



**TSAHC COMPLIANCE MANUAL FOR  
QUALIFIED RESIDENTIAL RENTAL PROJECTS**  
*Multifamily Low-Income Housing Financed with Tax-Exempt Bonds*

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#### Attachments for the TSAHC Manual

Attachment 1: The Income Certification and Instructions  
 Attachment 2: Military Basic Housing Memorandum  
 Attachment 3: Monthly Resident Service Reporting  
 Attachment 4A: Compliance On-site Review Notification Letter  
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**1. OVERVIEW**

**(1.1) Overview of this Compliance Manual**

The purpose of this manual is to enhance compliance procedures as well as to provide guidance in the monitoring and on-going compliance requirements for qualified residential rental projects that are financed with tax-exempt bonds issued by the Texas State Affordable Housing Corporation (“TSAHC”). Additionally, it serves as a training tool for management staff to establish a foundation for creating, implementing, and enforcing a successful compliance program.

Moreover, this manual can be used to act as a guide for borrowers/owners and their management staff to help develop a compliance program that prevents deficiencies before they occur. Having strong compliance measures in place helps management staff understand the borrower’s/owner’s commitment, as well as the responsibility to abide by the agreements the borrower/owner has made in the initial application process. It also brings to light the serious nature of non-compliance and the measures that will be taken when non-compliance exists, and corrective action is not implemented within a timely manner. A successful compliance program is only as good as the enforcement behind it.

Therefore, borrowers/owners must be a major player when creating, implementing, and enforcing an effective compliance program. Implementing an effective compliance program provides management with the understanding that non-compliance is not an option for the borrowers/owners. It can also be seen as a safety measure for the management staff because of the many governing entities that must be considered to comply with the applicable federal, state, and local laws that govern multifamily tax-exempt bonds.

It is the sincere desire of TSAHC staff to communicate clear directives so that borrowers, management agents and on-site staff can maintain compliance with the tax-exempt bond requirements and their efforts to provide affordable housing to the general public.

This manual provides guidance in the following areas:

- Bond Review Process
- Compliance with Federal Income Tax Laws
- Determining Household Eligibility
- Calculating Household Income
- Annual Recertification Process
- Compliance Procedures
- Reporting Requirements
- Resident Services
- Preparing for an Audit
- The Benefits of Successful Compliance

## **(1.2) Bond Financing Overview**

### **A. Bond Financing Basics**

TSAHC is an issuer of tax-exempt bonds for qualified residential rental projects (also referred to herein as affordable housing and described in more detail below). Generally, tax-exempt bonds are interest bearing promises to pay a specified sum of money to the bondholders. A third party, the Borrower, borrows the bond proceeds and uses such proceeds to acquire and/or rehabilitate the project. Issuers and Borrowers/Owners must establish procedures that ensure compliance with TSAHC requirements, state law, federal income tax requirements, etc.

Note that many, but not all (such as 501(c)(3) transactions), projects that are financed with tax-exempt bonds also receive tax credit financing. TSAHC only issues tax-exempt bonds and does not provide Low Income Housing Tax Credits (“tax credits”). The Texas Department of Housing and Community Affairs (“TDHCA”) is authorized to provide tax credits in Texas. A project that receives tax credits is subject to additional compliance and federal tax rules controlled by an additional tax credit regulatory agreement. TDHCA works with the Borrowers/Owners to create this second tax credit regulatory agreement, which is a form document promulgated by TDHCA. This manual does not discuss tax credits in detail.

The development of affordable housing is created through the utilization of tax-exempt bonds (and often tax credits) which can be a very effective financing tool for borrowers/developers/owners. The following is a simple explanation of the terminology and mechanics used in the bond issuance process that will assist in the understanding of tax-exempt bonds.

### **B. Parties to a Bond Transaction:**

Borrower – A for profit or non-profit entity (i.e., a 501(c)(3) organization) that is often a limited liability partnership or limited liability company which borrows the bond proceeds to own and operate an affordable housing project. **A Borrower will be referred to herein as an “Owner”**

Bond Counsel – A nationally recognized law firm with expertise in municipal bond transactions advising the issuer and underwriter/bond purchaser of the legal aspects of the bond issue.

Bondholder - The owner of the Bond. The bondholder receives interest payments and a return of their principal.

Issuer – State or political subdivision or a legal entity acting as an instrument on behalf of a state or political subdivision which has the authority to issue tax-exempt bonds. For example, TSAHC is an issuer.

Trustee – Commercial bank protecting and representing the bondholders' interest including the funds and security of the bonds. The Trustee performs various administrative duties with respect to the bonds.

Underwriter and/or Direct Bond Purchaser – An investment banking organization or other private company that helps structure the bond issuance to purchase and possibly resell the bonds.

### C. **Bond Documents**

The Bonds – Interest-bearing promises to pay a specified sum of money on a specific date to the bondholder. The Indenture contains the form of the bond. Bonds may be evidenced in a certificated form (physical bonds at all times) or in book-entry only form (one physical bond held by the Trustee with all trading and beneficial ownership of the Bond accomplished through an electronic securities depository such as DTC (defined below)). If the bonds are traded in electronic form, a Letter of Representations is executed by the Issuer, the Trustee, and the Depository Trust Company (“DTC”) that sets forth the responsibilities of each with respect to the bonds. DTC provides an efficient and safe way for buyers and sellers of securities, such as bonds, to make their exchange and thus, clear and settle transactions. However, DTC does not monitor any transfer restrictions related to the bonds, therefore it may be preferable for certain unrated bond transactions to be issued in physical form only.

Trust Indenture – The contract between the bank, acting as Trustee for the bondholders and the issuer. It is an important document and includes the form of the bonds. The Trust Indenture does the following:

- Sets the terms and provisions of the bonds such as interest rates, maturities, and redemption rights
- Sets forth the security for the bond, that may include a project mortgage and a gross revenue pledge
- Provides for procedures in the event of redemption and defeasance
- Establishes the funds and accounts and the flow of funds
- Provides for permitted investments of money held under the Trust Indenture
- Provides procedures for amending the Trust Indenture
- Provides for Trustees duties and rights
- Establishes events of default and remedies with respect to the bonds
- Provides and describes transfer restrictions on the bonds if any

The terms of the Trust Indenture create certain responsibilities for the Issuer and Trustee.

The Issuer assures the following:

- It is duly authorized to issue the bonds and assist to preserve their existence
- Compliance with tax covenants relevant to the Issuer and to the Borrower to a limited extent
- Compliance with certain program “covenants”

The Trustee assures the following:

- Examines documents prepared by the Borrower to determine if the documents conform to the requirements of the Regulatory Agreement, Trust Indenture and/or Loan Agreement
- Notify the Issuer and the Borrower/Owner in writing if documents are not received according to the Regulatory Agreement
- Acts on behalf of the bondholders in the event of default

Financing Agreement or Loan Agreement – The generic name for the agreement in a conduit financing between the Issuer and the Borrower, then assigned from the Issuer to the Trustee in accordance with the granting clauses of the Trust Indenture (other than the reserved rights of the Issuer), pursuant to which the bond proceeds are lent to the Borrower and the Borrower promises to repay the principal of and interest on the bonds. The Financing/Loan Agreement includes the following:

- Terms and provisions for the loan of the bond proceeds to the Borrower
- The agreement of the Borrower to repay the loan in amounts and at times sufficient to enable the bonds to be repaid
- Security for the Borrowers repayment obligations
- Borrower's/Owner's representations and warranties
- Maintaining, operating, and insuring the project
- Events of default by the Borrower and remedies
- Borrower's/Owner's prepayment rights

Official Statement – A publicly filed document that contains the final terms of the bond and provides disclosure to prospective investors. The official statement (“OS”) is dated the sale date of the bonds. By law, the OS must contain any pertinent information that would allow an investor to make an informed decision of whether to purchase the bonds. Many private placement transactions with sophisticated private direct bond purchasers will not require an OS due to securities laws exemptions and the sophistication of the private direct bond purchaser.

Purchase Contract/Bond Purchase Agreement – Agreement between the Issuer and the Underwriter/Direct Bond Purchaser to sell and purchase the bonds at a specific purchase price. This contract also sets forth the terms and conditions whereby the Underwriter/Direct Bond Purchaser will purchase the bonds.

Regulatory Agreement and Declaration of Restrictive Covenants – Agreement that is recorded with the mortgage and contains certifications required to be made by the Issuer and the Borrower to ensure compliance with state law and federal tax law requirements.



Compliance and Security Agreement – Agreement between the Borrower/Owner and TSAHC that is recorded with the mortgage and contains additional representations and covenants with respect to the project.

Asset Oversight Agreement - Agreement between the Borrower/Owner and TSAHC pursuant to which an asset oversight agent assesses the property, personnel, procedures, compliance procedures and the operation of the facilities.

## **2. COMPLIANCE REQUIREMENTS OF A QUALIFIED RESIDENTIAL RENTAL PROJECT**

### **(2.1) General Discussion of Federal Income Tax Rules Governing Qualified Residential Rental Properties**

Under Section 142 of the Internal Revenue Code of 1986, as amended (the “Code”), tax-exempt bonds can be issued for qualified residential rental projects. As discussed above, TSAHC issues tax-exempt bonds for such projects. To qualify as a qualified residential rental project, the various Code requirements must be met. Below is a general discussion of the basic requirements. The Regulatory Agreement contains various provisions to assure that the federal income tax requirements are satisfied.

To qualify as a qualified residential rental project, the project must meet one of two tests to meet the property’s Set-Aside requirement (“set-aside”):

- (1) **20-50 Test** - 20% or more of the residential units in the project must be occupied by individuals whose income is 50% or less of area median gross income (“AMGI”); or
- (2) **40-60 Test** - 40% or more of the residential units in the project must be occupied by individuals whose income is 60% or less of AMGI.

If the Borrower is a 501(c)(3) tax-exempt organization, the qualified residential rental project must meet one of the above tests and must also satisfy the *75-80 Test* (i.e., 75% or more of the residential units in the project must be occupied by individuals whose income is 80% or less of AMGI. Note that units counted towards meeting the 20-50 Test or the 40-60 Test may also be counted towards meeting the 75-80 Test).

Owners have the option at initial application to choose a minimum set-aside of 20/50 or 40/60. The option chosen by the owner must be maintained throughout the qualified project period of the Regulatory Agreement and cannot be changed.

Note: Applicants that meet the income restriction are considered Qualifying Tenants. Units that are occupied with Qualifying Tenants are given an Affordable Unit status that can be counted towards the 20-50 Test and 40-60 Tests.

Note: Any project that receives low-income housing tax credits may be subject to further set-aside restrictions that may include up to 100% of the units in such project.

The 20-50 Test or the 40-60 Test, whichever is elected, (and the 75-80 Test, if the borrower/owner is a 501(c)(3) corporation) applies during the *qualified project period*, which begins on the first day on which 10% of the residential units in the project are occupied and ends on the latest of (i) the date which is 15 years after the first date on which 50% of the residential units are occupied, (ii) the 1st day on which no tax-exempt private activity bond issued with respect to the project is outstanding or (iii) the date on which any assistance provided under Section 8 of the United States Housing Act of 1937 (the “1937 Housing Act”) terminates. Please note the relevant Regulatory Agreement sets forth the actual qualified project period with respect to a particular project.

Both the 20-50 Test and the 40-60 Test (and the 75-80 Test) are based on percentages of AMGI, which is determined in a manner consistent with determinations of lower income families and AMGI under Section 8 of the 1937 Housing Act. Income levels are determined based on the number of household members.

Sections 2.4 – 2.6 of this manual provides a detailed explanation of determining household eligibility, household income and calculating and determining income from assets for purposes of satisfying the 20-50 Test and the 40-60 Test.

Note: Applicants/tenants that meet the income restriction are considered Qualifying Tenants. Units that are occupied with Qualifying Tenants are given an Affordable Unit. Affordable units can be counted towards the 20-50 Test and 40-60 Tests (and the 75-80 Test, if the borrower/owner is a 501(c)(3) corporation).

## **(2.2) Set-Aside Requirements**

As discussed above, Section 142(d) of the Code provides that a project must meet either the 20-50 Test or the 40-60 Test (the set-aside) in order to be a qualified residential rental project.

- Under the 20-50 Test residents whose income does not exceed 50% of AMGI are considered Qualifying Tenants
- Under the 40-60 Test, residents whose income does not exceed 60% of AMGI are considered Qualifying Tenants
- If the borrower is a 501(c)(3) tax-exempt organization, the project must also meet the 75-80 Test, *i.e.*, 75% of the residents must have an income that does not exceed 80% of AMGI (this is inclusive of the 20-50 Test or 40-60 Test units discussed above); to the extent any residents are not also under one of the other tests, they are considered Qualifying Tenants.

*Example:* The owner of a 200-unit development has applied for tax-exempt bond financing. At the time of application, the owner has chosen the 20-50 Test. To be in compliance with this set-aside, at least 40 units ( $200 \times 20\% = 40$  units) must be leased to residents meeting the 50% income requirements. If the 40-60 Test was chosen, the set aside would be at least 80 units ( $200 \times 40\% = 80$  units) leased to residents meeting the 60% income requirements.

*In addition, if the owner is a 501(c)(3) tax-exempt organization, at least 150 units (200\*75% = 150 units) must be leased to residents meeting the 80% income requirements. These residents will be considered Qualifying tenant. The units that are leased to residents who meet the 20/50 and 40-60 Tests for purposes of meeting the property set-aside can also be counted towards meeting the 75-80 Test.*

Below is a practical summary that attempts to guide you through determining whether a particular unit will be counted towards the applicable set-aside requirement based on various common factual scenarios. This guide is general in nature and does not address every possible situation and should be used in conjunction with this manual. Note that the Regulatory Agreement, Compliance and Security Agreement, and Asset Oversight Agreement for each project must also be reviewed in detail for specific compliance requirements of a particular project.

