

# Managing Housing Compliance

**Presented by:**



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**Presented to:**



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# Avoiding Top Errors

**The Goal of this Training**

The purpose of this training is to provide information for all interested personnel to successfully maintain compliance at affordable housing properties and to avoid top eligibility errors.

Top Error:

Insufficient Application/Questionnaire Issues

Top Error # 1:

Insufficient Child Support/Alimony Questions

LIHTC/HUD: 4350.3 5-6 F / 5-12 Exhibit 5-1 / 2

RD: HB-2-3560 Exhibit 6-3 page 6-17

"Owners must count alimony or child support amounts awarded by the court unless the applicant certifies that payments are not being made and that he or she has taken all reasonable legal actions to collect amounts due, including filing with the appropriate courts or agencies responsible for enforcing payment."

Note: Amounts actually received must be counted, whether court-ordered or not. All the same questions should be asked for alimony as are asked for child support.



Beatrice, age 62, was court ordered to receive \$550 in alimony 5 years ago; however her ex-husband has not paid any alimony to date. Beatrice has not pursued the amounts owed to her as her ex-husband owns a "Gentleman's Club" which she considers "dirty money" and doesn't want any part of it. What if any amount should be counted as income from Alimony?

Sample Application Questions: Alimony/Child Support

CHILD SUPPORT / ALIMONY INFORMATION
11.) Does any member of your household have a COURT ORDER to receive Child Support or Alimony payments, even if no child support or alimony is being received? (I-07a) (case id #)
IF NO, SKIP TO QUESTION 12
a.) Name of person with court order: Payment Amount: \$ per
b.) Name of person(s) paying support / alimony:
Are the FULL court-ordered amount(s) being received?
If NO, Are you making efforts to collect the amounts due?
If YES, please explain the efforts you're making here:
12.) Does any member of your household receive Child Support or Alimony payments that are NOT COURT ORDERED?
(This includes help from children's father or mother for clothes, groceries, etc) (I-07b)
IF NO, SKIP TO NEXT SECTION
a.) Payment Amount: \$ per
b.) Name of person(s) paying support / alimony:
Phone: for child:
Phone: for child:

**Top Error # 2:**

**Insufficient Student Questions**

**LIHTC/HUD: 8823 Guide 4-19 & 20**

**RD: HB-2-3560 6.5 A on page 6-4**

**Student Financial Assistance**



**LIHTC 8823 Guide 4-19 & 20**

**HUD 4350.3 5-6 E / 5-11 & Exhibit 5-1 Inclusions (9) & Exclusions (6)**

**RD: HB-2-3560 6.5 A on page 6-4**

**Unnumbered Letters of 1-11-07 and 11-30-11**

**Tuition Assistance** (for those receiving Section 8 assistance)

Usually, all student financial assistance is excluded from income. However, we must count student financial assistance received by adult students (**full or part time**) **who are receiving Section 8 assistance** who attend institutes of higher learning EXCEPT:

- Adult students who are over 23 who have a dependent child
- Adults who are dependents of the household

“Financial Assistance” includes:

1. Pell Grants and other programs funded by the Higher Education Act of 1965
2. Assistance from private sources  
(Example - parents, grandparents)
3. Assistance from an institute of higher learning  
(Example - scholarships)

**Note: Financial Assistance Does NOT include loans**

What we count as income: **Amounts in excess of tuition** (as defined by the school)

**What we need to determine:**

- Is the household receiving Section 8 Assistance? (If “no” - stop)
- Are any adults enrolled in an institute of higher learning? (If “no” – stop)
- Do the individual adults meet an exception? (If “yes” – stop)

**Student Eligibility**

It is important to keep student eligibility rules straight. Although the full topic of student eligibility is beyond the scope of this discussion, the chart below demonstrates just some of the complexity involved and how the rules are different.

<b>LIHTC/Bond</b>	<b>Sec. 8/RD/HOME</b>
<b>ALL MEMBERS</b> being students triggers the rule	<b>ANY ADULT MEMBER</b> who is a student triggers the rule
<b>Students of ALL AGES</b> are examined	<b>ADULT</b> students <b>UNDER AGE 24</b> are examined
<b>Students at INSTITUTES OF LEARNING</b> are examined	<b>Students at INSTITUTES OF HIGHER LEARNING</b> are examined
<b>FULL-TIME STUDENTS</b> trigger the rule	<b>FULL- or PART-TIME STUDENTS</b> trigger the rule

**Sample Application Questions: Students**

Please list household members starting with Head of household on line 1, then in order of oldest to youngest.

