CITY OF CHINO

Home Improvement Program

Program Policy

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I. BACKGROUND

The City of Chino administers home improvement programs to preserve and enhance the City's housing stock and residential neighborhoods. Funding for the programs comes from various federal, state, and local funding sources including the U.S. Department of Housing and Urban Development (HUD), California Housing and Community Development (HCD) department, and the City's Affordable Housing Fund.

The City's Home Improvement Program provides financial assistance to eligible homeowners in the City of Chino whose primary residences are in need of repair. Assistance is provided in the form of deferred and forgivable loans, which may be in a senior or subordinate lien position. The origination and servicing of these program loans is administered by the City.

II. PROGRAM OBJECTIVES

The primary goals and objectives of the Home Improvement Program are to:

A. Preserve and enhance the City's existing housing stock; and

B. Provide safe, properly maintained housing for persons/families of very low, to low-income.

III. APPROVAL OF PROGRAM AGREEMENTS

In adopting this Program Policy, and consistent with the provisions of Chapter 2.08.070 of the Chino Municipal Code, the City Council authorizes the City Manager to prepare and execute Program documents, including but not limited to loan agreements, as needed to implement the Home Improvement Program and achieve the stated objectives.

IV. HOME IMPROVEMENT PROGRAMS

The Home Improvement Program offers a variety of financing programs designed to assist very low and low-income homeowners with making needed repairs and improvements to their homes. Eligible homeowners may receive assistance under multiple programs. Participation in the City's Home Improvement Programs is subject to the requirements of this Policy.

Funding: Loan amounts are at the discretion of the City, depending upon an assessment conducted by city inspectors for health and safety issues and other code violations. Programs are subject to the availability of funding and, in some cases, funding source maximum loan guidelines.

Location: Citywide

Fees: None

1. **Emergency 5-Year Forgivable Loan Program - Single Family/Mobile Homes (maximum $15,000)**

Target Income Group:	Households with incomes ≤ 80% of the San Bernardino County median family income (adjusted for household size)
Security:	Deed of Trust / Promissory Note
Loan Rate and Term:	0% interest - 5-year forgivable loan under the condition that the borrower remains in the home for a minimum of 5 years from the date of loan agreement execution. Loan becomes due and payable should the property be sold, or a transfer of ownership occurs before the close of the 5-year term.
Special Requirements:	Emergency repairs as deemed eligible per the City or State building inspectors include unsafe/ unhealthy living conditions such as no hot water, gas leaks, lack of heating source, structural deficiencies, sewage back-ups, major water leaks, or hazardous electrical wiring.
Availability:	Once every five years.

2. **Healthy Homes Grant Program - Single Family/Mobile Homes**

Target Income Group:	Households with incomes ≤ 80% of the San Bernardino County median family income (adjusted for household size)
Security:	None*
Availability:	Once every five years. Exceptions are made at the discretion of the city to address immediate health or safety risks.
Special Requirements:	Senior citizens 62 years of age or older, or disabled persons regardless of age.

3. **Low Interest Deferred Payment Loan Program - Single Family Homes**

Target Income Group: Households with incomes ≤ 80% of the San Bernardino County median family income (adjusted for household size)

Security: Deed of Trust / Promissory Note

Loan Rate and Term: 3% simple interest / ten (10) years or the amount of time remaining on the primary mortgage, whichever is greater with a condition that the home cannot be sold or transfer ownership for a minimum of 5 years from the loan agreement date. Additional 5-year deferrals are available at the discretion of the City if 1) the primary homeowner is 62 years of age or older; or 2) the household's income is at or below 80% of the San Bernardino County median family income adjusted for family size.

Note: In some cases, different interest rates and/or loan terms may apply depending on the regulations established by the funding agency.

Availability: Once every ten (10) years.

However, the principal balance of all outstanding Home Improvement Program loans may not exceed the maximum approved loan amount.

4. **Low Interest Deferred Payment or Forgivable Loan Program - CalHome-Mobile Homes**

Target Income Group: Households with incomes ≤ 80% of the San Bernardino County median family income (adjusted for household size)

Security: HCD Lien / Promissory Note

Funding Source: State of California CalHome Program

Loan Terms: For mobile homes, the Program offers 0% interest for a 20-year term, with the principal to be forgiven annually at a rate of 10% per year starting in the 11^{th} year that the home is continuously occupied by the borrower.

Note: In some cases, different loan limits, interest rates and/or loan terms may apply depending on the regulations established by the funding agency.

Availability: Once every 20 years. However, the principal balance of all outstanding Home Improvement Program loans may not exceed the loan amount.

V. ELIGIBILITY CRITERIA

A. Homeowner Eligibility Requirements

1. Household Income and Size

To be eligible for assistance under the Home Improvement Program, applicants must have annual household incomes at or below 80 percent of the San Bernardino County median family income as published by HUD and HCD and adjusted for household size, and calculated using the definitions and methodology specified in 24 CFR Part 5.

2. Liquid Assets

Total household liquid assets may not exceed $50,000. Household liquid assets include checking, savings, and money market accounts, stocks, bonds, and other forms of capital investments. For checking accounts, the average balance over the most recent 6 months shall be used. Retirement accounts are not counted as liquid assets if they are not accessible to the applicant without retiring or terminating employment.

If one or more applicants is sixty-two years of age or older, and the gross household income (not adjusted for business losses) is less than or equal to 30% of the San Bernardino County median income adjusted for family size, the liquid asset limitation shall be $100,000.