The following chart is meant to provide a quick guide to evaluating the various set-aside requirements.

Definitions for the chart below:

- **Affordable Unit** – a unit that is occupied by Qualifying Tenant that is counted towards the Set-Aside. A vacant unit that was most recently occupied by a Qualifying Tenant is treated as an occupied unit.
- **AMGI** - Area Median Gross Income.
- **Down Unit** – A Vacant Unit that meets one or more of the following requirements: i) uninhabitable due to infestations, sewer backups, foundation and subfloor issues, missing drywall and carpets, missing cabinets and appliances, mold, significant water damage not caused by a natural disaster ii) uninhabitable and “not made ready” for over 180 calendar days iii) uninhabitable due to casualty loss (unit or building damage due to disaster or sudden, unexpected accidents). When the necessary repairs are completed, a Down Unit cannot be designated with the prior set-aside designation until it is occupied by a qualified tenant. Note, Down Unit(s) due to casualty loss are not included in the property’s set-aside calculation. These units must be returned to a good condition withing a reasonable period (no more than 24 months).
- **Down Unit from Natural Disaster** – A Down Unit due to a natural disaster as declared by the state or federal governments. A natural disaster includes flood, earthquake, landslide, blizzards, cyclonic storms, hurricanes, tornadoes, fire. A Down Unit from Natural Disaster is not included as a Set-Aside Unit while under repair. When the unit is repaired, a Down Unit can be designated with the prior Set-Aside Unit designation.
- **Income Certification** – The document each Qualifying Tenant must complete upon Initial Certification and any Recertification (to the extent required) attached hereto as Attachment 1.
- **Initial Certification** – An initial certification is completed for all Qualifying Tenants prior to the “move-in” date of a resident applicant.

- **Market Unit** – A unit that is not subject to the 20-50 Test, 40-60 Test or 75-80 Test, as applicable, and does not require an Income Certification.
- **Qualifying Tenant** – A tenant that meets the 20-50 Test or 40-60 Test (and the 75-80 Test, if the borrower/owner is a 501(c)(3) corporation).
- **Recertification** – On an annual basis, the tenant's income and assets must be verified and documented on an Income Certification form. This requirement may be waived if the project maintains 100% Set-aside requirement due to tax credits or otherwise).
- **Set-Aside Units** – An Affordable Unit that is occupied by Qualifying Tenants/affordable units that meet the 20-50 Test and 40-60 Test.
- **Vacant Unit** – A unit that is uninhabited and in livable condition. A Vacant Unit becomes a Down Unit if the unit has not been made ready in 180 calendar days of a resident move-out. A Vacant Unit keeps the prior set-aside designation if made ready but loses the set-aside designation if it becomes a Down Unit.

<b><u>REGULAR QUALIFYING TENANTS</u></b>			
<b><u>CATEGORY</u></b>	<b><u>FACTS</u></b>	<b><u>OUTCOME</u></b>	<b><u>NOTES</u></b>
<b>Income Certification at Initial Certification</b>	Resident(s) in Unit A is a Qualifying Tenant	Unit A counts as an Affordable Unit.	See Sections 2.4 - 2.6 for discussion of determining income, etc.
	Resident(s) in Unit A is not a Qualifying Tenant	Unit A does not count as an Affordable Unit.	See Sections 2.4 - 2.6 for discussion of determining income, etc.
<b>Income Certification at Recertification</b>	Resident(s) in Unit B was a Qualifying Tenant at Initial Certification and continues to be a Qualifying Tenant at Recertification	Unit B continues to count as an Affordable Unit.	
	Resident(s) in Unit B was not a Qualifying Tenant at Initial Certification, but becomes a Qualifying Tenant in the future	Unit B counts as an Affordable Unit, as applicable, when resident becomes an appropriate Qualifying Tenant	
	Resident(s) in Unit B was a Qualifying Tenant at Initial Certification but income increases (but not by more than 140% of AMGI) and is not a Qualifying Tenant at Recertification	Unit B continues to count as an Affordable Unit, as applicable, so long as rent remains restricted to its respective set-aside and tenancy continues (see exception below - Next Available Unit Rule)	

<b><u>REGULAR QUALIFYING TENANTS</u></b>			
<b><u>CATEGORY</u></b>	<b><u>FACTS</u></b>	<b><u>OUTCOME</u></b>	<b><u>NOTES</u></b>
<b>Next Available Unit Rule</b>	Exception - Resident(s) in Unit B was a Qualifying Tenant at Initial Certification and income exceeds AMGI by more than 140% at Recertification	If, before such resident's next Recertification, the next available unit (Unit C) in the same project* of comparable or smaller size to Unit B is occupied by a new resident who is not a Qualifying Tenant, Unit B does not count as an Affordable Unit, as applicable	See Sections 2.7(B) for a discussion of the next available unit rule. *Note: Under the 2008 Housing Act, this rule applies on a building-by-building basis instead of a project-by-project basis if tax credits under Code Section 42 are allowed with respect to the project. Consider, the applicable provisions of the respective Regulatory Agreement.
<b>Next Available Unit Rule</b>	Exception - Resident(s) in Unit B was a Qualifying Tenant at Initial Certification and income exceeds AMGI by more than 140% at Recertification	If, before such resident's next Recertification, a unit (Unit C) in the same project* of comparable or smaller size to Unit B is occupied by a new Qualifying Tenant, Unit B continues to count as an Affordable Unit, as applicable, so long as tenancy continues and the rent remains restricted, but stops counting as Affordable Unit, as applicable, when Unit C is occupied by the new Qualifying Tenant	See Sections 2.7(B) for a discussion of the next available unit rule. *Note: Under the 2008 Housing Act, this rule applies on a building-by-building basis instead of a project-by-project basis if tax credits under Code Section 42 are allowed with respect to the project. Consider, the applicable provisions of the respective Regulatory Agreement.
<b>Current Law (pursuant to 2008 Housing Act)</b>	100% of the units in a project are housed with Qualifying Tenants pursuant to Initial Certifications	Recertification is not required for federal income tax purposes (but, may be required under the Regulatory Agreement, etc. unless waived)	See Section 2.7(A) Consider, the applicable provisions of the respective Regulatory Agreement.

<b><u>REGULAR QUALIFYING TENANTS</u></b>			
<b><u>CATEGORY</u></b>	<b><u>FACTS</u></b>	<b><u>OUTCOME</u></b>	<b><u>NOTES</u></b>
	Less than 100% of the units in a project are housed with Qualifying Tenants	Recertification is required for federal income tax purposes	See Section 2.7(A) Consider, the applicable provisions of the respective Regulatory Agreement.
<b>Change in household members after Initial Certification or Recertification</b>	Number of residents in an Affordable Unit, as applicable, increases after Initial Certification	The new resident(s) must complete the Initial Certification and the income must be combined with the other resident(s); the unit will continue to count as an affordable, as applicable, if they are Qualifying Tenants	See Section 2.7 (C) for a discussion regarding a change in household
	Number of residents in an Affordable Unit decreases after Initial Certification	No changes until the next Recertification	See Section 2.7 (D) for a discussion regarding a change in household
<b>Vacant Units</b>	Unit D is vacant, but previously housed a Qualifying Tenant	While vacant, Unit D continues to count an Affordable Unit, as applicable, if the unit is in livable condition and made ready. Reclassify Unit D as necessary depending on Initial Certification of new tenant	
	Unit D is vacant, but previously housed non-Qualifying Tenants	While vacant, Unit D does not count as an Affordable Unit, as applicable, while vacant; reclassify Unit D as necessary depending on Initial Certification of new tenant	

<b><u>REGULAR QUALIFYING TENANTS</u></b>			
<b><u>CATEGORY</u></b>	<b><u>FACTS</u></b>	<b><u>OUTCOME</u></b>	<b><u>NOTES</u></b>
<b>Damaged units due to natural disaster (fire, hurricane, etc.)</b>	Unit F houses a Qualifying Tenant and is damaged by a Hurricane; Unit F cannot be occupied until repairs are made	Unit F should not be counted as an available unit for purposes of calculating the set-aside requirement while it is vacant and under repair	
	Unit F mentioned in the above row, and which previously housed a Qualifying Tenant is repaired and available for occupancy	Unit F becomes an available unit for purposes of calculating the set-aside requirement and counts as an Affordable Unit, as applicable, while vacant; Unit F must be reclassified when rented depending on new resident's Initial Certification	
	Unit G houses a non-Qualifying Tenant and is damaged by a Hurricane; Unit G cannot be occupied until repairs are made	Unit G should not be counted as an available unit for purposes of calculating the set-aside requirement while it is vacant and under repair	
	Unit G mentioned in the above row, and which previously housed a non-Qualifying Tenant is repaired and available for occupancy	Unit G becomes an available unit for purposes of calculating the set-aside requirement but does not count as an Affordable Unit, as applicable, while vacant; Unit G must be reclassified when rented depending on new resident's Initial Certification	
	A Qualifying Tenant in an Affordable Unit, as applicable, is displaced due to natural disaster and moves into a different unit within the project	A new certification is not necessary at the time of transfer.	

<b><u>UNIT VACANT FOR OVER 180 DAYS</u></b>			
<b><u>CATEGORY</u></b>	<b><u>FACTS</u></b>	<b><u>OUTCOME</u></b>	<b><u>NOTES</u></b>
	Unit H is vacant and has been vacant for 180 calendar days.	TSAHC policy requires that personnel visit Unit H to determine whether it is “move in ready” and should be treated as an Affordable Unit, as applicable.	If Unit H is vacant for 180 days or more and is not “move in ready” upon inspection, then Unit H should not be considered in compliance and will be considered a Market Unit until a Qualifying Tenant occupies Unit H.

### **(2.3) Set-Aside/Qualifying Tenant Requirement**

The total number of affordable units rented to qualified tenant households plus the units held vacant by previous income qualified tenant households must equal or exceed the Owner’s minimum set-aside commitment. Only those vacant units that were immediately previously rented to qualified tenant households may be counted toward the minimum set-aside commitment.

Quarterly reports must show rental information for the total number of units in the project, including information about units rented to qualifying tenants to date and information about units currently vacant. Current vacant units must include household information as of the end of the reporting period. Failure to meet the minimum set-aside requirement is a serious non-compliance issue and can render severe consequences to the Borrower/Owner. This may occur as a result of counting non-qualified vacant units toward set-asides; failing to meet the income set-asides by the end of the reporting period; failing to rent market rate and qualified units proportionately during initial lease-up (new construction only). Many non-compliance issues can be corrected. TSAHC staff works in conjunction with the entities involved giving support to management staff as they commit to maintain compliance or help them get back into compliance when outstanding violations exist. Although many issues of non-compliance can be corrected, certain uncorrected issues or recurrent issues of non-compliance can bring forth the following actions according to the Regulatory Agreement:

- Bonds losing tax-exempt status retroactively to the date of non-compliance.
- Bonds subject to early prepayment in full.
- Project loans declared in default and foreclosure proceedings initiated.
- Legal action initiated against non-complying properties/and or non-complying Owners barred from further financing with TSAHC. Borrower/Owners will be responsible for all costs of such legal actions.

Affordable communities having layered financing will have different governing documents and, in some cases, different program requirements. It is in the best interest of the Borrower/Owner that management staff is made aware of the different requirements in order to avoid “deficiencies



or findings” that may occur due to lack of supervision or training in program requirements. Management staff should be knowledgeable of the federal, state, and local regulations and be provided on-going training in the areas of government regulations. It is equally important that management staff is aware of the frequent changes in the Tax-Exempt Bond Program and that the implementation of any required changes are made in the proper time frame. During the property’s annual review, TSAHC will use the most restrictive of the governing documents for compliance purposes. It is critical that management staff understand the documents and apply the most restrictive requirements to the property.

#### **(2.4) Determining Household Eligibility**

Determining eligibility is an essential part of meeting and maintaining set-aside requirements. In order to ensure that residents are properly qualified, the owner and management staff should create a written rental criteria policy (i.e., tenet selection plan) that details the application process. This policy must be followed for each applicant. It is critical that the application process is given the time necessary to evaluate and verify information provided by the household.

The property’s written rental criteria policy should include how to handle an application that is declined. It is important that management give clear consideration and have sound practices in place when applicants are rejected. The rejection letter must state the reason for the denial and must be kept with denied application packet as proof that the household was notified of the decision.

#### **\*\*\*TSAHC TIPS\*\*\***

*During a TSAHC review, resident files with incomplete documentation will be considered in non-compliance because all household information must be provided for staff to determine if the applicant/resident is a qualified household.*

*All documents should be completed in black or blue ink only or electronically. White out is never acceptable.*

*Residents should thoroughly complete the forms required; staff shall not write on any of the documents. A clarification form or a communication form for making notes to the file must be used when making notes to clarify information.*

*When TSAHC conducts a Compliance File Review, reference is taken from HUD Handbook Chapter 5 of the 4350.3 in addition to the property’s written rental criteria policy. It is important that the property has clearly defined policies to determine household eligibility and income verification procedures.*

When determining the eligibility of a potential applicant it is important to have all documents filled out. There should not be any questions left unanswered on the application or any other document. If a question does not apply to the household, have the applicant/resident use N/A or NO on each line. For questions that the resident does not want to provide information on, have them state or have the property state “would not disclose” to indicate that the information was not overlooked. TSAHC must be able to determine that a household is program eligible.

The application is the most important tool for gathering household information to begin the qualification process. Information obtained from the household at the time they apply for

occupancy is based on the current circumstances and any anticipated changes that will occur within the next 12 months. The application must gather pertinent information to properly determine a household's eligibility, especially the asset and student status information. If the standard application used does not request income, asset and student status information, a supplemental form that collects all three for each household member must be used.

