

CHAPTER 5 Calculation Problem Areas

Section 1 Introduction

- In this chapter, we will focus on the components of income and rent determination on which errors are most likely to be made.
 - These components were identified in a report published by HUD's Office of Policy Development and Research (PD&R) in 2001, "Quality Control for Rental Assistance Subsidies Determinations."
 - The components are emphasized in Rental Integrity Monitoring (RIM) reviews.
- The purpose of the chapter is threefold:
 - To identify common errors
 - To examine the reasons for these errors
 - To practice the more difficult calculations
- We will not cover every facet of rent calculation. Instead, we will focus on the following problem areas:
 - Employment income
 - Training program income
 - The earned income disallowance (EID)
 - Assets and asset income
 - Public housing rent calculation

Notes

Section 2 Employment Income

- The PD&R study found a 68 percent error rate for families with employment, or earned, income.
 - The error rate was even higher—88 percent—for families with more than one source of earned income.
 - Employment income is the single strongest predictor of errors in rent calculation.
- According to the regulation at 24 CFR 5.609(b)(1), employment income includes the full amount, before any payroll deductions, of:
 - Wages and salaries
 - Overtime pay
 - Commissions
 - Fees
 - Tips
 - Bonuses
 - Other compensation for personal services
- Employment income is usually reported in hourly, weekly, biweekly, semimonthly, or monthly amounts rather than annual amounts. To convert these to annual amounts, use the following formulas:
 - Full-time hourly: $\text{rate} \times 2080$
 - Weekly: $\text{amount} \times 52$
 - Biweekly: $\text{amount} \times 26$
 - Semimonthly: $\text{amount} \times 24$
 - Monthly: $\text{amount} \times 12$

VERIFICATION ISSUES

- Most errors in employment income are caused by lack of adequate verification.
- Either PHAs do not obtain third-party verification of employment income or they fail to use the verifications they do receive.
 - Some PHAs base their rent calculations on pay stubs provided by applicants and tenants.
 - When third-party verification is not available, PHAs often neglect to document their files accordingly.
- For some hands-on experience with the discrepancies that can arise when using pay stubs as opposed to third-party employer information in determining income, do the learning activity on the following page.

LEARNING ACTIVITY 5-1 PAY STUBS VS. THIRD-PARTY VERIFICATION

Scenario

- Anywhere Housing Authority (AHA) is conducting an annual reexamination for Natalie Buchanan. The reexamination effective date is October 1, 2003.
- Natalie is employed as an office receptionist. She has provided her pay stubs for the last 6 weeks. The PHA has requested third-party verification from her employer.

Part 1

- Calculate Ms. Buchanan’s annual income using the six pay stubs that follow.

 Myron Rawleigh, M.D. 123 High View Dr., Cubside City, ST 55555									
Employee Name		Employee SSN		Period Start		Period End		Check Date	
Natalie Buchanan		123-45-6789		7-27-03		8-2-03		8-8-03	
Earnings/Compensation					Deductions/Taxes/Miscellaneous				
Description	Rate	Hrs	Amount	Year to Date	Description	Amount	Year to Date		
Wages	\$9.25	32	\$296.00	\$5,328.00	Fed W/H	\$57.20	\$1029.60		
					FICA	\$20.72	\$ 372.96		
					Medicare	\$ 4.28	\$ 77.04		
					ST W/H	\$ 8.88	\$ 159.84		
Current	Gross	\$ 296.00		Total Deductions	\$ 91.08	Net	\$ 204.92		

Reducing Income and Rent Errors by Building a Quality Program

Calculation Problem Areas

Section 2: Employment Income

 Myron Rawleigh, M.D. 123 High View Dr., Cubside City, ST 55555							
Employee Name		Employee SSN		Period Start	Period End	Check Date	
Natalie Buchanan		123-45-6789		7-20-03	7-26-03	8-1-03	
Earnings/Compensation				Deductions/Taxes/Miscellaneous			
Description	Rate	Hrs	Amount	Year to Date	Description	Amount	Year to Date
Wages	\$9.25	32	\$296.00	\$5,032.00	Fed W/H	\$57.20	\$ 972.40
					FICA	\$20.72	\$ 352.24
					Medicare	\$ 4.28	\$ 72.76
					ST W/H	\$ 8.88	\$ 150.96
Current	Gross	\$ 296.00		Total Deductions	\$ 91.08	Net	\$ 204.92

 Myron Rawleigh, M.D. 123 High View Dr., Cubside City, ST 55555							
Employee Name		Employee SSN		Period Start	Period End	Check Date	
Natalie Buchanan		123-45-6789		7-13-03	7-19-03	7-25-03	
Earnings/Compensation				Deductions/Taxes/Miscellaneous			
Description	Rate	Hrs	Amount	Year to Date	Description	Amount	Year to Date
Wages	\$9.25	32	\$296.00	\$4,736.00	Fed W/H	\$57.20	\$ 915.20
					FICA	\$20.72	\$ 331.52
					Medicare	\$ 4.28	\$ 68.48
					ST W/H	\$ 8.88	\$ 142.08
Current	Gross	\$ 296.00		Total Deductions	\$ 91.08	Net	\$ 204.92

Reducing Income and Rent Errors by Building a Quality Program

Calculation Problem Areas

Section 2: Employment Income

 Myron Rawleigh, M.D. 123 High View Dr., Cubside City, ST 55555							
Employee Name		Employee SSN		Period Start	Period End	Check Date	
Natalie Buchanan		123-45-6789		7-6-03	7-12-03	7-18-03	
Earnings/Compensation				Deductions/Taxes/Miscellaneous			
Description	Rate	Hrs	Amount	Year to Date	Description	Amount	Year to Date
Wages	\$9.25	32	\$296.00	\$4,440.00	Fed W/H	\$57.20	\$ 858.00
					FICA	\$20.72	\$ 310.80
					Medicare	\$ 4.28	\$ 64.20
					ST W/H	\$ 8.88	\$ 133.20
Current	Gross	\$	296.00	Total Deductions	\$	91.08	Net \$ 204.92

 Myron Rawleigh, M.D. 123 High View Dr., Cubside City, ST 55555							
Employee Name		Employee SSN		Period Start	Period End	Check Date	
Natalie Buchanan		123-45-6789		6-29-03	7-5-03	7-11-03	
Earnings/Compensation				Deductions/Taxes/Miscellaneous			
Description	Rate	Hrs	Amount	Year to Date	Description	Amount	Year to Date
Wages	\$9.25	32	\$296.00	\$4,144.00	Fed W/H	\$57.20	\$ 800.80
					FICA	\$20.72	\$ 290.08
					Medicare	\$ 4.28	\$ 59.92
					ST W/H	\$ 8.88	\$ 124.32
Current	Gross	\$	296.00	Total Deductions	\$	91.08	Net \$ 204.92

Reducing Income and Rent Errors by Building a Quality Program

Calculation Problem Areas

Section 2: Employment Income

 Myron Rawleigh, M.D. 123 High View Dr., Cubside City, ST 55555									
Employee Name		Employee SSN		Period Start		Period End		Check Date	
Natalie Buchanan		123-45-6789		6-22-03		6-28-03		7-4-03	
Earnings/Compensation					Deductions/Taxes/Miscellaneous				
Description	Rate	Hrs	Amount	Year to Date	Description	Amount	Year to Date		
Wages	\$9.25	32	\$296.00	\$3,848.00	Fed W/H	\$57.20	\$ 743.60		
					FICA	\$20.72	\$ 269.36		
					Medicare	\$ 4.28	\$ 55.64		
					ST W/H	\$ 8.88	\$ 115.44		
Current	Gross	\$	296.00	Total Deductions	\$	91.08	Net	\$	204.92

ANNUAL INCOME:

Part 2

- Anywhere Housing Authority is about to notify Ms. Buchanan of her new rental amount. However, on August 20, the PHA receives delayed third-party verification from her employer, as shown on the following page. Notice that Ms. Buchanan is going to begin working full-time on September 1 and is anticipated to have some overtime. Calculate her annual income using the employer verification form.