3. Ownership of Real Property Other Than Primary Residence

Ownership of residential property other than the household's primary residence is **prohibited.**

B. Property Eligibility Requirements

Following determination of homeowner eligibility pursuant to the requirements of Section V.A., the owner must demonstrate property eligibility. To be eligible to receive Program assistance, the real property in question must meet each of the requirements set forth below:

1. Location and Type of Property

The property must be a single-family residence (e.g., condominium, townhouse, detached single-family home, or mobile home) located within the city limits of the City of Chino.

2. Condition

The property must be in need of the following type of repairs: 1) protection of the structural integrity of the property; 2) correct existing local and/or state code violations; 3) correct existing nonconforming local and/or state code requirements; 4) correct existing nonconforming development standards; 5) refurbishment of exterior and/or interior improvements; or 6) aid for the mobility of the physically disabled and/or elderly. Once the preceding repairs have been addressed, then, 7) promote neighborhood improvements and 8) energy efficiency improvements. All repairs must qualify as eligible improvements as defined in Section V of this Program Policy.

3. Ownership and Owner-Occupancy Requirements

Owner-Occupancy: All title information will be verified using title reports and information available on the County of San Bernardino Tax Assessor website Annual audits will be conducted to verify and certify that the housing unit continues to be owner-occupied. These occupancy requirements are incorporated in the original Deed of Trust and Promissory Note and are described in greater depth in the City's Loan Servicing Plan.

4. Maximum After Rehabilitation Property Value and Data Source

The estimated value of the property, after rehabilitation, may not exceed ninety-five percent (95%) of the median purchase price for single-family homes in the City. In the event that CalHome Program funds are used to finance the improvements, the after-rehabilitation value of the home assisted with a CalHome Program loan cannot exceed 100 percent of the current median sales price of a single-family home or mobile home in the county where it is located. Housing Division staff will utilize comparable sales data sources, including but not limited to data available from sources such as the California Association of Realtors, Chicago Title, and/or other recent and reliable real estate data to determine the estimated After-Rehab Value of the property. Each approved loan application file will include at least three (3) comparable sale prices of properties located in the immediate neighborhood (within about 1 mile of the subject property) of homes sold within the last 6 months (within 1 year of the CalHome Assistance date).

5. Equity

The total indebtedness or amount of credit (whichever is greater) of all recorded liens, including the City's Home Improvement Program loan(s), may not exceed ninety-five percent (95%) of the fair market value of the home after rehabilitation. The total indebtedness or amount of credit (whichever is greater) of all recorded liens of the home assisted with CalHome funds, including the City's Home Improvement Program loan(s), may not exceed one hundred and five percent (105%) of the after-rehabilitation value.

6. Hazard Insurance

All properties must be insured with an all-risk property insurance policy in an amount equal to the full replacement value of all structures located on the property. Furthermore, all properties located within the 100-year floodplain that receive assistance under the Low-Interest Loan Program must maintain flood insurance in the amount of the value of the improvements for the term of the loan.

If a property in need of repair does not have a current all-risk property insurance policy and is unable to secure such a policy due to the presence of one or more building code violations, the Housing Manager, at his/her discretion, may waive this insurance requirement provided that the required all-risk property insurance coverage is secured immediately following the rehabilitation project.

7. Property Tax/Income Tax Delinquency or Liens

All property tax bills and assessments must be current, and the property title must be free and clear of any recorded property tax or income tax liens.

8. Outstanding Judgments and Obligations

All outstanding mortgages recorded against the subject property must be paid current. Furthermore, there cannot be any outstanding (e.g., non-current or unpaid) liens recorded against the title of the property to be rehabilitated.

9. Front and Back End Ratios

Loans may be approved based on back and front-end debt to income ratios at the discretion of the City or funding agency to determine the borrowers' repayment ability.

VI. ELIGIBLE AND INELIGIBLE IMPROVEMENTS

A. General Requirements

The City of Chino Home Improvement Program is designed to provide for the repair and/or replacement of damaged, deteriorated properties.

The following requirements apply:

1. All rehabilitation work must be completed by qualified, licensed, and insured contractors selected per Program procedures.
2. All eligible improvements must be affixed to the property.
3. Improvements requiring the replacement of materials must be of equal to or like quality based on labor or cost-effectiveness.
4. Eligible improvements are subject to procurement through a competitive bid process to ensure fair material and labor costs.

B. Priority Improvements

1. Repairs to alleviate conditions that present a risk to the health and/or safety of the property's occupants or surrounding properties.
2. Correction of municipal code violations.

C. Eligible Improvements

1. **Abatement of Code Violations**: Demolition, construction, rehabilitation, and/or replacements needed to abate violations.

2. **Accessibility Modifications**: Ramps, railings, grab bars, and accessible shower enclosures; the modification of doorways, hallways, and countertop elevations; and other adaptive measures.

3. **Cabinetry/Counters**: Repair, refurbish or replace deteriorated materials based on cost effectiveness.

4. **Deadbolt locks**: Deadbolts to be installed on entry doors.

5. **Demolition of Unpermitted, Deteriorated and/or Unsafe Improvements**: Includes fencing, accessory structures such as detached sheds, patio covers, laundry rooms, and workshops, and unpermitted garage conversions.

6. **Doors/Windows**: Repair and/or replace damaged windows with energy efficient options.

7. **Driveways/Walkways**: Driveways and walkways may only be replaced with broom-finished concrete. The use of decorative stone is not permitted.

8. **Drywall/Lath and Plaster**: Repair, replacement, and finishing of damaged drywall/lath and plaster necessary to match the original finish.

9. **Electrical**: Repair and/or upgrade of electrical system including service panels, wiring, outlets, and switches.

10. **Energy conservation**: Weather stripping, water heater blankets, radiant barrier, and attic insulation.