A. **Who is Considered a Household Member?**

In determining household members, management staff must count the total income of all household members who will be living in the unit. The following individuals are to be included as household members:

<b>Members</b>	<b>Earned Income</b>	<b>Other Income (Including income from assts)</b>
Head	Yes	Yes
Spouse	Yes	Yes
Co-Head	Yes	Yes
Other Adult	Yes	Yes
Dependents (Child Under 18)	No	Yes
Full-time Students over 18	Yes	Yes
Foster Adult	Yes	Yes
Foster Children (Under 18)	No	Yes
<b>Non-Members</b>	<b>Earned Income</b>	<b>Other Income (Including income from assts)</b>
Live-in Aide	No	No
Refer to HUD Handbook 4350.0 Rev-4 Chapter 5		

Members also include:

- Children temporarily absent due to placement in a foster home
- Children in joint custody arrangements who are present in the household 50% or more of the time
- Children who are away at school but live with the family during recess
- Unborn children (self-certified)
- Temporarily absent family members who are still considered family members

- Family members in the hospital or rehabilitation facility for periods of limited or fixed duration
- Persons permanently confined to a hospital or nursing home who are still considered family members

Note the following:

- Earned income of full-time students 18 years of age or older, who is not the head, co-head or spouse is excluded to the extent that it exceeds \$480.00.

B. **Social Security Numbers**

Per IRC Section 142(d), the tax-exempt bond program does not require social security numbers to be reported and does not require tenants to be US citizens.

C. **Employee Discount**

Resident discounts (i.e., stipends and/or rent concessions) are generally modest amounts of money received by a resident to perform services (i.e., property monitoring, fire patrol, lawn maintenance, and resident management). If the resident stipend exceeds \$200 per month, owners must include the entire amount in annual income. If the resident stipend is \$200 or less per month, owners must exclude the resident stipend from annual income.

D. **Students**

For program purposes, a student is defined as an individual, who during each of five calendar months, is a full-time student at an educational organization as defined in Section 170(b)(1)(A)(ii) of the Code. Treasury Regulation 1.151-3(b) further provides that the five calendar months need not be consecutive. This definition of students includes full-time and part-time status.

Management staff must obtain student status verification from the educational institution to verify whether the household is a part-time or full-time student. A student's school schedule or registration from the school is not supporting documentation.

Per the Housing Assistance Tax Act of 2008 (the "2008 Housing Act") a unit cannot be occupied entirely by full-time students unless the unit meets one of the following exceptions:

- (1) the student received assistance under Title IV of the Social Security Act (Aid and Services to Needy Families with Children and for Child Welfare Services) (i.e., TANF),
- (2) is the student is enrolled in a job training program receiving assistance under the Job Training Partnership Act or under other similar federal, state, or local laws,
- (3) the student was previously in foster care,
- (4) the students are a married couple and entitled to file a joint income tax return; or
- (5) the students are single parents with children and neither the applicant/tenant nor the children are listed as dependents on anyone else's tax return

E. **Required File Documents**

Each qualifying resident file must contain a copy of the documents listed below when determining eligibility (the receipt of the documents listed below must occur within 120 days of Initial Certification or Recertification effective date):

- Application that gathers all program required information, including student status and assets
- Tenant Release and Consent-signed by all adult household members
- Employment/Income Verification for all adult household members employed (See Section 2.5, subsection E)
- Asset Certification
- Asset Verification, if applicable
- Income Certification (all 3 pages must be properly completed)
- Student Status Certification
- Student Eligibility Verification (if applicable, must be documented)
- TSAHC's Notice of Health & Safety Form (signed by head of household at the time of initial move-in. The form can be found on TSAHC website: <https://www.tsahc.org/property-managers/property-manager-downloads>)

Supporting documentation for the household depends on the information provided in the application. A list of several required supporting documents includes, but is not limited to the following:

- Child Support Documentation (when there are children in the household)
- Divorce Decree (if the head of household is divorced to determine if alimony is paid and to verify assets and children, if any)
- Separation Documentation
- Income Tax Return for self-employed individuals (Schedule C)
- Telephone Clarification to support questionable documents

Resident files should be well documented and have supporting information to verify that households have submitted all income documentation to the property. Keep in mind that TSAHC staff will not be speaking directly to households as they review each file; therefore, the files must contain proper and explicit documentation.

If during the applicant's screening the credit report discloses information that was not provided to the tenant (i.e., a home mortgage management staff should obtain verification of the undisclosed items. Income Verification Process

The owner and management staff shall make a "diligent and good-faith effort" to determine that the income information provided by the applicant/resident is accurate. Methods of acceptable verification can be found in HUD Handbook 4350.3, Appendix 3: Acceptable Forms of Verification. Methods include, but are not limited to:

- Pay stubs for the most recent month period (Chapter 5, Section 1, paragraph 5-6D HUD 4350.3 require 4 to 6 paycheck stubs). Management should have a written procedures for accepting pay stub policy that is always followed.

- Income tax returns for the most recent year for self-employment
- Income verification from the applicant/resident's employer (Cannot be hand carried by the resident at any time)
- Social Security Award Letter, all pages (copies of checks are not acceptable)
- Income Verification for Households with Section 8 Certificates
- If the applicant is unable to provide any of the above documents or other independence verification, as would, in the management's staff's reasonable opinion, comply with the "diligent and good faith" requirement would be acceptable.

Income Verifications must be dated within 120 days from the date of the effective Income Certifications (at the time of move-in and at the time of recertification). Exceptions apply and are specific to documents such as Social Security Award letters, Life policy documents, or other documents that are issued annually.

F. **Income Certifications**

After all the household information has been obtained, clarified, and verified, the information must be recorded on the TSAHC Income Certification form (use income certification form from TDHCA, Rural Development or a Project-Based HUD programs is acceptable). All adults 18 and over, in addition to management staff, must sign and date the form to be compliant with the program. The Income Certification must be completed and executed by all parties within 120 days for the move-in date. An unsigned Income Certification is non-compliant and will generate a finding. A copy of the Income Certification and the Instructions to complete are included as an attachment. ([Attachment 1](#))

**(2.5) Determining Annual Household Income**

A. **Types of Income and Calculation**

TSAHC utilizes Chapter 5 of the HUD Handbook 4350.3 REV 4 to determine and calculate total household income. Household income is the gross amount (before any taxes or deductions) of anticipated income annualized for the next 12-month period for any of the following:

- Wages
- Salaries
- Overtime pay
- Commissions
- Tips
- Bonuses
- Other compensation of all household adults
- Unearned income of all members of the household (including dependents and foster children under 18)
- Income from Assets (i.e., savings account balance multiplied by the annual interest rate, income from real estates, etc.)

B. **Calculating Annual Household Income**

Household income is:

- Based on actual household size (all members do not have to be related)
- Based on anticipated income for the next 12 months
- Certified at initial occupancy and annually thereafter
- Compared against income limits at the time of initial occupancy or recertification to ensure program eligibility

Only qualified tenant households may be counted in meeting the set-aside requirements. Households not meeting the income qualifications cannot be counted in the minimum set-aside.

Tax-exempt bond properties use the most current HUD approved income and rent limits to qualify eligible households. These limits are based upon the county's Area Median Gross Income (AMGI) and are posted annually on HUD's website as they are released by HUD

According to Revision 4 of the HUD 4350.3 Handbook (effective August 7, 2013), when projecting the household's annual income, use the current circumstances to anticipate income. The management staff calculates projected annual income by annualizing current circumstances. If information is available on changes expected to occur during the year, use that information to determine the total anticipated income from all known sources during the year. For example, if a verification source reports that a union contract calls for a 2% pay increase midway through the year, the owner may add the total income for the months before and the total for the months after the increase. (See the anticipated raise example below in Section 2.5 D).

Management staff may accept a tenant's notarized statement or signed affidavit regarding the validity of information submitted if the information cannot be verified by another acceptable verification method, however management's due diligence must be documented in the tenant file. TSAHC accepts income verifications received from employers if the income verification is on company letterhead. Handwritten verifications on small pieces of paper are not acceptable.

Use the chart below for assistance, when determining annual household employment income.

<b><u>Hourly by 2080</u></b>
<p>Ex: John earns \$7.00 per hour and works 40 hours per week</p> $\$7.00 \times 2080 = \$14,560.00$ <p>John's annual income on his Income Certification would be \$14,560</p>
<b><u>Weekly by 52</u></b>
<p>Ex: Mary Lou earns \$6.75 per hour and works 35 hours per week</p> $\$6.75 \times 35 \times 52 = \$12,285.00$ <p>Mary Lou's annual income on her Income Certification would be \$12,285.00</p>
<b><u>Bi-weekly by 26</u></b>
<p>Ex: Taylor earns \$8.50 per hour and works 40 hours. Taylor has brought in 4-6 current consecutive check stubs to be used for income verification</p> $\$340.00 + \$380.00 + \$347.00 = \$1,067.00 / 3 = \$355.67 \times 26 = \$9,247.42$ <p>Taylor's annual income on his Income Certification would be \$9,247.42</p>
<b><u>Semi-monthly by 24</u></b>
<p>Ex: Martha Ray's employer has verified that she earns \$1,750.00 semi-monthly and is paid on the 1st and the 15th of each month</p> $\$1,750.00 \times 24 = \$42,000.00$ <p>Martha Ray's annual income on her Income Certification would be \$42,000.00</p>
<b><u>Monthly by 12</u></b>
<p>Ex: Trey is employed is paid monthly. His gross monthly earnings have been verified as \$2,450.00</p> $\$2,450.00 \times 12 = \$29,400.00$ <p>Trey's annual income on his Income Certification would be \$29,400.00</p>

C. **Calculating Year-to-Date (YTD) Wages**

TSAHC does not require management staff to calculate year-to-date wages. However, if management staff has a policy to calculate gross income via year-to date methods then management must ensure they obtain and verify the year-to-date period to properly calculate. Management staff is reminded to ensure consistency in your income calculation methods.

Monthly:

- Divide the YTD wages by the number of months worked and multiply by 12.

Semi-Monthly:

- Divide the YTD wages by the number of semi-monthly pay periods and multiply the results by 24.

Bi-Weekly:

- Divide the YTD wages by the number of weeks and multiply the results by 26.

Weekly:

- Divide the YTD wages by the number of weeks worked and multiply the results by 52.

*Example:* Jessica is unable to provide third-party verification through her current employer, but she does have her most current paycheck stub. You use this information to qualify her in the month of May. According to her check stub her YTD wages as of April 30 is \$5,500.00. Her current employment began on January 25 (date must be verified). Count the number of weeks between the two dates January 25 through April 30 that equates to a total of 13 weeks. Divide the \$5,500.00 by 13 weeks, which equates to a total of \$423.08 per week. Multiply the \$423.08 by 52 for an annual income total of \$22,000.16.

**This process can only be completed when the YTD period has been verified by the employer.**

For applicants/tenants who will be receiving a raise within the next 12 months the raise must be factored into the income calculation to determine annual income:

D. **Example – Calculating Anticipated Raise:**

For applicants/residents who will be receiving a raise within the next 12 months the raise must be factored into the income calculation to determine annual income:

February 1	= Certification effective date
\$7.50 per hour	= Current hourly rate
\$8.00	= New rate to be effective March 15
40 hours per week x 52 weeks = 2080 hours per year	



Calculate annual income as follows:	
February 1 through March 15 = 6 weeks	
6 weeks x 40 hours = 240 hours x \$7.50 =	\$1,800
March 16 through January 31 = 46 weeks	
46 weeks x 1840 hours x \$8.00 =	\$14,720
<b><i>Total Annual Income</i></b>	<b>\$16,520</b>

**In the event the employer verifies a specific amount of tips, always use the employer verified amount.**

Individuals receiving sporadic or seasonal wages should be calculated according to the number of months worked. Because of weather conditions, a painter works 9 months out of a year and receives unemployment the remainder of the year, both incomes should be used in the calculation.

\$1,200 x 9 =	\$10,800
\$600 x 3 =	\$1,800
<b><i>Total Annual Income</i></b>	<b>\$12,600</b>

E. **Self Employed Income Verification Requirements**

Individuals who are self-employed must provide proof of income using a signed copy of their most recent 1040 income tax return, including the attachments listed below:

- Schedule C for Small Business
- Schedule E for Rental Property Income
- Schedule F for Farm Income
- Copy of Corporate or Partnership tax return
- Audited or unaudited financial statement(s) of the business (including profit and loss statement)

If the only income that the individual receives is from self-employment, the net amount on Schedule C. Any other income shown on the tax return must have supporting documentation.

In the event an individual has not been employed long enough to have filed a tax return, a Self-Employed Affidavit must be used and a notarized statement from the individual that they agree to provide the required documentation at the time of recertification.

Note that individuals earning over \$400.00 per year must file a tax return as required by the IRS.

F. **Social Security/SSI Income**

Social Security/SSI Recipients will need to have all pages of their current Social Security Award letter as income verification. Each year the Social Security Administration publishes the Cost-of-Living Adjustment (COLA) indicating the cost of living raise that will be made to recipients of the program. This adjustment should be taken into consideration when qualifying a new household or recertifying existing residents. This adjustment is treated in the same way as the anticipated raise example.

If an agency is reducing a family's benefits to adjust for a prior overpayment (e.g., Social Security, SSI, TANF, or unemployment benefits), count the amount that is actually provided after the adjustment.

Count the gross amount, before deductions for Medicare, etc. of periodic social security payments. Include payments received by adults on behalf of individuals under the age of 18 or by individuals under the age of 18 for their own support.

Anyone that does not have a current copy of the Social Security Award Letter can call the Social Security Administration at 1-800-772-1213 to request a copy.

