

HOME Rental Program Compliance Manual for Owners and Managers

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Introduction

Properties developed using HOME Investment Partnerships Program (HOME) funds are subject to specific rules designed to ensure that they remain affordable to low and very low income households throughout the required Period of Affordability (POA). This manual is designed to assist owners and their agents to plan and maintain compliance with the HOME regulatory requirements associated with HOME assisted rental properties.

Affordable Housing Connections (AHC) has been contracted by several local Participating Jurisdictions (PJs) to monitor the continuing compliance of HOME assisted rental units in accordance with the Department of Housing and Urban Development (HUD) regulations contained in 24 CFR Part 92. A Participating Jurisdiction (PJ) is any State or local government that has been designated by HUD to administer a HOME program grant. Throughout the POA, applicable HOME property standards must be met, units must be affordable to low and very low income persons and rents must remain compliant. Any violation of the requirements of the HOME program could result in acceleration of the repayment of funds received under the HOME program.

Successful operation of a HOME assisted property is management intensive; the owner is responsible for ensuring that the property is properly administered. Thorough understanding of HOME requirements and compliance monitoring procedures requires training of owners and managers. Owner should ensure that it knows and understands the requirements of the HOME financing and the compliance requirements as failure to comply may have very serious consequences. AHC recommends owners, management agents and site managers receive compliance training before certifying or leasing any HOME units. At a minimum, training should cover key compliance terms, determination of rents, tenant eligibility, file documentation, procedures for maintaining the required unit mix and reporting. Record retention requirements, property condition standards and in some cases, ongoing lead based paint maintenance and student status are other areas that require an understanding on HOME regulations. Continuing education each year or at a minimum every other year is strongly recommended in order to keep up with regulatory and procedural changes to the HOME program.

AHC's obligation to monitor for compliance with the requirements of the HOME Program does not make AHC liable for an owner's noncompliance.

This compliance manual has not been reviewed or approved by HUD and should not be cited or relied upon for interpretation of federal regulations. This manual can be accessed at [AHC's website](#) .

This manual should be used in conjunction with, and as a supplement to 24 CFR Part 92. If AHC or HUD determines that any provision of this manual conflicts with 24 CFR Part 92, 24 CFR Part 92 will govern. This manual may be superseded without notice by changes in income determinations under Part 5 of the Section 8 program and technical revisions in the HOME Program.

For more information, visit the [HOME page on HUD Exchange](#).

Chapter 1 – Compliance Overview

The following is a brief summary of the requirements of the HOME program. It is not intended to be detailed or comprehensive.

1.01 Period of Affordability

HOME assisted units are rent and income controlled for varying lengths of time depending on the average amount of HOME funds invested per HOME assisted unit. Rent limits and income targeting requirements must be maintained during the Period of Affordability (POA). Owners will be required to keep the property in compliance with HOME requirements for the minimum number of years specified below.

Rental Housing Activity	Average HOME assistance per HOME unit	Minimum Years
Rehabilitation or acquisition and rehabilitation of existing housing per unit amount of HOME funds:	Under \$15,000 per unit	5
	\$15,000 to \$40,000 per unit	10
	Over \$40,000 per unit involving refinancing	15
New construction or acquisition of newly constructed housing	Any amount	20

Owners should refer to the property's enforcement agreements (Declaration of Covenants, Conditions and Restrictions, Regulatory Agreement, etc.) to determine the specific terms and conditions that govern the property.

1.02 Student Eligibility Requirements

Properties where HOME funds were committed on or after August 23, 2013 have additional eligibility requirements for students. The HOME program adopted the Section 8 Housing Choice Voucher program restrictions on student participation found at 24 CFR 5.612 and excludes any individual that:

1. Is enrolled in a higher education institution; and
2. Is under the age of 24; and
3. Is not a veteran of the US Military; and
4. Is not married*; and
5. Does not have a dependent child(ren); and
6. Is not a person with disabilities; and
7. Is not otherwise individually eligible, or has parents who, individually or jointly, are not eligible on the basis of income

* Effective August 1, 2013 same-sex marriages are recognized as marriages for student eligibility purposes.

1.03 HOME Program Rent Limits

Every HOME assisted unit is subject to maximum allowable rents based on bedroom size for the area in which the property is located. These maximum rents are referred to as HOME Rents. There are two HOME Rents established for properties: High HOME rent and Low HOME Rent. These limits represent the maximum that owners can charge for rent, including an allowance for tenant paid utilities, rent assistance (if any) as well as other non-optional charges e.g. required renter's insurance.

When HOME units are layered with Section 8 Project Based Assistance, the rent limit for the unit may exceed the HOME rent limit provided the unit is identified as a Low HOME unit, the household in the unit qualifies as a very low income household ($\leq 50\%$) and pays no more than 30% of its monthly adjusted income for rent. If these conditions are not met, the gross rent for the unit cannot exceed the applicable HOME rent limit.

HOME Program Rent Limits are published by HUD on an annual basis. AHC issues a memo to owners and managers and posts the new rent limits on its website when they are released. In the event rent limits decrease for an area, or utility allowances increase, an owner may be required to reduce the rent charged but will not be required to lower rents below those in effect at the time of project commitment.

1.04 Income Targeting and Rent Requirements

Properties with 5 or more HOME assisted units.

Initial occupancy at project completion:

- At least 90% of all households assisted through the PJ's rental or TBRA program must have annual gross incomes at or below 60% of the area median income (AMI) with gross rents at or below the applicable High HOME rent limit.
- At least 20% of the HOME assisted units must be initially occupied by families with annual gross incomes at or below 50% of the area median income with gross rents at or below the applicable Low HOME rent limit, unless a greater percentage is specified in the enforcement agreement.
- The remainder of the HOME assisted rental units must be initially occupied by families with annual gross incomes at or below 80% of the area median income with gross rents at or below the applicable High HOME rent limit.

Subsequent to initial occupancy:

- At least 20% of the HOME assisted units, or the minimum number required as stated in the enforcement agreements, must continue to be occupied by families with annual gross incomes at or below 50% of area median income with rents at or below the Low HOME rent limit. The remaining HOME assisted units must be occupied by families with annual gross incomes at or below 80% of the area median income with rents at or below the High HOME rent.

Properties with 1 to 4 HOME assisted units.

Initial occupancy at project completion:

- All HOME assisted units must be initially occupied by families with annual gross incomes at or below 60% of the area median income with rents at or below the High HOME rent.

Subsequent to initial occupancy:

- All HOME assisted units must be occupied by families with gross annual incomes at or below 80% of area median income, with rents at or below the High HOME rent.

The following chart illustrates the income targeting requirements by number of HOME assisted units:

No. of HOME Units	Unit Designation	Income Requirements at Initial Certification	Income Requirements After Initial Certification	Rent Requirements
1 – 4	High HOME	60% AMI	80% AMI	High HOME Rent
5 +	High HOME	90% of HOME units occupied by HHs ≤60% AMI	80% of HOME units occupied by HHs ≤80% AMI	High HOME Rent
	Low HOME	At least 20% of HOME units occupied by HHs ≤50% AMI	At least 20% of HOME units occupied by HHs ≤50% AMI	Low HOME Rent

* HOME Program income and rent limits by county and MSA (metropolitan statistical area) and family size are published annually by HUD. When HUD publishes the new limits, AHC issues a memo to owners and managers and posts the new amounts and their effective date on its website.

1.05 Rental Assistance

Properties Receiving Project Based Rental Assistance. If a HOME unit receives federal or state project based rental assistance (PBA) and the unit is occupied by a very low income (at or below 50%) household who pays as a contribution towards rent not more than 30% of its monthly adjusted gross income, the gross rent for that unit may exceed the HOME rent limit.

Units with Tenant Based Section 8 Housing Choice Vouchers. Rents for units with Section 8 vouchers, or similar state or federal tenant based rental assistance (TBRA) tied to a household and not a unit **cannot** exceed the applicable High or Low HOME rent limit for the unit. Rents charged must be comparable to units not receiving rent assistance. For example, if the owner charges less than the maximum HOME rent for non-voucher holders, it cannot charge a higher rent to voucher holders. Households receiving rental assistance, including Section 8 subsidy, must not be refused tenancy in a HOME unit based solely on the fact that they receive rental assistance.

1.06 Allowable Fees and Charges

Owners may not charge fees that are not customarily charged in rental housing (e.g., laundry room access fees). However, fees considered reasonable and customary may be charged, such as application fees, parking fees if such fees are customary for rental housing in the neighborhood, and fees for services such as bus transportation or meals, as long as the services are voluntary and fees are charged only for services provided. An eligible tenant cannot be charged a fee for the work involved in completing the additional forms or documentation required for HOME eligibility, such as the Tenant Income Certification. Mandatory fees must be included when determining the unit's gross rent.

1.07 Fixed or Floating HOME Units

HOME units may be "fixed" or "floating" and are designated on a property-by-property basis. Effective with the 2013 Rule Change, the enforcement agreements **must** contain fixed or floating unit designations.

Fixed Units. HOME designated units are identified by unit number and never change. Units in properties where all units are HOME assisted are automatically considered fixed.

If units throughout a project are not comparable (as defined by the Participating Jurisdiction) or are located in several scattered sites, the HOME unit designation **must** be fixed.

Floating Units. HOME designated units may change over time as long as the total number of HOME units in the property remains constant and the original mix of unit sizes is maintained. If a property's enforcement agreement does not specify floating units, then the units that were initially HOME qualified upon project completion will be used to determine comparable floating units.

See Chapter 2, Maintaining the Unit Mix, for more information.

1.08 Rent Increases

As long as rents remain below the maximum allowable HOME limit, an owner may impose a rent increase as allowed by the enforcement agreement no earlier than one year from the date the project was completed and no more frequently than annually thereafter. If an owner wishes to increase rents, the request must be within reasonable limits to cover increases in expenses such as real estate taxes or operating expenses.

The owner must submit a written request to AHC, including an updated utility cost analysis of tenant paid utilities. AHC will review the rent increase request to determine if proposed rents are within the applicable HOME rent limits and forward the request to the Participating Jurisdiction with a recommendation to approve or disapprove.

If the owner increases rents as provided above, tenants must be given a written notice in accordance with lease provisions before implementation.

If rents are increased without the approval of the PJ, the owner may be required to reduce the rents and make restitution to affected tenants.

1.09 Utility Allowances

The HOME statute and the regulations at 24 CFR Part 92 establish rent limits for HOME assisted rental units. These are gross limits that include contract rent plus utilities or a Utility Allowance (UA) for tenant paid utilities. PJs are required to establish maximum monthly allowances for utilities and services (excluding telephone and cable) and to update the allowances annually. The HOME Rule requires PJs to use the HUD Utility Schedule Model (HUSM) or otherwise determine the utility allowance for the project based on the type of utilities used at the project.

The utility allowance requirement at §92.252(d) in the HOME Rule is applicable to all rental projects to which HOME funds were committed on or after August 23, 2013. Unfortunately, when the HOME Rule was published in 2013, the HUSM contained errors and compliance with the regulatory UA requirement was not possible while the model was producing inaccurate utility allowances. In November 2015, HUD released an updated version of the HUSM, which corrected the errors and helped to ensure proper sequencing of consumption estimates across bedroom sizes and/or structure types. PJs must instruct owners of these projects to comply with the UA requirements at lease renewal, or as soon as is practicable.