11. **Fencing/Block Walls**: Repair or replacement of existing wood fencing or block walls. Chain link fences may be replaced using wood or vinyl materials. Property lines will be assessed.

12. **Flooring**: Replacement of damaged or deteriorated flooring.

13. **Garage Doors**: Repair or replacement of garage doors, including the replacement of inoperable garage door openers and broken springs.

14. **Hazard/Flood Insurance**: Payment for the first year of hazard insurance if the property is not deemed ineligible by the insurance company due to risk.

15. **HVAC Systems and related testing**: Installation and testing of HVAC system to repair or replace inoperative system components.

16. **Kitchen Appliances**: Repair or replacement of damaged or inoperable stoves, ovens, and dishwashers with energy efficient appliances.

17. **Landscaping**: Provide landscaping for deteriorated yards which will include installation of automated irrigation systems to help sustain Municipal Code requirements.

18. **Overgrown/Dead Vegetation**: Trimming and/or the removal of overgrown or dead vegetation and that with a root system that is resulting in structural damage.

19. **Painting (exterior)**: Exterior painting to improve conditions is eligible.

20. **Painting (interior)**: Complete painting of the interior of the home is eligible.

21. **Termite/Pest Control**: Eradication of insect infestations and necessary repairs to correct damage caused by such.

22. **Plastering, siding, and stucco**: Repairs including patching, filling or localized replacement to damaged plaster, stucco or siding.

23. **Plumbing/Sewer Pipes and Fixtures**: Repair or replacement of leaking or damaged water/sewer pipes and related fixtures.

24. **Property Clean-up**: Removal of trash and debris located within public view or deemed a fire hazard. May also include the removal of excessive debris/trash from the inside to assist a resident that is physically incapable of doing so themselves.

25. **Rain Gutters**: Repair or replacement of failing rain gutters.

26. **Roofing**: Complete repair or replacement of deteriorated or damaged roofing using materials of like quality, with the exception of wood shake in which case tile may be used.

27. **Room Additions**: Room additions/expansions to mitigate overcrowded conditions.

28. **Seismic Retrofitting (mobile homes only)**: Repair, modification, replacement, or installation of earthquake straps and/or other seismic retrofitting devices.

29. **Smoke Detectors and Carbon Monoxide Detector**: Installation of smoke detectors and carbon monoxide detectors to comply with local and State code requirements.

30. **Structural Repairs/Modifications**: Structural repairs/modifications to correct existing structural deficiencies and to provide accessibility.

31. **Wallpaper/Wall Tile**: Repair or replacement of damaged wallpaper and/or missing ceramic tiles.

32. **Water Heaters**: Repair or replacement of inoperable water heaters including safety and energy efficient measures per building code.

VII. Emergency 5-Year Forgivable Loan Program Requirements: Eligible repairs under the Emergency Loan Program include repairs that correct unsafe/unhealthy living conditions such as no hot water, gas leaks, lack of heating, structural deficiencies, sewage back- ups, major water leaks or hazardous electrical wiring. Ineligible improvements include the repair or replacement of any interior or exterior home furnishings or accessories not permanently affixed to the housing stock. Exceptions can be made at the discretion of the City's Housing Division.

VIII. ELIGIBLE/INELIGIBLE COSTS

A. Eligible Costs

1. Labor and materials.
2. Building permits.
3. Professional service fees including credit reports, property appraisals, title reports, recording fees and lead/asbestos testing and abatement.
4. Relocation/housing expenses when deemed necessary due to substandard conditions, pest extermination or hazardous materials abatement.
5. Replacement of appliances as deemed necessary for health, safety, and energy efficiency.

B. Ineligible Costs

1. Purchase, installation or repair of interior or exterior home furnishings.
2. Compensation/reimbursement of owner's personal labor or purchase of materials, or any labor not performed by the licensed contractor.

IX. PROCUREMENT PROCEDURES AND REQUIREMENTS

The City is not party to the construction contract(s) between participating homeowners and their contractors. However, the City ensures that all financing provided is used in a cost-effective manner by overseeing the procurement process through competitive pricing, bid selection and final bid approvals/selection of a licensed and insured contractor.

X. TERMS AND CONDITIONS OF PROGRAM ASSISTANCE

A. Maintenance/Occupancy Requirements

Assisted properties shall be maintained in compliance with all City of Chino Municipal Codes, ordinances, and laws, remain owner-occupied, and maintain occupancy limitations.

B. Hazard Insurance

Loan recipients must maintain an all-risk property insurance policy naming the City of Chino as an additionally insured/loss payee.

C. Nondiscrimination

There shall be no discrimination against or segregation of any person or group of persons, on account of race, color, creed, religion, sex, marital status, national origin, or ancestry, in the selection of contractors or subcontractors to complete the rehabilitation work financed with Program assistance, or in the sale, leasing, transfer, use, occupancy, tenure, or enjoyment of assisted properties.

D. Compliance with Program Policies and Procedures

Program participants shall comply with all Program requirements and procedures as outlined in these Policies and Procedures, as required by the Housing Division staff, and as outlined in Grant and Loan agreements.

XI. PROGRAM AMENDMENT PROCEDURES

All amendments to the City of Chino Home Improvement Program Policy must be approved by the City of Chino City Council.

EXHIBIT A - Annual Income as Defined in 24 CFR Part 5

Chapter Three – Calculating Annual (Gross) Income

Annual Income as Defined in 24 CFR Part 5

The annual income definition found at 24 CFR Part 5 is used by a variety of federal programs including Section 8, public housing and the Low-Income Housing Tax Credit Program. Annual income is used to determine program eligibility and, in some programs, the level of assistance the household will receive. This definition was formerly commonly referred to as the Section 8 definition.

