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Income Calculation Guidance Found In Guidelines

CALCULATING INCOME

Program qualifying income considers the income of borrowers and their spouses (regardless of spouse's occupancy of the primary residence and whether or not a party to the loan) AND all household members 18 years of age or older (related or unrelated). When calculating Program Eligibility Income, there are two types of income to consider – income from an employer and income from all other sources. **Include all income unless specifically listed as excluded in this guide.**

Calculating Income from an Employer

Determine whether the Borrower receives **base pay only** or a combination of **base pay and additional income** from an employer.

Calculate "Base Pay from an Employer"

Regular Hours/Pay

1. Determine frequency of income - weekly, bi-weekly, semi-monthly, etc.
2. Identify documentation needed to support payment frequency and calculation.
3. Apply Calculation - *(Base Wage x Hours Worked in a Pay Period) x (# of Pay Periods Per Year)*
4. This should approximate the annualized YTD on VOE or paystubs. If not, check for additional pay, such as overtime, bonus, shift differential, etc. (Employers don't always break this out on the VOE).
5. See additional guidance on calculating base pay from an employer.

Hourly pay	Bi-weekly pay	Semi-Monthly pay
Multiply the pay per hour by the number of hours worked per week. Multiply total by 52 weeks a year.	Multiply the bi-weekly pay by 26.	Multiply the semi-monthly pay by 24.
Example: 1. $15 per hour x 40 hours a week = $600 2. $600 x 52 weeks a year = $31,200 3. $31,200 / 12 = $2,600 gross monthly base pay	*Example:* 1. $1,200 every two weeks x 26 pay periods a year = $31,200 2. $31,200 / 12 months = $2,600 gross monthly base pay	*Example* 1. $1,300 semi-monthly pay x 24 pay periods a year = $31,200 2. $31,200 / 12 months = $2,600 gross monthly base pay

Irregular Hours/Pay

1. Annualize YTD Earnings total.
2. Average prior year's earnings total, if available, (or provide documentation and explanation to support not using the prior year's earnings.) Divide the resulting number by the number of months and days worked, and then multiply that number by 12 months to get total average pay from an employer.
3. See additional guidance on calculating base pay from an employer.

Calculate "Additional Pay from an Employer":

1. In the Earnings section of paystub or VOE, look for additional income earned that is not included in **base**. (Sick, vacation, holiday, etc. is generally included in **base**.)
2. Add up all additional income that is included in the YTD Earnings Total and not part of **base**.
3. Average prior year's earnings total, if available, (or provide documentation and explanation to support not using the prior year's earnings.). Divide the resulting number by the number of months and days worked, and then multiply that number by 12 months to get an average of **additional pay from an employer**.
4. See additional guidance on calculating additional pay from an employer.

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Income Calculation Guidance Found In Guidelines

TYPES OF INCOME

Determine if there are other sources of income, apart from wages from an employer.

Wages from an Employer

Base Pay

Definition/Inclusions	Exclusions
Regular Hours/Pay: Borrower is scheduled for the same number of hours per pay period. Gross salary or wage income from part-time, full-time, or seasonal work with regular hours/pay Irregular Hours/Pay: Variable hours, seasonal work, etc., such as nursing, restaurant, construction, retail or part-time work with varied hours or pay.	Income no longer available

Guidance

- Borrowers can't manipulate income (quit job, etc.) to become eligible.
- Include all income, including sick, holiday and vacation pay.
- Average current YTD and prior year's earnings total, if available, (or provide documentation and explanation to support not using the prior year's earnings.). The most recent federal income tax return may also be used for this purpose.
- Income documentation is required, and could include, but is not limited, to, paystubs, VOE, tax returns, W-2's, etc.
- Seasonal work requires the same documentation for variable pay as outlined above, but should also include any unemployment benefits, if applicable.
    - 1099s, tax returns, and/or verification from unemployment office to verify unemployment benefits

Additional Income from an Employer

Definition/Inclusions	Exclusions
Income over and above base pay, such as overtime, shift differential, bonuses, profit-sharing, tips, commissions, etc.	One-time (non-recurring) income; i.e., income received once that does not have a history and is unlikely to reoccur in the future.