Under the 2013 HOME Rule, PJs are no longer permitted to use the utility allowance established by the local Public Housing Authority (PHA) for HOME assisted rental projects for which HOME funds were committed on or after August 23, 2013. Projects to which HOME funds were committed before the effective date of the 2013 HOME Rule may continue to use the PHA utility schedule. The methods used by PHAs to establish these utility schedules vary across the country and, therefore, may generate inconsistent or inaccurate allowances. In addition, PHA utility schedules are based on average consumption rates across a PHA's portfolio. Application of these standardized utility allowances may result in undercharging or overcharging of rent,

particularly in projects where tenants pay utilities directly. As more projects are constructed or rehabilitated to higher energy efficiency standards, thus enhancing affordability of units, the use of a standard utility allowance may not represent actual utility costs.

The option established in the HOME regulations to “otherwise determine the utility allowance for the project based on the type of utilities used at the project” means that, if PJs choose not to use the HUSM, the UA must be established using a project specific methodology. A project specific methodology is based on actual utility usage at the property or estimates an allowance based on project specific factors such as size, orientation, building materials, mechanical systems and construction quality, as well as local climate conditions.

Changes in utility allowances must be implemented within 90 days. If an increase in the utility allowance causes the gross HOME rent to exceed the applicable HOME rent limit, the unit rent must be adjusted (lowered) to bring the gross rent of the unit into compliance with the HOME rent limits.

Responsibility for UA Determination

The HOME Rule requires the PJ to establish a UA for a HOME assisted unit. However, a PJ may require property owners to complete initial UA calculations and submit their calculations for review and approval of the PJ prior to implementation. The staff cost of determining UAs can be charged as an administrative cost under 24 CFR 92.207(a). In addition, the staff cost of determining the initial UA, prior to project completion, can be charged as a project related soft cost for projects to which HOME funds were committed on or after August 23, 2013 under 24 CFR 92.206(d).

PJs should establish local policies and procedures for determining and annually updating UAs for each HOME assisted rental project. Specifically, PJs may:

- Directly calculate the UA for each project based on any of the acceptable methods outlined below using its own qualified staff or by contracting with qualified professionals;
- Require property owners to use a specific method or choose from any of the acceptable methods outlined below to prepare (or employ a qualified third-party professional to prepare) and submit a UA determination for the PJ’s review and approval; or
- Accept a UA approved by another funder (state tax credit allocator, federal agency, etc.) provided the UA is calculated using a method acceptable under the HOME Program. In such cases, the PJ is ultimately responsible for ensuring that the UA meets HOME requirements.

Acceptable Methods for Calculating UAs

The following five methodologies used in other Federal housing programs will meet the HOME regulatory requirement that the utility allowance for a specific project be based on the utilities used at the project. A PJ may adopt one or more of these options across its HOME rental program or may limit their use to a single method. However, a PJ must use the same UA

methodology for all HOME units within a single project. HUD encourages PJs to align with other funders, to the extent feasible, when determining the UA for a project with multiple funding sources. The acceptable methods include, but are not limited to:

- 1. HUD Utility Schedule Model:** The HUSM enables users to calculate utility schedules by housing type after entering utility rate information (tariffs). This model is based on climate and survey information from the U. S. Energy Information Administration of the Department of Energy and it incorporates energy efficiency and Energy Star data. This model is allowed for LIHTC projects per IRS regulations at 26 CFR 1.42-10(b)(4)(D). The HUSM and use instructions can be accessed on HUD User at <https://www.huduser.gov/portal/resources/utilallowance.html>. The HUSM is available as either a spreadsheet model in MS EXCEL or a web-based model on HUD User at <https://www.huduser.gov/portal/datasets/husm/uam.html>. A recording of HUD's web based training on the use of the HUSM is available on the HUD Resource Exchange as an additional resource for PJs.
- 2. Multifamily Housing Utility Analysis:** In 2015, HUD published [Multifamily Notice H-2015-4](#) to provide instructions to owners and management agents for completing the required utility analysis. This analysis is also used for the USDA Rural Housing Service program and allowed for LIHTC projects per IRS regulations at 26 CFR 1.42-10(b)(3).
- 3. Utility Company Estimate (26 CFR 1.42-10(b)(4)(B)):** A PJ may establish or approve a UA based on estimates obtained from a local utility company for each of the utilities used in the project. IRS regulations state that the estimate must be obtained in writing and must be based on the estimated cost of that utility for a unit of similar size and construction for the geographic area in which the building containing the unit is located.
- 4. LIHTC Agency Estimate (26 CFR 1.42-10(b)(4)(C)):** Under IRS regulations, the tax credit allocating agency estimate entails two options: 1) an agency estimate that is a prospective projection of utility costs based on site and building characteristics, and 2) an actual usage methodology. If a project is receiving both HOME and LIHTC funding, a PJ may coordinate with the LIHTC agency to obtain a project specific agency estimate or may accept a UA approved by the LIHTC agency based on its actual usage methodology.
- 5. Energy Consumption Model (Engineer Model) (26 CFR 1.42-10(b)(4)(E)):** A PJ may establish or approve a UA based on an energy and water and sewage consumption and analysis model (energy consumption model) prepared by a properly licensed engineer or a qualified professional. IRS regulations require that such professionals be independent from the property owner and they specify the building factors that must be included in the model.

If the property is regulated by HUD or Rural Development (RD), HUD or RD approved utility allowance may be used. Generally, housing authorities update their utility allowances annually. It is the owner's responsibility to obtain an annual updated utility allowance and retain in the property records. AHC will review utility allowances as part of its inspection process.

1.10 Record Retention

Owners must retain project records for a minimum of five (5) years beyond the property's required POA. Tenant records, including income verifications, development rents, and unit inspections must be retained for the most recent five-year period, until five years after the POA ends.

Owners must maintain applicant and tenant information in a way to ensure confidentiality. Any applicant or tenant affected by negligent disclosure or improper use of information may bring a civil action for damages against the owner and/or manager and seek other relief, as appropriate. Owners must dispose of records in a manner that will prevent any unauthorized access to personal information, e.g., burn, pulverize, shred, etc.

1.11 Leases

Each lease must include the legal name(s) of the parties to the agreement and all other occupants, a description of the unit to be rented (address), the term of the lease, the rental amount, the use of the premises, and the rights and obligations of each party. The lease shall also inform the tenant that fraudulent statements and information are grounds for eviction and that the tenant could become subject to penalties available under federal law.

Initial HOME leases must be for 12 months unless another term is mutually agreed to by owner/management and tenant. If tenant has agreed to a shorter term, that agreement should be in writing and kept in the tenant's file. At no time can a lease term be for less than 30 days.

HOME leases must contain language that the owner/manager reserves the right to adjust tenant rents in accordance with the HOME rent limits and in the event a tenant's income increases above the low income or very low income limits for the unit type (High or Low HOME) the tenant occupies.

The lease must also contain a provision that the owner/management retains the right to recertify the tenant's income and household composition on an annual basis. The tenant's failure to cooperate with the annual recertification constitutes a violation of the lease.

HOME leases must not contain any of the prohibited lease terms identified in the HOME regulations at [§92.253](#) and must also comply with the Violence Against Women Act (VAWA) requirements prescribed in [§92.359](#)

If the lease used for the HOME unit does not contain any of the required provisions and/or contains any of the prohibited provisions, a HOME Lease Addendum must be signed by the tenant and kept in the tenant's file. If a new lease is executed, a new HOME Lease Addendum must also be executed. A HOME Lease Addendum is not required when a HOME compliant HUD model lease for subsidized housing is used.

1.12 Income Certification

The owner must verify and certify tenant income eligibility* at move in and recertify at least annually thereafter. At initial move in, or when first being determined eligible for a HOME unit and every sixth year of the affordability period (not tenancy), household composition, income and income from assets must be verified via third party verification or other forms of supporting documentation and kept in the tenant's file. In other years, tenants must, at a minimum, self-certify to their anticipated income (including income from assets), family size, and composition. Tenant files will be reviewed as part of AHC's inspection process.

*** Properties with HOME funds committed on or after August 23, 2013 must also certify student eligibility.**

1.13 Increases in Income

The owner must ensure that correct procedure is followed to increase the rent for any household whose income increases above the HOME income eligibility guidelines (see Chapter 2, Maintaining the Unit Mix, for more information on how to respond to increases in income for both fixed and floating units). The unit must be marketed to eligible tenants when vacated.

For units assisted with both HOME and Low Income Housing Tax Credits (LIHTC), a tenant is not considered over income until income exceeds the applicable 140% LIHTC limit. When a tenant's income exceeds the LIHTC limit, the tenant's rent is adjusted to the lower of 30% of its monthly adjusted income or the LIHTC limit.

1.14 Property Standards

During the POA, on-site inspections of HOME-assisted rental housing will be performed to determine compliance with the property standards of [§ 92.251](#) and to verify the information submitted by the owners in accordance with the requirements of [§ 92.252](#). The inspections must be in accordance with the inspection procedures that the PJ establishes to meet the inspection requirements of [§ 92.251](#).

Housing built before 1978 may contain lead based paint. Lead from paint, paint chips, and paint dust can pose health hazards if not managed properly. Lead exposure is especially harmful to young children and pregnant women. Before renting pre-1978 housing, owners must disclose the presence of known lead based paint and/or lead based paint hazards in the dwelling. Tenants must receive a federally approved pamphlet on lead poisoning prevention entitled [Protect Your Family from Lead in Your Home](#) and must sign a receipt acknowledging that the pamphlet was provided. The signed receipt must be kept in the tenant's file.

1.15 Affirmative Marketing

Owners must adhere to Equal Opportunity, Affirmative Marketing, and Fair Housing practices in all marketing efforts, eligibility determinations and other transactions. The Equal Housing Opportunity logo or statement (*We do business in accordance with the Federal Fair Housing Law. It is illegal to discriminate against any person because of race, color, religion, sex, handicap, familial status, or national origin.*) must be used in all advertising of vacant units. [Download the Logo.](#)

In addition to the federal protections mentioned above, the Minnesota Human Rights Act makes it illegal to discriminate against any person with respect to housing and real property, because of race, color, creed, religion, national origin, sex, marital status, disability, status with regard to public assistance, sexual orientation, or familial status.

Owners of rental properties that contain five or more HOME assisted units, regardless of the specific activity the HOME funds financed (acquisition, rehabilitation, and/or new construction) must develop and adopt affirmative marketing procedures. Owners must solicit applications for vacant units from persons in the housing market least likely to apply without special outreach efforts. These procedures must be in writing and consist of actions that provide information and otherwise attract eligible persons to available housing without regard to race, color, national origin, sex, religion, familial status (persons with children under 18 years of age, including pregnant women), or disability. The affirmative marketing requirements also apply to properties targeted to persons with special needs.

A file must be maintained with all marketing efforts related to the property including newspaper ads, social service contacts, photos of signs posted, etc. Records will be reviewed during on site monitoring to ensure that all efforts are in compliance with federal requirements and are being adequately documented.