The Part 5 definition of annual income is the *gross amount* of *income of all adult household members* that is *anticipated to be received* during the coming 12-month period. Each of the italicized phrases in this definition is key to understanding the requirements for calculating annual income:

- **Gross Amount**. For those types of income counted, gross amounts (before any deductions have been taken) are used;
- **Income of All Adult Household Members**. The Part 5 definition of annual income contains income "inclusions" – types of income to be counted – and "exclusions" – types of income that are not considered (see Appendices B and C for income and assets that are to be included and excluded); and,
- **Anticipated to be Received**. The Part 5 annual income is used to determine eligibility and the amount of federal assistance a household can receive. A Grantee must, therefore, use a household's expected ability to pay, rather than past earnings, when estimating housing assistance needs.

Who's Income to Count

Knowing whose income to count is as important as knowing which income to count.

This chart summarizes whose income to count under Part 5:

Persons Counted in Household Size for the Purposes of Eligibility Calculation	**Employment Income**	**Other Income** (Including income from Assets)
• Head of Household	Yes	Yes
• Spouse	Yes	Yes
• Co-Head of Household	Yes	Yes
• Other Adult	Yes	Yes
• Dependents		
○ Child 18 or under	No	Yes
○ Full-time Student over 18	See Note	Yes
Nonmembers Not counted		
• Foster Adult	No	No
• Foster Child 18 or under	No	No
• Live-in Aide	No	No

NOTE: Only count the first $480 of earned income of a full-time student (enrolled for 12 or more units) older than 18 who is a dependent. Full time student status must be verified and documented in the file.

Special consideration is given to income earned by the following groups of people:

- **Minors**. Earned income of minors is not counted. However, unearned income attributable to a minor (e.g., child support, TANF payments and other benefits paid on behalf of a minor) is included.

- **Foster Children and Adults**. These persons are not included in the household member count (see Exhibit 2.4). Also, since the foster children/adults are not counted as household members, the income received to care for these individuals is not included in the household income.

- **Live-In Aides**. If a household includes a paid live-in aide (whether paid by the household or a social service program), the income of the live-in aide, regardless of the source, is not counted. Except under unusual circumstances, a related person does not qualify as a live-in aide.

- **Persons with Disabilities**. During the annual recertification of a household's income, Grantees are required to exclude from annual income certain increases in the income of a disabled member of qualified families residing in HOME-assisted housing or receiving HOME tenant-based rental assistance. This will be discussed in detail in Chapter Four.

- **Temporarily Absent Household Members**. The income of temporarily absent household members is counted in the Part 5 definition of annual income – regardless of the amount the absent member contributes to the household. For example, a construction worker employed at a temporary job on the other side of the state earns $600 per week. He keeps $200 per week for expenses and sends $400 per week home to his family. The entire amount ($600 per week) is counted in the family's income.

- **Adult Students Living Away from Home**. If the adult student is counted as a member of the household in determining the household size (to compare to the HUD income limits), the first $480 of the student's income must be counted in the household's income. Note, however, that the $480 limit does not apply to a student who is the head of household or spouse (their full income must be counted). To count the adult student as a household member, the adult student would need to be verified as a dependent, usually on the parent's tax return. Additionally, student status must be verified with documentation in the file.

- **Permanently Absent Household Members.** If a household member is permanently absent from the household (e.g., a spouse who is in a nursing home), the head of household has the choice of either counting that person as a member of the household, and including income attributable to that person as household income, or specifying that the person is no longer a member of the household.

Exhibit 3.1 – Declaration of "No Income"

Declaration of "No Income" Issue: Husband, wife and 2 children apply for assistance. The wife is not on any tax returns, no verifiable income or any other sort of paper trail to use as documentation. What alternative documentation is required to prove she is without any income to contribute?

Recommendation: Both adults must sign a 3rd party release of information form before proceeding. To verify the Applicant's zero-income claim request several of the following:

- ✓ Verification of social security benefits or printout of the record
- ✓ Verification of unemployment benefits
- ✓ Verification of non-filing for federal income tax
- ✓ Verification of assets on deposit (same bank as spouse)
- ✓ Credit report

NOTE: Unless specifically identified above as a temporary or permanent absent household member, Grantees must request HCD assistance in determining if a unique household situation should be considered permanent or temporary.

Types of Income to Count

A comprehensive list of income that is included and excluded from calculations of annual income under Part 5 is provided in the Appendix B. This list comes directly from the federal regulations at 24 CFR 5.609. HUD updates this list when changes are made by Congress. HCD will update our list as the new list becomes available.

In general, income exclusions fall into the following categories:

- Benefits that should not be counted as income;
- Income of certain household members that should not be counted, including earned income of minors and income attributable to foster children and live-in aides; and,
- Amounts that are counted as assets rather than income, such as lump-sum lottery winnings.

Income from Self-Employment

The net income from operation of a business or profession including self-employment income is used to calculate annual income. Net income is the gross income less business expenses, interest on loans and depreciation computed on a straight-line basis. Important considerations when calculating net income include:

- In addition to net income, any salaries or other amounts distributed to family members from the business, and cash or assets withdrawn by family members must be counted, except when the withdrawal is a reimbursement of cash or assets invested in the business.
- Principal payments on loans, interest on loans for business expansion or capital improvements, other expenses for business expansion or outlays for capital improvements must not be deducted when calculating net income.
- If the net income from a business is negative, it must be counted as zero income. A negative amount must not be used to offset other family income.