Guidance

- Documentation of additional pay could include, but is not limited to, paystubs, VOE, etc.
- Average current YTD and prior year's earnings total, if available, (or provide documentation and explanation to support not using the prior year's earnings).
- Always use an average for overtime (unless employer and income history verifies OT was for one-time, special project, etc.), commissions, bonuses, shift differentials, and sick/vacation/holiday pay (if not already included in base pay).
- Include all income that is included in the YTD Earnings Total on a paystub or on a VOE.
- Any income that is determined to not be included in YTD Earnings Total (for example, employer-paid benefits or matches, such as an HSA match) does not have to be included in the Program Eligibility Income calculation.

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Income Calculation Guidance Found In Guidelines

Self-Employment/Business Income	
Definition/Inclusions	**Guidance**

Individuals who earn their income through conducting a trade or business that they directly operate instead of working for an employer who pays them a salary or a wage.	• Determine gross annual income.
	• Use a two-year average from the most recent federal income tax returns.
	• Self-employment income documentation is required, and may include, but is not limited, to:
	  ○ Tax form Schedule C, most recent two years
	  ○ YTD Profit & Loss Statement
	  ○ Tax form Schedule K-1 (Form 1120S)
	• Request additional supporting documentation (i.e., current balance sheet and income statement) when necessary.
	• Deduct out-of-pocket business expenses such as office rent, telephone, etc., which are generally tax-deductible items.
	• Include all entertainment and travel expenses, private retirement contribution plans, and property or equipment depreciation. These items are generally tax-deductible, but must be added back for the Program Eligibility Income calculation if starting with the net income amount.
	• If a net loss, use $0. Do not subtract the loss from the Program Eligibility Income calculation.
	• Use caution with large variations in income (whether increase or decrease) when averaging two years' income. The determination in these cases should be documented and supported by the underwriter.

Income from Financial Assets		
Definition/Inclusions	**Exclusions**	**Guidance**
Income from: trusts, annuities, dividends, royalties, interest earned from non- retirement accounts (savings, checking, money market, investments, mutual funds, etc.)	• One-time lump sum payments • Investments in retirement accounts (IRAs, VIPs, 403(b)'s, 401(k)'s) • Any cash withdraws from retirements accounts	• Always check tax returns for income from financial assets. • Include average of periodic payments, including recurring, lump-sum payments. • Where assets after closing exceed $5,000, calculate interest income based on the greater of actual income or imputed income based on the current passbook savings rate, as determined by HUD.

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Income Calculation Guidance Found In Guidelines

Insurance or Benefit Payments

Definition/Inclusions	Exclusions	Guidance
Periodic payments derived from: • Long-term care insurance • Disability insurance • Pensions • Death benefits	Do not include one-time, lump-sum payments.	Include periodic insurance or benefit payments at current level.

Government Transfer Payments

Definition/Inclusions	Exclusions	Guidance
Government transfer payments involve payments for which no current services are performed and are a component of personal income. • Retirement benefits • Disability benefits • Income maintenance benefits • Pensions • Veterans benefits • Federal education & training assistance • Public assistance • Worker's Compensation • Social Security benefits • Unemployment insurance compensation	• Food stamps • Government-paid child care paid directly to the provider • Foster care income • Section 8 vouchers	• Include all sources of this income at current level. Do not gross up.

Investment Property Net Rental Income

Definition/Inclusions	Exclusions	Guidance
Income from an Investment Property	Potential roommate income or rental income of future duplex or accessory dwelling unit	Calculate investment property net rental income • Monthly Gross Rent - Vacancy Loss = Gross Adjusted Rent • Gross Adjusted Rent – PITI and maintenance costs = Net Rental Income. If rental income is negative, enter $0. In addition, an operating statement may be used in lieu of using the above-referenced formula.

Child/Spousal Support

Definition/Inclusions	Exclusions	Guidance
Child support, child care, medical support, alimony, spousal maintenance	Court-ordered support not received; must document support was not received	• Use average of actual support received. • Review divorce/child support agreement. • Check with county social service agency to determine whether any payment adjustments have been made since the original payment schedule. • Cross-check payment schedule with bank statements, etc.