1.16 Community Housing Development Organizations (CHDOs)

HOME program requirements are the same for CHDO projects as for other HOME projects. In addition, CHDOs must ensure that they continue to meet all pertinent guidelines specific to CHDOs. Properties that are owned, developed, or sponsored by CHDOs must have a tenant participation plan to ensure that tenants are involved in the management and decision making with respect to the property. CHDO properties must also have fair lease and grievance procedures.

AHC provides on-going compliance monitoring for CHDO rental projects. AHC does not determine whether or not an organization qualifies as a CHDO nor does AHC determine if a project is an eligible CHDO project.

1.17 Fair Lease and Grievance Procedures

Fair lease and grievance procedures should be objective. They should clearly state:

- To whom a tenant should direct a complaint;
- Who will investigate and/or respond to the complaint; and
- By when the tenant should expect to receive a response.

Chapter 2 – Maintaining the Unit Mix

Maintaining the required number of HOME assisted units, as well as High HOME units and Low HOME units, for properties with five or more HOME assisted units, is called complying with the **unit mix requirements**. At no time will non-HOME assisted units be subject to HOME rent and income requirements when HOME units are fixed.

When an owner/manager recertifies a household's income, it may be found that the tenant's income has increased. A household is considered "**over income**" in the HOME Program when:

- The household occupies a High HOME or Low HOME unit and the household income increases over the current low income (80%AMI) limit for that family size; **or**
- The household occupies a Low HOME Unit, and the household's income increases above the current very low income (50%AMI) limit, but does not increase above the low income (80%AMI) limit; **or**
- In HOME assisted units that are also LIHTC units, a household is considered "over income" when its income goes over 140% of the qualifying tax credit election (50% or 60%) for that unit.

When a household is over income, the unit that the household occupies is considered **temporarily out of compliance** with HOME's occupancy and unit mix requirements. Temporary noncompliance due to an increase in an existing household's income is permissible as long as the owner takes specific steps to restore the correct occupancy and unit mix in the property as soon as possible. When the household's income exceeds the low income limit (80% or 140% if also LIHTC), its rent must also be adjusted.

2.01 Fixed HOME Units

Fixed HOME units remain designated as HOME-assisted units for the entire POA regardless of if the unit becomes vacant or when an existing tenant becomes over-income. However, the designation of units as High HOME and Low HOME may need to change over time.

When an owner conducts the annual income recertification and finds that a household is over income, the steps that it takes to restore compliance depend on whether the over income household occupies a High HOME unit or a Low HOME unit. If the household occupies a Low HOME unit, the steps also depend on whether or not the tenant is low income.

1. **If the over income household occupies a High HOME unit**, the property is temporarily out of compliance until the unit is vacated and can be rented to another low income household. The owner must raise the rent as soon as the lease permits, in accordance with the terms of the lease. The rent must be adjusted such that the household pays the lesser of:
 - The rent amount payable under state or local law; or
 - 30% of the tenant's monthly adjusted household income; or

- If the unit is also a LIHTC unit, the rent must be at or below the amount allowed by the LIHTC program.

The owner/manager cannot terminate the lease based on the household's increased income.

2. If the household occupies a Low HOME unit and its income increases **over the very low income limit (50%), but not over the low income limit (80%)**, the property is temporarily out of compliance until either: (1) a High HOME unit can be redesignated as a Low HOME unit, or (2) the unit is vacated and can be rented to another very low income tenant household.

The unit occupied by the over 50% household retains its designation and rent as a Low HOME until another unit can be redesignated as Low HOME. Once a new Low HOME unit has been designated, the Low HOME unit that is occupied by the over 50% household must be redesignated as a High HOME unit. At this time, the owner can increase the tenant's rent up to the High HOME Rent, subject to terms of the lease.

If more than 20% (or the minimum required as stated in the enforcement agreements) of the HOME units in the property qualify as and are identified as Low HOME, the owner can redesignate the noncompliant Low HOME unit as a High HOME unit and can increase the unit's rent up to the High HOME rent limit. No further action is required as long as the minimum number of Low HOME units is maintained.

3. **If the household occupies a Low HOME Unit and its income increases above the low income limit (80%)**, the property is temporarily out of compliance until the over income tenant moves out and another income eligible tenant household moves in.

The owner must adjust the over income household's rent as soon as the lease permits. The over income tenant must pay the lesser of:

- The rent amount payable under state or local law; or
- 30% of the tenant's monthly adjusted household income; or
- If the unit is a LIHTC unit, the rent must be at or below the amount allowed by the LIHTC program.

The owner/manager cannot terminate the lease based on the household's income.

If a High HOME unit becomes available, regardless of bedroom size, it must be redesignated as a Low HOME unit. This unit must be rented to a very low income tenant, at no more than the Low HOME Rent. Then, the unit that is occupied by the over income tenant must be redesignated as a High HOME unit. Even though the unit is redesignated a High HOME unit, the

tenant is over the low income limit, so the property continues to be temporarily out of compliance.

If two or more HOME assisted units are occupied by over income households in the property and both a Low HOME unit and High HOME unit are needed to restore unit mix compliance, the owner should restore compliance with the Low HOME unit first.

2.02 Floating HOME Units

Properties with **floating HOME assisted units** do not have specific units that are designated for the duration of the affordability period. Instead, the total number of HOME assisted and non-assisted units that are designated at the time of project commitment must stay the same throughout the POA. In addition, the number of units within bedroom sizes should remain constant. The specific units that carry the HOME assisted designations may change, or float, among *comparable* assisted and non-assisted units during this time. In a property with floating HOME units, unit mix is maintained by changing the unit designations when the next comparable unit becomes available. For example, if a property has an over income tenant in a HOME assisted unit, when the next non-assisted comparable unit becomes available, it is designated as HOME assisted and rented to an income eligible tenant. The owner also has the option to look at existing tenants in non-assisted units, and if they find an eligible one, modify the rent and designate that as a HOME unit. The unit occupied by the over income tenant is redesignated as a non-assisted unit.

When redesignating units in a property with floating HOME units, owners/managers can choose to substitute a unit that is equal or “greater” than the original HOME unit, but generally they cannot substitute one that is “lesser”. A lesser unit can be substituted only when doing so preserves the original unit mix. A greater unit is one that might be considered more preferable because of larger size or additional bedrooms. The goal is to maintain the same number and type of HOME units as were originally designated. Therefore, if an owner makes a substitution that is “greater,” it can later substitute an available unit that is “lesser” in order to restore the original unit mix.

- 1. If an over income household occupies a floating High HOME unit.** The owner/manager must adjust the rent of the over income household so that it pays 30% of its monthly adjusted income as rent, capped at the market rent for a comparable unit. The rent adjustment must be made as soon as the lease permits, and in accordance with the terms of the lease. Note, unlike the rule for properties with fixed HOME units, in a property with floating HOME units a household is not required to pay more than the market rent for a comparable, unassisted unit in the neighborhood.

The next vacant, comparable, non-assisted unit must be designated as a High HOME unit. A comparable unit is one that is equal or greater in terms of size or number of bedrooms. The owner may not replace the unit with one that is lesser, unless doing so preserves the original unit mix. The newly designated High HOME unit must be rented to a household

whose income does not exceed the low income limit, at a rent that does not exceed the High HOME Rent.

Once a comparable non-assisted unit is designated as the new High HOME unit, the unit with the over income household is redesignated as a non-assisted unit. At this point, the owner/manager may adjust the household's rent without regard to the HOME rent requirements (although requirements from other funding sources may still apply). Rent increases are subject to the terms of the lease.

- 2. If a tenant is low income, but is not very low income, and occupies a floating Low HOME unit.** The unit occupied by the over 50% household keeps its designation as a Low HOME unit until a comparable unit can be substituted. The rent of the over 50% household must not exceed the Low HOME rent limit while the unit is a Low HOME unit.

When the next High HOME unit in the property is vacated, it must be redesignated as a Low HOME unit and rented to a household whose income does not exceed the very low income limit, at a rent that does not exceed the Low HOME rent limit.

Once the new Low HOME unit is designated, the unit with the over 50% (but under 80%) household is redesignated as a High HOME unit. The household's rent may be adjusted to no more than the High HOME rent limit, subject to the terms of the lease.

- 3. If household's income is above the low income limit and it occupies a Low HOME unit.** The next vacant, comparable, non-assisted unit must be designated as a Low HOME unit and rented to a household whose income does not exceed the very low income limit at a rent that does not exceed the Low HOME rent limit.

Until a comparable Low HOME unit is designated, the unit that is occupied by the over income household is considered a Low HOME unit that is temporarily out of compliance.

The rent of the over income household in the original Low HOME unit must be adjusted as soon as the lease permits, and in accordance with the terms of the lease.

- Until a comparable Low HOME unit is substituted, the over income tenant must pay 30% of the household's monthly adjusted income as rent.
- After a comparable Low HOME unit is substituted, the unit with the over income household is redesignated a non-assisted unit. The owner/manager may adjust the household's rent without regard to the HOME restrictions. Rent increases are subject to the terms of the lease.

Note, a household in a floating HOME unit whose income exceeds the low income limit is not required to pay more than the market rent for a comparable, unassisted unit in the neighborhood.

If there is more than one over income tenant in the property and both a Low HOME unit and High HOME unit are needed to restore unit mix compliance, the owner should restore compliance with the Low HOME unit first.

Chapter 3 – General Occupancy Guidelines

3.01 Qualification of Applicants

Applicants for HOME units shall be advised early in their initial visit to the property that there are maximum income limits that apply to these units. They shall also be made aware that the anticipated income* of all persons expecting to occupy the unit must be verified and included on a Tenant Income Certification form prior to occupancy, and that household income* will be reviewed annually. It shall also be explained that if the household income goes above the income limits, they may continue to reside in the unit; but with proper notice, the rent will be equal to the lesser of 30% of the household's monthly **adjusted** income, up to the maximum LIHTC rent if the unit is also a LIHTC unit, or the rent amount payable under state or local law. If the unit is floating, the new rent cannot exceed market rent for a comparable unassisted unit. Households whose income exceeds the 80% AMI limit must not be permitted to move to any other HOME unit.

* Student status for properties where HOME funds were committed on or after August 23, 2013. The HOME program has adopted the section 8 Housing Choice Voucher program restrictions on student participation found at 24 CFR 5.612, which exclude any student that:

1. Is enrolled in a higher education institution.
2. Is under the age of 24.
3. Is not a veteran of the US Military.
4. Is not married**.
5. Does not have a dependent child(ren).
6. Is not a person with disabilities.
7. Is not otherwise individually eligible, or has parents who, individually or jointly, are not eligible on the basis of income.

****Effective August 23, 2013, same-sex marriages are recognized as marriages for student eligibility purposes.**

If an individual is enrolled as a student at an institution of higher education, is under the age of 24, is not a veteran, is not married, is not a person with disabilities, and does not have a dependent child, in order to be eligible for a HOME unit, the student must be individually income eligible **and** the student's parents (the parents individually or jointly) must be income eligible unless the student can demonstrate his or her independence from parents.