No Income or Not Enough Income

Careful assessment is required when an applicant states that they have no income or the stated income is not enough to cover household expenses. It is important to note if the household expenses are paid and current or if they remain unpaid. This is a clear indicator of whether there truly is no or not enough income. Third-party verifications should be required including: verification of social security benefits or printout of the record, verification of unemployment benefits, notarized statement of non-filing for federal income tax, verification of assets on deposit and a review of checking account statements that may show frequent deposits that may mean income.

An assessment of all information available will allow the Grantee to make an informed decision to either accept or deny the application for assistance. Refer to Exhibit 3.1 on the previous page for an example.

Welfare Rent as Income

Welfare assistance is counted as income. Most Grantees will use the actual gross amount of welfare assistance the household receives. In certain “as-paid” localities, however, a special calculation is required. In an as-paid jurisdiction, welfare assistance for housing costs is established separately from the rest of the welfare assistance and may be adjusted based on the actual cost of the household’s housing.

Grantees in as-paid jurisdictions must count as income the amount of general assistance a household receives, plus the maximum amount of housing assistance the household *could* receive (rather than the amount the household is actually receiving).

Sample Formats for Identifying and

Computing Part 5 Annual Income

Sample formats for computing annual income using the Part 5 annual income definition is included in the Appendices. Exhibits 3.2 through 3.5 provide examples and exercises that demonstrate how the Part 5 annual income definition is applied to individual household circumstances. Answers to the exercises are provided in each exhibit. These exhibits do not include income from assets, which is addressed below. Examples and exercises concerning asset calculation follow that discussion.

Treatment of Assets

Some assistance programs require that families "spend down" assets before they can participate. There is <u>no asset limitation</u> for participation in the HOME or CDBG Programs. Income from assets is, however, recognized as part of annual income under the Part 5 definition. To comply with the Part 5 rules regarding assets, Grantees must know: (1) what to include as assets; (2) how to compute the market and cash value of those assets; and, (3) how to determine the income from the asset to be included in annual income.

What to Include as an Asset

In general terms, an asset is a cash or non-cash item that can be converted to cash. A summary of items that are and are not to be considered assets are included in the Appendix C. (Note: It is the income earned – e.g., interest on a savings accounts – not the value of the asset – that is counted in annual income. <u>Six months of the most current, consecutive checking account statements and one month of the most current savings account statement is the minimum requirement to document these assets. All pages of these statements must be included.</u>

Exhibits 3.6 through 3.8 provide examples and exercises that demonstrate how income from assets is calculated. Market Value and Cash Value Assets have both a market value and a cash value. The market value of an asset is simply its dollar value on the open market. For example, the market value of a share of stock is the price quoted on the stock exchange on a particular day. A property's market value is the amount it would sell for on the open market. This may be determined by comparing the property with similar, recently sold properties.

An asset's cash value is the market value less reasonable expenses required to convert the asset to cash, including:

- **Penalties or Fees for Converting Financial Holdings**. Any penalties, fees or transaction charges levied when an asset is converted to cash are deducted from the market value to determine its cash value (e.g., penalties charged for premature withdrawal of a certificate of deposit, the transaction fee for converting mutual funds to cash or broker fees for converting stocks to cash); and/or,

- **Costs for Selling Real Property**. Settlement costs, real estate transaction fees, payment of mortgages/liens against the property and any legal fees associated with the sale of real property are deducted from the market value to determine equity in real estate.

Under the rules of Part 5, only the cash value (rather than the market value) of an item is counted as an asset. If more than one person owns an asset, Grantees must prorate the asset according to the applicant's percentage of ownership. If no percentage is specified or provided by state or local law, Grantees must prorate the asset evenly among all owners. If an asset is not effectively owned by an individual, it is not counted as an asset.

Actual Income from Assets

Assets can generate income and, for the purpose of determining an applicant's income, the actual income generated by the asset (e.g., interest on a savings or checking account) is what counts, not the value of the asset. The income is counted even if the household elects not to receive it. For example, if an applicant elects to reinvest the interest or dividends from an asset, it is still counted as income.

As with other types of income, the income included in annual income calculation is the income that is anticipated to be received from the asset during the coming 12 months. Several methods may be used to approximate the anticipated income from the asset. For example, to obtain the anticipated interest on a savings account, the current account balance can be multiplied by the current interest rate applicable to the account. Alternatively, if the value of the account is not anticipated to change in the near future and the interest rate has been stable, a copy of the IRS 1099 form showing past interest earned can be used.

Many Grantees are surprised to learn that checking account balances (as well as savings account balances) are considered an asset. This rule is not intended to count monthly income as an asset; rather, it is recognition that some households keep assets in their checking accounts. To avoid counting monthly income as an asset, Grantees must use the average monthly balance over a six-month period as the cash value of the checking account.

Assets Owned Jointly

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

If an asset is not effectively owned by an individual, do not count it as an asset. An asset is not effectively owned when the asset is held in an individual's name, but: (a) the asset and any income it earns 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.

Determining which individuals have ownership of an asset requires collecting as much information as is available and making the best judgment possible based on that information. In some instances, but not all, knowing whose social security number is connected with the asset may help in identifying ownership.

Owners should be aware that there are many situations in which a social security number connected with an asset does not indicate ownership and other situations where there is ownership without connection to a social security number.

Determining who has contributed to an asset or who is paying taxes on the asset may assist in identifying ownership.

Two Unique Rules

For most assets, calculating cash value and the income from the assets is straightforward. Special rules have, however, been established to address two circumstances: (1) situations in which the assets produce little or no income; and, (2) assets that are disposed of for less than fair market value.

When an Asset Produces Little or No Income

This rule assumes that a household with assets has an increased payment ability, even if its assets do not currently produce income. (For example, a household that owns land that is not rented or otherwise used to produce income.) Rather than require the household to dispose of the property, the rule requires that an "imputed" income be calculated based on a Passbook Rate that is applied to the cash value of all assets.