	Last Name, First Name	Relationship to Head of Household	Birth Date	Age	Social Security Number	Student Status:		
						Full Time	Part Time	N/A
1		Head						
2								
3								
4								
5								
6								

5.) Does your household receive, or is it applying to receive, Section 8 rental or voucher assistance?  Yes  No

Page 1 of 6  
C-01 Compliance Questionnaire  
(10/09) Previous Versions Obsolete



9.) Is **ANY ADULT** member of your household a part or full time student in an institute of higher education?  Yes  No

If yes, who is enrolled? \_\_\_\_\_ Which school are they enrolled in? \_\_\_\_\_

How do they pay for their education? \_\_\_\_\_ What is the cost of tuition per semester? \$ \_\_\_\_\_



**Workshop:  
Student Aid**

Philip is 22 lives in a unit with his dependent daughter in a Section 8 unit. He goes to school part-time. His tuition is \$5,000 a year, and his grandparents pay \$7,000 a year toward his tuition and other expenses. What student financial assistance will be counted?

Shelly is age 45 and a student who lives in a Section 8 unit. Her tuition is \$15,000 a year. She has a Pell Grant and other financial assistance totaling \$19,000. She lives with her two dependent sons, Kent (age 15) and Josh (21). Josh's tuition is \$20,000 a year, and his father (who is not living in the household) contributes \$24,000 a year to his schooling expenses. What student financial assistance income is counted?

Harold is age 31 and a student who lives in a RD unit and receives RD rental assistance. His tuition is \$10,000 a year. He lives alone. He has a Pell Grant and other financial assistance totaling \$14,000. What student financial assistance income is counted?

Top Error:

Household Size

Avoiding Top Error # 3:

Not Counting Temporarily Absent Members

RD HB-2-3560 6.9.A.3 page 6-8

LIHTC/HUD 4350.3 5-6 A & B / 5-7 to 10

Temporarily Absent Members

We must always count:

Dependent students away at school, also military household members assigned out of town, but who have a spouse or child(ren) in the unit.



8823 Guide 4-11

HUD 4350.3 **Change 3** urged some leniency when it comes to those absent in the military. For example, an owner might conclude that a military member and their children are not household members when grandparents are temporarily caring for their grandchildren while the parent is on active duty, even though the military member's dependents are in the unit. Also an owner might choose not to count the income of a guardian that is temporarily in the unit to care for children of a person on active duty.

Workshop: Household Size

June A. Plicant is living with her parents (the head and co-head of the household). June is staying there while her husband, Stu Dent, is on active duty in the military. June has a sister, May, who is a full-time student dependent of the head and co-head. May is away at university so she is only in the unit on holidays. May has a daughter who is subject to joint custody and is in the unit every weekend, but spends the weekdays with her father. How many people live in this unit for income limit purposes?

Input box for the answer to the question above.

**Top Error:**

**Income Calculation Issues**

**Avoiding Top Error # 4:**

**Bad Math**

**Assumptions**

LIHTC/HUD & RD: 4350.3 5-5 B / 5-4

For Full-Time Employment: multiply

hourly wages by (40 hrs/wk)	<b>2,080</b>
weekly wages by	<b>52</b>
bi-weekly wages by	<b>26</b>
semi-monthly wages by	<b>24</b>
monthly wages by	<b>12</b>
annual salary by	<b>1</b>

**Bad Assumption Example # 1:**

“There are 4 weeks in a month.”

Verification tells us that Connie is paid \$750 weekly  
The income limit for his family size is \$36,500

Incorrect method:  $\$750 \times \underline{\quad} \times \underline{\quad} = \underline{\quad}$

Correct method:  $\$750 \times \underline{\quad} = \underline{\quad}$

If the first method is used and the household is moved in, the household will be \_\_\_\_\_!



**Workshop:  
Weekly  
Payments**

**Bad Assumption Example # 2**

“Bi-weekly pay comes twice a month.”

Verification tells us that Jill is paid \$1089 bi-weekly.  
The income limit for his family size is \$28,130

Incorrect method:  $\$1,089 \times \underline{\quad} \times \underline{\quad} = \underline{\quad}$

Correct method:  $\$1,089 \times \underline{\quad} = \underline{\quad}$

If the first method is used and the household is moved in, the household will be \_\_\_\_\_!