ANNUAL INCOME:

**Anywhere Housing Authority
Verification of Income from Employment**

Re: Natalie Buchanan

Social Security #123-45-6789

Dear Sir/Madam:

We are required to verify the incomes of all family members living in or applying for public housing or Section 8 housing. We ask your cooperation by supplying the information requested below about the referenced person. We will use any information you provide only to determine the family's eligibility and rent, and we pledge to keep the data in strict confidence.

We would greatly appreciate your prompt return of this letter. A self-addressed, stamped return envelope is enclosed. Note that the person referenced has authorized your release of the information. If you have any questions, please call Anna Alvarez at 555-5555.

Thank you.

-
1. Employed since: 3/1/03 2. Job title: Office Receptionist
 3. Base pay rate or salary: \$ 9.25/hr now; Raise to 9.50 eff. 9-1-03
 4. Average hours worked at base pay rate: 32; Raise to 40 hrs/wk eff. 9-1-03
 5. Is overtime likely? Yes No If yes, overtime pay rate: \$ time and a half per hour
 6. Average overtime hours expected per month during next 12 months: 2 hours per month starting 9-1-03
 7. Other compensation? Please specify type (tips, bonuses, commissions), amount, and frequency.
Type None \$ _____ per _____
 8. Vacation pay? Yes No If yes, number of days per year: _____
 9. Total base pay earnings for last 12 months: \$ 15,000
 10. Total overtime earnings for last 12 months: \$ ∅

Firm name: Myron Rawleigh, M.D. Address: 123 High View Dr., Cubside City

Name of person completing this form: Roxanne Balsom Date: 8-15-03

Title: Office Manager Signature: Roxy Balsom

Applicant/Tenant Release

I, Natalie Buchanan, hereby authorize release of the requested information.

Natalie Buchanan
Signature

7/1/03
Date

Discussion Questions

1. What would a PHA staff person do in this situation?

2. What is the first step you would take?

3. Which verification would you use and why?

4. How would you know when the new rental amount would go into effect?

5. What would you do if the verification had come in after the reexamination date?

UNREPORTED AND UNDERREPORTED INCOME

- Some families fail to report or underreport employment income.
 - A common form of underreporting is reporting net income (take-home pay) rather than gross income.
- To identify unreported or underreported employment income, use up-front income verification (UIV) sources.
- Inform applicants and tenants of the UIV sources to be checked.
 - Providing this information encourages more accurate reporting.

SPORADIC INCOME

- Temporary, nonrecurring, or sporadic income (including gifts) is **not** included in annual income. (24 CFR 5.609(c)(9))
- Sporadic income is income that is neither reliable nor periodic.

Sporadic Income Example

- **Scenario:** Daniel Morgan receives social security disability benefits. In addition, he works occasionally as a handyman. Daniel claims to have worked only a couple of times last year; he has no documentation to support this claim.
- **Question 1:** Do Daniel's earnings from working as a handyman fit the definition of *sporadic income*?

- **Question 2:** How should Daniel's PHA handle his employment income?

- **Question 3:** What type of documentation should the PHA have in Daniel's file to support its decision?

SEASONAL EMPLOYMENT

- People in some occupations regularly work less than 12 months per year. For example:
 - School employees
 - Agricultural workers
 - Construction workers
- There are two common methods for calculating employment income for seasonal workers, both of which are acceptable.
 - In **method 1**, the PHA annualizes current income and then conducts an interim reexamination when income changes.
 - In **method 2**, the PHA calculates anticipated income from all known sources for the entire year and conducts no interim reexamination.
 - For this second method, a history of income from past years is needed.
 - This method is not useful when a future income source is “unknown” or “none.”

Example

- **Scenario:** Marcy Walsh is currently employed as a tile setter with ABC Construction, earning \$1,000 per month. For the last four years, she has worked this job for six months a year during the construction season. During the other six months of each year, she works part-time at Domino's Pizza, earning \$400 per month.
- **Method 1:**
 - At the regular reexamination, annualize **current** income by multiplying monthly income by 12:
 $\$1,000/\text{month} \times 12 \text{ months/year} = \$12,000/\text{year}$.
 - When the construction season ends, conduct an interim reexam. Again, annualize **current** income by multiplying monthly income by 12: $\$400/\text{month} \times 12 \text{ months/year} = \$4,800/\text{year}$.
- **Method 2:**
 - At the regular reexamination, calculate anticipated income from all known sources for the entire year:
 - ABC Construction: $\$1,000/\text{month} \times 6 \text{ months/year} = \$6,000/\text{year}$
 - Domino's Pizza: $\$400/\text{month} \times 6 \text{ months/year} = \$2,400/\text{year}$
 - Total annual income: $\$6,000/\text{year} + \$2,400/\text{year} = \$8,400/\text{year}$
 - *Note:* Under method 2, there is no interim reexamination when Ms. Walsh changes jobs.

Section 2: Employment Income

Notes

- A common error in using method 1 is to compute annual income by counting the current income only for the anticipated length of the job.
 - In the previous example, this miscalculation would lead to an annual income of only \$6,000 (= \$1,000/month × 6 months) at the regular reexam and only \$2,400 (= \$400/month × 6 months) at the interim reexam.
 - This common error leads to a lower total tenant payment (TTP) than the family is required to pay by HUD regulations.
- PHAs need to develop a written policy covering seasonal employment.
- PHAs must also:
 - Ensure that the policy is implemented consistently
 - Inform families with seasonal employment about the policy
 - If a PHA adopts method 1, families need to know that an interim reexam will be conducted.
 - If a PHA adopts method 2, families need to know that an interim reexam will **not** be conducted.

Notes

Section 3 Training Program Income

HUD-FUNDED TRAINING PROGRAM

- The regulation at 24 CFR 5.609(c)(8)(i) states that all amounts received under training programs funded by HUD are to be excluded from annual income.

Example

- **Scenario:** The head of a family residing in public housing receives \$500 per month in Temporary Assistance for Needy Families (TANF) benefits. She then enrolls in a HUD-funded training program operated by her PHA, and her TANF benefits stop. She receives \$600 per month while she is participating in the training program. Upon completion of the program, she gets a job at the PHA earning \$700 per month.
- **Question 1:** What monthly income is counted while the woman is participating in the training program?

- **Question 2:** What monthly income is counted after completion of the program?

- **Question 3:** How long is the training income excluded?

OTHER TRAINING PROGRAM INCOME

- The regulation at 24 CFR 5.609(c)(8)(v) states that all incremental earnings and benefits resulting from participation in a qualifying state or local employment training program (including training programs not affiliated with a local government) are excluded from annual income.
 - The regulation does not name any specific employment training programs.
- To be considered *qualifying* for the purposes of this regulatory exclusion, an employment training program must have clearly defined goals and objectives. (24 CFR 5.609(c)(8)(v))
 - PHAs may adopt written policies that establish standards for these programs.
- Training programs may include:
 - Occupational classroom training
 - Subsidized on-the-job training
 - Basic education
- *Incremental*, another key word in this regulation, refers to the **increase** in income that results from enrolling in a qualifying employment training program.
 - The incremental increase is the difference in income **after** enrollment as compared to income **before** enrollment.
 - Only the incremental increase is excluded.
- Incremental income from a qualifying employment training program is excluded only while an individual is actually participating in the program. (24 CFR 5.609(c)(8)(v))

Example of Other Training Income

- **Scenario:** A family's head of household receives \$400 per month in TANF. He then enrolls in a qualifying state employment training program and receives \$550 per month in training income. His TANF benefits stop.
- **Question 1:** What income is counted when the man's TANF benefits stop?