G. **Pensions, Veterans Benefits, Retirement and Other Periodic Income**

Obtain a written copy of the benefit letter that indicates the monthly income received, or submit a copy of the appropriate income form for the following sources:

Income received from:

- Insurance policies
- Retirement funds
- Pensions
- Disability or Death benefits
- Other periodic payments of unearned income

H. **Annuity Income**

Annuities are contracts sold by insurance companies designed to provide payments in specified intervals. There are generally three types of annuities:

- Hybrid annuity or combination annuity-combines features of a fixed annuity with a variable annuity
- Deferred annuity-annuity that delays income payments until the holder chooses to receive them. An immediate annuity begins payments immediately upon purchase.

- Life annuity-pays out if the owner is alive.
  - Single life annuity-provides income to one person
  - Joint life annuity-issued to two individuals and payments continue in whole or in part if either individual is alive

Generally, a person who holds an annuity from which he or she is not yet receiving payments will also be earning income. In most instances, a fixed annuity will be earning interest at a specified fixed rate similar to interest earned by a CD. A variable annuity will earn (or lose) based on market fluctuations, as in a mutual fund.

Most annuities charge surrender or withdrawal fees. In addition, early withdrawal usually results in tax penalties.

Depending on the type of annuity and the current status of the annuity, the management staff will need to ask different questions on the verification source, which will normally be the applicant or tenant's insurance broker.

The annuity is counted as an asset if the household has the right to withdraw from the annuity at any time, even though a penalty will incur. If so, obtain the cash value by subtracting the current value any fees/penalties for withdrawal of the entire balance. The actual income is the balance in the annuity times the percentage (fixed or variable) at which the annuity is expected to grow over the coming year. If the household does not have access to the entire investment amount, do not count as an asset.

The annuity is counted as income if the household currently receives regular payments from the annuity and this has been verified by the insurance company.

Obtain a copy of the resident's benefit letter statement as verification.

#### I. **Alimony or Child Support Income Verification Requirements**

If child support or alimony is received by the household, you will need a copy of **ONE** of the following documents: (A child support document is required for each child in the household. Documents must include frequency and amount.)

- Copy of divorce decree or separation settlement stating the amount and type of support
- Statement from the Attorney General's office showing the court ordered amount. A printout a payment received is not sufficient.
  - If the applicant is receiving payments greater than the court awarded amount, the income must be calculated using the higher amount.
  - If fluctuating payments are shown, child support should be calculated by averaging the payments received within 120 days of the Income Certification effective date.

- The court ordered amount must be counted regardless if payments are made or not, unless there is reasonable effort made. Do not include child support if ALL the following reasonable efforts are made:
  - Applicant certified that 1) payments are not being received and 2) that they have taken all reasonable legal actions to collect amounts due including filing with the appropriate courts or agencies responsible for enforcing payment.
  - AND
  - Management staff gathers verification from the court/agency that payments are not being made. This includes printouts from the court/agency responsible for enforcing payments shows the frequency and the amount of payments being received; and the status of the case showing “enforcement” of comparable language.

Note: Cash medical amounts are not included in the calculation.

- Support letter from individual paying the support (frequency and pay periods required)
- Child Support Affidavit from household, whether receiving child support or not.

J. **Public Assistance/Temporary Assistance for Needy Families (TANF)**

For a household receiving Public Assistance or TANF, the gross amount received by the household must be calculated to determine income:

- Obtain a copy of the statement with the monthly grant amount received
- The Public Assistance Verification form may be used in the same manner as the Employment Verification

Note: **DO NOT** include amounts received from food stamps when calculating income.

K. **Unemployment, Disability, Workers Compensation, Severance Pay**

Income received in lieu of wages (also known as unearned income) must be included when determining annual income. Unemployment income is calculated on a 12-month basis, even though the individual may be receiving it for less than 12 months. Worker’s Compensation, Severance Pay and Disability are calculated as the written verification states. Supporting documentation must be provided by the issuing agency. Income verification forms for this type of income may be submitted to the agency.

- Obtain a copy of the Unemployment Verification showing frequency and amounts received
- Obtain a copy of the Employer Statement showing frequency and amounts received for Workers Compensation

L. **Military Pay Income**

Income must be counted if the Military Member is the Head of Household, Spouse or Co-Head of the households. Or, if the spouse or a dependent of the person on active military duty is a member of the applicant group. To determine income for Active Duty and Reserves Military Personnel you must use the following entitlements:

- Base Pay
- Basic Allowance Quarters (BAQ)
- Basic Allowance for Subsistence (BAS—food)
- Variable Housing Allowance (VAH) based on zip code (Note: See the TDHCA Memorandum regarding an exception with respect to certain projects in certain counties – Attachment 2)
- Family Separation Allowance (FSA)
- Clothing Allowance (CA)
- Foreign Duty Pay (FDP)

Do **NOT** include the following when determining military income:

- Imminent danger (hazardous pay) defined as combat in a hostile fire zone

Supporting documentation required:

- Leave and Earnings Statement (L.E.S)

M. **Monetary Gifts (Monetary contribution Income)**

Any money received from persons outside of the household on a regular basis is considered income. This includes rent, utility payments and contributions for non-perishable items. This does not include groceries even if it is a regular contribution. Verification can be completed using the following forms as long as the purpose, frequency and value of gift is documented

- Notarized statement or affidavit signed by the person providing the assistance
- Notarized statement of affidavit signed by the resident stating the purpose

N. **Certification of Zero Income**

For adult household members who do not have earnings of any type, the Certification of Zero Income must be used. If income is disclosed, do not use the Certification of Zero Income but the appropriate form based on the household's answer.

O. **Unemployment Affidavit**

An Unemployment Affidavit must accompany resident files that receive Social Security Income, Unemployment Income, and Certification of Zero Income verifications. An Unemployment Affidavit must also be included if a Monetary Gift is the only source of income.

## **(2.6) Determining Income from Assets**

### **A. Background**

Assets are defined as items of value that can be converted to cash. A savings account that earns interest is considered an asset; the interest earned is considered income from the asset and must be used when determining annual household income.

Assets under \$5,000 can be self-certified by using an Under \$5,000 Asset Certification form. Asset amounts must be added to the Income Certification form and any interest income made from an asset that are self-disclosed by the household must be added to the total household income.

Assets over \$5,000 must be verified via third party and the greater of the actual income of the asset or the imputed income, must be added to the total household income.

The withdrawal of cash or assets from an investment received as periodic payments should be counted as income. Lump sum receipts from pension and retirement funds are counted as assets. If benefits are received through periodic payments, do not count any remaining amounts in the account as an asset.

Some assets do not generate income such as a non-interest-bearing checking or savings accounts. Items such as cars, furniture, televisions, and other personal items, are not considered assets and should not be considered in determining asset income.

Use the chart below as a guide on how to determine Cash Value and Actual Income from as Asset:

#### **Determine the Cash Value of an Asset:**

$$\text{Cash Value} = \text{Market Value} - \text{Expenses incurred to Covert to Cash}$$

#### **Determining the Actual Income from an Asset:**

$$\text{Actual Income from Asset} = \text{Market Value} \times \text{Annual Intreat rate or Dividends Earned}$$

Note: If the combined cash value of the assets are under \$5,000 for the household, the actual income from assets is included.

If the combined cash value of the assets is \$5,000 or greater for the household, the total household income includes the **greater of** the actual income from assets or a percentage of the cash value of the assets based on the current passbook savings rate (.06%) as established by HUD.

See an example of how to calculate income from assets below in Section 2.6(D).

For a complete listing of ALL Asset inclusions and exclusions, refer to Exhibit 5-2 of HUD's 4350.3

B. **Types of Assets**

- Savings Accounts
- Checking Accounts
- Trust Accounts
- Stocks, Bonds, Certificates of Deposits (CD's),
- Money Market Funds
- Treasury Bills
- IRA's
- Keogh
- 401(k)
- Rental Income
- Real Estate Owned
- Mortgage
- Deed of Trust
- Personal property held as an investment (jewelry, gems, coin or stamp collection, antique cars)

When calculating the cash value and actual income from an asset for a Savings and Checking accounts:

- Savings accounts - use the current balance
- Checking accounts - use the average balance for the last six months

Note: If back statements are being maintained in the tenant file, management must review the back statements for undisclosed sources of income. Unknown cash deposits (i.e., bank deposits, Cashapp, Zelle, Venmo, etc.) must but be reviewed to determine if is a source of income.

Obtain the following documents as verification:

- Account statements
- Passbooks
- Certificates of Deposit
- Verification forms
- Documents from the financial institution or broker

Assets disposed of for less than fair market value are counted for two years following the certification or recertification. The amount that is included is the difference of the cash value of the asset and the amount that was received in the selling of the asset. At the end of two years, the income assigned to the asset is no longer counted.

C. **Trust Accounts**

A trust is defined as an arrangement whereby money or property is owned and managed by one person(s) or organization for the benefit of another. There are two types of trusts revocable and irrevocable.

A revocable trust can be changed as often as the grantor chooses and has access to the trust at any time. Count this trust as an asset.

A non-revocable trust is under the control of another and is not counted as an asset because the individual does not have access to the trust.

D. **Real Estate - Worksheets and Examples to Value Assets and Calculate Income**

<b>Asset Evaluation Worksheet</b> <b>*For Real Estate Owned or Disposed of</b>	
<b>Assets must be included for 2 years after the sale or disposition of the property.</b>	
Property Name: _____	Unit #: _____
Applicant/Resident Name: _____	
➤ Current Value of Real Estate	_____
➤ Minus mortgage owed	_____
➤ Minus any second mortgage/deed of trust	_____
➤ Minus 10% (10% is example only) of selling cost (cost to dispose) based upon value	_____
➤ Minus any other costs (attach documentation - includes costs involved in the sale of property)	_____
➤ Value amount of asset	_____

If property is owned and the applicant has a mortgage:

- Cash Value = Fair market value - unpaid principal and reasonable cost incurred to sell
- Actual Income = Zero (not earning income)

If property is owned and it being rented to 3<sup>rd</sup> party:

- Cash Value = Fair market value - unpaid principal and reasonable cost incurred to sell



- Actual Income = Monthly rent amount received – any interest, taxes, insurance, and maintenance fees

If the property was sold on contract, obtain a copy of the contract, and determine whether there is a mortgage; if so, what is the interest rate. This information helps to determine which method will be used for calculating income. The easiest method is to obtain a copy of the federal tax return with all schedules.

If the property is currently listed for sale, obtain a copy of the listing agreement. If the sale is pending, obtain a copy of the Real Estate Settlement Procedures Act (RESPA) that will reflect the net proceeds from the sale. If the property has recently closed, request the HUD-1 Settlement Statement which shows the cash value received.

Note: The following verification may be needed to calculate income from asset; Mortgage Statement, Tax Statement, and documentation to support broker fees and closing costs.

### **\*Example - Calculate Income from Assets**

To calculate income from assets, use the following method:

- Cash value equals the market value **minus** the following:
  - Penalties for early withdrawal (before maturity)
  - Broker/legal fees assessed to sell or convert the asset to cash
  - Settlement costs for real estate transactions

Examples of determining the cash value of an asset:

Home valued at \$100,000 with a **mortgage** of \$60,000. The cost to dispose the asset is \$10,000.

\$100,000	home value
\$60,000	less mortgage
<u>\$10,000</u>	<u>less cost to dispose</u>
<b>\$30,000</b>	<b>CASH VALUE</b>

In the event of a divorce the asset will be divided by 2 with each spouse getting an equal share. Therefore, in the example above, the value for one person would be \$15,000 and not the \$30,000.

### **E. Certificate of Deposit (CD)**

Certificate of Deposit having a market value of \$10,000 earning 4% interest. The owner will be charged an early withdrawal penalty of 3 months of interest- ( $\$10,000 \times 4\% = 400.00 / 12 = 33.33$ )  $33.33 \times 3$  months of interest = 99.99. The cash value would then be \$10,000 minus the \$99.99 or 3 months of interest = **\$9,900.01**

F. **Cryptocurrencies (i.e., Bitcoin)**

Cryptocurrencies such as Bitcoin are digital currencies which operate without the oversight of banks and governments that can be converted to cash. They are also typically held in interest-yielding crypto accounts called DeFis (Decentralized Finance platforms). Management staff must request a statement for the cryptocurrency account to obtain account balance and determine the cost to convert to determine cash value (cash value = market value minus cost to convert). Management staff must then determine actual income for assets by verifying the account's interest rate.

**(2.7) Maintaining Low Occupancy/Recertification**

A. **Background on Income Certification and Recertifications**

Income Certifications must be completed before the qualifying tenant initially occupies the unit. The Income Certifications are valid for a period no longer than one year from the effective date. Generally, the property's Regulatory Agreement requires that annual Recertifications be completed on an annual basis.

To ensure program compliance, management should send the first recertification reminder to the tenant's household 120 days before the initial certification expires, with reminder notices sent every 30 days until the final 30-day recertification reminder is sent. A copy of the recertification notices must be maintained in the resident file to demonstrate that the resident has been notified within the prescribed time frame. TSAHC will monitor to verify that notices are being sent to residents in a timely manner. After proper notification has been sent to the resident, failure to respond by the resident within the time frame provided is a program violation and places the unit in non-compliance.

If said household complies with the Recertification requirements, the unit is then treated as its previous designation as an Affordable Unit.

If a household is not recertified within the appropriate time, the unit is non-compliant and the unit will be considered a Market Rate Unit and cannot be counted in the total set-aside until a recertification has been completed or a new eligible household moves-in. Therefore, it is critical that new applicants are made aware of the annual Recertification requirement at the initial move-in. In the event the lease does not spell out the Recertification requirements, a lease addendum must be used with a stated provision for failure to comply with the requirement of the program can lead to an eviction.

