

## **New HUD Handbook Impacts Housing Credit Program**

It has been over 20 years since HUD released a full revision of the handbook that provides guidance for its many programs. HUD Handbook 4350.3 Rev was released in June of 2003. It provides a well-written reference for tenants, owners, managers, HUD staff and contract administrators. Although the new handbook addresses all of HUD's programs, we will only outline the changes that affect the Low Income Housing Tax Credit (LIHTC) program. As a whole, the changes related to the LIHTC program are few. However, there are some fairly significant procedural changes that may have an impact on the income determination process. Chapter 5 of the new handbook outlines these changes effectively. We have taken the liberty to summarize them for you below.

### **Sporadic Work, Seasonal Income and Self-Employment**

HUD Handbook 4350.3 Rev discusses acceptable approaches in determining household income when the tenant has either sporadic work, seasonal income or is self-employed. It states "owners are expected to make a reasonable judgment as to the most reliable approach to estimating what the tenant will receive during the year". Chapter 5 (5-5 part C) provides thorough examples of how to address each situation.

### **Alimony or Child Support**

The new handbook limits the tenant's ability to exclude alimony or child support payments from annual income. According to 4350.3 Rev tenants must certify that all reasonable legal actions were taken to collect payments. It identifies "filing with the appropriate courts or agencies responsible for enforcing payment" as a "legal action".

### **Regular Cash Contributions and Gifts**

Handbook 4350.3 Rev states "owners must count "regular gifts and contributions as income. Rent and utility payments paid on behalf of the household and "other cash or non cash contributions provided on a regular basis" must be included as annual income. The HUD Handbook, Change 27 did not include non-cash contributions as income.

### **Public Assistance Income in As-Paid Localities**

The new handbook provides a clear explanation on how to calculate public assistance income in "as-paid" localities. It gives an easy to follow example on page 5-12. Be careful to use the maximum allowed payment in calculating assistance income, not received amount. (See example pg. 5-12).

### **Withdrawal of Cash or Assets from an Investment**

Calculating investment income has always been challenging. The recent changes outlined by the new HUD handbook ensure that this would remain so. According to the new handbook, "When a family is making regular withdrawals from an account in which it has made an investment, the withdrawals will count as income only after the amount invested has been totally paid out." Although, HUD states that the household must provide the necessary documentation identifying the amount invested, it is a good idea for owners to modify their verification process so that amounts are received from financial institutions directly (See pg 5-15).

### ***Third-Party Verification***

The verification process is arguably the most challenging part of certifying household income. HUD has attempted to provide more options in obtaining the necessary verifications. Electronic verification (i.e. fax, e-mail and internet) may now be used as third party verification. When these methods are used, however, the owner must take steps to ensure that "the sender is a valid third-party source". According to HUD, telephone conversations prior to using any electronic method is an adequate measure in ensuring that the sender is a valid source.