To determine a student's independence from his or her parents, the owner should consider **all** of the following:

1. The individual must be of legal contract age under state law; and
2. The individual must have established a household separate from parents or legal guardians for at least one year prior to application for occupancy, **or** the individual must meet the U.S. Department of Education's definition of an independent student; and
3. The individual must not be claimed as a dependent by parents or legal guardians pursuant to IRS regulations; and
4. The individual must obtain a certification of the amount of financial assistance that will be provided by parents, signed by the individual/s providing the support. This certification is required even if no assistance will be provided.

To document a student's independence from parents:

1. Review and verify previous address information to determine evidence of a separate household, or verify the student meets the U.S. Department of Education's definition of "independent student"; and
2. Review prior year income tax returns to verify if a parent or guardian has claimed the student as a dependent (except if the student meets the Department of Education's definition of "independent student"); and
3. Verify income provided by a parent by requiring a written certification from the individual providing the support. Certification is also required if the parent/s is providing no support to the student. Financial assistance that is provided by persons not living in the unit is part of annual income.

Verification of student eligibility must be maintained in the tenant file along with the income certification.

3.02 Eligibility Determination

A fully completed Household Questionnaire is critical to an accurate determination of eligibility. The information furnished on the application should be used as a tool to determine all sources of anticipated income and assets.*

After the household completes the Household Questionnaire, the owner must have all income and assets verified by obtaining source documentation (award letter, W-2's, check stubs, bank statements, investment records) or by a third party (public agency, employer, or bank). The application, income and asset verifications, and lease are to be executed prior to move in. All occupants in a HOME assisted unit must be certified and have a valid lease on file. All household members age 18 and over must sign.

*** And student status for properties where HOME funds were committed on or after August 23, 2013.**

3.03 Change in Household Composition

If a household in a HOME unit later wishes to have an additional person move into the unit, the following steps must be taken:

1. The prospective tenant must complete a Household Questionnaire and allow for verification of income and assets as required of the initial tenant; and
2. The prospective tenant's income must be added to the current household's most recent certification or re-certification and a determination made as to whether the new household is still within the HOME income guidelines. If the new household income exceeds the guidelines, then once the current lease expires and proper notice is given, the household must pay the lesser of 30% of its adjusted monthly income for rent up to the maximum LIHTC rent if the unit is also a LIHTC unit, or the rent amount payable under state or local law. If the unit is floating, the new rent cannot exceed market rent for a comparable unassisted unit.
3. For properties with HOME commitments on or after August 23, 2013, the prospective tenant cannot be an ineligible student as described in Chapter 3, Section 3.01, above.

The tenant file shall be documented when any household member vacates the unit.

3.04 Minimum Lease Requirements

Tenant leases, including a signed and dated HOME lease addendum (not needed for units that use the HUD Model Lease), must be on file and must specify a term of at least one year, unless by mutual consent the owner and the tenant agree to a lesser term. Leases must not contain any of the prohibited lease terms as stated in Section 92.253 of the Final HOME rule. Any non-renewal or termination of leases must be in accordance with the lease and/or HOME lease addendum.

The owner/agent must comply with HOME requirements on evictions as well as state law regarding eviction procedures. There must be a written notice that gives a household 30 days to vacate its unit, regardless of whether household has violated the law or lease terms.

Under the HOME Program, tenancy may be terminated only for:

- Serious or repeated violation of the terms and conditions of the lease.
- Violation of applicable federal, state, or local law.
- Completion of the tenancy period for transitional housing.
- Other good cause.

The Violence Against Women Reauthorization Act of 2013 (VAWA 2013) was extended to include properties financed with HOME funds. Owners must comply with the lease requirements found in Section 601 of VAWA 2013. AHC highly encourages owners to use the

VAWA Lease Addendum, form HUD-91067 or its successor VAWA Lease Addendum form. In general, owners may not construe an incident of actual or threatened domestic violence, dating violence, sexual assault, or stalking as a serious or repeated violation of a lease term by the victim, or threatened victim, as good cause for terminating tenancy. However, in accordance with VAWA 2013, owners may bifurcate a lease to terminate the tenancy of an individual who is a tenant or lawful occupant and engages in criminal activity directly relating to domestic violence, dating violence, sexual assault, or stalking against another lawful occupant living in the unit or other affiliated individual as defined in the VAWA 2013.

Owner/agent should include a copy of HUD form 50066* or its successor form with each tenancy termination or eviction notice to allow an individual to certify that he or she is a victim of domestic violence, dating violence, sexual assault or stalking. The form is to be completed and submitted to owner/agent within 14 business days or an agreed upon extension date, in order for the individual to receive protection under the VAWA.

*Section 8 and other HUD Multifamily properties must continue to use the 91066, or its successor form.

3.05 House Rules

Developing a set of house rules is a good practice. The decision about whether to develop house rules for a property rests solely with the owner, and AHC's or HUD's review or approval is not required. If house rules are listed in the lease as an attachment, then they must be attached to the lease. By identifying allowable and prohibited activities in housing units and common areas, owners provide a structure for treating tenants equitably and for making sure that tenants treat each other with consideration. House rules are also beneficial in keeping properties safe and clean and making them more appealing and livable for the tenants. They are also extremely beneficial if it becomes necessary to evict a tenant for inappropriate behavior. For more information on House Rules, refer to Chapter 6-9 of the HUD 4350.3 REV 1, Change 4 Handbook.

3.06 Number of Persons Per Unit

There is no federal regulation governing the number of persons allowed to occupy a unit based on size. There may be local ordinances regarding unit occupancy. It is important, though, to be consistent when accepting or rejecting applications. It is recommended that the owner determine the minimum and maximum number of people that will be allowed to occupy each size unit and put that formula in writing as part of the **Tenant Selection Plan**. The owner may refer to the HUD Handbook 4350.3 REV 1, Change 4, Chapter 3-23, regarding occupancy standards. By following the standards described, owners can ensure that applicants and tenants are housed in appropriately sized units in a fair and consistent manner as prescribed by law.

3.07 Tenant Selection Plan

Owners must develop a formal written policy that clearly states the procedures and criteria the owner will consistently apply in drawing applicants from the waiting list, screening for suitability for tenancy, and implementing income targeting requirements. The Tenant Selection Plan must state whether or not there is an elderly restriction in the admission of tenants, citing supporting documentation to ensure nondiscrimination in the selection of tenants.

HUD issued its Final Rule on February 3, 2012 regarding Equal Access to Housing in HUD programs regardless of Sexual Orientation or Gender Identity. Owners may not inquire about the sexual orientation or gender identity of an applicant or occupant of HUD assisted housing for the purpose of determining eligibility or continued occupancy. This prohibition on inquiries regarding sexual orientation or gender identity does not prohibit any individual from voluntarily self-identifying sexual orientation or gender identity. This prohibition on inquiries does not prohibit lawful inquiries of an applicant or occupant's sex where the housing provided or to be provided is temporary, emergency shelter that involves the sharing of sleeping areas or bathrooms.

In accordance with the Violence Against Women Reauthorization Act of 2013, the selection criteria cannot deny admission on the basis that the applicant has been a victim of domestic violence, dating violence, sexual assault or stalking. Owners should provide to each applicant/tenant HUD form 50066* or its successor form to allow the applicant/tenant to provide information regarding his or her status as a victim of domestic violence, dating violence or stalking.

Owners may refer to the HUD Handbook 4350.3 REV 1, Change 4, Chapter 4, on developing a tenant selection plan. AHC will review the Tenant Selection Plan as part of its inspection procedure.

*Section 8 and other HUD Multifamily properties must continue to use the 91066, or its successor form.

3.08 Government Data Practices Act Disclosure Statement Form

In working with applicants and tenants, the owner/agent warrants compliance with applicable data privacy laws and regulations including the Minnesota Government Data Practices Act, which sets policies on the information that can be obtained, stored and/or released in connection with public programs. In order to comply with this law, the Government Data Practices Act Statement form must be kept in each household's permanent file. Note that this is **not** a release authorization for verification of income and assets and must not be used as such. Each adult household member's name must be printed clearly at the top in the box provided. An unsigned and/or undated form is not valid and will be noted at time of file inspection.

1. The form is to be signed one time and is valid as long as the resident lives at the property and participates in the program(s) identified in item #2 on page 1 of the form.

If a resident moves from one unit to another, the original signed and dated form should be moved to the file for the new unit. A copy should be kept in the move out file for the old unit.

2. A valid form **must** include all relevant attachments. Some properties or units within a property may require 2 or more attachments for multiple programs.
3. Only one form is needed per unit as long as the head of household, spouse, co-head, and all household members over the age of 18 have signed and dated the form.
4. If an adult is added to the household or a minor reaches age 18, they must be added to, sign, and date the **original** form. It is not necessary to complete a new form.
5. A copy of the form should be made available to the applicant/tenant. It is acceptable to give them an unsigned copy.
6. For new residents, the form should be completed at the time of initial application.

A Government Data Practices Act Disclosure form that can be used for all HOME assisted units monitored by AHC is available on AHC's website. If a HOME unit is in a property that also receives Suballocator LIHTC, the Suballocator Government Data Practices Act Disclosure form can be used as long as the HOME Program box is checked and the HOME attachment is present.

Minnesota Housing's Data Practices Act Disclosure form does NOT cover HOME funds provided by a City or County HOME Participating Jurisdiction. If HOME funds from both the State PJ and a City or County PJ are in the same project, both forms must be present in the tenant file.

3.09 Income Verification

At initial occupancy, owner/agent must determine whether prospective tenants of HOME units qualify as low income households*. Income eligibility is based on anticipated income as defined at 24 CFR 5.609. When collecting income verification documentation, owner/agents must consider any likely changes in income. Owners/agents must follow appropriate steps in determining whether households are eligible prior to admittance.

Minnesota Housing provides [sample verifications and other forms](#) to assist owners in qualifying eligible households. The release of information (at top of form) must be completed and signed by the person who is the subject of the verification prior to sending the form to an employer or other income source. Completed and returned verifications are used to calculate and document income. **The HOME Program does not and cannot accept the use of EIV for verifying income.**

An Income and Asset Calculation Worksheet form can be used to assist in showing the individual calculations of income and asset income. This is **highly recommended** and will greatly assist an inspector during a file review.

*This includes student eligibility for properties where HOME funds were committed on or after August 23, 2013.

3.10 Gross Annual Household Income

Gross annual income for households living in HOME units shall be determined in a manner consistent with Section 8 of the U.S. Housing Act of 1937.

Note that the information below only provides a summary. The [Technical Guide for Determining Income and Allowances for the HOME Program](#) can be found on HUD's website. The determination of annual income must include all types of income in the amount **anticipated** to be received by the household in the 12 months following certification/recertification. Owners/agents should use current circumstances to project income, unless verification forms or other verifiable documentation indicate that a change will occur. However, if the owner is unable to determine annual income using current information because the family reports little to no income, or because income fluctuates, the owner may average past actual income received or earned within the last 12 months before the certification date to calculate annual income.

