#### Establish Cash Value

- Fair Market Value minus Mortgage Principal and Cost of Sale = Cash Value
  - Cost of sale includes broker fees, closing costs, etc.

#### Income from Real Estate

- Verify any rental amount
  - Deduct on-going operating expenses, taxes, insurance, mortgage interest (all must be verified)

## Trusts

What is a “trust?”

A trust is a legal arrangement generally regulated by State law in which one party (grantor) transfers property to a second party (trustee) who holds the property for the benefit of one or more third parties (beneficiaries). The property may be any asset that can be converted to cash.

Trusts may be “revocable” or “nonrevocable.”

Beneficiaries often may not touch any of the trust funds until a specified date or event (e.g., death of the grantor).

The beneficiary and the grantor may be members of the same family.

### Revocable Trusts

If any member of the tenant household has the right to withdraw the funds in the account, the trust is considered to be an asset and is treated as any other asset.

### Nonrevocable Trusts

If no household member has access to either the principal or income of the trust at the current time, the trust is not included in the calculation of income from assets or in annual income.

*Note: If the income is available, the income is included in annual income, but the trust is not included in the calculation of income from assets unless there is access to the principal.*

### Nonrevocable Trust as an Asset Disposed of for Less than Fair Market Value

If a nonrevocable trust is voluntarily established within two years of application or recertification, it is considered an “asset disposed of for less than fair market value.”

### Payment of Principal from a Trust

- If paid in lump sum, treat as an asset;
- If paid periodically, treat as income.

## Annuities

### What is an Annuity?

An annuity is a contract sold by an insurance company designed to provide payments, usually to a retired person, at specified intervals. Fixed annuities guarantee a certain payment amount, while variable annuities do not, but have potential for greater returns.

Types of annuities include:

- Hybrid (investment is allocated between “fixed” and “variable” components);
- Deferred (principal & earnings are paid in one lump sum when the contract is cashed in);
- Immediate (principal & earnings are paid periodically over a pre-determined period of time); and
- Life annuity (series of future payments for life)
  - Single life; and
  - Joint life

*Example of an Immediate Annuity:*

- ✓ *A lump sum amount is paid to an insurance company (e.g., \$100,000);*
- ✓ *The insurance company immediately begins paying out a fixed amount each month (e.g., \$550)*

*Example of an Inflation Adjusted Annuity:*

- ✓ *A lump sum amount is paid to an insurance company (e.g., \$100,000);*
- ✓ *The insurance company immediately begins paying out an inflation adjusted amount each month (e.g., \$375, increasing each year based on the CPI)*

Generally, a person who holds an annuity from which he or she is not yet receiving payments will be earning income on the annuity, but the income is counted only if there is access to the principal.

Most annuities charge surrender or withdrawal fees.

The verification source for annuities will normally be the applicant or tenant's insurance broker.

### Annuity: Asset or Income?

If an applicant cannot withdraw the balance of an annuity, the annuity has no cash value.

If regular payments are being received, an annuity cannot generally be converted to cash and is therefore not an asset, but the payments are counted as income.

### When is an Annuity an Asset?

1. If the applicant can withdraw the balance of an annuity, it is an asset.
2. In most cases, interest will be earned on the balance of the annuity.
3. Items to be verified;
  - a. The right of the holder to withdraw the balance (even if penalties are involved);
  - b. Expected income to be earned by the annuity over the next year;
  - c. Early withdrawal penalties; and
  - d. Tax rate and tax penalty that would apply if the annuity were withdrawn.

### Lump sum receipts counted as Assets

Lump sum payments received by a tenant are counted as assets.

Examples of Lump sum payments include:

- Inheritances;
- Capital Gains;
- Lottery winnings paid in one payment;
- Cash from the sale of assets;
- Insurance settlements; and
- Any other one-time lump sum payment.

If the family uses the lump sum payment for something that is not an asset (e.g., car, vacation, education) the lump sum must not be counted.

## Retirement Accounts

Retirement accounts have cash value if the money is accessible to the household. However, accounts that are accessible only if the person retires, and retirement is not expected, should be considered to have no cash value.

- Also, access that is restricted to emergencies or available as a loan does not establish any cash value.

IRA's and similar accounts (not company pension plans) are always considered assets (with one exception, outlined below), even if there are withdrawal penalties.

For company retirement/pension plans:

- If individual is still employed, count only what they can withdraw without retiring or terminating employment.
- After retirement or termination of employment, count any amount they elect to receive as a lump sum as an asset.
  - Periodic payments will be counted as income.