- **Question 2:** How long will the incremental increase in income be excluded?

TRAINING PROGRAM INCOME ISSUES

- When families report new employment, PHAs need to determine whether the employment is part of a training program.
- Notice PIH 2001-15 (also known as the Income Integrity Notice) identified frequent errors in the training income component of annual income.
 - The notice recommends educating families on eligible types of training programs.
- PHAs should also check to make sure that their data-gathering forms contain questions that will elicit information about training income.

Notes

Section 4 **Earned Income Disallowance (EID)**

- The regulations governing the earned income disallowance (EID) in the public housing program are located at 24 CFR 960.255.
- The EID calls for the exclusion of increases in income attributable to new employment or increased earnings over income received prior to qualifying for the disallowance.

QUALIFICATIONS

- To qualify for the EID, a family must be receiving assistance under the public housing program.
 - Applicant families are not eligible for the EID.
- In addition, to qualify for the EID, a family must experience an increase in annual income that is the result of **one** of the following three events:
 1. Employment by a family member who was “previously unemployed” for one or more years prior to employment
 - The definition of *previously unemployed* includes a person who has earned not more than could be earned working 10 hours per week for 50 weeks at the established minimum wage—i.e., the minimum wage applicable to the locality in which the EID determination is made.

Section 4: Earned Income Disallowance (EID)

Notes

2. Increased earnings by a family member **during** participation in an economic self-sufficiency program or other job-training program
 - Note the emphasis on the word *during*. The increase in earnings must occur *while* the individual is enrolled in the program.
 - An *economic self-sufficiency program* (as defined at 24 CFR 5.603(b)) is any program designed to encourage, assist, train, or facilitate the economic independence of HUD-assisted families or to provide work for such families. Economic self-sufficiency programs include:
 - Job training
 - Employment counseling
 - Work placement
 - Basic skills training
 - Education
 - English proficiency
 - Workfare
 - Financial or household management
 - Apprenticeship
 - Any program necessary to ready a participant for work (including a substance abuse or mental health treatment program)
 - Other work activities
3. New employment or increased earnings by a family member who has received TANF benefits or services within the past six months
 - If the TANF is received in the form of monthly maintenance, there is no minimum amount.
 - If the TANF is received in the form of one-time payments, wage subsidies, or transportation assistance, the total amount received over a six-month period must be at least \$500.

Section 4: Earned Income Disallowance (EID)

Notes

INITIAL 12-MONTH EXCLUSION

- During the initial 12-month exclusion period, the full amount of the increase in income attributable to employment or increased earnings is excluded.
- The initial full exclusion period begins on the date the family member who qualifies is employed or first experiences an increase in income due to employment.
- The initial full exclusion extends for a total of 12 cumulative months.
 - The months do not have to be consecutive.

SECOND 12-MONTH EXCLUSION AND PHASE-IN

- During the second 12-month exclusion and phase-in period, the exclusion is reduced to half, or 50 percent, of the increase in income attributable to employment or increased earnings.
- The second 12-month exclusion period begins after the family member who qualifies has received 12 cumulative months of full exclusion.
- Like the initial period, the phase-in period extends for a total of 12 cumulative months.
 - Again, the months need not be consecutive.

Section 4: Earned Income Disallowance (EID)

Notes

MAXIMUM FOUR-YEAR DISALLOWANCE

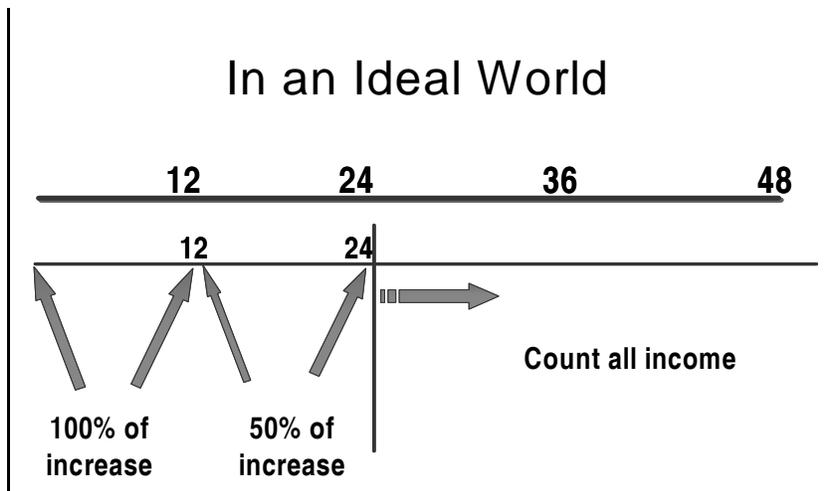
- EID regulations call for a four-year (48-month) **lifetime** maximum on the disallowance.
 - The four-year maximum exclusion clock starts ticking at the beginning of the initial exclusion period and ends exactly 48 months later.
 - No exclusion may be given after this lifetime limit has been reached.
- The EID regulations also call for a maximum of 12 cumulative months for each of the two exclusion periods (full and phase-in).
 - Thus, an individual theoretically can “max out” after receiving the EID for only two years—12 consecutive full-exclusion months followed immediately by 12 consecutive phase-in exclusion months.

Section 4: Earned Income Disallowance (EID)

Notes

EID ISSUES

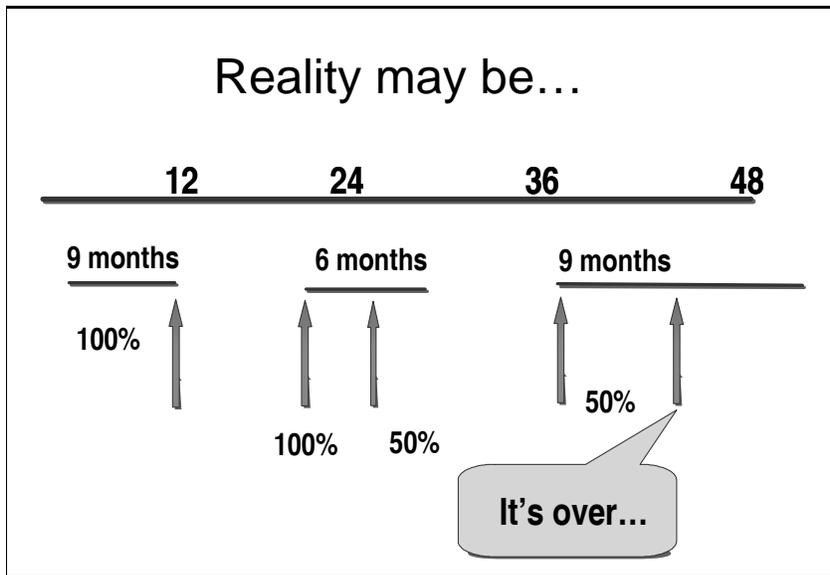
- Remember, the disallowance does not apply for purposes of admission to the public housing program.
- To ensure that every public housing tenant who is eligible for the EID receives it and that the disallowance is calculated properly throughout both phases of exclusion, PHAs must consider these issues:
 - Documentation
 - What evidence will you place in a family’s file to show that it is a “qualified family”?
 - How will you document the income exclusion in a family’s file?
 - Tracking
 - How will you track the number of months that income has been excluded and the end of the lifetime exclusion period?
- Tracking the EID can be a complex task.
- In an ideal world, a person who qualifies for the EID will receive the full exclusion for 12 consecutive months and the phase-in (50 percent) exclusion for the next 12 consecutive months, thus making tracking fairly easy, as shown here:



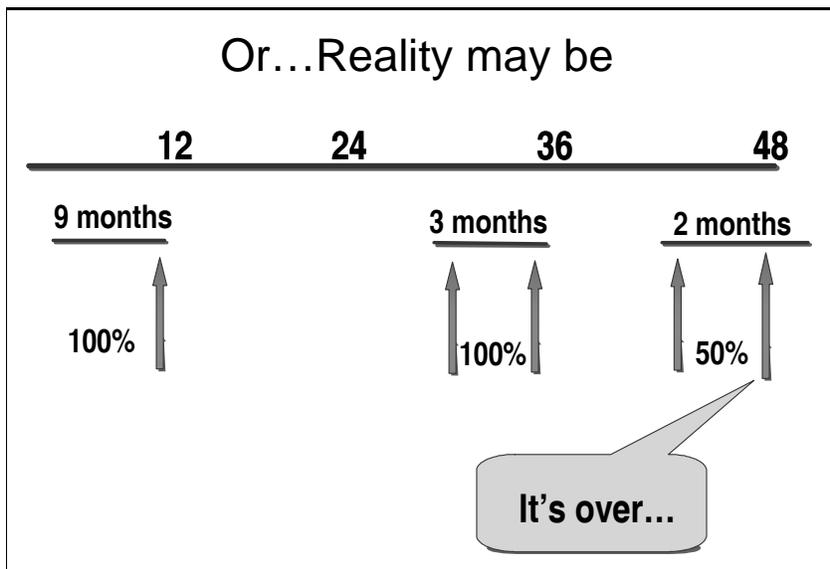
Section 4: Earned Income Disallowance (EID)

Notes

- However, in reality, the exclusion may stop and start more than once, making it a challenge to figure out how much to disallow when, as in the case below, which shows just one break in each of the two exclusion periods:



- Alternatively, the four-year maximum may be reached before the full 12 months of phase-in (or even initial) exclusion have been “used up,” as shown in this graphic:



Section 4: Earned Income Disallowance (EID)

Notes

- HUD's PD&R quality control study of rental subsidy determinations concluded that the complexity of the EID regulations contributes to rent calculation errors.
- Two aspects of the EID, in particular, pose a challenge for PHAs:
 - Tracking exclusion periods
 - To meet this challenge, PHAs need to develop a standardized tracking system.
 - Calculating incremental increases in income
 - To meet this challenge, PHAs may have to conduct interim reexaminations throughout the phase-in period.
 - To simplify matters, a PHA may align a family's reexam date to coincide with the beginning of the phase-in period for a family member receiving the EID.
- If you're looking for answers on RHIP and the EID, respectively, the best places to start are these two HUD websites:
 - www.hud.gov/offices/pih/programs/ph/rhiip/faq.cfm
 - www.hud.gov/offices/pih/phr/about/ao_faq.cfm

Section 4: Earned Income Disallowance (EID)

Notes

LEARNING ACTIVITY 5-2 EID CALCULATION

Learning Objective

- This learning activity is designed to give you practice calculating the amount of earnings to be included in the annual income of a family member eligible for the earned income disallowance. As you work through the activity, you will not be expected to track the EID exclusion periods. That information will be provided.

Scenario

- Katie Garrett is a tenant in the public housing program. At her last annual reexamination, Katie's annual income consisted of \$5,000 from alimony payments. This has been her only income for the last two years.

Part 1

- Katie has just reported that she has become employed, and her PHA has verified that she will now be earning \$9,500 per year. She will continue receiving \$5,000 per year in alimony.
 - How much is Katie's prequalifying (baseline) income?
(*Note: A family member's prequalifying income includes all of that member's income prior to the qualifying event.*)

Reducing Income and Rent Errors by Building a Quality Program

Calculation Problem Areas

Section 4: Earned Income Disallowance (EID)

Step 1: Calculate EID family member's exclusion amount.

A. Earned income of EID family member	\$	
B. Other income of EID family member	\$	
C. Total annual income of EID family member (A + B)	\$	
D. Prequalifying income of EID family member	\$	
E. Full exclusion (C – D, <i>but no more than A</i>)	\$	
F. 50% exclusion during phase-in period, if applicable (E × 0.50)	\$	N/A

Step 2: Determine EID family member's wages after exclusion.

G. EID family member's earnings (HUD-50058, 7d)	\$	
H. Exclusion (E or F, as applicable) (HUD-50058, 7e)	\$	
I. EID family member's earned income after exclusions (G – H) (HUD-50058, 7f)	\$	

Form HUD-50058

7a. Family member name	No.	7b. Income code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
Katie	1	N				
Katie	1	W				
7g. Column total						

Reducing Income and Rent Errors by Building a Quality Program

Calculation Problem Areas

Section 4: Earned Income Disallowance (EID)

Part 2

- Katie is still earning \$9,500 annually, but her alimony has been reduced to \$2,000. She is still in her full exclusion period.

Step 1: Calculate EID family member's exclusion amount.

A. Earned income of EID family member	\$	
B. Other income of EID family member	\$	
C. Total annual income of EID family member (A + B)	\$	
D. Prequalifying income	\$	
E. Full exclusion (C – D, <i>but no more than A</i>)	\$	
F. 50% exclusion during phase-in period, if applicable (E × 0.50)	\$	N/A

Step 2: Determine EID family member's wages after exclusion.

G. EID family member's earnings (HUD-50058, 7d)	\$	
H. Exclusion (E or F, as applicable) (HUD-50058, 7e)	\$	
I. EID family member's earned income after exclusions (G – H) (HUD-50058, 7f)	\$	

Form HUD-50058

7a. Family member name	No.	7b. Income code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
Katie	1	N				
Katie	1	W				
7g. Column total						

Calculation Problem Areas

Section 4: Earned Income Disallowance (EID)

Part 3

- Katie now reports that, although her earnings remain at \$9,500 annually, her alimony has increased to \$6,000. She is still in her full exclusion period.

Step 1: Calculate EID family member’s exclusion amount.

A. Earned income of EID family member	\$	
B. Other income of EID family member	\$	
C. Total annual income of EID family member (A + B)	\$	
D. Prequalifying income	\$	
E. Full exclusion (C – D, <i>but no more than A</i>)	\$	
F. 50% exclusion during phase-in period, if applicable (E × 0.50)	\$	N/A

Step 2: Determine EID family member’s wages after exclusion.

G. EID family member’s earnings (HUD-50058, 7d)	\$	
H. Exclusion (E or F, as applicable) (HUD-50058, 7e)	\$	
I. EID family member’s earned income after exclusions (G – H) (HUD-50058, 7f)	\$	

HUD Form 50058

7a. Family member name	No.	7b. Income code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
Katie	1	N				
Katie	1	W				
7g. Column total						

Calculation Problem Areas

Section 4: Earned Income Disallowance (EID)

Part 4

- Katie is now entering her phase-in period. She continues to earn \$9,500 annually, and her alimony remains at \$6,000.

Step 1: Calculate EID family member’s exclusion amount.

A. Earned income of EID family member	\$	
B. Other income of EID family member	\$	
C. Total annual income of EID family member (A + B)	\$	
D. Prequalifying income	\$	
E. Full exclusion (C – D, <i>but no more than A</i>)	\$	
F. 50% exclusion during phase-in period, if applicable (E × 0.50)	\$	

Step 2: Determine EID family member’s wages after exclusion.