Annual Recertifications can be performed retroactively, if management is able to obtain supporting documentation that clearly demonstrates that the household was eligible from the time of annual recertification using the income limits in effect on that time frame. Regardless of the retroactive Recertification, all forms must be dated using the current date.

Households planning to move out of the property before the current Recertification expires can do so without having to recertify and will not be in non-compliance. However, households who

give a 30-day notice and fail to move out at the scheduled time or chose to stay beyond the intended move out date must recertify promptly to avoid losing the Affordable Unit status of the unit. A copy of the notice to vacate must be submitted to TSAHC prior to the next applicable reporting period.

Note: Under the 2008 Housing Act, the requirement to obtain an annual recertification of income from tenants is waived to the extent that the project is 100% occupied by tenants who meet either the 20-50 Test or the 40-60 Test.

On April 17, 2008, pursuant to TSAHC Resolution 09-01, the Board of Directors of TSAHC approved the ability of TSAHC's President or Executive Vice President to provide a waiver of the enforcement of recertification provisions formally recorded in Regulatory Agreements that are inconsistent with current state and federal law (2008 Housing Act). Therefore, Owners may submit a request a waiver the recertification requirements if their projects is 100% occupied by tenants who meet either the 20-50 Test or the 40-60 Test.

TSAHC's policy will require annual recertifications to be completed unless a such waiver is submitted for review by the owner and approved by TSAHC. If approved, a formal "Letter of Approval" under Resolution 09-01 will be executed and filed for such project. This process must be completed annually for such project.

Once a resident qualifies as a Qualifying Tenant, the household can continue to occupy the same unit unless during recertification his or her adjusted gross income exceeds 140% of the current applicable income limit at that time. If unit can maintain the 50% or 60% Test, Affordable Units status if the rent remains restricted and the next available unit of smaller or comparable size is leased to a Qualifying Tenant.

**B. Next Available Unit Documentation**

When a household's income exceeds 140% of AMGI of the current applicable income limit at that time, the Next Available Unit Rule becomes effective and the over income unit (the "OI unit") and the unit that replaces the OI unit (the "Replacement Unit") must be tracked for verification purposes. Per the 2008 Housing Act, the next available unit rule is applied on a building-by-building basis in the case of a bond financed project for which tax credits are allowed under Section 42 of the Code.

Below is the information that should be documented to track the units. Management staff must maintain a document and/or have software program in place to document and track the OI unit and the Replacement Unit. The following information can be used to create a tracking chart for your particular property:

Over Income Unit	
• Resident name	• Unit Number

• Number of persons in household	• Unit size (sq ft)
• Date of Move In	• Income at Move In
• Date Recertified	• Recertified Income
• Current Income Limit	• 140% of Income Limit
• Date of Move Out (if applicable)	• Time of Move Out
• Rent at Recertification	• Rent after Recertification
• Reason for Recertification	

Next Unit Leased	
• Resident Name	• Unit Number
• Number of persons in household	• Unit Size (sq ft)
• Date of Move In	• Income at Move In
• Time of Move In	• Current Income Limit

C. **Unit Transfer for Tax Exempt Bond**

For tax-exempt bond purposes, households may transfer to any unit within the development without certification of income and asset. Please note, the original move-in date will remain with the household regardless of the transfer date. Annual recertifications will be due on the anniversary date of the original move-in date. For example, unit 100 initially moved-in and completed an Income Certification form on March 1, 2023, then transfers to unit 200 on June 15, 2023. The Income Certification move-in effective date should remain March 1, 2022 for this household. The annual recertification (and effective date) will be March 1<sup>st</sup> annually thereafter.

Note: If the property is layered with Housing Tax Credits, the owner and management staff may follow the Housing Tax Credit transfer rules as described by TDHCA. However, the owner and management staff must supply the required documentation (i.e., IRS Forms 8609 with elections made on line 8(b) and attached building statement, if required, along with the property's written transfer policy) for the TSAHC auditor to review transfer per company policy.

D. **Family Size Increases**

When the size of a household increases after the initial certification, the new family member's income must be verified via third party. After the income, assets, and student status of the new family member has been verified, it may be added to the most recent existing household's Income Certification. The existing Income Certification is signed and dated by the new household member, using the current date. **DO NOT BACK DATE ANY FORMS.** The

existing household member's income does not need to be verified until the household's next annual certification. The household's effective date does not change.

E. **Family Size Decreases**

If the household size decreases, it is not necessary to make any changes until the next annual recertification. The decrease will not trigger the Next Available Unit Rule, unless at recertification the household income exceeds 140% of the income limit. At that time, the unit is subject to the Next Available Unit Rule.

**(2.8) Rent and Lease Requirements**

A. **Rent Restrictions**

Unless otherwise provided in a particular Compliance Agreement or Regulatory Agreement, the Owner generally shall not, during the longer period of the qualified project period or the period during which the tax-exempt bonds remain outstanding, charge rents exceeding those consented to in writing by TSAHC. As a general rule, the maximum rent that may be charged for any such unit may not exceed 30% of the applicable median gross income for the county in which the Project is located, as prescribed by HUD, under Section 8 of the United States Housing Act of 1937, as amended (the "Housing Act of 1937"), adjusted for family size, assuming 1½ persons per bedroom and without taking into account any allowance for utilities. **Please note that the provisions of any relevant Compliance Agreement or Regulatory Agreement would prevail over this Section and therefore such documents need to be reviewed in their entirety.**

For 501(c)(3) transactions for which TSAHC issued tax-exempt bonds prior to 2004, pursuant to the respective loan agreement, rents for VLI units and LI units cannot be raised more than five percent (5%) from the current rent or the Consumer Price Index, whichever is higher. Owners requesting a rent increase greater than the 5%, must provide written consent to TSAHC. If TSAHC does not respond within 10 days of the receipt of the notice, the property can increase the rent to the amount stated in the notice. This restriction may or may not apply in any future 501(c)(3) bond transactions completed by TSAHC, therefore, the same requirement regarding the review of the relevant Compliance Agreements or Regulatory Agreements mentioned above applies for all 501(c)(3) transactions as well.

B. **Lease Requirements**

The lease or rental agreement that property's use must contain provisions(s) that inform the tenant that the Owner and management staff relies on the Income Certification and the supporting documents provided to verify and establish program eligibility for the program's set-aside requirements (20/50 and 40/60 Tests). A statement must also be present that informs the applicant/resident that any material misstatement in such certification (whether intentional or not) may be cause for immediate termination of the lease. The lease must also inform the resident that their residency is also subject to annual recertification. Lease agreements must be a minimum of six (6) months to be in compliance with the program requirements.

TSAHC uses the most current MSA rent schedule provided by HUD. The rents may not exceed 30% of the applicable Median Gross Income for the county or city in which the property is

located. Utility allowances are not taken into account on TSAHC bond financed developments. Communities with project-based Section 8 (HAP Contracts) utility allowances and utility rates used must be current. The resident's gross rent and utility allowance added together must not exceed the maximum rent allowed by HUD. The housing subsidy is not taken into consideration when calculating a household's gross rent.

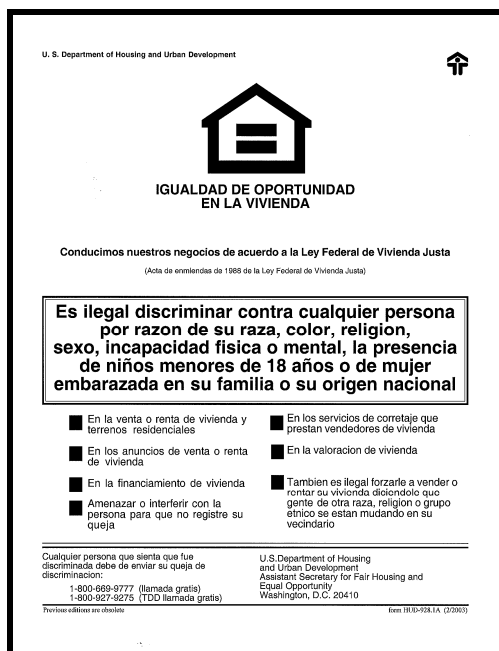
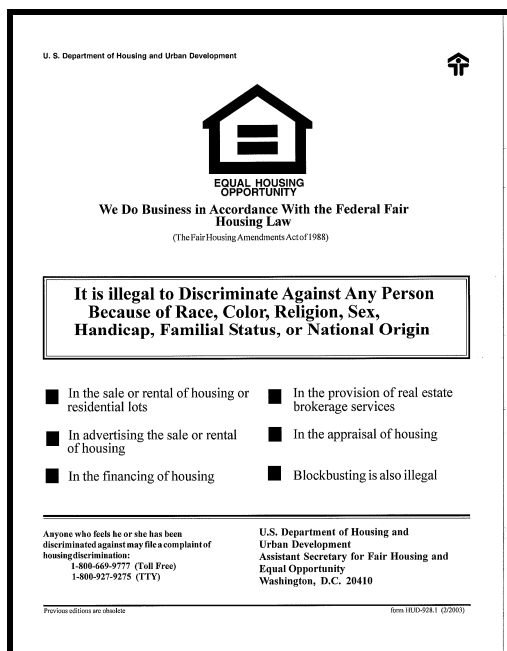
As indicated in the applicable Owner's Regulatory Agreement, none of the residential units in the property will be utilized in the following manner at any time:

- On a transient basis
- Used as a hotel
- Used as a motel
- Used as a dormitory
- Used as a fraternity house
- Used as a sorority house
- Used as a rooming house
- Used as a nursing home/rest home
- Used as a sanitarium
- Used as a trailer court or park
- Rented for less than 30 days
- Owned by a Co-Op Housing Corporation

C. **Fair Housing Compliance**

All developments funded by TSAHC must follow the Fair Housing Act, Title VIII of the Civil Rights Act of 1968. Applicants cannot be discriminated against based on race, color, national origin, sex, age, disability, religion, or familial status. The Fair Housing poster is required to be displayed in a visible location in the leasing office for view by the general public. If a significant number of clients are Spanish speaking, it is strongly recommended that the Spanish version of the Fair Housing poster be visible as well.

According to the Code of Federal Regulation, Title 24 Volume 1, Subpart C-Enforcement Sec. 110.30-Effect of failure to display poster: "Any person who claims to have been injured by a discriminatory housing practice may file a complaint with the Secretary pursuant to part 105 of this chapter. **A failure to display the fair housing poster as required by this part shall be deemed prima facie evidence of a discriminatory housing practice.**



In addition to the Fair Housing Poster, the Fair Housing Logo must be made visible for the general public as well. This logo can be placed on the front or back door entrance, or any entrance or exit that the general public has access to. This logo can be accessed via the HUD website: [www.hud.gov](http://www.hud.gov).



Apartment homes at all developments must be available for lease on a continuous basis to members of the general public, and no preference will be given to any particular class or group renting the units, except that units are required to be leased or rented to Qualifying Tenants. At no time will any portion of the property be exclusively reserved for use by a limited number of nonexempt persons in their trades or business.

Potential residents cannot be discriminated against based on his/her participation in the Section 8 program administered by HUD.

D. **Owner/Management Responsibilities**

The Borrower/Owner is the responsible party for ensuring compliance with the applicable rules, regulations and policies that govern the program and shall make certain that all requirements are met on an on-going basis. Fair Housing training and Compliance training is highly recommended on a continuous basis because of the frequent program regulation changes. Additionally, the management staff should be provided training in Section 504 Accessibility to effectively serve the physically challenged clientele. Owners must ensure compliance with the Regulatory Agreement, Compliance Agreement and Asset Oversight Agreement discussed in Chapter 3.

**(2.9) Resident Services**

The Compliance Agreement and/or the Regulatory Agreement sets forth the Borrower's/Owner's agreement to provide Resident Services. Resident Services can be provided monthly to meet the required number of services needed on a monthly or quarterly basis (Borrower/Owner elects the number of services provided at the time of bond application). It is encouraged that a variety of services are provided to reach all residents when creating a Resident Services Program. Resident Service Programs can be used as a marketing tool and the activities offered can provide support for each other. Residents can also benefit from the program by learning new skills and obtaining services that they may not have been able to receive. If activities do not receive any attendees, the Resident Services Program should be evaluated to ensure that activities continue to serve the residents' needs.

3. **REGULATORY AGREEMENT, COMPLIANCE & SECURITY AGREEMENT AND ASSET OVERSIGHT AGREEMENT**

**(3.1) Regulatory Agreement**

The Regulatory Agreement and Declaration of Restrictive Covenants (or document of a similar name and purpose, the "Regulatory Agreement") is a critical part of the TSAHC Compliance Review process. The Regulatory Agreement is the primary document that assures compliance with the federal income tax laws (discussed in Chapter 2) and describes the set-aside requirements for each project. The Regulatory Agreement also serves to inform interested and involved parties of the rights and responsibilities associated with ownership and management of the multifamily asset in question. It is the primary document referenced within the Trust Indenture and Financing/Loan Agreement used for incorporating TSAHC's "Reserved Rights" into Bond Document requirements. Please review each Regulatory Agreement related to each particular project for a full understanding of its requirements of each Borrower and project.

**(3.2) Compliance & Security Agreement**

When TSAHC issues tax-exempt bonds, the proceeds of which will be used to acquire, renovate construct, or operate a low-income multi-family housing project, it also enters into a Compliance and Security Agreement ("Compliance Agreement") with the Borrower of such proceeds. The Compliance Agreement contains covenants, reservations and restrictions that run with the property. Generally, the Compliance Agreement sets forth various rehabilitation standards, required resident services (discussed in Chapter 4), the replacement reserve fund for physical



maintenance and repairs, management agreement restrictions and the Issuer's role in compliance. The Compliance Agreement addresses both federal tax law requirements and certain state law requirements. Please review the Compliance Agreement for each project to fully understand the compliance requirements for each Borrower and project.