3.11 Factors that Affect Household Size

When determining family size for income limits, the owner must include the following individuals who are not living in the unit:

- Children temporarily absent due to placement in a foster home;
- Children in joint custody arrangements who are present in the household 50% or more of the time;
- Children who are away at school but who live with the family during school recesses;
- Unborn children of pregnant women. When a pregnant woman is an applicant, the unborn child is included in the size of the household, and may be included for purposes of determining the maximum allowable income. The rental application should ask the following question: "Will there be any changes in household composition within the next 12 month period?" If an applicant answers that a child is expected, the manager should explain to the tenant that in order to count the child as an additional household member and use the corresponding income limit, a self-certification of pregnancy must be provided.
- Children who are in the process of being adopted;
- Temporarily absent family members who are still considered family members. For example, the owner may consider a family member who is working in another state on assignment to be temporarily absent. Persons on active military duty are considered temporarily absent (except if the person is not the head, co-head or spouse or has no dependents living in the unit). If the person on active military duty is the head, co-head, or spouse, or if the spouse or dependents of the person on active military duty resides in the unit, that person's income must be counted in full;

- Family members in the hospital or rehabilitation facility for periods of limited or fixed duration. These persons are temporarily absent as defined above;
- Persons permanently confined to a hospital or nursing home. The family decides if such persons are included when determining family size for income limits. If such persons are included, they must be listed on the Tenant Income Certification as “other adult family member”. If the family chooses to include the permanently confined person as a member of the household, the owner must include income received by these persons in calculating family income.

When determining family size for establishing income eligibility, the owner must include all persons living in the unit except the following:

- *A live-in aide/attendant is a person who resides with one or more elderly persons, near-elderly persons, or persons with disabilities, and who:*
 - Is determined to be essential to the care and well-being of the person(s);
 - Is not obligated for the support of the person(s); and
 - Would not be living in the unit except to provide the necessary supportive services.

While a relative may be considered to be a live-in aide/attendant, they must meet the above requirements, especially the last. The live-in aide qualifies for occupancy only as long as the individual needing supportive services requires the aide’s services and remains a tenant, and may not qualify for continued occupancy as a remaining family member. Owners must obtain verification from the person’s physician, psychiatrist or other medical practitioner or health care provider that the live-in aide is needed to provide the necessary supportive services essential to the care and well-being of the person and should not add the attendant to the lease. The Owner may not require applicants or tenants to provide access to confidential medical records or to submit to a physical examination.

Some households may include persons who are not considered as family members for the purposes of determining household size and income eligibility, including:

- Foster children
- Foster adults
- Live-in aides
- Children of live-in aides

These persons should not be counted as household members when determining household size, and their income, if any, is not included when calculating annual income.

3.12 Whose Income is Counted

1. *Adults.* Count the annual income of the head, spouse or co-head, and other adult members of the family. In addition, persons under the age of 18 who have entered into a lease under state law are treated as adults, and their annual income must also be counted. These persons will be either the head, spouse, or co-head of household.

NOTE: If a minor is residing with a family as a member other than the head, spouse, or co-head, the individual would be considered a dependent and his or her income handled in accordance with subparagraph 2 below.

2. *Dependents.* A dependent is a family member who is under 18 years of age, is disabled, or is a fulltime student. The head of the family, spouse, co-head, foster child, or live-in aide are never dependents. Some income received on behalf of family dependents or foster children is counted and some is not.
 - a. *Earned* income of minors (family members under 18) is not counted.
 - b. Benefits or other *unearned* income of minors is counted.
 - c. *Earned* income of a foster child who is not yet 18 years old is not counted.
 - d. When more than one family shares custody of a child and both families live in assisted housing, only one family at a time can claim the dependent. The family that counts the dependent also counts the unearned income of the child. The other family claims neither the dependent nor the unearned income of the child.
 - e. When full time students who are 18 years of age or older are dependents, a small amount of their earned income will be counted. Count only earned income up to a maximum of \$480 per year for full-time students, age 18 or older, who are not the head of the family or spouse or co-head. If the income is less than \$480 annually, count all the income. If the annual income exceeds \$480, count \$480 and exclude the amount that exceeds \$480.
 - f. The income of full time students 18 years of age or older who are members of the household but away at school is counted the same as the income for other full time students. The income of minors who are members of the household but away at school is counted as the income for other minors.
 - g. All income of a full time student, 18 years of age or older, is counted if that person is the head of the family, spouse, or co-head.
 - h. Payments received by the family for the care of foster children or of foster adults are *not* counted. This rule applies only to payments made through the official foster care relationships with local welfare agencies.
 - i. Adoption assistance payments in excess of \$480 are not counted.

3.13 Income of Temporarily Absent Family Members

1. Owners must count all income of family members approved to reside in the unit, even if some members are temporarily absent.
2. If the owner determines that an absent person is no longer a family member, the individual must be removed from the lease and Tenant Income Certification.
3. A temporarily absent individual on active military duty must be removed from the family, and his or her income must not be counted unless that person is the head of the family, spouse, or co-head.
 - a. However, if the spouse or a dependent of the person on active military duty resides in the unit, that person's income must be counted in full, even if the military member is not the head, or spouse of the head of the family.
 - b. The income of the head, spouse, or co-head will be counted even if that person is temporarily absent for active military duty.

3.14 Annual Income Includes

1. The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services.
2. The net income from operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation of assets used in a business or profession may be deducted, based on straight line depreciation, as provided in Internal Revenue Service regulations. Any withdrawal of cash or assets from the operation of a business or profession will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested in the operation by the family.
3. Interest, dividends, and other net income of any kind from real or personal property. Expenditures for amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation is permitted only as authorized in paragraph 2 above. Where the family has net family assets in excess of \$5,000, annual income shall include the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by HUD (currently 0.06%).
4. The full amount of periodic amounts received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump sum amount or prospective monthly amounts for the delayed start of a periodic amount (e.g., Black Lung Sick benefits, Veterans Disability, Dependent Indemnity Compensation, payments to the widow of a serviceman killed in action). See Income Exclusions for an exception to this paragraph.

5. Payments in lieu of earnings, such as unemployment, disability compensation, worker's compensation, and severance pay, except as provided in paragraph 3 under Income Exclusions;
6. Welfare Assistance.
 - a. Welfare assistance received by the family.
 - b. If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of:
 - i. The amount of the allowance or grant exclusive of the amount specifically designated for shelter or utilities; plus
 - ii. The maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family's welfare assistance is ratably reduced from the standard of need by applying a percentage, the amount calculated under this paragraph shall be the amount resulting from one application of the percentage.
7. Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts actually received from organizations or from persons not residing in the dwelling.
8. All regular pay, special pay, and allowances of a member of the Armed Forces, except as provided under Income Exclusions.

3.15 Income Exclusions

1. Income from employment of children (including foster children) under the age of 18 years.
2. Payments received for the care of foster children or foster adults (usually persons with disabilities unrelated to the tenant family, who are unable to live alone).
3. Lump sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains, and settlement for personal or property losses, except as provided in paragraph 5 under Income Inclusions.
4. Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
5. Income of a live-in aide, as defined in 24 CFR 5.403.
6. The full amount of student financial assistance paid directly to the student or to the educational institution.
7. The special pay to a family member serving in the Armed Forces who is exposed to hostile fire (e.g., in the past, special pay included Operation Desert Storm).

8. Amounts received
 - i. under training program funded by HUD (e.g., training received under Section 3).
 - ii. by a person with a disability that are disregarded for a limited time for purposes of supplemental security income eligibility and benefits because they are set-aside for use under a Plan to Attain Self-Sufficiency (PASS).
 - iii. by a participant in other publicly assisted programs that are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program.
 - iv. under a resident service stipend. A resident service stipend is a modest amount (not to exceed \$200 per month) received by a resident for performing a service for the owner, on a part time basis, that enhances the quality of life in the property. Such services may include, but are not limited to, fire patrol, hall monitoring, lawn maintenance, and resident initiative coordination. No resident may receive more than one such stipend during the same period of time.
 - v. as incremental earnings and benefits resulting to any family member from participation in qualifying state or local employment training programs (including training programs not affiliated with a local government) and training of a family member as a resident management staff person. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family member participates in the employment training program.
9. Temporary, nonrecurring, or sporadic income (including gifts).
10. Reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era. Examples include payments by the German and Japanese governments for atrocities committed during the Nazi era.
11. Earnings in excess of \$480 for each full-time student 18 years or older (excluding the head of household and spouse).
12. Adoption assistance payments in excess of \$480 per adopted child.
13. Deferred periodic amounts from supplemental security income and social security benefits that are received in a lump sum amount or in prospective monthly amounts.
14. Amounts received by the family in the form of refunds or rebates under state or local law for property taxes paid on the dwelling unit.
15. Amounts paid by a state agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.

16. Amounts specifically excluded by any other federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program to which the exclusions set forth in 24 CFR 5.609(c) apply. A notice will be published in the *Federal Register* and distributed to housing owners identifying the benefits that qualify for this exclusion. Updates will be published and distributed when necessary. The following is a list of income sources that qualify for that exclusion (updated 5/12/2014, and published in the *Federal Register*, Vol. 79, No. 97 on 5/20/2014):

- a. The value of the allotment provided to an eligible household under the Food Stamp Act of 1977 {7 U.S.C. 2017(b)}.
- b. Payments to Volunteers under the Domestic Volunteer Services Act of 1973 (employment through VISTA, Retired Senior Volunteer Program, Foster Grandparents Program, youthful offender incarceration alternatives, senior companions) {42 U.S.C. 5044(f)(1), 5058}.
- c. Certain payments received under the Alaska Native Claims Settlement Act {43 U.S.C. 1626(c)} received from a Native Corporation.
- d. Certain payments received under the Alaska Native Claims Settlement Act (43 U.S.C. 1626(c)).
- e. Income derived from certain submarginal land of the United States that is held in trust for certain Indian tribes (25 U.S.C. 459e).
- f. Payments or allowances made under the Department of Health and Human Services' Low income Home Energy Assistance Program (42 U.S.C. 8624(f)).
- g. Income derived from the disposition of funds to the Grand River Band of Ottawa Indians (Pub. L. 94-540 section 6).
- h. The first \$2,000 of per capita shares received from judgment funds awarded by the Indian Gaming Commission or the U.S. Claims Court, the interests of individual Indians in trust or restricted lands, including the first \$2,000 per year of income received by individual Indians from funds derived from interests held in such trust or restricted lands (25 U.S.C. 1407-1408). This exclusion does not include proceeds of gaming operations regulated by the Commission.
- i. Amounts of scholarships funded under title IV of the Higher Education Act of 1965 (20 U.S.C. 1070), including awards under federal work-study programs or under the Bureau of Indian Affairs student assistance programs (20 U.S.C. 1087uu). For section 8 programs only (42 U.S.C. 1437f), any financial assistance in excess of amounts received by an individual for tuition and any other required fees and charges under the Higher Education Act of 1965 (20 U.S.C. 1001 et seq.) from private sources, or an institution of higher education (as defined under the Higher Education Act of 1965 (20 U.S.C. 1002)), shall not be considered income

to that individual if the individual is over the age of 23 with dependent children (Pub. L. 109-115, section 327) (as amended).