G. EID family member’s earnings (HUD-50058, 7d)	\$	
H. Exclusion (E or F, as applicable) (HUD-50058, 7e)	\$	
I. EID family member’s earned income after exclusions (G – H) (HUD-50058, 7f)	\$	

Form HUD-50058

7a. Family member name	No.	7b. Income code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
Katie	1	N				
Katie	1	W				
7g. Column total						

APPLYING THE EID RULES: AN IN-DEPTH EXAMPLE

- In this section we'll walk you step-by-step through an in-depth example of the complexities that can arise in the application of the EID rules.
- The EID poses special challenges for PHA management.
 - Since the EID is a statutory requirement and a major source of rent errors, management must take seriously the responsibility of ensuring that staff can apply the EID rules correctly.
 - Rectifying a failure to provide this benefit when a family is entitled to it can be costly for a PHA. So can providing excess subsidy.
- The EID also poses challenges for PHA staff.
 - Staff may be puzzled or confused by the results of correctly applying the EID rules.
 - For example, a family member benefiting from the EID may have significant increases in earned income without any increases in rent. Conversely, he or she may have decreases in other income with no equivalent decreases in rent.
 - Staff may have trouble explaining to families why their rent is going up or down as a result of the EID rules.
 - Staff may have difficulty tracking a family's EID benefit as time passes and family circumstances change.
- The following in-depth example of the Franklin family is designed to help you meet these challenges. It is also designed to illustrate the critical importance of developing an effective system for tracking the EID so that:
 - Public housing residents benefit only for the number of months for which they qualify
 - The PHA does not become liable for excess subsidy

Section 4: Earned Income Disallowance (EID)

Notes

- In our example we'll be following the Franklin family as one family member becomes eligible for the EID and progresses through the two 12-month exclusion periods.
- To help us keep track of these two exclusion periods as well as the 4-year maximum benefit period, we'll be using a time line divided into four 12-month blocks:

Months 1–12	Months 13–24	Months 25–36	Months 37–48
-------------	--------------	--------------	--------------

- For each successive reexamination of the Franklin family, you'll see a new time line shaded as follows:

	Black areas show the use of the first 12 months of the EID at 100 percent.
	Gray areas show the use of the second 12 months of the EID at the 50 percent phase-in rate.
	White areas show unused time, including periods when the EID is suspended.

Section 4: Earned Income Disallowance (EID)

Franklin Family Scenario

- The Franklins are public housing residents. Their household consists of Carl; his wife, Sarah; and their three children. At the time we begin, the Franklins' current 50058 (from the family's 6/1/03 annual reexamination) shows the following:

\$2,080	Sarah's wages ($\$5/\text{hr} \times 8 \text{ hrs/wk} \times 52 \text{ wks}$)
+ \$2,600	Alimony from Sarah's former husband ($\$50/\text{wk} \times 52 \text{ wks}$)
<hr/>	
\$4,680	Sarah's total annual income
+ \$10,920	Carl's wages ($\$7/\text{hr} \times 30 \text{ hrs/wk} \times 52 \text{ wks}$)
<hr/>	
\$15,600	Franklin family's total annual income

- Sarah has been baby-sitting for her sister for the past 12 months, and the income she has earned has remained steady. The local minimum wage in her area is \$6.00 per hour.
- On 12/6/03 Sarah gets a new job and begins working 25 hours per week at \$6.50 per hour. On 1/3/04 she reports this change to her PHA, as required by the PHA's policy.

Questions and Answers

- **Q:** What is Sarah's new income?
A: $\$8,450 = \$6.50/\text{hr} \times 25 \text{ hrs/wk} \times 52 \text{ wks}$
- **Q:** Why is Sarah eligible for the EID?
A: She is a public housing resident and her prequalifying earned income (\$2,080) is less than would be received for 10 hours of work per week for 50 weeks at the established minimum wage (\$3,000). Therefore, she meets the regulatory definition of *previously unemployed*.
- **Q:** What is Sarah's prequalifying income?
A: \$4,680 (wages + alimony)
- **Q:** When does Sarah's EID "clock" start?
A: 1/01/04. *Note:* The EID clock starts 1/1/04 regardless of:
 - Whether the family was required to report the change
 - Whether the family reported the change in a timely manner
 - What the effective date of any reexamination is

Calculation Problem Areas

Section 4: Earned Income Disallowance (EID)

Part 1: Interim Reexamination (Effective 1/1/04) and Start of Full Exclusion

Time Line

1/04	1/05	1/06	1/07	1/08

Step 1: Calculate EID family member’s exclusion amount.

A. Earned income of EID family member	\$	8,450
B. Other income of EID family member	\$	2,600
C. Total annual income of EID family member (A + B)	\$	11,050
D. Prequalifying income	\$	4,680
E. Full exclusion (C – D, but no more than A)	\$	6,370
F. 50% exclusion during phase-in period, if applicable (E × 0.50)	\$	N/A

Step 2: Determine EID family member’s wages after exclusion.

G. EID family member’s earnings (HUD-50058, 7d)	\$	8,450
H. Exclusion (E or F, as applicable) (HUD-50058, 7e)	\$	6,370
I. EID family member’s earned income after exclusions (G – H) (HUD-50058, 7f)	\$	2,080

Form HUD-50058

7a. Family member name	No.	7b. Income code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
Carl	1	W	7 x 30 x 52	10,920		10,920
Sarah	2	W	6.50 x 25 x 52	8,450	6,370	2,080
Sarah	2	N	50 x 52	2,600		2,600
7g. Column total						15,600

Comments

- Without the EID, the family’s income would be the sum of 7d: \$21,970.
- As a result of the EID, the family’s annual income is the sum of 7f: \$15,600.

Calculation Problem Areas

Section 4: Earned Income Disallowance (EID)

Part 2: Annual Reexamination (Effective 6/1/04) and Income Increase

- At the interview for her family’s annual reexamination, Sarah reports that she will begin working full-time on 6/1/04. All other family information remains the same.

Time Line

5 mos					
1/04	6/04	1/05	1/06	1/07	1/08

Step 1: Calculate EID family member’s exclusion amount.

A. Earned income of EID family member	\$	13,520
B. Other income of EID family member	\$	2,600
C. Total annual income of EID family member (A + B)	\$	16,120
D. Prequalifying income	\$	4,680
E. Full exclusion (C – D, <i>but no more than A</i>)	\$	11,440
F. 50% exclusion during phase-in period, if applicable (E × 0.50)	\$	N/A

Step 2: Determine EID family member’s wages after exclusion.

G. EID family member’s earnings (HUD-50058, 7d)	\$	13,520
H. Exclusion (E or F, as applicable) (HUD-50058, 7e)	\$	11,440
I. EID family member’s earned income after exclusions (G – H) (HUD-50058, 7f)	\$	2,080

Form HUD-50058

7a. Family member name	No.	7b. Income code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
Carl	1	W	7 x 30 x 52	10,920		10,920
Sarah	2	W	6.50 x 40 x 52	13,520	11,440	2,080
Sarah	2	N	50 x 52	2,600		2,600
7g. Column total						15,600

Comments

- Although Sarah’s income has increased, the amount of her earnings used for rent calculation is the same (\$2,080), as is the amount of her income included in annual income (\$2,080 + 2,600 = \$4,680).
- As Sarah’s earned income has increased, her exclusion has also increased.

Section 4: Earned Income Disallowance (EID)

Part 3: Interim Reexamination (Effective 10/1/04) and Income Decrease

- In September 2004, Sarah reports that she is now working only 30 hours per week. Her PHA completes an interim reexamination (effective 10/1/04), recalculating Sarah’s EID and the family’s annual income.

Time Line

9 mos				
1/04	10/04	1/05	1/06	1/07
				1/08

Step 1: Calculate EID family member’s exclusion amount.