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Income Calculation Guidance Found In Guidelines

Regular Cash Contributions

Definition/Inclusions	Exclusions	Guidance
Regular cash contributions from non-resident(s)		Check bank statements for regular cash contributions. Include all regular cash contributions from non-residents.

Employee Allowances

Definition/Inclusions	Exclusions	Guidance
Car, cell phone, per diems, etc.	• Do not include any car, cell phone, travel per-diem, etc.	

Custodial Account Income

Definition/Inclusions	Exclusions	Guidance
Unearned income paid to children age 20 or younger, who live with the Borrower(s) 50% of the time or more	• 529 plans • Accounts where someone other than the parents are named as custodian. • Unearned income of adult dependents age 21 or older	Include all custodial account income.

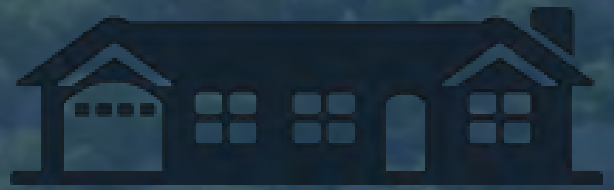
Other Sources of Income

Definition/Inclusions	Exclusions	Guidance
• Contract-for-deed interest income • Any other sources of income as identified or represented in the loan file and applicable documentation.	• Loans; scholarships; grants and tuition reimbursement; • Earned Income Tax Credit refund payments; health insurance premium reimbursements (deducted from gross pay) and any out-of-pocket expense (co-pays, etc.) reimbursements • One-time lump sum (non-reoccurring) payments from: o Inheritances o Insurance settlements o Lottery winnings o Gambling winnings o Capital gains o Liquidation of assets o Settlements for personal loss	• Always include other sources of income not specifically excluded. • For contract-for-deed interest income, include interest portion of payments per the terms of the agreement/contract.

C erved.

ELIGIBLE PROPERTIES

1 - **Single Family D**etached or Attached 1 unit



2 – PUD's & Condos, Townhomes.

3 - No more than 15% of the square footage of the home being purchased may be used in connection with a trade or business including Child Care services.



4 - Homes NOT allowable:

- Manufactured
- Mobile
- Vacation
- Seasonal



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CASH BACK POLICY

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Cash back to the borrower is not permitted. Borrowers are permitted a reimbursement of pre-paids and overage of earnest money deposit to the extent any minimum contribution has been satisfied and is permitted by Agency and GSE guidelines.



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Program Timeline and Benchmarks



60 Calendar Days
Reservation to Loan Purchase

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NO PRE-APPROVAL SUBMISSION

eHPortal

To reserve funds/rate lock all you need is:

- 1003 Loan Application
- Real Estate Purchase Agreement

Please do not reserve too early.



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Program Timeline and Underwriter Certification Benchmark

The lender's underwriter will complete an

Underwriter Certification

ANYTIME PRIOR TO CLOSING THE LOAN

eHOUSINGPLUS
Program Management Specialists

- Income
- Loan
- Purchase Price
- The down payment assistance
- Credit underwriting income.

ANYTIME PRIOR TO CLOSING THE LOAN

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Program Timeline- Example #1

Loan reserved on February 5th

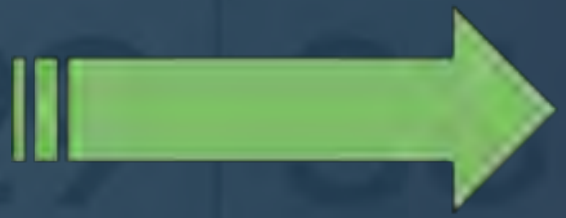
Closing date is **March 19th**

Represents

42 calendar days between reservation and closing.

60-day Purchase Deadline

This leaves only 18 days to have the loan delivered, cleared of all deficiencies and purchased by the Servicer.



This loan was reserved **TOO EARLY.**

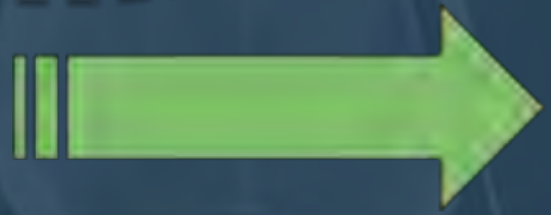
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Program Timeline- Example #2

Loan reserved on
March 23rd
Closing date is April 16th

Represents
24 calendar days between reservation and closing.