**Workshop:  
Bi-Weekly  
Payments**

**Can you spot any errors?**

**Example of changing hourly wage**

Certification date: February 1<sup>st</sup>

Employer anticipates:

Pay period: weekly

40 regular hours/week

3 OT hours/week OT is at 1-1/2 time

Current hourly rate \$9.50/hour

Anticipated raise starting March 15 \$0.50/hour

Manager calculation sheet:

February 1<sup>st</sup> to March 14<sup>th</sup> (6 weeks)

6 weeks x 40 hours x \$9.50 = \$ 2,280.00

6 weeks x 3 hours x \$14.25 = \$ 256.50

47 weeks x 40 hours x \$10.00 = \$18,800.00

47 weeks x 3 hours x \$14.25 = \$ 2,009.25

Annual Income = \$20,809.25



**Workshop:  
Raises**

**Common Error # 5:**

**Self-Employment Errors**

**LIHTC/HUD: 4350.3 Appendix 3  
RD: HB-2-3560 Attachment 6-A (b)(2)**

**How to verify self-employment**

**4350.3 Appendix 3**

Form 1040 with Schedule (s): C: Business, E: Rental, or F: Farm  
Financial Statement (s) of the business  
Signed statement by business owner

**Things to watch for on a schedule C:**

- ❑ Make sure that the last year's tax return represents a full year's income; otherwise you will need to annualize (Line item H)

**H** If you started or acquired this business during 2011, check here . . . . ▶

- ❑ Make sure to include any wages or contract labor listed on the schedule C that owner paid to him

<b>11</b>	Contract labor (see instructions)	<b>11</b>		
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<b>26</b>	Wages (less employment credits)	<b>26</b>		
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or herself or any other household member! (Line item 11 and 26)

- ❑ Make sure that if depreciation is listed, clarification is obtained to demonstrate what method of depreciation was used. If the straight-line depreciation method was not used, the applicant/tenant must provide an accountant's calculation of depreciation using the straight-line method. The net income should then be determined using the expense based on the straight-line method. (Line item

<b>13</b>	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	<b>13</b>		
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13)

- ❑ If net business income is negative, income is zero. It does not offset other household income.



**Workshop:  
Self-Employment**

Tina has a small cleaning business. Tina and her 19 year old daughter, Cindy, a dependent full-time student, are applying for a tax credit unit. Her gross monthly income from this business is anticipated to be \$4,000. Her cleaning supplies and other expenses will total \$4,460 quarterly. Of this quarterly expense, wages in the amount \$2,000 are paid to Tina's other daughter, Debbie, who does not live in the unit and \$1,500 in wages is paid to Cindy. The household has no other income. What is the household's annual income?



**Top Error # 6:**

**Social Security Calculation Errors**

**LIHTC/HUD: 4350.3 5-6 I & J / 5-11 & 12    Exhibit 5-1 / 1  
RD: HB-2-3560 Attachment 6-A (b) (4) and (c) (13)**

*"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."*

- Count amounts BEFORE Medicare is taken out.
- **Delayed** SS and SSI payments are not counted as income (also applies to VA payments).
- Count amounts AFTER adjustments for **past overpayments** (also applies to TANF and unemployment).
  - Example: Gross amount \$450. Actual payment is \$397 because of past overpayment. Count \$397.
- Watch for Cost Of Living Adjustment (COLA) each year. The COLA is usually announced in October. Examples: 5.8% in 2009 and NONE in 2010 or 2011, 3.6% in 2012, 1.7% in 2013, 1.5% in 2014, and 1.7% in 2015



See below Social Security benefit letter for Thomas Moore who moved in on 2/1/2014. Based on this information what is the total monthly amount that will be used to calculate income from this source

Information About Current Social Security Benefits

Beginning January 2014, the full monthly Social Security Benefit before any deductions is .....\$724.20

This is after we withheld \$200.00 for your obligation for child support

We Deduct \$96.40 for medical insurance premiums each month.

The regular monthly Social Security payment is ..... \$627.00  
(We must round down to the whole dollar.)

Social Security benefits for a given month are paid on the following month. (For example, Social Security Benefits for March are paid in April.)

Your Social Security benefits are paid on or about the third of each month.

Information about current SSI payments

On or about Feb 1<sup>st</sup>, you will receive the following amount because of delay of benefits ..... \$1,500.00

Beginning January 2014, the full monthly Social Security Disability Benefit before any deductions is ..... \$ 150.00

Of this amount \$50 represents periodic payments until the remainder Of the delayed benefits are paid. This is estimated to end on March 15<sup>th</sup>, 2016.