- j. Payments received from programs funded under Title V of the Older Americans Act of 1965 (42 U.S.C. 3056g) (Green Thumb, Senior Aides, Older American Community Service Employment Program).
- k. Payments received on or after January 1, 1989, from the Agent Orange Settlement Fund (pub. L. 101-201) or any other fund established pursuant to the settlement in the In Re “Agent Orange” liability litigation. M.D.L. No. 381 (E.D.N.Y.); Payments received under the Maine Indian Claims Settlement Act of 1980 (Pub. L. 96-420, 25 U.S.C. 1728).
- l. The value of any child care provided or arranged (or any amount received as payment for such care or reimbursement for costs incurred for such care) under the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858q).
- m. Earned income tax credit (EITC) refund payments received on or after January 1, 1991, for programs administered under the United States Housing Act of 1937, title V of the Housing Act of 1949, section 101 of the Housing and Urban Development Act of 1965, and sections 221(d)(3), 235, and 236 of the National Housing Act (26 U.S.C. 32 (l)).
- n. Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation (Pub. L. 95-433).
- o. Allowances, earnings and payments to AmeriCorps participants under the National and Community Service Act of 1990 [42 U.S.C. 12637(d)].
- p. Any allowance paid under the provisions of 38 U.S.C. 1933 (c), to children of Vietnam veterans born with spina bifida (38 U.S.C. 1802-05), children of women Vietnam veterans born with certain birth defects (38 U.S.C. 1811-16), and children of certain Korean service veterans born with spina bifida (38 U.S.C. 1821).
- q. Any amount of crime victim compensation (under the Victims of Crime Act) received through crime victim assistance (or payment or reimbursement of the cost of such assistance) as determined under the Victims of Crime Act because of the commission of a crime against the applicant under the Victims of Crime Act (42 U.S.C. 10602).
- r. Allowances, earnings and payments to individuals participating in programs under the Workforce Investment Act of 1998 (29 U.S.C. 2931(a)(2)).
- s. Any amount received under the Richard B. Russell School Lunch Act (42 U.S.C. 1760(e)) and the Child Nutrition Act of 1966 (42 U.S.C. 1780(b)), including reduced price lunches and food under the Special Supplemental Food Program for Women, Infants, and Children (WIC).

- t. Payments, funds or distributions authorized, established, or directed by the Seneca Nation Settlement Act of 1990 [25 U.S.C. 1774f(b)].
 - u. Payments from any deferred Department of Veterans Affairs disability benefits that are received in a lump sum amount or in prospective monthly amounts as provided by an amendment to the definition of annual income in the U.S. Housing Act of 1937 (42 U.S.C. 1437 a(b)(4)).
 - v. Compensation received by or on behalf of a veteran for service-connected disability, death, dependency, or indemnity compensation as provided by an amendment by the Indian Veterans Housing Opportunity Act of 2010 (Pub. L. 111-269, 25 U.S.C. 4103(9)) to the definition of income applicable to programs authorized under the Native American Housing Assistance and Self-Determination Act of 1996 (25 U.S.C. 4101, et seq.) and administered by the Office of Native American Programs.
 - w. A lump sum or a periodic payment received by an individual Indian pursuant to the Class Action Settlement Agreement in the case entitled *Elouise Cobell et al v. Ken Salazar et al.*, United States District Court, District of Columbia, as provided in the Claims Resolution Act of 2010 (Pub. L. 111-291).
 - x. Any amounts in an “individual development account” as provided by the Assets for Independence Act, as amended in 2002 (Pub. L. 107-110, 42 U.S.C. 604(h)(4)).
 - y. Per capita payments made from the proceeds of Indian Tribal Trust Cases as described in PIH Notice 2013-30 “Exclusion from Income of Payments under Recent Tribal Trust Settlements” (25 U.S.C. 117b(a)).
 - z. Major disaster and emergency assistance received by individuals and families under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Pub. 93-288, as amended) and comparable disaster assistance provided by States, local governments and disaster assistance organizations (42 U.S.C. 5155(d)).
17. During the annual income recertification of a family residing in HOME assisted unit, exclude from annual income certain increases in the income of a disabled family member. These exclusions apply to annual income increases resulting from the following:
- a. Employment of a family member who is a person with disabilities and who was previously unemployed for one or more years prior to employment.
 - b. Increased earnings by a family member who is a person with disabilities during participation in any economic self-sufficiency or other job training program.
 - c. New employment or increased earnings of a family member who is a person with disabilities, during or within six months after receiving assistance, benefits or services under any state program for families funded under Part A of Title IV of the Social Security Act, as determined by the responsible entity in consultation with the local agencies administering temporary assistance for needy families (TANF) and Welfare-to-Work (WTW) programs. The TANF program is not limited

to monthly income maintenance, but also includes such benefits and services as one-time payments, wage subsidies and transportation assistance provided that the total amount over a six-month period is at least \$500.

NOTE: These exclusions from annual income are of limited duration. The full amount of increase to a qualified family's annual income is excluded for the cumulative 12-month period beginning on the date the disabled family member is first employed or the family first experiences an increase in annual income attributable to the employment. During the second 12-month period, 50% of any increase in income is excluded. The disallowance of increased income of an individual family member who is a person with disabilities is limited to a lifetime 48-month period.

3.16 Income from Assets

Assets, other than necessary personal items, are considered along with verified income in determining the eligibility of a household. AHC recommends third party verifications, regardless of the amount, to verify all assets claimed by applicants/tenants at initial certification and in the sixth year of the affordability period.

The asset information (total value and income to be derived) should be obtained at the time of application or recertification. The applicant will affirm that this information is correct by executing the Tenant Income Certification.

The following information is based upon the HUD Section 8 Program. The owner must use the definition of "Net Family Assets" in 24 CFR 813.102, which provides definitions for the HUD Section 8 Program.

3.17 Net Family Assets include

1. Cash held in savings and checking accounts, safe deposit boxes, homes, etc. For savings accounts, use the current balance. For checking accounts, use the average balance for the last six months. Assets held in foreign countries are considered assets.
2. Revocable trusts. Include the cash value of any revocable trust available to the family. (Do not include irrevocable trusts, e.g., ones that no household or family member can control).
3. Balances held on electronic benefit cards and/or re-fillable debit cards are treated like savings accounts. Food portion on a benefit card is not counted.
4. Equity in rental property or other capital investments. Include the current fair market value less (a) any unpaid balance on any loans secured by the property and (b) reasonable costs that would be incurred in selling the asset (e.g., penalties, broker fees, etc.). **NOTE:** If the person's main business is real estate, then count any income as business income. Do not count it both as an asset and business income.

5. 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. The value of stocks and other assets vary from one day to another. The value of the asset may go up or down the day before or after rent is calculated and multiple times during the year thereafter. The owner may assess the value of these assets at any time after the authorization for the release of information has been received.
6. Individual retirement, 401K, and Keogh accounts. These are included when the holder has access to the funds, even though a penalty may be assessed. If the individual is making occasional withdrawals from the account, determine the amount of the asset by using the average balance for the previous six months. (Do not count occasional withdrawals as income.)
7. Retirement and pension funds.
 - a. While the person is employed. Include only amounts the family can withdraw without retiring or terminating employment. Count the whole amount less any penalties or transaction costs. Follow paragraph 5-7 G.4 of the HUD Handbook 4350.3 on determining the value of assets.
 - b. At retirement, termination of employment, or withdrawal. Periodic receipts from pension and retirement funds are counted as income. Lump sum receipts from pension and retirement funds are counted as assets. Count the amount as an asset or as income, as provided below.
 - i. If benefits will be received in a lump sum, include the lump sum receipt in net family assets.
 - ii. If benefits will be received through periodic payments, include the benefits in annual income. Do not count any remaining amounts in the account as an asset.
 - iii. If the individual initially receives a lump sum benefit, followed by periodic payments count the lump sum benefit as an asset and treat the periodic payment as income. In subsequent years, count only the periodic payment as income. Do not count the remaining amount as an asset.
NOTE: This paragraph assumes that the lump sum receipt is a one-time receipt and that it does not represent delayed periodic payments. However, in situations in which a lump sum payment does represent delayed periodic payments, then the amount would be considered as income and not an asset.
8. Cash value of life insurance policies available to the individual before death (e.g., the surrender value of a whole life policy or a universal life policy). It would not include a value for term insurance, which has no cash value to the individual before death.
9. Personal property held as an investment. Include gems, jewelry, coin collections, or antique cars held as an investment. Personal jewelry is NOT considered an asset.

10. Lump sum receipts or one-time receipts. These include inheritances, capital gains, one-time lottery winnings, victim's restitution, settlements on insurance claims (including health and accident insurance, worker's compensation, and personal or property losses), and any other amounts that are not intended as periodic payments.
11. A mortgage or deed of trust held by an applicant.
 - a. Payments on this type of asset are often received as one combined payment of principal and interest with the interest portion counted as income from the asset.
 - b. This combined figure needs to be separated into the principal and interest portions of the payment. This can be done by referring to an amortization schedule that relates to the specific term and interest rate of the mortgage.
 - c. To count the actual income for this asset, use the interest portion due, based on the amortization schedule, for the 12 month period following the certification.
 - d. To count the imputed income for this asset, determine the asset value as of the effective date of the certification. Since this amount will continually be reduced by the principal portion paid during the previous year, the owner will have to determine this amount at each annual recertification.
12. Assets disposed of within two years before effective date of certification/recertification:
 - a. If the cash value of the disposed assets exceeds the actual amount the family received by more than \$1,000, include the whole difference between the cash value and the amounts received. Do not include if the difference is less than \$1,000. **Example:** A couple gave \$2,000 to each of their three grandchildren and deeded a home to their son. The home had a cash value of \$40,000 and the son paid his parents \$12,000 for the home. \$34,000 (\$40,000 less \$12,000 plus \$2,000 x 3) is counted as an asset until such time as the household can certify on an Income Certification form that they did not dispose of any assets during the two years preceding the certification date. The \$12,000 paid by the son may also be counted as an asset, depending on what was done with the payment.
 - b. Do not consider assets disposed of for less than fair market value as a result of a foreclosure, bankruptcy, or a divorce or separation agreement.
 - c. Do consider:
 - i. Assets put into trusts.
 - ii. Business assets disposed of for less than fair market value. (Business assets are excluded from net family assets only while they are part of an active business.)

Regulatory References. *These references are current as of the date of publication. Readers should refer to the latest edition of the Code of Federal Regulations. [24 CFR part 5.603](#) defines net family assets as follows: Net cash value after deducting reasonable costs that would be*

incurred in disposing of real property, savings, stocks, bonds, and other forms of capital investment, excluding interests in Indian trust land and the equity accounts in HUD homeownership programs. The value of necessary items of personal property such as furniture and automobiles shall be excluded. In determining net family assets, owners shall include the value of any business or family assets disposed of by an applicant or tenant for less than fair market value (including a disposition in trust, but not in a foreclosure or bankruptcy sale) during the two years preceding the date of application for the program or recertification, as applicable, in excess of the consideration received therefor. In the case of a disposition as part of a separation or divorce settlement, the disposition will not be considered to be for less than fair market value if the applicant or tenant receives important consideration not measurable in dollar terms.

3.18 Net Family Assets Do Not Include

IMPORTANT: The owner does *not* compute income from any assets in this paragraph.