60-day Purchase Deadline
This leaves only 36 days to have the loan delivered, cleared of all deficiencies and purchased by the Servicer.



This is a good example of when to reserve funds.

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PRO TIP:

WAIT to make the reservation.



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What happens if a loan is not purchased within 60 days of reservation?

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Extension Period	Points
7 Days	.06250
15 Days	.12500
22 Days	.18750
30 Day	.25000

These are costly and can be avoided.

Most extensions are required because the loan was reserved **TOO** early.

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PROGRAM FEE'S

eHOUSINGPLUS
Program Management Specialists

$350 Compliance Fee



Paid via eHPay post closing



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PROGRAM FEE'S

$319 Funding Fee

$80 Tax Service Fee

$20 Fraud Prevention Fee (ONLY if not included in the file)

$15 Flood Life of Loan Certificate (ONLY is Service Link or Core Logic are not used)

$125 2nd Mortgage Servicing Fee

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PROGRAM FEE'S

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$500 for first mortgage
$500 for second mortgage

Paid at closing to HHFDC

Payment must be remitted via cashier's check, money order or business check, payable to Hawaii Housing Finance and Development Corporation, 677 Queen Street, Suite 300, Honolulu, Hawaii 96813. Electronic payments are not accepted.

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LENDER COMPENSATION

First Mortgage: 1% Origination and Zero Discount Points
Second Mortgage: $100 fee
Service Release Premium (SRP) – 1.50%

Customary Charges Incurred by Lender: These should be nominal, customary and justified as pass through costs. Examples are as follows:

- Financing Costs – legal fees, underwriting fees and courier fees
- Settlement Costs – title and transfer costs, title insurance, survey/ILC, recording or registration costs
- Other Costs – doc prep fees, notary fees, hazard insurance premium, mortgage insurance premium, life insurance premium, prepaid escrow deposits and other similar charges allowable by the insurer/ guarantor.

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PROGRAM DOCUMENTS

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- Notices to Buyers and Recapture Brochure
- Mortgagor Affidavit
- Tax Exempt Rider
- Affidavit of Co-signor (if applicable)
- Notice of Potential Recapture Tax
- Second Loan Disclosure Form
- Commitment Letter
- 2nd Mortgage
- 2nd Note

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WHO SIGNS THE PROGRAM DOCUMENTS?

Form	Signed When?	Borrower	Co-Borrower	Non Purchasing Spouse	Co-signer
Notices to Buyers and Recapture Brochure	Pre Closing	Yes	Yes	No	No
Mortgagor Affidavit	Closing	Yes	Yes	Yes	No
Tax Exempt Rider	Closing	Yes	Yes	No	No
Affidavit of Co-signer	Closing	No	No	No	Yes
Notice of Potential Recapture Tax	Closing	Yes	Yes	No	No
Second Loan Disclosure	Closing	Yes	Yes	No	No
Commitment Letter	Closing	Yes	Yes	No	No
2nd Mortgage	Closing	Yes	Yes	No	No
2nd Note	Closing	Yes	Yes	No	Yes
HHFDC Fee Invoice	The lender should provide the HHFDC invoice to the closing agent. This is not signed by the borrower.				

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WHO SIGNS WHAT?

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Do not add anyone to title or deed who is not a borrower (non-purchasing spouse MAY be added). Loan purchase will be delayed until this person is removed.

A non-borrower may never be added to title or deed (excluding a spouse).

Example: Borrower is living with soon-to-spouse who is NOT on the loan and they want to be added to title, they cannot be added.

Example: Borrower would like to add a non-occupant person to title, they cannot be added.

Example: Co-signer is added to title and/or deed, they will need to be removed prior to loan purchase.

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RECAPTURE TAX!

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RECAPTURE TAX

A potential tax placed on recipients of a Bond program for the first 9 years of the loan.

- ✓ This is calculated after the sale or transfer of property.
- ✓ Is **NOT** triggered by refinancing the first mortgage.