**Top Error # 7:**

**Incorrect Income Counted for Dependents**

LIHTC/HUD: 4350.3 Fig 5-2 / 5-7

RD: HB-2-3560 Attach 6-A

4350.3 Figure 5-2 / 5-8

**Whose Income is Counted?**

<u>Members</u>	<u>Earned Income</u>	<u>Unearned and Asset Income</u>
Head, Spouse and Co-Head	YES	YES
Other Adult	YES	YES
<b>Foster Adult</b>	<b>YES</b>	<b>YES</b>
<b>Dependents:</b>		
- Child under 18	NO	YES
<b>- Foster Child</b>	<b>NO</b>	<b>YES</b>
-Full-time Student 18 & Over (Not head, co-head, or spouse)	YES up to \$480	YES
Temporarily absent Member	YES	YES
Permanently living in a hospital or nursing home	A Household Decision	
<u>Non-Members</u>		
Live-in Attendant	NO	NO
Guest	NO	NO



**UPDATE: CHG 4**

**4350.3 3-6.E.3/3-8**

Foster Children and adults are now counted as household members. They are included when determining household size for income limits as well as unit size.

**Workshop:  
Dependent  
Income**

Sammi, age 16, is a foster child who resides with her foster mother, Tina. Sammi works part-time earning \$15,000 annually. Additionally she receives \$10,000 a year social security survivorship benefits from her deceased father. She puts her earnings and her benefit income into a saving account which is anticipated to generate \$100 a year in interest. She is the sole owner of the account. Since Sammi is a foster child and is not considered a household member, the manager determines that her income contribution to the household is \$0. Is this correct?

		<b>YES NO</b>
\$	<input type="text"/>	(earned income from a minor) +
\$	<input type="text"/>	(unearned income) +
\$	<input type="text"/>	(asset income) =
\$	<input type="text"/>	TOTAL Income

18 year old Sheldon is a dependent full-time student who was employed when his parents applied for a unit. It was verified that his job paid him \$7,200 a year. The manager calculated his income contribution to the household to be \$480 a year. The household was at a total annual gross income of \$43,480 and the income limit for their family size was \$45,500. A month before move-in, the family reported that Sheldon had been laid off, but that he had begun to claim \$75 a week in unemployment benefits that he was eligible for under state law. Assuming nothing else changed, is the household eligible?

**YES NO**

**Avoiding Top Error # 8:****Not counting non-cash contributions****LIHTC/HUD/RD 4350.3 Exhibit 5-1 / 2**

“Periodic and determinable allowances, such as.....regular contributions or gifts received from organizations or from persons not residing in the dwelling.”

**Periodic Allowances - Gifts****4350.3 5-6 G / 5-10 & 11 Exhibit 5-1 / 2**

Cash and Non-cash contributions to the household are income to the family.

Two Allowed exclusions:

1. Groceries given to the household (NOT money to buy groceries)
  2. Child care paid directly to care provider in behalf of the household
- All other contributions are counted



Jordan is applying for a tax credit unit with his 6 year daughter, Annabelle. Jordan receives the following from his mother who does not live in the household.

- \$100 a week in cash for groceries
- \$50 a week in baby formula.
- Pays his cell phone directly to the cellphone provider in the amount of \$100 per month.
- \$200 a month in diapers
- \$50 a month in clothes

Of the amounts listed above, check items that will need to be included when determining annual income.

Top Error:

Asset Calculation Issues

Top Error # 9:

Calculating Asset Income on Cash Value

LIHTC/HUD: 4350.3 5-7 A-C / 5-21 &22

RD: HB-2-3560 6.10.B page 6-13

4350.3 5-7 A 1 / 5-21 4350.3 5-7 Example/ 5-24

*"Items of value that may be turned into cash."*

An asset has "Market" and "Cash" value:

- The **market value** is "the amount another person would pay to acquire the asset".
  - o NOTE: Actual income is based on market value.
- The **cash value** is "simply its dollar value on the open market."



NOTE: 3<sup>rd</sup>-parties will not always complete our verification forms. In those cases, we often have to rely on statements or other documentation supplied by the tenants. We need to be sure that the documents provided give us at least the information above.



Charles and Patty Brown, both age 40, have applied for a unit. The Brown family has the following assets.

1. A certificate of deposit of \$6,009 at 1%. Estimated cash value after paying penalties is \$5,560.
2. A passbook savings account of \$925 earning .75 % interest annually.
3. The six-month average balance in the checking account is \$2,200 (non-interest-bearing account).