*If regular distributions are being taken from a retirement account such as an IRA or 401k, count the distributions as pension income. Do not count the balance in the account as an asset, even if the resident has access. Interest earned on the account in this case is not counted as income.*

## Mortgage or Deed of Trust

If an individual sells a piece of real estate and finances it through a “contract sale,” the mortgage or deed of trust is an asset.

The value of the asset equals

- The unpaid principal as of the effective date of the certification.

The interest portion of any mortgage payments is the annual income.

## Reverse Mortgage

A “reverse mortgage” is a loan against a home that does not have to be paid back for as long as the homeowner lives there. Once the owner moves out of the home, the loan will become due (with very limited exceptions). **The homeowner still owns the home!**

The real estate is the asset and the market value, less the amount owed plus a cost of sale on the real estate, is the cash value of the asset.

*(As a practical matter, since the loan must usually be paid off when the homeowner moves, this would rarely, if ever, be an issue.)*

### Assets disposed of for less than Fair Market Value

Applicants must declare whether an asset has been disposed of for less than fair market value in the two years prior to the application. Current residents must state whether assets have been disposed of for less than fair market value in the two years prior to the effective date of the recertification.

- *Verification of the statement is required only if information does not appear to agree with other information reported by the tenant.*

The amount counted as an asset is the difference between the cash value and the amount actually received.

- Any asset that is disposed of for less than full value is counted, including cash gifts as well as property.

Note: This rule applies only when the fair market value of all assets given away during the past two years exceeds the gross amount received by more than \$1,000.

Assets disposed of for less than fair market value as a result of foreclosure, bankruptcy, divorce, or separation are *not* counted.

- File should contain appropriate documentation.

Assets placed in nonrevocable trusts are considered assets disposed of for less than fair market value unless placed in trust as a result of settlement or judgment.

## Asset Verification Requirements

HUD Handbook 4350.3, para. 5-12 requires that all assets affecting eligibility be verified.

For tax credit properties, households with assets of \$5,000 or less may provide an affidavit stating that assets are \$5,000 or less and indicating any income from assets.

## Acceptable Verification of Assets

Four types of assets generally do not require third party verification:

1. Assets disposed of for less than fair market value
  - a. No third party required;
  - b. Need Certification regarding disposition of assets; and
  - c. If assets have been disposed of, applicant must state:
    - i. Type of asset disposed of;
    - ii. Date disposed of;
    - iii. Amount received; and
    - iv. Market value of asset at time of disposition.
2. Cash-on-hand
3. Investment Value of the Content of Safe Deposit Boxes
4. Value of Personal Property Held for Investment Purposes

## *Other Assets Must Generally be Verified*

1. Current net family assets
  - a. Third party (forms, letters, or documents received from financial institutions, stock brokers, real estate agents, etc.)
  - b. Applicant provided documents
    - i. Passbooks, checking or savings statements, CD's, property appraisals;
    - ii. Copies of real estate tax statements (must know the assessment method);
    - iii. Quotes from attorneys, stockbrokers, banks and real estate agents that verify penalties and reasonable costs to convert assets to cash;
    - iv. Copies of real estate closing documents.

2. Dividend income and savings account interest income
  - a. Verification form completed by bank;
  - b. Phone or in-person contact with appropriate party, documented in the file;
  - c. Documents provided by applicant.
    - i. Current statements, passbooks, CD's (if they show balance and current rate of interest);
    - ii. Copies of Form 1099 from financial institution and verification of projected income for next 12 months;
    - iii. Brokers quarterly statements showing value of stocks/bonds and earning credited to the applicant.
      1. Owner must obtain enough information to accurately project income for the next 12 months.
    - iv. Be sure to verify interest rate as well as asset value.
  
3. Income from sale of real property (e.g., contract for deed, installment sales contract, etc.)
  - a. Verification form from accountant, attorney, broker, buyer or financial institution with copy of amortization schedule from which interest income for next 12 months can be determined.
  - b. Applicant provided documents
    - i. Copy of contract;
    - ii. Copy of amortization schedule

Note: Copy of check paid by buyer to the applicant is not acceptable since it shows both interest and principal.

Assets do *not* include:

- Personal Property (clothing, furniture, cars, wedding ring, personal jewelry, vehicles specially equipped for the disabled);
- Interests in Indian Trust Land;
- Term life insurance policies;
- Equity in a cooperative unit in which the family lives;
- Assets that are part of an active business; and
- Assets that are NOT effectively owned by the applicant;
  - Assets are held in an individuals name, but (a) the assets and any income they earn accrue to the benefit of someone else who is not a member of the household, and (b) that other person is responsible for income taxes incurred or income generated by the assets.
- Assets that are not accessible to the applicant and provide no income to the applicant.