A. Earned income of EID family member	\$	10,140
B. Other income of EID family member	\$	2,600
C. Total annual income of EID family member (A + B)	\$	12,740
D. Prequalifying income	\$	4,680
E. Full exclusion (C – D, but no more than A)	\$	8,060
F. 50% exclusion during phase-in period, if applicable (E × 0.50)	\$	N/A

Step 2: Determine EID family member’s wages after exclusion.

G. EID family member’s earnings (HUD-50058, 7d)	\$	10,140
H. Exclusion (E or F, as applicable) (HUD-50058, 7e)	\$	8,060
I. EID family member’s earned income after exclusions (G – H) (HUD-50058, 7f)	\$	2,080

Form HUD-50058

7a. Family member name	No.	7b. Income code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
Carl	1	W	7 x 30 x 52	10,920		10,920
Sarah	2	W	6.50 x 30 x 52	10,140	8,060	2,080
Sarah	2	N	50 x 52	2,600		2,600
7g. Column total						15,600

Comments

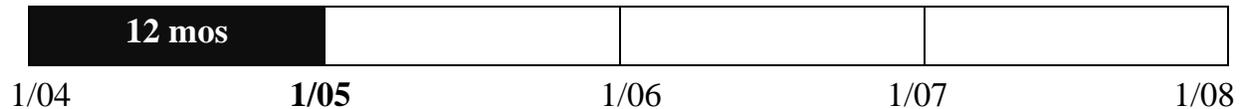
- Even though Sarah’s hours have been reduced from 40 hours per week to 30 hours per week, the amount of her earned income used for rent calculation remains \$2,080.

Section 4: Earned Income Disallowance (EID)

Part 4: Interim Reexamination to Start Phase-In (Effective 1/05)

- Sarah finishes her maximum 12 months of full exclusion on 12/31/04. The PHA conducts an interim reexamination to recalculate her EID at 50 percent effective 1/1/05. There has been no change in the Franklin family’s income information.

Time Line



Step 1: Calculate EID family member’s exclusion amount.

A. Earned income of EID family member	\$	10,140
B. Other income of EID family member	\$	2,600
C. Total annual income of EID family member (A + B)	\$	12,740
D. Prequalifying income	\$	4,680
E. Full exclusion (C – D, but no more than A)	\$	8,060
F. 50% exclusion during phase-in period, if applicable (E × 0.50)	\$	4,030

Step 2: Determine EID family member’s wages after exclusion.

G. EID family member’s earnings (HUD-50058, 7d)	\$	10,140
H. Exclusion (E or F, as applicable) (HUD-50058, 7e)	\$	4,030
I. EID family member’s earned income after exclusions (G – H) (HUD-50058, 7f)	\$	6,110

Form HUD-50058

7a. Family member name	No.	7b. Income code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
Carl	1	W	7 x 30 x 52	10,920		10,920
Sarah	2	W	6.50 x 30 x 52	10,140	4,030	6,110
Sarah	2	N	50 x 52	2,600		2,600
7g. Column total						19,630

Section 4: Earned Income Disallowance (EID)

Comments

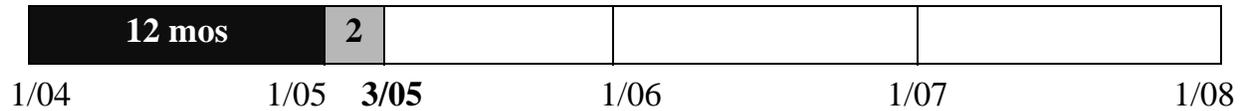
- Because Sarah's exclusion has been reduced by 50 percent, the Franklin family's annual income has increased even though the family's actual income has not increased.
- This suggests the following about PHA procedures for explaining EID to families:
 - PHAs should ensure that EID families understand from the beginning that an increase in their annual income will occur after 12 months of full EID benefit even though their actual income does not increase.
 - PHAs should remind families of this increase well before the actual implementation date.
 - PHAs should emphasize to families beginning their phase-in exclusion period that:
 - They have been paying less rent than other families with the same income who are not eligible for the EID
 - Even though their EID benefit has been reduced by 50 percent, they still are paying less rent than they would be without the benefit

Section 4: Earned Income Disallowance (EID)

Part 5: Interim Reexamination (Effective 3/1/05) and Decrease in Income

- On 2/15/05, Sarah becomes unemployed and returns to school.

Time Line



Step 1: Calculate EID family member’s exclusion amount.

A. Earned income of EID family member	\$	0
B. Other income of EID family member	\$	2,600
C. Total annual income of EID family member (A + B)	\$	2,600
D. Prequalifying income	\$	4,680
E. Full exclusion (C – D, <i>but no more than A</i>)	\$	0
F. 50% exclusion during phase-in period, if applicable (E × 0.50)	\$	0

Step 2: Determine EID family member’s wages after exclusion.

G. EID family member’s earnings (HUD-50058, 7d)	\$	0
H. Exclusion (E or F, as applicable) (HUD-50058, 7e)	\$	0
I. EID family member’s earned income after exclusions (G – H) (HUD-50058, 7f)	\$	0

Comments

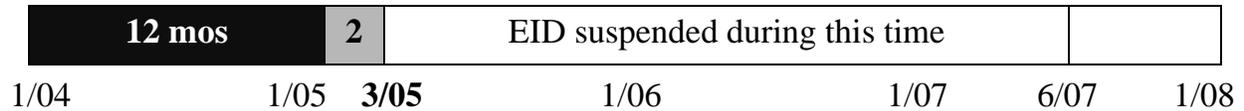
- Since Sarah now has no earned income, the EID is suspended.

Section 4: Earned Income Disallowance (EID)

Part 6: Annual Reexaminations (Effective 6/05, 6/06, 6/07)

- For the Franklin family’s next three annual reexaminations, there is no change in family circumstances. Sarah remains unemployed and continues in school.

Time Line



Comments

- Since Sarah still has no earned income, the EID remains suspended.

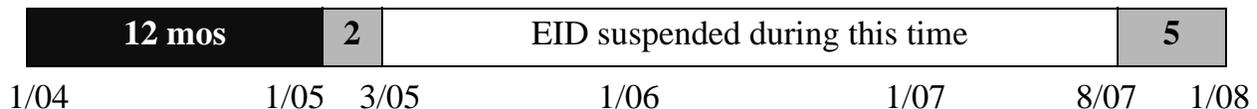
Calculation Problem Areas

Section 4: Earned Income Disallowance (EID)

Part 7: Interim Reexamination (Effective 9/1/07) and Increase in Income

- Sarah remains unemployed through 7/4/07, after which she begins a full-time job (40 hours per week) earning \$8.50 per hour. She reports her new employment on July 5. The PHA processes an interim reexamination effective 9/1/07 to give the Franklin family reasonable notice of their rent increase. Sarah then continues working at her new job indefinitely.
- *Note:* Even though the Franklin family’s rent increase is not effective until 9/1/07, Sarah’s EID clock restarts on the first of the month following employment (8/1/07).

Time Line



Step 1: Calculate EID family member’s exclusion amount.

A. Earned income of EID family member	\$	17,680
B. Other income of EID family member	\$	2,600
C. Total annual income of EID family member (A + B)	\$	20,280
D. Prequalifying income	\$	4,680
E. Full exclusion (C – D, but no more than A)	\$	15,600
F. 50% exclusion during phase-in period, if applicable (E × 0.50)	\$	7,800

Step 2: Determine EID family member’s wages after exclusion.