> **NOTE:** When calculating income from assets, State HCD policy is to use 2% as the passbook rate.

This rule only applies if the total cash value of **all** assets is more than $5,000. The following examples illustrate how imputed income from assets calculation is applied:

Example 1: The Cayhill family has $6,000 (average balance over six months) in a non-interest-bearing checking account. The Grantee would include in annual income an amount based on the current Passbook Rate. The calculation would be: $6,000 x .02 = $120.

Example 2: The Hernandez family has $3,000 (average balance over six months) in a non-interest -bearing checking account and $5,500 in an interest -bearing savings account. The family reports and the PJ verify $150 interest on the savings account. The PJ would count the greater of the actual income from assets or the imputed income based on the Passbook Rate, as shown below:

Imputed income ($8,500 x .02) =	$170
Actual income	$150
Included in annual income	$170

Example 3: The Smiths have $600 (average balance over six months) in a non-interest -bearing checking account. No income from assets would be counted because the family has no actual income from assets and the total amount of all assets is less than $5,000.

When Assets are Disposed of at Less than Fair Market Value

Applicants who dispose of assets for less than fair market value (i.e., value on the open market in an "arm's length transaction") have, in essence, voluntarily reduced their ability to afford housing. The Part 5 rules require, therefore, that any asset disposed of for less than fair market value during the two years preceding the income determination be counted as if the household still owned the asset.

The amount to be included as an asset is the difference between the cash value of the asset and the amount that was actually received (if any) in the disposition of the asset. Consider the following examples.

Example 1: Mr. Jones cashed in stock to give a granddaughter funds for college in August 2009. The stock had a market value of $4,500 and a broker fee of $500 was charged for the transaction.

Market value	$4,500
Less broker's fee	$500
Cash value to be considered	$4,000

The $4,000 in assets would be counted for any income determination conducted until August, 2011 (looking forward two years from the time of disposal).

If Mr. Jones has no other assets, no income from assets would be included in annual income because the cash value of the asset is less than $5,000. If other assets brought total assets to more than $5,000, however, the imputed income calculation described previously would be required.

Example 2: Mrs. Dutch "sold" a piece of property to a family member for $30,000 on July 1, 2008. The home was valued at $75,000 and had no loans against it.

Market value	$75,000
Less settlement costs	$3,000
Less sales price	$30,000
Cash value to be considered	$42,000

The $42,000 would be counted as an asset for any income determination conducted until July 1, 2010. The $42,000 would be combined with the cash value of other assets (if any) and an imputed income calculation would be required.

Each applicant must certify whether an asset has been disposed of for less than fair market value. Assets disposed of for less than fair market value as a result of foreclosure or bankruptcy are not included in this calculation. In the case of a disposition as part of a separation or divorce settlement, the disposition will not be considered to be less than fair market value if the applicant receives (or received) important consideration not measurable in dollar terms.

Exhibit 3.2 – Calculating Part 5 Annual Income – Example

Family Members	Position in Family	Age	Income Sources
George Jefferson	Head	53	Works full-time at $7.25/hour. Also receives $400/month from the government as a result of a settlement in the Agent Orange product liability litigation.
Eloise Jefferson	Spouse	48	Works 18 hours/week at a bank at $7.50/hour. Also receives $50/month from her mother to help with expenses.
Lionel Jefferson	Son	19	Full-time student at City College where he has a part-time, 15-hour/week job in the student bookstore at $6.00/hour for the 46 weeks when classes are in session.

Under the Federal Programs, the Income Limit for a family of three in the jurisdiction is $23,900. Are the Jefferson's eligible for CDBG/HOME assistance? Assume for this example that the Jefferson's have no assets.

ANTICIPATED ANNUAL INCOME					
Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
George	$15,080				Enter the greater of lines 4 or 5 from above in e.
Eloise	$7,020			$600	
Lionel	$480				
6. Totals	a. $22,580	b.	c.	d. $600	e. N/A
7. Enter total of items from 6a. through 6e. This is Annual Income					7. $23,180

This family is eligible for assistance because its total income of $23,180 is below the Low-Income Limit.

Explanation

George: George's earnings from work count as income, but his income from the Agent Orange Settlement Fund ($4,800/year) does not (see Appendix B). Thus, George's income is $7.25/hour x 40 hours/week x 52 weeks/year, or $15,080.

Eloise: Eloise's income from wages of $7.50/hour x 18 hours/week x 52 weeks, or $7,020. In addition, her regular gift income of $50/month or $600/year counts as income. (The gift income is counted as "other income.")

Lionel: Because Lionel is a full-time student and is not the head of household or spouse, only the first $480 of his earnings counts toward the family income.

Exhibit 3.3 – Calculating Part 5 Annual Income – Exercise 1

Family Members	Position in Family	Age	Income Sources
Blanche Deverou	Head	55	Works 6 hours/night, 4 nights/week at $5.00/hour as a waitress; also earns an average of $55/night in tips.
Rose Nylen	Friend	58	Earns $6.50/hour as a full-time aide in a hospital. Employer reports that her wages will increase to $6.75/hour, 7 weeks from the effective date of this calculation.
Dorothy Spornac	Friend	61	Earns $60/day as a substitute teacher and works an average of 3 days/week for the 40 weeks school is in session (she made $7,200 last year). Also receives $40/month in Food Stamps.
Under the Federal Programs, the Income Limit for a household of three is $38,500. Assuming that these are the only sources of income, does the household qualify for assistance?			