### **(3.3) Asset Oversight Agreement**

When TSAHC issues tax-exempt bonds, the proceeds of which will be used to acquire, renovate construct, or operate a low-income multi-family housing project, it also enters into an Asset Oversight and Compliance Agreement ("AOC") with the Borrower of such proceeds. Generally, TSAHC is appointed as the initial asset oversight agent, which visits the property annually to review marketing plans, compliance, and the operation of the facilities. Please review the AOC for each project to fully understand and determine the asset oversight requirements for each Borrower and project.

## **4. REPORTING REQUIREMENTS**

### **(4.1) Overview of Reporting Requirements**

TSAHC requires reports to be submitted electronically through their web-based Online Compliance System (the "System"). It is the Owner's responsibility to ensure that the appropriate persons have access to the System. Access can be requested by submitting an email to the Asset Oversight and Compliance Department. Reporting submission will begin as follows:

For Acquisition/Rehabilitation: No later than 12 months after the closing date

For New Construction: No later than 2 years after the closing.

### **(4.2) Annual Fair Housing Sponsor Report**

Each property, unless exempt, is required to submit a Fair Housing Sponsor Report. The first Fair Housing Sponsor Report will be due on the date noted on the Asset Oversight and Compliance (AOC) agreement and annually thereafter. The Fair Housing Sponsor Report is comprised of four parts as noted below and it due to TSAHC no later than March 30<sup>th</sup> of each year:

#### **Part A: Owner's Certificate of Program Compliance (Section I -III)**

On an annual basis, the Owner must certify compliance with program requirements. All questions in Section I – III must be answered. Section I requires Development contact information, Section II requires Tax Exempt Bond and Direct Lending Certification, and Section III requires Demographic information.

#### **Part B: Unit Status Report (USR)**

All developments must certify that the information submitted on the December USR of the reporting year is complete and accurate.

### Part C: Resident Services Provided

All development must certify that a recent Annual Resident Service Plan has been submitted to TSAHC.

### Part D: Development Financial Information

The Owner and management staff is required to submit certain financial information electronically to TSAHC. Reports include but are not limited to Rent Roll, Operating Expenses, Profit Loss Statements, IRS Form 8703, Development tax Statements, copies of insurance, and a Physical Needs and Improvements Assessment with a cost breakdown and estimates.

#### **(4.3) Annual Resident Service Plan**

The Owner is required to submit Resident Service Plan electronically, via email to the Asset Oversight and Compliance department. The Plan should provide the proposed list of resident services that will be provided to the tenants for the following calendar year. A list of suggested resident services can be found on <https://www.tsahc.org/property-managers/property-manager-downloads>.

#### **(4.4) Monthly Reporting Requirements**

On the 10<sup>th</sup> of each month, management staff must submit the following reports through the System. Failure to report will result in non-compliance.

- Unit Status Report
- Certificate of Continuing Program Compliance
- Occupancy Summary
- Resident Services Report (see attachment 3)

#### **(4.5) Applicant/Tenant Complaints**

Upon receipt of valid complaints TSAHC may contact the Owner and Management Agents to request a written explanation and/or supporting documentation regarding the nature of the complaint.

### **5. TSAHC COMPLIANCE PROCEDURES**

#### **(5.1) The Benefits of a Successful Compliance Program**

A well thought out compliance program should take into account a systematic approach that make certain management adheres to the applicable laws and standards of a government regulated program. A successful compliance program generally includes:

- Policies and procedures for compliance standards
- Oversight from upper management with corrective action standards in place

- Monthly and annual reporting submitted to the governing entity within the prescribed time frame
- Staff internal audits and on-going monitoring with enforcement from management for areas of non-compliance
- Education/training
- Employee screening for qualified/trustworthy employees
- Prevention to reduce deficiencies before they become problems

Prevention is the key reason for having an effective compliance program in place. It is a pro-active approach; however, it does not eliminate errors from occurring. It can be used as a measuring tool to evaluate procedures already in place. Analyzing a program can be done with two basic concepts in mind, effort, and outcome.

- Effort includes the time, money, resources, and commitment that must be placed into the program.
- Outcome includes the process of how things are done. If procedures are being followed, fewer errors should be occurring. If employees are attending training, it should be evident in daily operational performance and the monitoring process will reflect fewer errors.

A compliance program can exist within the framework of the property's policies and procedures that are already in place.

With the above-mentioned elements of effort and outcome ingrained into a compliance program, these benefits can be realized:

- Prevents problems and potential problems from escalating
- Pro-active measures will identify and disclose voluntarily program violations found by the property as opposed to a monitoring auditor
- Acts as a safeguard
- Acts as a defense against a liability
- Compliance is not an option, it is a mandate
- A voluntary program can work much better than a mandatory program and can be less costly

## **(5.2) Statement of Work**

TSAHC utilizes industry related concepts of Asset Management as its method of compliance oversight pertaining to TSAHC bond documents that encompass the Trust Indenture, Loan Agreement, Regulatory Agreement, Asset Oversight Agreement and Compliance Agreement.

TSAHC has integrated a monitoring system that will serve to effectively and efficiently to conduct Compliance Reviews for each property within the TSAHC portfolio. As part of its Asset Oversight and Compliance Review function, TSAHC shall endeavor to maintain continuous knowledge on all aspects of property operations in the areas of owner maintenance, security, leasing, occupancy, financial status, and resident services so that potentially unfavorable conditions can be identified and promptly corrected. TSAHC staff will closely monitor issues of non-compliance relating to TSAHC bond documents and general industry practice. In each case

of compliance or non-compliance, TSAHC will document findings and observations on the TSAHC Compliance Review Observation Report.

TSAHC conducts annual compliance reviews to make certain that income set-aside requirements, rent and lease requirements, as well as resident services requirements are being met according to the Owner's Regulatory and Compliance Agreements.

Compliance Reviews serve as TSAHC's method of verifying owners and their management staffs are adhering to established guidelines in all areas of property operations as required by the Compliance Agreement. Strong emphasis is placed on detecting non-compliance with TSAHC bond document requirements. TSAHC shall ensure that each property is subject to a review no less than once every twelve-month period. Owner's and management staffs will be given no less than a 30-day notice of their annual management review.

The guidelines laid out in this manual are based on federal and state regulations, as well as the individual contract between TSAHC and the owner. Specifically, reference for this information may be found in the Regulatory Agreement/Compliance Agreement and Chapter 5 of the HUD Handbook 4350.3 Rev 4. For management related industry matters, reference is taken from the 2008-2009 version of the Texas Apartment Association (TAA) Redbook. For details on requirements, procedures and references please consult the stated governing documents.

### **(5.3) Annual Compliance Review Procedures**

#### ***(A) Background***

- TSAHC's approach to ensuring program compliance is by conducting the annual Compliance Reviews ("Review") of each property. Annual Reviews are conducted both in-person and virtually and scheduled throughout the year by the assigned Asset Oversight and Compliance auditor and are scheduled throughout the year. Once a Review notification is sent to the Owner and all appropriate contacts, the Review date is set. Schedules are prepared with travel cost factors in mind; therefore, changing an audit may not always be possible. The auditor follows the flowing 4 steps, each will be discussed in detail in the subparagraphs below: Issue Review Notification Letter (notification of on-site or virtual review)
- Conduct Desk Review (auditors prepare in office a few days prior to scheduled date)
- Conduct Annual Review (Review date- auditor discuss asset management, review tenant files, reviews general management practices, etc. and conducts close out meeting)
- Issues Annual Compliance Report (summary of the Review that includes observations and findings if any with corrective action due dates)

#### ***(B) Auditor's Compliance Review Process***

The auditor will issue a Compliance Review Notification letter and send it to the owner and management staff no less than 30 calendar days in advance of the scheduled date. This notification letter will inform the owner and management staff if the property is scheduled for an

on-site review (attachment 4A) or a virtual review (attachment 4B). The notice will require the Owner and management staff to submit a specific set of property reports, including the Entrance Questionnaire (attachment 7) and the Contact Sheet days prior to the Review date for TSAHC's review.

Once the letter is issued, an auditor will perform a review of the following:

- Review the submission of requested property reports (as listed on the Review Notification letter)
- Review the current on-line Certificate of Continuing Compliance to determine if property follows required set-asides.
- Review the current on-line Unit Status Report submitted to determine files to be audited based upon property's self-reporting.
- Review the current on-line Resident Services report submitted to determine if the binder on-site is consistent with the on-line reporting.
- Review the property leasing/occupancy criteria to determine if the property's eligibility procedures to ensure they follow their company policy.
- Review the submitted Entrance Interview Compliance Questionnaire to help TSAHC staff determine areas of non-compliance.
- Review previous Compliance Reviews to make a better determination of the property's status and movement towards compliance with regulatory, contractual, or federal regulation requirements.

The auditor will make note of questions they need clarified on the day of the Review.

### **(C) Leasing and Occupancy Review**

Auditors will assess in the following areas:

- Resident selection and orientation
- Leases and Renewals
- Rent schedule and rents charged
- Application process (a thoroughly completed application from the resident must be in each resident file)
- Initial and annual recertification systems/practices
- Resident files and records (including, Income Certification and supporting documentation)
- 20% of the resident files for audit review

The Income Certification will be reviewed to verify the current TSAHC form (or other approved certification forms) is being used in all resident files. A key area of the compliance review helps to determine that eligibility documents contained in the resident files are complete, accurate and has the supporting documentation to sustain the information provided by the household. The intent of this review confirms whether the Owner/Agent is complying with the occupancy requirements as set forth in the Regulatory and Compliance Agreements.

The file assessment includes, but is not limited to:

- Applicant screening
- Application intake process
- Section 8 voucher holder requirement
- Verification procedures
- Proper calculation of household annual income
- Calculation of tenant rent, if applicable
- File maintenance

After a sampling of the required files, and at the auditor's discretion, an expansion on the number of files assessed may occur, if indications of recurring problems exist.

#### **(D) Resident Service Review**

Auditors will analyze:

- Resident activities
- Resident participation
- Resident relations
- Resident satisfaction

Program effectiveness and proper tracking/reporting will also be reviewed. A request for any materials, pamphlets, or memoranda that the property has or distributes to residents for verification of numbers reported, as well as copies of Memorandum of Understanding or Contracts that a property may have with external agencies that support their programming during this time frame. Owners will be encouraged to provide community space to interested agency's willing to provide on-site resident services.

#### **(E) General Management Practice Review**

The auditor will review general management practice in which includes a review of the management's policies and procedures relating to leasing and occupancy operations. It may include, but is not limited to staffing, staff supervision, training and operating policies and procedures. The auditor will fully inform management staff of areas to be assessed on the day Review. In addition, the auditor will follow up on certifications of corrective action submitted from the previous evaluation to ensure that the Owner's Certification was indeed performed. In cases where Owners submitted information that was false or inaccurate from the previous year's evaluation, the Owner and management staff must receive a Finding. Corrective action will require strict monitoring and visual verification of any subsequent certifications submitted by the property. The following subparagraphs detail what the auditor will review on the day of the Review.

#### **(F) Close out Meeting**

Upon completion of the Compliance Review the auditor will conduct a close out meeting with the management staff. TSAHC's policy requires that a representative of the management staff be present, this may include the compliance manager, regional managers and/or on-site managers.

The auditor will take this opportunity to outline any areas of concern and potential areas of concern with possible recommendations for improvement during this meeting.

### **(G) Compliance Report**

The auditor is responsible to write a comprehensive report detailing the property's program eligibility status. Upon completion of the report draft. The auditor will have the Manager of Asset Oversight and Compliance peer-review the report. Once approved, the auditor will email the Compliance Review Report (attachment 5) and the report cover letter (attachment 6) to the Owner, Property Manager and any relevant contacts provided by the owner. The final report is due to the owner within 90 days after completion of the annual audit, but it is TSAHC's goal to have them distributed within 30 days. If non-compliance is found, corrective action will be required to be submitted.

### **(H) Submitting Corrective Action**

When responding to corrective action, it is critical that the documents submitted be complete and legible. Please use the process listed below when submitting corrective action to the appropriate TSAHC auditor.

- All documents must include the applicable unit number
- Notices should be submitted on company letterhead to the attention of the appropriate auditor, the corrective action measures taken, and the documents being submitted.
- All documents must be legible in the format submitted, (i.e., e-mail, fax, or certified mail)
- Document forms must be the most current form in use for the program(s)
- The name and title of management staff submitting the corrective action should be provided so that an appropriate response can be sent to the Owner to clear the deficiencies.
- Documents must be submitted on white paper only. Color paper is not acceptable for copy and reading purposes.

In the event the corrective action documents submitted does not cure the deficiencies, an Incomplete Response Notice will be sent by via email and certified mail. This notice will provide details giving reference to the missing documentation that should have been submitted but was not received. It will also address the process to correct the violation or the appropriate information necessary to submit to TSAHC. Please refer to the notice and submit what has been requested, or the documentation to substantiate the information submitted to clear the deficiency.

## **6. BORROWER'S/OWNER'S GUIDE AND TIPS FOR ANNUAL REVIEW**

### **(6.1) Compliance Review**

When the owner and management staff receive a notice that your community is scheduled for a Compliance Review, it is a good time to make certain that the compliance policies and procedures already in place are effective. Management should immediately take note of whether the review will be conducted on-site or if it will be conducted virtually. The type of review you

are scheduled for will determine what specific reports are due to the auditor and when they are required to be submitted for the auditor's preparation review (prior to the scheduled Review date).

#### **(6.2) Desk Review Submissions & Tenant File Notice:**

Depending on the type of review notification received (on-site or virtual), the notice will provide a list of required reports that must be submitted prior to the review date. Management staff should begin preparing these reports for timely submission.