G. EID family member’s earnings (HUD-50058, 7d)	\$	17,680
H. Exclusion (E or F, as applicable) (HUD-50058, 7e)	\$	7,800
I. EID family member’s earned income after exclusions (G – H) (HUD-50058, 7f)	\$	9,880

Form HUD-50058

7a. Family member name	No.	7b. Income code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
Carl	1	W	7 x 30 x 52	10,920		10,920
Sarah	2	W	8.50 x 40 x 52	17,680	7,800	9,880
Sarah	2	N	50 x 52	2,600		2,600
7g. Column total						23,400

Calculation Problem Areas

Section 4: Earned Income Disallowance (EID)

Comments

- Sarah will be able to benefit from the 50 percent exclusion phase-in period for only 5 more months because her maximum 48-month eligibility period ends effective January 2008. Consequently, she will receive only 7 months of the phase-in exclusion (January–February 2005 and August–December 2007) rather than the maximum 12 months.
- The PHA will need to conduct another interim reexamination effective 1/1/08. From that point on, none of Sarah’s earned income will be excluded from annual income, as shown below:

Form HUD-50058

7a. Family member name	No.	7b. Income code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
Carl	1	W	7 x 30 x 52	10,920		10,920
Sarah	2	W	8.50 x 40 x 52	17,680	0	17,680
Sarah	2	N	50 x 52	2,600		2,600
7g. Column total						31,200

Section 4: Earned Income Disallowance (EID)

Notes

Section 5 Assets and Asset Income

- The value of a family's assets **may** affect the family's annual income.
- To determine income and rent accurately, PHAs must:
 - Identify assets
 - Verify the market value of assets
 - Convert the market value of assets to their cash value
- To determine the cash value of an asset, start with the fair market value. Then subtract:
 - Any expenses that would be incurred in converting the asset to cash, such as (depending on the asset):
 - Broker fees
 - Legal fees
 - Settlement costs
 - Penalty for early withdrawal
 - Any money owed on the asset, such as the mortgage balance

WHAT ASSETS INCLUDE

- Savings and checking accounts are the most common assets.
 - PHAs must establish policies for determining the value of these accounts.
 - PHAs may elect to count the current balance of these accounts or the average balance for a given period (2 months, 6 months, etc.).

Section 5: Assets and Asset Income

Notes

- Assets also include the following:
 - Trusts that are **available to** a family
 - Stocks, bonds, money market funds, and similar forms of investment
 - Equity in real property and other capital investments
 - Retirement savings accounts
 - Contributions to company retirement and pension funds
 - Before retirement, only amounts that a family can withdraw from these funds without retiring or quitting are counted as assets.
 - After retirement, regular periodic payments from these funds are counted as income.
 - Assets held in the name of more than one person that allow unrestricted access by each of the owners
 - With some exceptions, lump-sum receipts that are retained and verifiable, such as:
 - Inheritances, capital gains, lottery winnings
 - Social security (SS) and supplemental security income (SSI) lump-sum payments
 - Personal property held as an investment (e.g., gems, jewelry, coin collections)
 - The surrender value of life insurance policies

ASSETS DISPOSED OF FOR LESS THAN FAIR MARKET VALUE

- In the determination of income and rent, assets disposed of for less than fair market value within a two-year period prior to examination or reexamination are also counted as assets.
 - These are called imputed assets.
- The cash value of an imputed asset is the **difference** between the actual cash value of the asset and the amount received for it.
 - **Example:** Suppose that a family sold a house within the last two years for \$100,000, incurring fees amounting to \$5,000 to complete the sale. Suppose further that the fair market value of the house was \$155,000. The family’s PHA would determine the imputed value of the asset this way:

Fair market value	\$155,000
Less fees incurred	– 5,000
Actual cash value	<u>\$150,000</u>
Less amount received	– 100,000
Imputed cash value	<u>\$50,000</u>

- A PHA may establish a minimum threshold for counting assets disposed of for less than fair market value.
 - A threshold of \$1,000 would be reasonable.
- Assets disposed of for the following reasons are generally **not** considered assets disposed of for less than fair market value:
 - Divorce or separation
 - Bankruptcy
 - Foreclosure
- PHAs should develop an applicant/tenant certification form for verifying assets disposed of for less than fair market value.

LEARNING ACTIVITY 5-3 IMPUTED ASSETS

Scenario

- John Q. Tenant is disabled and can no longer maintain a home. In preparing for participation in the public housing program, Mr. Tenant sold his house to his son for \$10,000 on November 1, 2003. There was no broker's fee. Mr. Tenant's son assumed the mortgage on the house, which had a balance of \$15,000 at the time of sale. The house was appraised at \$51,000. Mr. Tenant's son paid all transfer costs.

Task

- Use the grid below to determine the imputed value of Mr. Tenant's house. This is the value that Mr. Tenant's PHA must count for two years following the date of disposal of the asset.

Date Disposed	_____
Market Value	_____
Less Expenses to Convert to Cash:	
Broker Fees	_____
Legal Fees	_____
Settlement Costs	_____
Penalty for Early Withdrawal	_____
Less Mortgage Balance	_____
Cash Value	_____
Less Amount Received	_____
Cash Value of Imputed Asset	_____

INCOME FROM ASSETS

- The market value of some assets, such as savings and checking accounts, is used to determine the income that can be anticipated annually from these assets.
 - The formula for determining the anticipated income from an interest-bearing account is simple:
Market value × interest rate = anticipated income
 - **Test yourself:** What is the market value of a \$4,000 savings account?
- For practice calculating income from assets on Form HUD-50058, turn to the learning activity on the following page.

LEARNING ACTIVITY 5-4 INTEREST INCOME FROM ASSETS

- Edith Jones has a savings account with a current balance of \$400 and an average balance of \$325 for the last 6 months. She will earn 2.3 percent interest on the account. The HUD-approved passbook rate is 2.8 percent.

Task

1. Assume that Mrs. Jones's PHA has a policy of using the current balance of a savings account as its cash value.
2. List the savings account in section 6 of Mrs. Jones's 50058 and calculate the anticipated income from the asset (6a through 6e).
3. Calculate Mrs. Jones's final asset income (6f through 6j).

Head of household name	Jones	Social Security Number	Date modified (mm/dd/yyyy)
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6. Assets

6a. Family member name	No.	6b. Type of asset	6c. Calculation (PHA use)	6d. Cash value of asset	6e. Anticipated Income
				\$	\$
				\$	\$
				\$	\$
				\$	\$
				\$	\$
				\$	\$
				\$	\$
				\$	\$
				\$	\$
6f, 6g. Column totals				\$	6f. \$ 6g.
6h. Passbook rate (written as decimal)					0. _____ 6h.
6i. Imputed asset income: 6f X 6h (if 6f is \$5,000 or less, put 0)					\$ 6i.
6j. Final asset income: larger of 6g or 6i					\$ 6j.

7. Income

7a. Family member name	No.	7b. Income Code	7c. Calculation (PHA use)	7d. Dollars per year	7e. Income exclusions	7f. Income after exclusions (7d minus 7e)
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
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				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
				\$	\$	\$
7g. Column total						\$ 7g.
7h. Reserved						
7i. Total annual income: 6j + 7g						\$ 7i.