Complete the following table to calculate annual income (as defined in 24 CFR Part 5) for the household. Answers are found on the following page.

ANTICIPATED ANNUAL INCOME					
Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
Blanche					Enter the greater of lines 4 or 5 from above in e.
Rose					
Dorothy					
6. Totals	a.	b.	c.	d.	e. N/A
7. Enter total of items from 6a. through 6e. This is Annual Income					7.

Exhibit 3.3 – Calculating Part 5 Annual Income – Exercise 1 (continued)

ANSWERS

ANTICIPATED ANNUAL INCOME					
Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
Blanche	$17,680				Enter the greater of lines 4 or 5 from above in e.
Rose	$13,980				
Dorothy	$7,200				
6. Totals	a. $38,860	b.	c.	d.	e. N/A
7. Enter total of items from 6a. through 6e. This is Annual Income					7. $38,860

The household is **not** eligible for assistance. Its income exceeds the Low-Income Limit by $360.

Explanation

Blanche: Blanche's income must include both wages and tips. (The tips are included as wage/salary income.) Her wage income is $6,240 annually ($5.00/hour x 6 hours/night x 4 nights/week x 52 weeks/year) and her tip income is $11,440 annually ($55/night x 4 nights/week x 52 weeks/year).

Rose: Rose's wage income must be calculated in two steps. For the first 6 weeks of the year, she earns $6.50/hour. Her income at this wage is $6.50/hour x 40 hours/week x 6 weeks = $1,560. For the next 46 weeks, her wage will be $6.75/hour. Her income at this wage is $6.75/hour x 40 hours/week x 46 weeks = $12,420.

Dorothy: Dorothy made $7,200 last year and there is no reason to expect that she will work more or less often in the coming year. Her income is, therefore, estimated at $7,200. Per the Income Exclusions (see Appendix B), the income she receives from Food Stamps is excluded from this calculation.

Exhibit 3.4 – Calculating Part 5 Annual Income – Exercise 2

Family Members	Position in Family	Age	Income Sources
Murphy Brown	Head	38	Earns $550 semi-monthly as a manager in the Housewares Department of the local Kmart and receives $100/month in child support.
Eldon Bernakey	Boyfriend	36	Earns $250/week as a part-time painting instructor at the local school for the 40 weeks/year when school is in session. Attends evening classes at the Art Institute, which he pays with a State Student Incentive Grant of $3,500. Pays $50/month in child support for his twins – when he can.
Avery Brown	Son	3	No income.

Under the Federal Programs, the Income Limit for a family of three in the jurisdiction is $25,700. Is this household eligible for CDBG/HOME assistance?

ANSWERS

ANTICIPATED ANNUAL INCOME

Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
Murphy	$13,200			$1,200	Enter the greater of lines 4 or 5 from above in e.
Eldon	$10,000				
6. Totals	a. $23,200	b.	c.	d. $1,200	e. N/A
7. Enter total of items from 6a. through 6e. This is Annual Income					7. $24,400

This family is eligible for assistance. Its total income is $24,400, which is below the Low- Income Limit.

Explanation

Murphy: Murphy's annual wage income is $550 semi-monthly x 24 periods/year, or $13,200. In addition, she receives $100/month x 12 months = $1,200/year. This is other income.

Eldon: Eldon's wage income is based on 40 weeks of work: $250/week x 40 weeks/year, or $10,000 annually. His scholarship does not count as income. The child support Eldon pays cannot be deducted from his income.

Exhibit 3.5 – Calculating Part 5 Annual Income – Exercise 3

Family Members	Position in Family	Age	Income Sources
Ricky Ricardo	Head	80	Receives gross Social Security in the amount of $625/month, receives a pension from the local musicians' union in the amount of $25 every quarter (3 months).
Lucy Ricardo	Spouse	79	Receives gross Social Security in the amount of $120/month. Grossed $4,200 for giving voice lessons last year, but paid business expenses of $1,250 from this income for equipment and sound proofing.
Ricky Ricardo II	Child	45	Earns $330/week as an interpreter for a local nonprofit organization.
If the Low-Income Limit for a household of three is $30,000 and the Ricardo's have no other source of income, do they qualify for assistance?			

Complete the following table to calculate annual income (as defined in 24 CFR Part 5) for the household. Answers are found on the following page.

ANTICIPATED ANNUAL INCOME					
Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
Ricky					Enter the greater of lines 4 or 5 from above in e.
Lucy					
Ricky II					
6. Totals	a.	b.	c.	d.	e. N/A
7. Enter total of items from 6a. through 6e. This is Annual Income					7.

Exhibit 3.5 – Calculating Part 5 Annual Income – Exercise 3 (continued)

ANSWERS

ANTICIPATED ANNUAL INCOME					
Family Members	a. Wages/ Salaries	b. Benefits/ Pensions	c. Public Assistance	d. Other Income	e. Asset Income
Ricky		$7,600			Enter the greater of lines 4 or 5 from above in e.
Lucy		$1,440		$2,950	
Ricky II	$17,160				
6. Totals	a. $17,160	b. $9,040	c.	d. $2,950	e. N/A
7. Enter total of items from 6a. through 6e. This is Annual Income					7. $29,150

The household is eligible for assistance.

Explanation

Ricky: Ricky's entire income is comprised of pensions and benefits. It equals $625/month x 12 months/year ($7,500) plus $25/quarter x 4 quarters/year ($100), or $7,600.

Lucy: Lucy's benefits income is $120/month x 12 months/year, or $1,440. Her net income from her business was $4,200 - $1,250 or $2,950. (Her equipment and soundproofing expense is an allowable deduction because the business funds were reinvested in the business and did not represent expansion. Refer to Exhibit 3.1)

Ricky II: Ricky II's income is wage income. The calculation is $330/week x 52 weeks/year = $17,160.