	Cash Value	Actual Income Earned	Imputed Income
Certificate of Deposit	\$ [ ]	\$ [ ] ( \$ [ ] x 1% )	[ ] \$ [ ] ( [ ] x [ ] % )
Savings Account	\$925	\$ [ ] ( \$ [ ] x .75% )	
Checking Account	\$2,200	\$ [ ]	
<b>Total</b>	\$ [ ]	\$ [ ]	\$ [ ]
<b>The amount of asset income we will use on the certification:</b>			\$ [ ]

**Avoiding Top Error # 10: Counting Payments from Reverse Mortgages****A Reverse Mortgage is...****Investopedia.com**

"A type of mortgage in which a homeowner can borrow money against the value of his or her home. No repayment of the mortgage (principal or interest) is required until the borrower dies or the home is sold. The transaction is structured so that the loan amount will not exceed the value of the home over the life of the loan."

Per the above, reverse mortgages are treated the same as other mortgages. They are loans against the property, and decrease the property's cash value.

**Reverse Mortgages****FAQ****Q** - Are the payments that the homeowner receives income?**A** - **Payments received by the homeowner are NOT income**, but rather the proceeds of loans against the property.**Q** - Is the home an asset to the homeowner?**A** - **The home continues to be an asset and belongs to the homeowner.****Avoiding Top Error # 11:****Periodic Payment Errors****HUD/LIHTC/RD 4350.3 5-6 P / 5-19****Withdrawals from Investments**

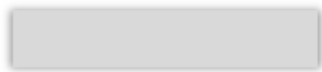
"The withdrawal of cash or assets from an investment received as periodic payments should be counted as income...*if benefits are received through periodic payments, do not count any remaining amounts in the account as an asset.*"

**States Differ...on periodic payments from assets****UPDATE: CHG 4****4350.3 5-6 P/5-19 & 5-7G 4 b & d/5-36 & 37**

HUD has clarified a cross reference that created some confusion. The original cross-reference seemed to apply **5-6 P** to annuities only. Now it applies more generally to retirement account (as discussed in **5-7, in total**). Additional references in **5-7 G 4** further clarify that paragraph **5-6 P** applies to retirement accounts, including 401(k)s, IRAs and KEOGHs.



Below is an excerpt of annuity verification for Katie. Based on the information below determine what would be included as income from this asset.



Account Type (Check One):  IRA  Keogh  401k  Annuity  Pension  VA  Trust  
 Stocks  Bonds  Mutual Funds  Money Market  Other \_\_\_\_\_

1. Does the above named person have access to any portion of the account?  yes  no  
If "no", proceed to #2. If "yes", please answer all the questions below and then proceed to #2. Please enter "N/A" if the question doesn't apply to the asset checked above.
- a) What is the Market value of the account? \$230,000
  - b) What is the Cash Value (the market value less costs to convert to cash)? \$230,000
  - c) What is the current interest rate 2.4 % OR Yield: \_\_\_\_\_
  - d) Number of Units Owned n/a
  - e) Has the account increased in value over the last 12 months (excluding owner contributions & withdrawals)?  yes  no If "yes", how much has it increased in value? \$ \_\_\_\_\_
2. Is the account holder receiving periodic payments?  yes  no  
If yes, how much is the gross payment? \$ \$300 per:  month  quarter  year  other: \_\_\_\_\_

**Common Error # 12: Incorrectly counting Income From Disposed Assets**

**Imputing Income on Disposed Assets**

**4350.3 5-7 G 8 / 5-36 to 38**

A special rule applies to assets disposed of for less than fair market value in the last 2 years. If the market value of the asset was \$1,000 more than the amount received:

- Disposed asset value = cash value less amount received.
- Do not count assets lost in foreclosure, bankruptcy, divorce or separation settlements.

Although not a new thought, Change 3 reminds us that, when the 2-year disposed of asset threshold ends, imputed income ends as well. At a HUD property, the owner has the choice of annualizing the income and conducting an interim, or only counting the imputed income for the months up until the 2-year limit. LIHTC properties do not have interim option, so the latter choice applies to LIHTC certifications.

Mei and Hiro moved-in 01/01/14. They gave their farm to their sons on 07/01/12. The farm's market value was \$200,000.

The manager must count the value of the farm as if they still owned it until:  /  /

What is the amount of imputed income that was included on their move-in certification?

X  % =  ÷ 12 X  =

HINT: The current HUD Passbook Savings Rate of .06% was effective on 2/1/2015.

**A Few Words of Encouragement...****We Do this Job Well...**

Recent government reviews of the various programs have been good or show improvement. It is a challenge to learn these programs well, but the more effort something takes, the more gain is realized. These programs are active in all states, and qualified personnel are in demand. Not all jobs provide a certain amount of personal security and are also beneficial to our communities. We strongly feel that affordable housing-related jobs are.