- For Virtual Reviews: The Review notice letter will state that fourteen (14) days prior the Review date, the auditor will notify management staff of the tenant file that have been selected to be reviewed. Management staff will be required to submit electronic copies of the tenant files (via secured share folder) to TSAHC within two business days from the date management was notified of the tenant file selection.
- For On-site Reviews: The Review notice letter will state that the auditor will notify management staff of the tenant files that have been selected for review on the day of the onsite visit.

#### **(6.3) Tenant File Reviews**

During the tenant files review, the auditor will monitor each file to verify household eligibility and review management's program eligibility practices. The tenant file that are selected for review are a mix of:

- New move-ins
- Annual recertifications
- Incomes close to the maximum limit
- Move-outs used to determine qualifying vacant unit status
- Files that may have questions

The auditor will always review the initial Income Certification to determine if the household was initially eligible in addition to the most recent Recertification or Annual Eligible Certification to ensure program compliance. A compliance file checklist is used to record the household information (attachment 8).

Getting through a successful file review is achievable. Much of the information that we review and consider in compliance include:

#### **Documents that must be included in each resident file**

- Application that is completed in its entirety by all adult household members 18 years of age and older with signature and dates (**all** blanks are answered)
- The application must request current information on income and assets. If not, the TAA Supplemental Rental Application must be used, and all areas of the form must be completed (all boxes must be checked) and clarification or supporting documents must accompany any "Yes" answers.



- Tenant Release and Consent signed and dated by all adults
- Employment Verification
  - Not written on by staff
  - Unclear information has been verified using a phone clarification
  - Dates correspond with the Income Certification (e.g., not dated after move-in)
  - Verifications are within the 120-day period of certification effective date
  - If check stubs are used, a consistent number so that auditor can determine if property adhering to occupancy criteria
- Income calculations must indicate overtime, bonuses or anticipated pay increases as indicated on the employment verification. This includes Social Security cost of living adjustment (COLA) increases.
- Income calculation worksheet to show the property calculation (must be gross amounts)
- Asset income is calculated according to the \$5,000 rule (Under and Over \$5,000)
- Assets and the disposal of assets verified on the application and is mentioned on the Supplemental Rental Application (if applicable)
- Student Certification form
- Student Eligibility (if household is a qualified household)
- Lease agreement with all initials and signatures
- Lease Addendum for Government Regulated Housing or a Lease Addendum informing of the tax-exempt bond requirements
- Income Certification forms:
  - Checked with the correct action type (Initial Certification or Recertification)
  - Effective date and move in date are filled in
  - Include all household members, relationship code, date of birth, and student status
  - Reflect the household income and assets for all adults with the supporting documentation in the file
  - Signed and dated by all household adults
  - Signed and dated by management staff
- Rent charged is the correct rent according to the unit
- Recertifications are completed in the time prescribed (every 12 months)
- Recertifications have separation to determine one year from another

Note: WHITE OUT IS NEVER ACCEPTABLE

Common issues in a tenant file that can trigger non-compliance and result in a finding:

- Application Missing
- Income Certification form missing or incomplete
- Missing required documents to determine eligibility (missing or incomplete income or asset verification, no tenant release, etc.)

- Information on Unit Status Report differs from resident file documentation
- Copies of income verifications that appear to have been altered
- Not tracking the Next Available Unit Rule
- No child support documentation and household have children
- Initial eligibility not clearly documented
- Staff completing resident documents (there are red flags that will alert an auditor that this is the case)
- Blank forms in the file having signatures and dates
- Documents that appear to be fraudulent (signed by another and not the resident)

As a source of reference for management staff, the following governing documents should be placed in a binder and accessible to the on-site staff for easy reference of day-to-day operations and management directives.

- Regulatory Agreement
- Compliance Agreement
- Asset Oversight Agreement
- HUD Handbook 4350.3
  - Chapter 3 – Eligibility for Assistance and Occupancy
  - Chapter 5 – Determining Income & Calculating Rent
  - Exhibit 5-1 – Income Including and Exclusions
  - Exhibit 5-2 – Assets
  - Appendix 3 – Acceptable Forms of Verifications
- Property Inspections
- Current Licenses and Permits
- If the property has project-based Section 8-HAP Contract

### **TSAHC Suggested File Order**

#### **Left Side**

- Tenant Income Certification (TIC pg. 1-3) and Recertification/Annual Eligibility Certification
- Calculations Page
- Proof of Income
  - Types of Verification
    - Verification of Employment (Employment Verification Telephone Verification, Check Stubs)
    - Social Security Income Document
    - Child Support (Statement/Affidavit/Divorce Decree)
    - Recurring Gift Affidavit
    - Unemployment Income
    - Certification of Zero Income Affidavit
    - Clarifications if needed
- Unemployment Affidavit
- Divorce Decree

- Separation Statements
- Student Status Certification
- Student Eligibility, if applicable
- Assets Certifications (Over \$5,000/Assets Under \$5,000)
  - Third-party verification for Assets Over \$5,000
- Application
- Supplemental Application
- Tenant Consent and Release
- Credit and Background Report

### **Right Side**

- Lease
- Affordable Housing Addendum
- Other Addendums and Property Forms

### **Reminders**

- All Income Verification for each adult household member should be together
- If clarification is needed, place the clarification behind or after what is being clarified
- The rest of the file can be used for other documents such as housing contracts, adjustments, and correspondence.

### **(6.4) Close Out Meeting**

During the close out meeting, the auditor will discuss findings, observations and any areas of concern found during the audit with the management to clarify any area(s) that may be unclear. Management staff must be present to discuss areas of concern, to take notes, and to get a good understanding of what the auditor may need to close the finding(s), if any.

### **(6.5) Final Report**

The Owner and management staff, Property Manager and any relevant contacts provided by the owner will receive the Compliance Report within 30-days of the review. The final report is due to the owner within 90 days after completion of the annual audit, but it is TSAHC's goal to have them distributed within 30 days. The Report should be read thoroughly and corrective action, if any, should be responded to with the timeframe listed on the Report.

## **7. TRACKING AND MONITORING STATUS**

### **(7.1) Findings**

Findings are non-compliance violations that require specific action from the owner and management staff as required by TSAHC. All findings will identify the issues in a clear and concise manner. The Finding will state the non-compliance problem and provide corrective

action to get the non-compliant issue back into compliance. A due date for the corrective action will also be provided.

### **(7.2) Corrective Action**

The Owner or management staff is responsible for submitted corrective action with the 30-day cure period (30-day after the Report is issued or as stated in the Compliance Report). Management staff is asked to carefully review the corrective action required to submit the required information needed to close the Finding.

Compliance Agreement Cure Period – Please review the applicable Compliance Agreement default and enforcement provisions. Generally, if an Owner defaults in the performance or observance of any covenant, agreement, or obligation of any of the Owner set forth in the Compliance Agreement, and if such default remains uncured for a period of **60 days** after written notice thereof from TSAHC to the Owner, then TSAHC shall declare an “Event of Default.” Additional time may be permitted to cure the default under the applicable Compliance Agreement.

Regulatory Agreement Cure Period – Please review the applicable Regulatory Agreement for specific default and enforcement provisions. Generally, if an Owner defaults in the performance or observance of any covenant, agreement, or obligation and if such default remains uncured for a period of **60 days** after written notice from TSAHC or Trustee to the Owner, then the Trustee shall declare an “Event of Default.” Additional time may be permitted to cure the default under the applicable Regulatory Agreement.

The corrective action timeframe is normally within 30 days to cure. When all findings are current, a “Finding’s Cleared Letter” shall be sent (See Attachment 9).

### **(7.3) Observations**

An observation is an area of concern that can be improved upon and is followed by a recommendation from TSAHC. Recommendations accompany Observations in the same manner that Corrective Action accompanies Findings. Adherences to recommendations are not mandatory but do provide serious consideration to the directions given.

### **(7.4) Responses**

There are two types of notices sent to owners who either do not respond to the corrective action requested or who do not provide sufficient information to cure the finding. They include the following notices:

- Non-Response: If TSAHC has not received a Corrective Action response within the prescribed time frame, a Non-Response letter (Attachment 10) will be sent via email, and if needed via certified mail, return receipt requested, requiring a response within 10 calendar days.
- Incomplete or Insufficient Response: Incomplete or insufficient submissions of Corrective Action will warrant follow-up correspondence (Attachment 11)

informing the owner and management staff of the specific findings lacking completion. The follow-up correspondence will be drafted specifically to the outstanding finding at hand and will be sent within 10 calendar days from receipt of the incomplete documents submitted. This notice will be sent via e-mail and certified mail, if needed.

#### **(7.5) Extensions**

Properties requesting an extension to cure corrective action requirements must submit a formal written request on company letterhead to the TSAHC Compliance Manager who will approve or deny the request. A written response to the request will be sent within five days of the approval. Extensions will only be granted if the finding cannot be cured within 30 days and in TSAHC's judgment cure has commenced. The length of the extensions is determined on an individual basis.

Upon receipt of the corrective action and notices of insufficient action has been sent to the owner, it is the owner's responsibility to inform TSAHC of the corrections.

### **8. DEFAULT PROCEDURES/ENFORCEMENT AND OPPORTUNITY TO CURE**

TSAHC takes its role as the Issuer of Bonds that establish affordable housing seriously. Borrower's/Owners that receive the benefit of these Bonds are bound to the requirements that accompany them. TSAHC will always strive to educate and assist owners in their responsibilities as they relate to the Bonds. However, in those cases where owners are failing to meet their obligations, TSAHC will follow the necessary procedures that could ultimately lead to a default situation. *It is vitally important to understand that owners who are in a potential default situation will be given proper notice and opportunity to cure before a default can be declared.* The specific bond documents that govern the property in question should always be carefully reviewed on a case-by-case basis prior to initiating default action.

The Trust Indenture, Loan Agreement, Regulatory Agreement and Compliance Agreement (known as the bond documents) each have specific Notice of Default requirements pertaining to the manner of notice delivery, person and addressed notices are delivered to, documentation establishing notice delivery and timeframe upon delivery of notice to its recipient that constitutes actual receipt. Consequently, prior to initiating a Notice of Default that will begin the 60-day notice and cure requirement, TSAHC staff must closely review each of the above-mentioned bond documents for specific owner covenants that have been violated and for specific delivery instructions contained. In areas where much of the same information is required but one document may require additional, a more stringent method of delivery, TSAHC will incorporate the most stringent notice and delivery requirements among all its bond documents to simplify the process. Given that each bond document references another in important areas of compliance, TSAHC must ensure that it strives to incorporate each provision within the various bond documents that has been defaulted upon when drafting a Notice of Default. Upon completion of the draft Notice of Default, TSAHC legal counsel must approve it prior to its release.

The Regulatory Agreement and Compliance Agreement contain specific language regarding matters of default and enforcement action available to the Issuer or Trustee. Proper notice, delivery of notice and opportunity to cure must be followed in accordance with all relevant provisions of applicable bond documents. Specific penalties regarding non-compliance are also discussed. TSAHC legal counsel should be consulted prior to initiating Initial Notice of Default and any subsequent action thereafter.

An event of default can occur if the owner:

- Fails to pay compliance fees
- Fails to provide information requested by TSAHC
- Fails to meet the required set-aside requirement (Safe Harbor Requirement)
- Fails to provide Resident Services
- Fails to meet any of the other requirements as set forth in the Regulatory Agreement, Compliance Agreement, Asset Oversight Agreement, etc.

To the extent legally permissible and upon advance notice, TSAHC staff can inspect the books and records of a TSAHC financed property or the incomes of any of their residents, including but not limited to resident files during normal business hours. TSAHC staff may also choose to make copies if so desired and file such reports as are necessary to meet our requirements.

In determining whether a default by the owner exists, the Trustee shall not be required to conduct any investigation into or review of the operations or records of the Owner and may rely on any written report, notice or certificate delivered to the Trustee by any person retained to review the owner's compliance by the owner or TSAHC with respect to the occurrence or absence of a default unless it has actual knowledge of facts that create a reasonable basis to suspect that the report, notice or certificate is erroneous or misleading.

If an owner defaults in the performance or observance of any covenant, agreement, or obligation of the Regulatory Agreement the owner has a 60-day period to cure after notice has been given by TSAHC or the Trustees. The time to cure can only be extended if in the opinion of Bond Counsel, the failure to cure said default within 60 days will not adversely affect the tax-exempt status of interest on the tax-exempt bonds. See Section 15 of the Regulatory Agreement. The Compliance Agreement contains similar cure periods in the case of a default by the owner. See Section 13 of the Compliance Agreement.

The Regulatory Agreement and Compliance Agreement contain remedies for the Issuer as a result of a default. For example, TSAHC can collect monetary damages, use any other remedy available at law or in equity, etc.

## **9. RECORDS RETENTION**

Both TSAHC **and each property** must maintain all records pertaining to the properties for a period of no less than three (3) years following the later of the date on which no bonds remain outstanding or the end of the Qualified Project Period. All tenant files with supporting documentation, resident services information and sign-in sheets must be made available. TSAHC will retain all monthly, quarterly, and annual reports, in addition to the annual reports with the Bond Documents.

TSAHC will maintain all required records according to prescribed timeframes and permit timely, effective audits. TSAHC will maintain complete and accurate records regarding activities relating to each Compliance Review it performs. All records will be maintained for the longer period of which no Bonds remain outstanding or the end of the Qualified Project Period.

#### **10. NONDISCRIMINATION POLICY**

TSAHC shall not discriminate based on race, color, sex, religion, handicap, familial status, or national origin in the leasing, rental, or other disposition of housing or related facilities included in a property under its jurisdiction. TSAHC will periodically review this policy and procedures to assure compliance with all housing and civil requirements including, without limitation, Title VI, and Title VIII of the Civil Rights Act of 1964, Section 504 of the Rehabilitation Act of 1973, the Age Discrimination Act of 1975, and Title II of the Americans with Disabilities Act.