Exhibit 3.6 – Calculating Asset Income Under Part 5 – Example

Family Members	Assets	Asset Value
Juan Herrera	Checking account	$870 average 6-month balance with an interest rate of 2.7%.
	Inheritance	Received an inheritance of $30,000 that he used to buy a new car for $12,000, pay off his $3,000 credit card bill and opened a mutual fund account (which has no associated account costs) to invest the remaining $15,000 at an annual interest rate of 5.3%.
The Federal Program's Passbook Rate is 2%.		

ASSETS			
Family Member	**Asset Description**	**Current Cash Value of Assets**	**Actual Income from Assets**
Juan Herrera	Checking account	$870	$23
Same	Mutual fund	$15,000	$795
3. Net Cash Value of Assets		3. $15,870	
4. Total Actual Income from Assets…………………………………………….			4. $818
5. If line 3 is greater than $5,000, multiply line by 2% (Passbook Rate) and enter results here; otherwise, leave blank.			5. $317

The asset income to be used in the annual income calculation is $818 since the actual income generated by the assets is greater than the imputed income.

Explanation:

Checking account: The income from the checking account is calculated based on the 6-month balance and the interest rate ($870 x .027 = $23).

Inheritance: A car owned for personal use is not considered an asset. However, the mutual fund is an asset. $15,000 x .053 = $795.

Because the total cash value of the assets exceeds $5,000, the Federal Program's Passbook Rate must be used to calculate the imputed income from all assets combined. In this case, $15,870 x .02 = $317. The actual income earned ($818) is greater, however, so that amount must be used in the calculation of annual income for this family.

Exhibit 3.7 – Calculating Asset Income Under Part 5 – Exercise 1

Family Members	Position in Family	Age	Family Assets	Asset Value
Archie Bunker	Head	72	Checking account	$595 average 6-month balance in a non-interest-bearing account.
Edith Bunker	Spouse	73	Savings account	$2,695 at 3.1%
Federal Program's Passbook rate is 2%.				

Calculate the Bunkers' asset income by completing the following chart. Answers are provided below.

ASSETS			
Family Member	**Asset Description**	**Current Cash Value of Assets**	**Actual Income from Assets**
3. Net Cash Value of Assets		3.	
4. Total Actual Income from Assets			4.
5. If line 3 is greater than $5,000, multiply line by ____ (Passbook Rate) and enter results here; otherwise, leave blank.			5.

Asset Income to be used in annual income calculation: $_____________

ANSWERS

ASSETS			
Family Member	**Asset Description**	**Current Cash Value of Assets**	**Actual Income from Assets**
Archie Bunker	Checking Account	$595	$0
Edith Bunker	Savings Account	$2,695	$84
3. Net Cash Value of Assets		3. $3,290	
4. Total Actual Income from Assets			4. $84
5. If line 3 is greater than $5,000, multiply line by ____ (Passbook Rate) and enter results here; otherwise, leave blank.			5. $0

The Bunkers' income from assets is $84.

Explanation

Use the actual income in this case, because the cash value of the Bunker's total assets is less than $5,000. The imputed income is only calculated for assets when the total cash value of all assets exceeds $5,000.

Exhibit 3.8 – Calculating Asset Income Under Part 5 – Exercise 2

Family Members	Position in Family	Age	Family Assets	Asset Value
Fred Mertz	Head	85	Rental property	Small rental property that grosses $6,500/year (expenses to keep up the property are $3,400/year). The property has a fair market value of $69,000, but they have a mortgage on the property in the amount of $35,000. The average closing cost in a real estate transaction is 8% in the area.
Ethel Mertz	Spouse	81	Savings account	Savings of $5,000 that earned $179 in interest during the past year.
			Stock	100 shares of stock in “Why Buy it, Inc.” with a face value of $4.25 per share, that has not shown a dividend in years. The cost to sell the stock would be about $76.
Federal Program’s Passbook rate is 2%.				

Calculate the Mertz’s asset income by completing the following chart. Answers are provided on the following page.

ASSETS			
Family Member	Asset Description	Current Cash Value of Assets	Actual Income from Assets
3. Net Cash Value of Assets		3.	
4. Total Actual Income from Assets			4.
5. If line 3 is greater than $5,000, multiply line by ____ (Passbook Rate) and enter results here; otherwise, leave blank.			5.

Asset Income to be used in annual income calculation: $_____________

Exhibit 3.8 – Calculating Asset Income Under Part 5 – Exercise 2 (continued)

ANSWERS

ASSETS			
Family Member	**Asset Description**	**Current Cash Value of Assets**	**Actual Income from Assets**
Fred Mertz	Rental Property	$28,480	$3,100
Ethel Mertz	Savings Account	$5,000	$179
Same	Stock	$349	
3. Net Cash Value of Assets		3. 33,829	
4. Total Actual Income from Assets			4. $3,279
5. If line 3 is greater than $5,000, multiply line by <u>2%</u> (Passbook Rate) and enter results here; otherwise, leave blank.			5. $677

The asset income to be used in the annual income calculation is $3,279, since the actual income from assets is greater than the imputed income.

Explanation

Apartment Building The cash value of the property is:

Market value	$69,000
Less mortgage	35,000
Less sales costs ($69,000 X .08)	<u>5,520</u>
Cash value	$28,480

The income earned is the net income ($6,500 – $3,400) of $3,100.

Savings Account The information is provided.

Stock The cash value of the stock is the sales proceeds (100 shares x $4.25/share = $425) less the cost to sell ($76). It generates no dividend income.