1. Personal property (clothing, furniture, cars, wedding ring, other jewelry that is not held as an investment, vehicles specially equipped for persons with disabilities).
2. Interests in Indian trust land.
3. Term life insurance policies (i.e., where there is no cash value).
4. Equity in the cooperative unit in which the family lives.
5. Assets that are part of an active business. "Business" does NOT include rental of properties that are held as investments unless such properties are the applicant's or tenant's main occupation.
6. Assets that are NOT effectively owned by the applicant. Assets are not effectively owned when they are held in an individual's name, but (a) the assets and any income they earn accrue to the benefit of someone else who is not a member of the family, and (b) that other person is responsible for income taxes incurred on income generated by the assets. **NOTE:** Irrevocable trusts are not covered by this paragraph.
7. Assets that are not accessible to the applicant and provide no income to the applicant. Irrevocable trusts are not covered under this paragraph.

3.19 Instructions for Valuing Assets

In computing assets, owners must use the cash value of the asset; that is, the amount the family or household would receive if the asset were converted to cash. Cash value is the market value of the asset minus reasonable costs that were or would be incurred in selling or converting the asset to cash. Expenses which may be deducted include:

- Penalties for withdrawing funds before maturity.
- Broker/legal fees assessed to sell or convert the asset to cash.
- Settlement costs for real estate transactions.

For non-liquid assets, enough information should be collected to determine the current cash value; the net amount the family would receive if the asset were converted to cash. Owners must count assets disposed of for less than fair market value during the two years preceding certification or recertification. The amount counted as an asset is the difference between the cash value and the amount actually received, if the difference is more than \$1,000. If a tenant has sold his/her home (either a private residence or rental) or disposed of other assets within the past two years for less than fair market value, request:

- Copies of closing documents (HUD-1, settlement statement) showing the selling price, the distribution of the sales proceeds and the net amount to the tenant.
- Divestiture of Assets Verification identifying the disposed-of asset, the cash value and amount actually received.

If net family/household assets exceed \$5,000.00, the annual income must include the greater of:

- The actual income from assets or
- An imputed income from assets

Owners must determine estimated asset income by multiplying total net assets by the interest rate specified by HUD. Effective February 1, 2015, HUD decreased the rate to .06% (.0006). As interest rates may fluctuate, HUD may adjust the passbook savings rate at least annually to represent current national averages.

3.20 Assets Owned Jointly

Assets owned by more than one person should be prorated according to the percentage of ownership. If no percentage is specified or provided by state or local law, prorate the assets evenly among all owners.

3.21 Example of Calculating Income from Assets

Type of Asset	Cash Value of Asset	Actual Income Per Year
Checking Account	300	0
Savings Account	2,000	115
Certificates of Deposit	10,000	986
Rental Property	15,000	0
TOTALS	\$27,300	\$1,101

Since total assets exceed \$5,000, estimated (imputed) income must be calculated. Total Assets x .06%: \$27,300 x .0006 = \$16.38. Annual income must include the \$1,101 actual income because it is greater than the estimated (imputed) income received on the assets.

3.22 Calculating Gross Annual Household Income

Owners must convert all verified incomes to annual amounts.

1. To annualize full time employment, multiply:
 - a. Hourly wages by 2,080 hours
 - b. Weekly wages by 52
 - c. Bi-weekly wages by 26
 - d. Semi-monthly wages by 24
 - e. Monthly wages by 12
2. To annualize income from other than full time employment, multiply:
 - a. Hourly wages by the number of hours the individual is expected to work per week by 52. If verification shows a range of hours, use the average number of hours (i.e., verification shows 30-35 hours per week, use 32.5 hours).
 - b. Average weekly amounts by the number of weeks the individual is expected to work.
 - c. Other periodic amounts (monthly, bi-weekly, etc.) by the number of periods the individual expects to work.

Use an annual wage without additional calculations. For example, if a teacher is paid \$25,000 a year, use \$25,000, whether the payment is made in 12 monthly installments, 9 installments or some other payment schedule.

Seasonal or Sporadic Income. If an eligible tenant indicates that income might not be received for the full 12 months (e.g. unemployment insurance), the owner should still determine an annual income as described below.

If an eligible tenant is in a seasonal line of work, for example, a job dependent on weather conditions such as roofing, and normally collects unemployment during the "off" months, both incomes are used for the appropriate number of months. For example, if an individual makes \$1,200 a month, typically works 9 months per year and collects unemployment in the amount of \$600 a month for the remaining 3 months, income is calculated as follows:

$$\begin{array}{rcl} \$1,200 \times 9 & = & \$10,800 \\ \$600 \times 3 & = & \underline{\$1,800} \\ & & \$12,600 = \text{Total Annualized Income} \end{array}$$

Unemployed Applicants. The income of unemployed applicants with regular income from any source, such as Social Security, Pension, recurring gifts, etc., must be verified as covered previously.

If an applicant is currently unemployed with no regular verifiable income from any source and claiming zero (0) income, he/she must execute a Certification of Zero Income. Note that the HUD Handbook requires non-monetary contributions (excluding groceries) to be counted as income.

Please note that annual income is not the same as adjusted income. Annual income generally corresponds to gross income, with no adjustments (deductions) for child-care, medical expenses, dependents, etc. See section Z of this chapter for information on when adjusted income may be used.

Total Income from all Sources = Annual Income

Earned/Unearned Income + Income from assets = Annual Income

Annual income has two components: Earned/Unearned income and Asset income.

Earned/Unearned income includes the following sources: gross wages and salaries including tips and overtime; gross income from social security or welfare; and payments in lieu of earnings (e.g., unemployment compensation, workers' compensation). There are certain mandated inclusions and exclusions which apply when determining earned/unearned income.

Asset income is the amount generated by savings accounts, real estate, and other investments. Assets are items of value, other than necessary personal items, and are considered along with verified income to determine the eligibility of a household.

Please refer to the HUD Handbook 4350.3 for a complete listing and discussion of earned/unearned income and asset income.

3.23 General Income Verification Requirements

All income and asset sources must be disclosed on the eligibility application and verified. A good application must be used as the basis for determining what verifications will be necessary. The application, along with all supporting documentation and the Tenant Income Certification, will be reviewed by AHC staff during a tenant file review.

The following describes the types of third party verification in order of acceptability:

1. Third party verification from source (written):
 - a. An original or authentic document generated by a third party source that is dated within six months from the date of determination of eligibility by the owner. Such documentation may be in possession of the tenant (or applicant), and commonly referred to as tenant-provided documents. These documents are considered third party verification because they originated from a third party source. Examples of tenant provided documentation that may be used include, but are not limited to: pay stubs, payroll summary report, employer notice/letter

of hire/termination, SSA benefit letter, bank statements, child support payment stubs, welfare benefit letters and/or printouts, and unemployment monetary benefit notices.

Owners must consider the following when using tenant-provided documentation:

- i. Is the document current? Documentation of public assistance may be inaccurate if it is not recent and does not show any changes in the family's benefits or work and training activities.
 - ii. Is the documentation complete? Owners may not accept pay stubs to document employment income unless the applicant or tenant provides at least 2 months of source documents to illustrate variations in hours worked. Actual paychecks or copies of paychecks should never be used to document income because deductions are not shown on the paycheck.
 - iii. Is the document an unaltered original? The greatest shortcoming of tenant-provided documents as a verification source is their susceptibility to undetectable change through the use of high quality copying equipment. Documents with original signatures are the most reliable. Photocopied documents generally cannot be assumed to be reliable.
2. Written documentation sent directly to the third party source by mail or electronically by fax, email or internet.

Verification forms must contain a release authorization signed by the applicant/tenant. Do not use a blanket release authorization as this entitles the owner or manager to obtain information to which it is not entitled or needed for eligibility determination. The Data Practices Act Disclosure Statement is not a verification release. Applicants should be asked to sign two copies of each verification form. The second copy may be used if the first request has not been returned in a timely manner.

Income verification requests must be sent directly to and from the source. They are never given to the tenant to obtain signatures. It is suggested that a self-addressed stamped envelope be included with a mailed request for verification. If the returned verifications do not contain complete information (typical examples include failure to indicate interest rates, dates of anticipated raises, amounts of anticipated raises, etc.), managers must follow up with the source to obtain complete information. All pertinent information must be documented in the file and must also include the name, phone number and title of the contact, the name of the person accepting the information, and the date.

3. Third party verification from source (verbal).

When clarifying information over the telephone, it is important to be certain that the person on the telephone is the party he or she claims to be. Generally, it is best to telephone the verification source rather than to accept verification from a source calling the property management office. Verbal verification must be documented in the file.

When verifying information by phone, the owner must record and include in the tenant's file the following information:

- a. Third party's name, position, and contact information;
- b. Information reported by the third party;
- c. Name of the person who conducted the telephone interview; and
- d. Date and time of the telephone call.

4. Family Certification.

An owner may accept a tenant's notarized statement or signed affidavit regarding the veracity of information submitted only if the information cannot be verified by another acceptable verification method. In these instances, the owner must document the file why third-party verification was not available. The owner may witness the tenant signature(s) in lieu of a notarized statement or affidavit.

The following describes use of electronic information when used as third party verification.

Electronic Verification. The owner may obtain accurate third party written verification by facsimile, email, or Internet, if adequate effort is made to ensure that the sender is a valid third party source.

- a. Facsimile. Information sent by fax is most reliable if the owner and the verification source agree to use this method in advance during a telephone conversation. The fax should include the company name and fax number of the verification source.
- b. Email. Similar to faxed information, information verified by email is more reliable when preceded by a telephone conversation and/or when the email address includes the name of an appropriate individual and firm.
- c. Internet. Information verified on the Internet is considered third party verification if the owner is able to view web-based information from a reputable source on the computer screen. Use of a printout from the Internet may also be adequate verification in many instances.

Steps used to obtain written verification as described in 1, 2 and 3 above must be documented to show just cause for using other types of verification. The owner must include the following documents in the tenant file:

1. A written note explaining why third party verification is not possible.
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.
4. A written note indicating the request has been outstanding without a response from the third party.

Note: If a tenant is employed by a business owned by the tenant's family or is employed by the property owner or the management company, a copy of a recent pay stub, verifying year-to-date earnings, is also required.

Upon receipt of all verifications, owners or managers must determine if the resident is qualified for participation in the HOME Program. All verifications should be reviewed and calculations made as necessary.

3.24 Corrections to Documents

Sometimes it is necessary to make corrections or changes to documents. A document that has been altered with correction fluid or "white out" will not be accepted by AHC. When a change is needed on a document, the person making the correction must draw a line through the incorrect information, write or type the correct wording or number, and have all parties initial the change.

3.25 Effective Term of Verification

Verifications of income are valid for six months prior to initial qualification for HOME for existing households, household move in date or recertification date.

3.26 Adjusted Gross Income for Over Income Households

When determining eligibility to occupy a HOME unit, the household's gross income must always be considered. However, if a tenant goes over the income guidelines at recertification, the owner must raise the over income household's rent as soon as the lease permits in accordance with the terms of the lease (see Chapter 2 – Maintaining the Unit Mix). In certain circumstances, the rent for an over income household may need to be adjusted such that the tenant pays 30% of the tenant's monthly adjusted family income or 30% up to the market rent. The HOME Program does not permit interim rent adjustments.