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In order for a borrower to be concerned about having to pay recapture tax, three events must happen at the same time:



1. The sale or transfer of the home within the first 9 years of ownership.

2. The Homeowner must have a gain on the sale of the house.





3. The homeowner income is above the allowable income limit at the time of the sale. And THIS is what usually saves a borrower from ever having to pay recapture tax.

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Remember, there are income limits in the Program and your borrower's income must not exceed those limits in order to participate in the Program.

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RECAPTURE PERIOD 1ST YEAR

County	Non-Targeted 1 - 2 Person HH	Non-Targeted 3 or more Person HH	Targeted 1-2 Person HH	Targeted 3 or more Person HH	Fannie Mae HFA Preferred and Freddie Mac HFA Advantage Income threshold for Reduced Mortgage Insurance
Hawaii	$123,000	$141,450	$147,600	$172,200	$82,320
Honolulu	$152,000	$174,800	$182,400	$212,800	$103,440
Kalawao	$133,080	$155,260	$147,600	$172,200	$88,720
Kauai	$159,480	$186,060	$159,480	$186,060	$106,320
Maui	$161,520	$188,440	$161,520	$188,440	$88,720

During the recapture period of 9 years, the IRS INCREASES these income limits by 5% each year to allow for a cost-of-living increase.

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RECAPTURE PERIOD 2ND YEAR

County	Non-Targeted 1 - 2 Person HH	Non-Targeted 3 or more Person HH	Targeted 1-2 Person HH	Targeted 3 or more Person HH	Fannie Mae HFA Preferred and Freddie Mac HFA Advantage Income threshold for Reduced Mortgage Insurance
Hawaii	$129,150	$148,522	$154,980	$180,810	$86,436
Honolulu	$159,600	$183,540	$191,520	$223,440	$108,612
Kalawao	$139,734	$163,023	$154,980	$180,810	$93,156
Kauai	$167,454	$195,363	$167,454	$195,363	$111,636
Maui	$169,596	$197,862	$169,596	$197,862	$93,156

During the recapture period of 9 years, the IRS INCREASES these income limits by 5% each year to allow for a cost-of-living increase.

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RECAPTURE PERIOD 3RD YEAR

County	Non-Targeted 1 - 2 Person HH	Non-Targeted 3 or more Person HH	Targeted 1-2 Person HH	Targeted 3 or more Person HH	Fannie Mae HFA Preferred and Freddie Mac HFA Advantage Income threshold for Reduced Mortgage Insurance
Hawaii	$135,607	$155,948	$162,729	$189,850	$90,757
Honolulu	$167,580	$192,717	$201,096	$234,612	$114,042
Kalawao	$146,720	$171,174	$162,729	$189,850	$97,814
Kauai	$175,827	$205,131	$175,827	$205,131	$117,217
Maui	$178,076	$207,755	$178,076	$207,755	$97,814

During the recapture period of 9 years, the IRS INCREASES these income limits by 5% each year to allow for a cost-of-living increase.