7b: Income Codes

Wages: B = own business F = federal wage HA = PHA wage M = military pay W = other wage	Welfare: G = general assistance IW = annual imputed welfare income T = TANF assistance	SS/SSI/Pensions: P = pension S = SSI SS = Social Security	Other Income Sources: C = child support E = medical reimbursement I = Indian trust/per capita N = other nonwage sources U = unemployment benefits
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Notes

IMPUTED ASSET INCOME

- Imputed asset income is the income that would be received from an asset if it were converted to cash and the cash were placed in a savings account earning a HUD-determined passbook rate.
- The cash value of an asset is used to determine the imputed income from the asset.
- When calculating the cash value of an asset, PHAs must take into account the expenses involved in converting the asset to cash. Depending on the asset, these expenses may include:
 - Penalties for early withdrawal
 - Broker or legal fees
 - Closing costs (for real estate)
- Imputed asset income comes into play on the 50058 form only when the total cash value of all assets is **greater than** \$5,000.
 - If the total cash value of all assets is \$5,000 **or less**, you use the actual income from the assets.
 - If the total cash value of all assets exceeds \$5,000, you use the **greater** of:
 - The actual income from the assets
 - The imputed income from the assets

Section 5: Assets and Asset Income

LEARNING ACTIVITY 5-5 ASSETS AND ASSET INCOME

- On the following page is the 50058 excerpt from Learning Activity 5-4. Assume now that, in addition to the savings account shown, Edith Jones has stock with a current market value of \$6,000. She is expected to earn a 2 percent dividend on the stock this year. If she were to sell the stock, Mrs. Jones would incur a broker's fee of \$480. The HUD-approved passbook rate in her area is 2.25 percent.

Task

1. Add the stock to section 6 of Mrs. Jones's 50058 form, determine its cash value, and calculate the income to be anticipated from it (6a through 6e).
2. Determine Mrs. Jones's final asset income (6f through 6j).

WHAT ASSETS DO *NOT* INCLUDE

- By the regulatory definition of *net family assets* at 24 CFR 5.603(b), the following are not counted as assets:
 - Necessary items of personal property, such as furniture and automobiles
 - Assets that are not accessible to a family
 - Interest in Indian trust lands

ASSET ISSUES

- Staff should know that **market value** is used to calculate **actual (anticipated)** income on certificates of deposits and similar interest-bearing savings instruments that carry a penalty for early withdrawal.
 - Cash value is used to determine imputed asset income only if the total cash value of all assets exceeds \$5,000.
- The actual (anticipated) income from an interest-bearing asset, such as a savings account, is based on the interest rate actually paid by the bank or other institution where the account is located.
 - The HUD-determined passbook rate is **not** used to determine actual (anticipated) income.
 - The HUD-determined passbook rate is used **only** to determine imputed interest on assets totaling more than \$5,000.
- PHA staff should be reminded of the following:
 - All assets—regardless of their value—count.
 - Assets may have a cash value and produce no actual income.
 - There is no maximum asset limit for program applicants or tenants.
- PHAs may not pass on to families the costs of asset verification (by banks, appraisers, etc.).

Section 6 Public Housing Rent Calculation

DEFINITIONS

- *Tenant rent* is the amount payable monthly by the family as rent to the PHA. (CFR 5.603(b))
- *Total tenant payment (TTP)* is the amount the tenant pays toward rent plus any utility allowance. (Form HUD-50058, line 10, instructions)
- *Utility reimbursement* is the amount, if any, by which the utility allowance for a unit, if applicable, exceeds the TTP for the family occupying the unit. (This definition is not used for a public housing family that is paying a flat rent.) (24 CFR 5.603(b))

INCOME-BASED RENT (24 CFR 960.253(c))

- The tenant rent for a family is the TTP minus the utility allowance.
- If the utility allowance exceeds the TTP, the PHA must pay the excess amount either to the family or directly to the utility supplier on behalf of the family. (CFR 5.632)
 - If the PHA elects to pay the utility supplier, the PHA must notify the family of the amount of utility reimbursement paid to the utility supplier.

CEILING RENTS (24 CFR 960.253(d))

- PHAs that have ceiling rents that were authorized and established before 10/1/99 were allowed to retain them until 10/1/02 instead of using flat rents.
- After that, PHAs were required to adjust ceiling rents to the level required for flat rents.

Section 6: Public Housing Rent Calculation

Notes

- Ceiling rents are subject to:
 - Annual reexamination requirements
 - The limitation that tenant rent plus any utility allowance may not exceed TTP
- The tenant rent will be the lower of the TTP or the ceiling rent minus any utility allowance.

FLAT RENTS (24 CFR 960.253(b))

- For each public housing unit, a PHA must establish a flat rent that is based on the market rent charged for comparable units in the private unassisted rental market. It is equal to the estimated rent for which the PHA could promptly lease the public housing unit after preparation for occupancy.
- The PHA must use a reasonable method of determining flat rent that takes into consideration:
 - Location
 - Quality
 - Size
 - Unit type
 - Age of the unit
 - Amenities
 - Housing services
 - Maintenance
 - Utilities provided by the PHA
- For example, if a comparable unit rents for \$400 and the PHA pays utilities averaging \$50 a month, the PHA should use \$450 as the flat rent.
- The flat rent is designed to encourage self-sufficiency and to avoid creating disincentives for continued residency by families that are attempting to become economically self-sufficient.

Section 6: Public Housing Rent Calculation

Notes

- The PHA must maintain records that:
 - Document the method used to determine flat rents
 - Show how flat rents are determined by the PHA in accordance with this method
 - Document flat rents offered to families under this method
- For a family that chooses the flat rent option, the PHA must conduct a reexamination of family income at least once every three years.
- If the family chooses to pay flat rent, there is no deduction for a utility allowance.

CEILING RENTS AND FLAT RENTS

- A PHA may have ceiling rents and flat rents at the same time.
- Ceiling rents are a function of the formula-based rent in that when the PHA establishes ceiling rents, the family is then charged **the lesser** of the TTP **or** the ceiling rent.
 - So, if a PHA has a flat rent schedule and ceiling rents, the PHA will determine the “lower rent” (line 10d of the 50058) based on the lesser of the TTP or the ceiling rent.
 - The PHA then gives the family the choice of the “formula rent” (which could be the ceiling rent figure) or the flat rent amount established by the PHA.

FAMILY CHOICE OF RENTAL PAYMENT

- PHAs must give families the opportunity to choose between income-based rent and flat rent once a year. (CFR 960.253(a)(1))
- PHAs must provide families with sufficient information to make an informed choice. This information must include at least the following in writing:
 - The PHA's policies on switching type of rent in circumstances of financial hardship
 - The dollar amount of tenant rent for the family under each option
- If a family chooses flat rent one year, a PHA is required to provide the amount of income-based rent for the subsequent year only under either of the following conditions:
 - It is the year the PHA is conducting an income reexamination.
 - The family requests the information and submits updated income information.
- For a family that chooses the flat rent option, the PHA must conduct a reexamination of family income at least once every three years.
- The PHA must conduct a reexamination of family composition at least annually. (CFR 960.257(a)(2))

**SWITCHING FROM FLAT RENT TO INCOME-BASED RENT
BECAUSE OF HARDSHIP**

- A PHA must adopt written policies for determining when payment of flat rent is a financial hardship for a family. (CFR 960.253(f))
- The policies must include the following situations as well as any others that the PHA determines to be appropriate:
 - The family has experienced a decrease in income because of changed circumstances, including loss or reduction of employment, death in the family, or reduction in or loss of earnings or other assistance.
 - The family has experienced an increase in expenses for medical costs, child care, transportation, education, or similar items.
- A family paying flat rent may at any time request a switch to income-based rent if payment of flat rent is a financial hardship.
- If the PHA determines that the family is unable to pay the flat rent because of financial hardship, the PHA must immediately allow the requested switch to income-based rent.
- The PHA must make the determination within a reasonable time after the family request.
- When establishing its policies, a PHA should indicate the time frame in which a family must notify the PHA of a financial hardship and the need to switch rent options.
- The PHA should be able to act within 30 days, which includes verifying the financial hardship, before switching the family from one system to another.
- Once a family switches to income-based rent because of financial hardship, the family must wait until its next annual reexamination to switch back.

Notes