To determine adjusted income, the following allowances must be given when applicable.

1. \$480 allowance for each dependent. A dependent may not be a head of household, co-head, spouse, foster child, foster adult, unborn child, a child who has not yet joined the family, or a live-in attendant. A dependent must be younger than 18, or a person with disabilities, or a full time student of any age. It is not necessary for a member of the family to have legal custody of a dependent in order to receive the dependent deduction.
2. Allowance for child care expense. This may not include child support payments or expenses for the care of a handicapped or disabled family member age 13 or older. Child care may only be deducted if the care enables a family member to attend school, work, or seek employment, there is no adult in the household capable of providing the care during these times, the amount deducted is reasonable, not paid to a family member living in the household, or is not reimbursed by any other person or agency.

3. Allowance for handicap assistance expenses. The allowance is the lesser of:
 - a. The amount of expenses that exceeds 3% of annual gross income, OR
 - b. The employment income adult members of the household earn because the handicap assistance is available.
4. Allowance for medical expenses. This allowance is permitted only for those households whose head or spouse is age 62 or older, handicapped, or disabled. If the household has no handicap assistance expenses, the allowance is limited to the total of medical expenses that exceed 3% of annual gross income. If the household also has handicap assistance expenses, the amount is limited to the amount by which the total of the two expenses exceeds 3% of gross income.
5. \$400 allowance per household if the head or spouse is age 62 or older, handicapped or disabled.

3.27 Annual Recertification

All households occupying a HOME unit must be recertified at least annually from the date of occupancy. Annual recertifications must be effective on or before the occupancy anniversary date of the previous certification. Owners may align recertification dates with other program certifications or so that all units in the property are recertified at one time during the year. However, if a period of twelve (12) months passes without a recertification being completed for any HOME unit, the unit is considered out of compliance.

Income must be third party verified in every sixth year of the affordability period, **not** tenancy.

3.28 Tenant Files

Owners must maintain a tenant file for each HOME unit. All permanent documents must be kept together so they are accessible at each compliance review (income certification and supporting documentation, HOME lease/Addendum, etc.). Annual recertification information, including the tenant questionnaires, release forms, verifications, and annual inspection reports must be grouped together by year, with the most recent year on top for review.

The tenant files must contain the following:

- Sublocator or PJ Government Data Practices Act Statement.
- Household Questionnaire.
- Acceptable verifications of income and assets.
- Verification of student eligibility for properties with HOME commitments on or after August 23, 2013.
- Tenant Income Certification (Initial Certification and Annual Recertifications).
- Signed lease agreement and HOME addendum (if needed).
- Move in inspection report.

- Lead based paint acknowledgements (rental rehabilitation only; built pre-1978).

All move out files must also contain the following:

- Written 30-day (or greater) notice to vacate (if not available – document in file).
- Move out inspection report (both parties signed and dated).
- Security deposit refund (check number and date) or letter of intent to withhold security deposit within 14 days of move out.
- Itemized list of costs charged to tenant within 45 days.

Tenant records, including income verifications, development rents, utility allowances, and unit inspections must be retained for the most recent five year period, until five years after the affordability period terminates.

Chapter 4 – Owner Reporting Requirements

The owner must maintain a report of all tenants residing in each unit at the time of application through the end of the affordability period and submit annual reports to AHC in a form and manner requested by AHC.

Annual compliance reports are due to AHC by February 15th or as otherwise specified by AHC, of each year during the affordability period. If the 15th falls on a weekend or a holiday, reports are due the following business day. Reports and other required documents must be uploaded to the appropriate Egnyte secure folder on an annual basis.

4.01 Annual Owner Certifications

Complete the Owner Certification to certify compliance with HOME Program requirements for the preceding calendar year. Owners of projects with both Suballocator LIHTC and PJ HOME funds may also be required to submit a CHART Owner's Certification that authorizes the use of CHART for annual reporting. Owner Certifications must be printed, signed and dated by the authorized Owner Representative, then scanned and uploaded to the appropriate Egnyte secure folder on an annual basis.

4.02 Compliance Reports

AHC will annually monitor HOME Program compliance by reviewing annual owner certifications and analyzing compliance information submitted by the owner. Failure to submit the owner certification and/or update the report on **all** units and their related activity by the due date will constitute noncompliance with the HOME Program and the related loan documents.

4.03 Utility Allowance Source Document

Owners must submit the utility allowance source documents applicable to the reporting period.

Chapter 5 – Compliance Inspections

Based on the **total number of units in the property**, on-site inspections, both physical inspections and review of tenant files, will be conducted every 3 years for projects with 1-4 total units, every 2 years for projects with 5-25 total units and each year for projects with 26 or more total units. Properties to which HOME funds were committed on or after January 24, 2015 will be inspected at least once every three years during the affordability period, with the first inspection occurring the year following project completion. In addition, owners of these properties must annually certify that each building and all units are suitable for occupancy, taking into account State and local health, safety, and other applicable codes, ordinance and requirements. Inspections may be conducted more frequently if AHC determines it to be necessary based on concerns raised during a previous review or other information.

The compliance inspection includes, but is not limited to, an inspection of at least 20% of the HOME units and tenant files (with a minimum of four (4) units) as well as an inspection of the general physical condition of the property according to HUD's Uniform Physical Conditions Standards.

AHC will contact the owner/agent in advance to schedule the property inspection and tenant file review. The property inspection and tenant file review may be conducted at the same time or may be conducted separately by different staff.

5.01 Physical Inspections

The goal of the physical inspection is to ensure that the property and units are being well maintained and in compliance with HUD's [Uniform Physical Conditions Standards](#) (UPCS).

Owners should conduct routine property inspections and perform any needed maintenance to ensure that the property continually complies with all applicable codes and UPCS.

5.02 Review of Tenant Files and Property Records

During the tenant file review, AHC staff will review tenant income certifications, third party verifications or other forms of income documentation, leases, lead based paint disclosure forms, and other management information for selected units.

AHC staff will also review the following property information:

- Utility Allowances and supporting documentation
- Current written tenant selection plan, occupancy policy and/or house rules if changes were made since the last review
- Current lease and lease addenda Affirmative Fair Housing Marketing Plan
- Advertising

- Equal Housing Opportunity posters, logos
- Correspondence
- Marketing plans
- Tenant ledgers for all units inspected

5.03 Review of Ongoing Lead Based Paint Maintenance (24 CFR 35.1355)

All borrowers with properties built before 1978 that have not been verified as lead free by a lead inspection must institute ongoing maintenance of painted surfaces and safe work practices as part of regular building operations. This includes: A visual inspection of lead based paint annually and at unit turn over, repair of all unstable paint, and repair of encapsulated or enclosed areas that are damaged.

- Ongoing Maintenance Records—Borrowers must keep ongoing maintenance records and records of relevant building operations for use during reevaluations.
- Borrowers and their maintenance personnel must be trained in ongoing lead based paint maintenance, or must contract with a qualified individual or company to perform ongoing maintenance. Ongoing maintenance of lead based paint must be conducted only by individuals who have completed a HUD approved course on lead safe work practices, are licensed lead workers or lead supervisors, or are working under the direction of a licensed lead supervisor.

Renters must receive the following:

- An EPA-approved information pamphlet on identifying and controlling lead-based paint hazards, [Protect Your Family From Lead In Your Home \(PDF\)](#).
- Any known information concerning the presence of lead-based paint or lead-based paint hazards in the home or building.
 - For multi-unit buildings, this requirement includes records and reports concerning common areas and other units when such information was obtained as a result of a building-wide evaluation.
- A disclosure that includes a "Lead Warning Statement" and confirms that the seller has complied with all notification requirements.

Chapter 6 – Correction and Consequences of Non-Compliance

If AHC does not receive the required certifications and/or compliance reports when due or discovers by audit, inspection, or review, or in some other manner that the property is not in compliance with the requirements of the HOME Program, or with the property's loan documents, including the enforcement agreement, AHC will notify the owner as soon as possible.

6.01 Notice to Owner and Participating Jurisdiction

AHC will provide prompt written notice to the owner of a HOME assisted property if AHC does not receive the annual owner certification and income and occupancy report by the required due date. AHC will also notify the Participating Jurisdiction, as well as the owner, if AHC does not receive or is not permitted to inspect the tenant income certifications, supporting documentation, and rent records, or discovers by inspection, review, or in some other manner, that the property is not in compliance with the requirements of the HOME Program, or with the property's loan documents, including the enforcement agreement.

6.02 Correction Period

The correction period will be established by AHC and set forth in a Notice of Noncompliance to the owner. AHC may extend the correction period, but only if AHC determines there is good cause for granting the extension. Requests for an extension must be in writing from the owner, must be received by AHC no later than the last day of the correction period identified on the Notice of Noncompliance, and must include an explanation of the efforts to correct the noncompliance and the reason the extension is needed.

6.03 Owner's Response

AHC will review the owner's response and supporting documentation, if any, to determine whether the noncompliance has been clarified, corrected or remains out of compliance.

Clarified noncompliance is, for example, where income eligibility was not properly documented and the inspector cannot make a reasonable determination that the unit is in compliance but the owner/agent conducts a retroactive (re)certification which completely and clearly documents the sources of income and assets that were in place at the time the certification should have been effective, and applies income and rent limits that were in effect on that date. If documentation is complete and it supports that the household was eligible as of the effective date, the file is considered clarified.

Corrected non-compliance is when a violation is observed, there is a period of time during which the unit is out of compliance, but the unit is brought back into compliance. For example, a late certification or re-certification is out of compliance on the certification due date, and back in compliance as of the date the last tenant signs the Tenant Income Certification.

Uncorrected non-compliance is a violation that is not corrected or clarified by the end of the correction period.

Failure to correct all noncompliance could result in extension of the end of the period of affordability, acceleration of the HOME loan, or other legal remedies and may also affect the owner's eligibility for financing from the Participating Jurisdiction under any or all of its programs.

AHC reserves the right to conduct a follow-up inspection if documentation is not sufficient to confirm that all life threatening health and safety violations and any other hazardous deficiencies have been corrected.

Chapter 7 – Loan Modification and Requests for Action

7.01 Sale or Transfer, Event of Default

Repayment of the HOME loan may be required upon sale or transfer of the property without the prior consent of the Participating Jurisdiction or in the event of default. Requests for refinance of the existing first mortgage or partial release of mortgage will be considered, and are subject to the terms and conditions of the program as set forth in the loan documents.

7.02 Partial Release and/or Subordination of Mortgage

Owners of HOME assisted properties are advised to contact the Participating Jurisdiction to request a partial release of mortgage and/or a subordination of mortgage.

Chapter 8 – HOME Financial Oversight

For projects with HOME funds committed after July 24, 2014, the PJ must examine the financial condition of projects with 10 or more HOME-assisted units to determine the continued financial viability of the project. Owners must submit annual operating data, audited financial statements, and an updated Capital Needs Assessment for review. The purpose of this requirement is to enable PJs to identify HOME-assisted projects that may become financially troubled before problems become severe. If the financial review indicates potential problems, PJs must take actions to correct those problems, to the extent feasible. HUD encourages the financial review of all projects in a PJ's portfolio.

At this time, AHC is not contracted to provide financial oversight monitoring.