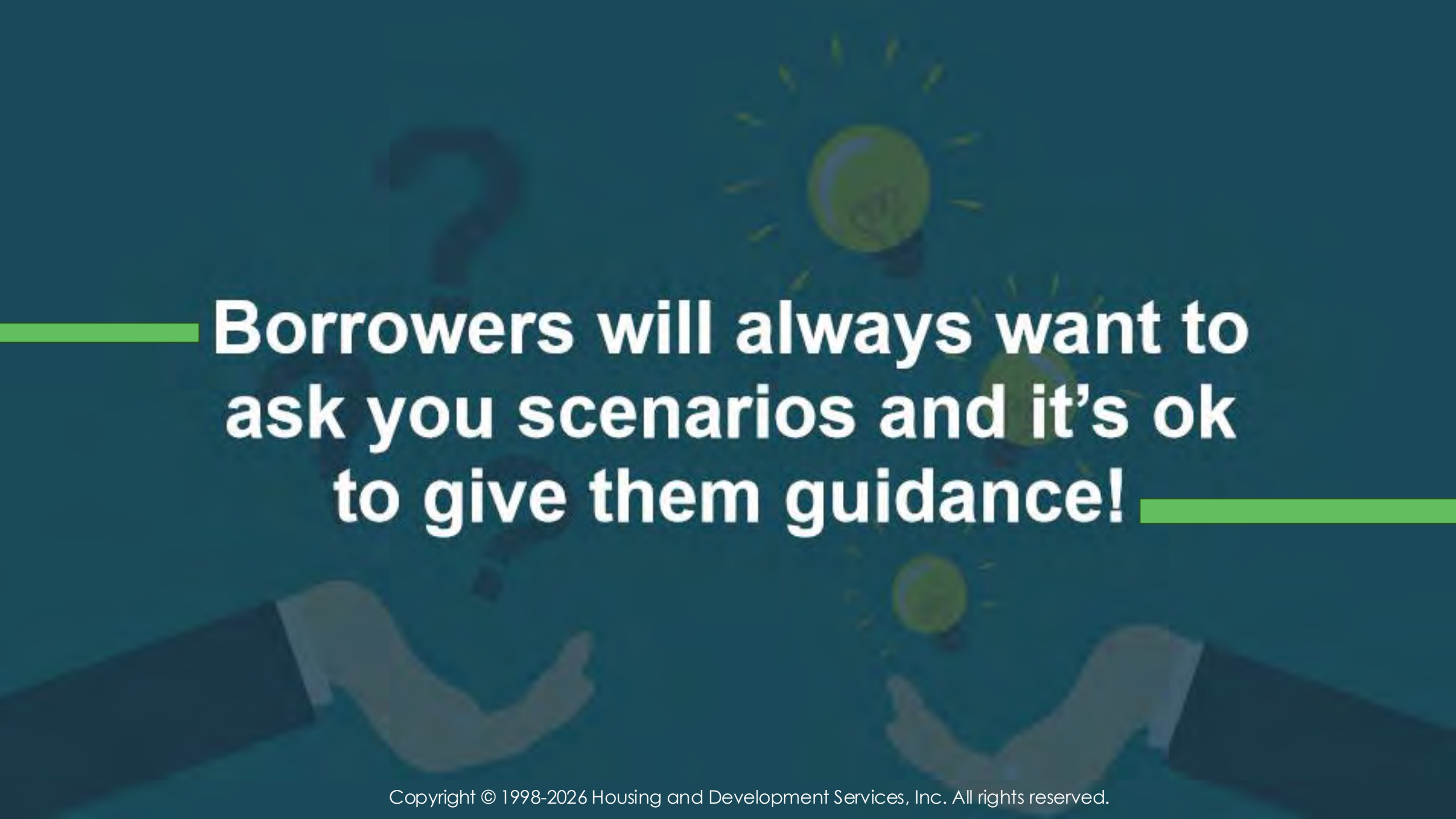
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Borrowers can't keep up with the increases to the Program income limits.



It is **very** rare that someone would need to pay Recapture tax.

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But a borrower should really speak with either a **CPA** or **Tax Attorney** if they have concerns over recapture tax.

Worst Case Scenario?

The recapture tax cannot exceed **6.25%** of the original loan amount or **50%** of the net gain from the sale of the home.

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IRS Form 8828

And file it with their **Federal Tax Return** for the year the home is sold.
(Regardless if the borrower owes recapture.)

IRS Form 8828 will assist the borrower in determining if any recapture tax is owed. It is **strongly** suggested that the borrower consult with a tax professional when filing IRS Form 8828.



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THE PROCESS

1. Lending Institution Approval
   Submit Mortgage Origination Agreement to HHFDC
   Approval by TMS

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Program Management Specialists

2. Lender Onboarding
   Attend required training
   Receive user credentials for eHPortal and eHP FrontPorch

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THE PROCESS

3. Qualify a borrower for a mortgage loan AND the Hale Kamaʻāina Single Family Mortgage Program.
There is NO pre-approval submission package.
Lenders underwrite loans internally.

eHPortal

4. Reserve/Rate Lock the first mortgage program funds and assistance
Rate lock within eHPortal
Print the pre-closing documents:
Notices to Buyers and Recapture Tax Brochure

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eHOUSINGPLUS
Program Management Specialists

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Hawai'i Housing Finance & Development Corporation

Reserve Program Funds
Underwriter Certification
Program Pipeline

eHP ONBOARDING

eHOUSINGPLUS UNIVERSITY

Lunch and Learn

HHFDC
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VIEW PROGRAM HIGHLIGHTS

eHPortal

eHP FRONT PORCH

Program Administration Guidelines

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eHPortal®

FFIEC

POWERED BY HDS

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Password:

Log In

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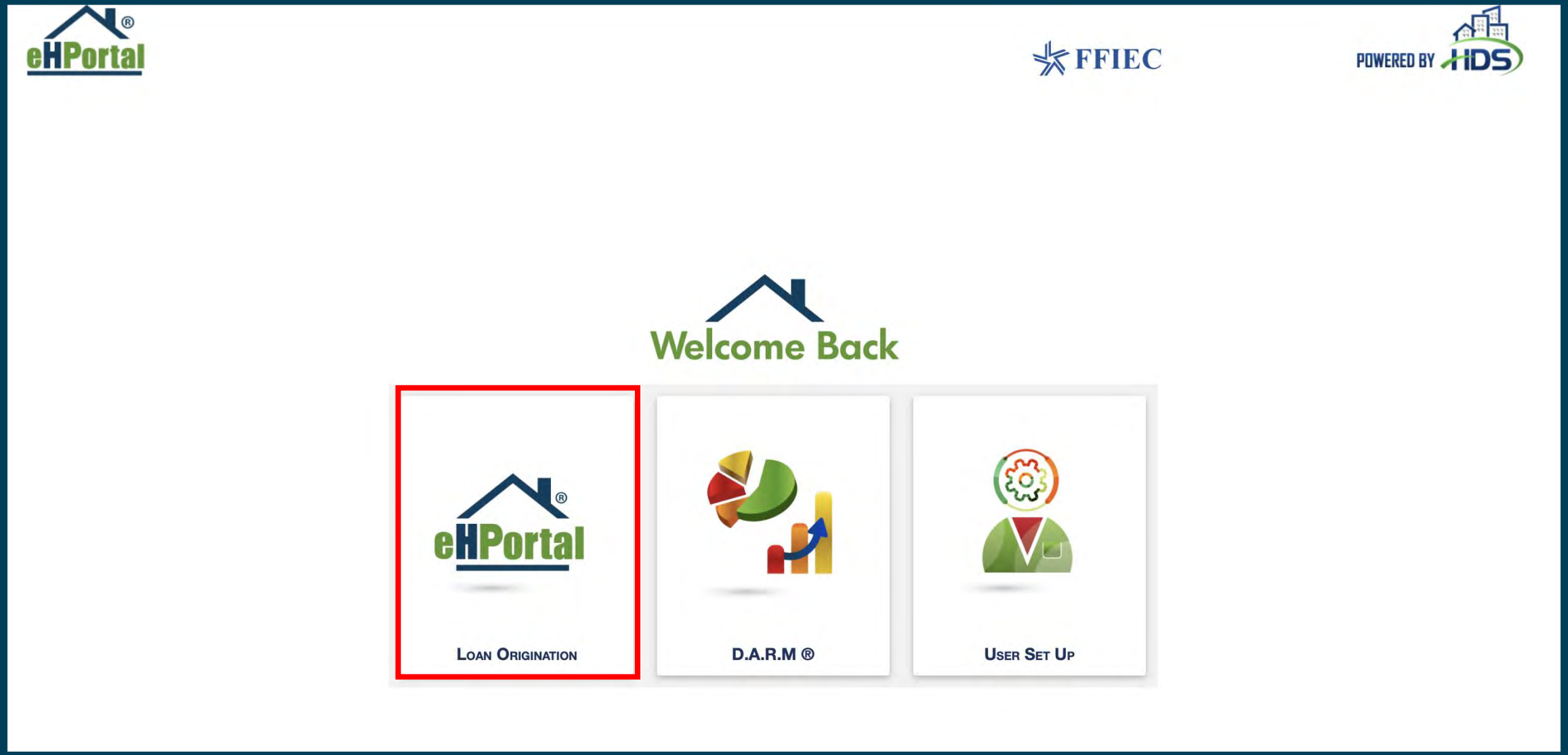
Loan Management and Compliance made easy

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Program Management Specialists

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