#### **11. PRIVACY POLICY**

It is the policy of TSAHC to ensure the privacy of individuals covered by the Privacy Act of 1974 and to ensure the protection of all information contained in such individual's records maintained under TSAHC's portfolio unless release is required by the Texas Public Information Act or other statute, regulation, subpoena, court order, consent, or other law. Notwithstanding the above, this privacy policy in no way limits TSAHC's ability to collect such information as it may be deemed necessary to determine eligibility, evaluate screening selection criteria, compute rent or enforce and/or verify compliance with the terms, conditions or obligations of tenancy or participation in TSAHC programs.





**INCOME CERTIFICATION**
☐ Initial Certification   ☐ Recertification   ☐ Other\* \_\_\_\_\_

Effective Date: \_\_\_\_\_

Move-in Date: \_\_\_\_\_  
(MM/DD/YYYY)

\*Transfer from Unit: \_\_\_\_\_

**PART I – DEVELOPMENT DATA**

Property Name: \_\_\_\_\_ County: \_\_\_\_\_ Unit Number: \_\_\_\_\_ # Bedrooms: \_\_\_\_\_

**PART II. HOUSEHOLD COMPOSITION**

HH Mbr #	Last Name	First Name & Middle Initial	Relationship to Head of Household	Date of Birth (MM/DD/YYYY)	Student Status FT / PT / NA	Last 4 digits of Social Security No.
1			HEAD			
2						
3						
4						
5						

**PART III. GROSS ANNUAL INCOME (USE ANNUAL AMOUNTS)**

HH Mbr #	(A) Employment or Wages	(B) Soc. Security/Pensions	(C) Public Assistance	(D) Other Income
<b>TOTALS</b>	\$ _____	\$ _____	\$ _____	\$ _____
Add totals from (A) through (D) above				<b>TOTAL INCOME (E):</b> \$ _____

**PART IV. INCOME FROM ASSETS**

HH Mbr #	(F) Type of Asset	(G) C/I	(H) Cash Value of Asset	(I) Annual Income from Asset
<b>TOTALS:</b>			\$ _____	\$ _____
Enter Column (H) Total		Passbook Rate		
If over \$5000 \$ _____ X .06%			= (J) Imputed Income	
Enter the greater of the total of column I, or J: imputed income				<b>TOTAL INCOME FROM ASSETS (K)</b> \$ _____
(L) Total Annual Household Income from all Sources [Add (E) + (K)]				\$ _____

**HOUSEHOLD CERTIFICATION & SIGNATURES**

The information on this form will be used to determine maximum income eligibility. I/we have provided for each person(s) set forth in Part II acceptable verification of current anticipated annual income. I/we agree to notify the landlord immediately upon any member of the household moving out of the unit or any new member moving in. I/we agree to notify the landlord immediately upon any member becoming a full-time student.

Under penalties of perjury, I/we certify that the information presented in this Certification is true and accurate to the best of my/our knowledge and belief. The undersigned further understands that providing false representations herein constitutes an act of fraud. False, misleading or incomplete information may result in the termination of the lease agreement.

\_\_\_\_\_  
Signature\_\_\_\_\_  
(Date)\_\_\_\_\_  
Signature\_\_\_\_\_  
(Date)\_\_\_\_\_  
Signature\_\_\_\_\_  
(Date)\_\_\_\_\_  
Signature\_\_\_\_\_  
(Date)

**PART V. DETERMINATION OF INCOME ELIGIBILITY**

TOTAL ANNUAL HOUSEHOLD INCOME  
FROM ALL SOURCES:  
From item (L) on page 1

\$

Household Meets  
Designated Income  
Restriction at:

☐ 30% ☐ 50%  
☐ 60% ☐ 80%  
☐ OI

**RECERTIFICATION ONLY:**

Designated/Current Income Limit x 140%:

\$ \_\_\_\_\_  
Designated Income Limit: 20-50 properties  
use 50%; 40-60 properties use 60%

Household Income exceeds 140% at  
recertification:

☐ Yes ☐ No

Current Income Limit per Family Size

\$

Household Income at Move-in :

\$

Household Size at Move-in:

**PART VI. RENT**

A. Tenant Paid Rent:

\$

Unit Meets Rent Restriction at:

☐ 30% ☐ 50% ☐ 60% ☐ 80% ☐ OI

B. Rent Assistance:

\$

C. Other non-optional charges and  
mandatory fees:

\$

D. Gross Rent For Unit (See instructions)

\$

Is the source of Rental Assistance Federal?

Yes ☐ No ☐

*If yes, identify the type of assistance:*

☐ HUD Multi-Family Project Based Section 8  
☐ HUD Section 8 Moderate Rehabilitation  
☐ Public Housing Operating Subsidy  
☐ HOME Tenant Based Rental Assistance

☐ HUD Housing Choice Voucher Program (HCV – tenant based)  
☐ HUD Project-Based Voucher (PBV)  
☐ USDA Section 521 Rental Assistance Program  
☐ Other Federal Rental Assistance

ARE ALL OCCUPANTS FULL TIME  
STUDENTS?

Yes ☐ No ☐

If yes, Enter student explanation  
(also attach documentation)

Enter 1-5\*

\*Student Explanation:

1. TANF assistance
2. Job Training Program
3. Previous in State Foster Care System
4. Single Parent with Dependent Child
5. Married filing joint tax return

**PART VIII. PROGRAM TYPE**

This household's unit will be counted toward the property's occupancy requirements. Indicate the household's income status as established by this certification/recertification.

☐ 30% ☐ 50% ☐ 60% ☐ 80% ☐ OI\*\*

\*\*Upon recertification, household was determined over-income (OI)  
according to eligibility requirements of the program(s) marked above.

**SIGNATURE OF OWNER/REPRESENTATIVE**

Based on the representations herein and upon the proofs and documentation required to be submitted, the individual(s) named in Part II of this Income Certification is/are eligible under the provisions of program's rules and regulations to live in a unit in this Project.

SIGNATURE OF OWNER/REPRESENTATIVE

DATE

Unit #: \_\_\_\_\_

Date: \_\_\_\_\_

The Texas State Affordable Housing Corporation collects the following information to fulfill federal and state reporting requirements. Resident(s)/Applicant(s) are not required to complete this form. If you wish to disclose, please see below for ethnicity, race, and disability codes. Enter the codes that characterize the head of household.

Resident/Applicant: I do not wish to submit information regarding race/ethnicity and disability status.  
(Initials) \_\_\_\_\_

Head of Household	Ethnicity/Race	Elderly – Enter Y or N	Disabled - Enter Y or N

**The following Race and Ethnicity codes should be used:**

- A White
- B Black/African American
- C Hispanic
- D Asian or Pacific Islander
- E American Indian/Alaska Native
- F Other/Multi-Racial

**Disabled:**

- Yes
- No

**Ethnicity/Racial categories:**

- A. White: A person having origins in any of the original peoples of Europe, the Middle East, or North Africa.
- B. Black/African American: A person having origins in any of the black racial groups of Africa.
- C. Hispanic: A person of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin, regardless of race.
- D. Asian: A person having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent including, for example, Cambodia, China, India, Japan, Korea, Malaysia, Pakistan, the Philippine Islands, Thailand, and Vietnam or other Pacific Islands
- E. American Indian/Alaskan Native: A person having origins in any of the original peoples of North and South America (including Central America), and who maintains tribal affiliation or community attachment.
- F. Other/Multi-Racial: Use this category if the appropriate category is not listed.

**Disabled:** Yes, if

- A physical or mental impairment which substantially limits one or more major life activities; a record of such an impairment or being regarded as having such an impairment. For a definition of “physical or mental impairment” and other terms used in this definition, please see 24 CFR 100.201.
- “Impairment” does not include current, illegal use of or addiction to a controlled substance.

**Elderly:** Yes, if

- 62 years of age or older.



**To: Owners and Managers of TDHCA Sponsored Developments**

**From: Patricia Murphy**  
**Director of Portfolio Management and Compliance**

**Date: September 24, 2008**

**RE: Military Basic Housing Allowance**

Through the passage of the Housing and Economic Recovery Act of 2008, the Basic Housing Allowance for persons in the military is excluded from the determination of income, provided that the property is located in a county or an adjacent county with a "qualified military installation." On September 17, 2008, the Internal Revenue Service released a listing of "qualified military installations," two of which are in Texas: Fort Bliss and Fort Hood.

Note that only the basic housing allowance and hostile fire pay are excluded. **All other types of military income must be included when determining resident eligibility.** For example, suppose a person in the military presents their Leave and Earnings Statement that shows the amounts below. In determining eligibility, the bolded amounts would be considered the household's income. Only the Basic Housing Allowance of \$1290.30 would be excluded.

Basic Pay: **\$2497.80**  
Basic Allowance for Subsistence **\$294.43**  
Flight pay: **\$25**  
Hazardous Duty Pay: **\$35**  
Basic Housing Allowance: \$1290.30

This exclusion from income applies to Housing Tax Credit developments. This change does not apply to Housing Trust Fund, or HOME rental developments. This change does not apply to Tax Exempt Bond properties unless the property also receives Housing Tax Credits.

This change applies in the following counties:

El Paso	Hudspeth
Bell	Milam
Falls	McLennan
Coryell	Lampasas
Burnet	Williamson

[Select New Property](#)[Contact TSAHC](#)[Update Profile](#)[Logout](#)

## Compliance Reporting System

### Test Property - Training

1000 Auburnhill, Suite 1, Austin, TX, 78723

[Unit Details](#)[Resident Services](#)[View All Reports](#)

## Add April Resident Services Report

	Type of Service	Description	Provider	Number of Attendees	Date Provided	Points Assigned
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

[Add Row](#)

[Save Changes](#)

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[Report a Website Problem](#)

Site by: [TradeMark Media](#)

Attachment Four-A



Date

**Owner**

Owner Address

City, State, Zip

Attn: Owner Contact

RE: **Name of Property**

Dear Owner:

The purpose of this letter is to serve as notification that a Texas State Affordable Housing Corporation (TSAHC) Representative will conduct an on-site Compliance Review (“Review”) at **Name of Property on Date**, starting at approximately **Time**. In order to facilitate an efficient review, we intend to complete as much of the review as possible in our office prior to our Review. We will be using your Unit Status Report that is on the TSAHC website. Please make sure to keep it up to date so that we have access to accurate information.

Please review the documents outlined below and forward them to our office no later than **14 days before your site visit**. These documents may be submitted via e-mail, fax, or regular mail. It is the intention of TSAHC to minimize the disruption to your staff’s routine and the amount of time we spend at your site; therefore, we will need to begin our desk review of these documents as soon as possible.

- Entrance Interview Questionnaire
- Occupancy Qualifications/ Rental Criteria
- Section 8 policy

The site visit consists of a 20% file review to verify income eligibility and unit set aside requirements, a review of resident services, and a comprehensive interview with at least one member of the management staff. The list of files to be reviewed will be given to management staff the day of the review.

The ability to develop a productive partnership is important to us, and we welcome the opportunity to serve you and your residents. We hope that our work together will assist in providing the best possible affordable housing within the State of Texas. As always, you may contact me via telephone or e-mail for assistance or information.

Respectfully,

TSAHC Staff Member

Title

E-mail Address



Attachment Four-B

Date

Owner

Owner Address

City, State, Zip

Attn: Owner Contact

RE: Name of Property

Dear Owner:

The purpose of this letter is to serve as notification that a Texas State Affordable Housing Corporation (TSAHC) Representative will conduct a virtual Compliance Review (“Review”) via conference call for ***Name of Property on Date***, starting at approximately ***Time***. ***Conference call information will be sent via Microsoft Outlook meeting invite through Ring Central Meetings***. In order to facilitate an efficient Review, we intend to complete as much of the review as possible in our office prior to our off-site Review. We will be using your Unit Status Report that is on the TSAHC website. Please make sure to keep it up to date so that we have access to accurate information.

Please review the documents outlined below and forward them to our office no later than **14 days before your Review date**. These documents may be submitted via e-mail, fax, or regular mail. It is the intention of TSAHC to minimize the disruption to your staff’s routine; therefore, we will need to begin our desk review of these documents as soon as possible.

- Entrance Interview Questionnaire
- Occupancy Qualifications/ Rental Criteria
- Section 8 policy

The site visit consists of a 20% file review to verify income eligibility and unit set aside requirements, a review of resident services, and a comprehensive interview with at least one member of the management staff (“Management”). **Fourteen (14) days prior the Review date**, TSAHC staff will select tenant files at random and notify Management of the tenant file selection. Management will be required to submit electronic copies of the tenant files to a secure SharePoint folder. All requested tenant files must be electronically submitted to TSAHC within two business days from the date of the tenant selection file notice.

The ability to develop a productive partnership is important to us, and we welcome the opportunity to serve you and your residents. We hope that our work together will assist in providing the best possible affordable housing within the State of Texas. As always, you may contact me via telephone or e-mail for assistance or information.

Respectfully,

TSAHC Staff Member

Title

E-mail Address

# Texas State Affordable Housing Corporation

## Compliance Review Observation Report

<b>NAME Apartment</b> <b>ADDRESS</b>			
<b>Owner:</b>		<b>Date Built:</b>	
<b>Management Company:</b>		<b>Property Manager:</b>	
<b>Inspection Date &amp; Time:</b>		<b>Inspector's Name:</b>	
<b>Number of Units:</b>	<b>Number of required LI units:</b>	<b>Number of required VLI units:</b>	
<b>COMPLIANCE AUDIT</b>		<b>YES</b>	<b>NO</b>
1) Are procedures that ensure compliance with the set aside requirements and rent requirements effective?			
2) Is the property accepting Section 8 households?			
3) Is the income to rent ratio for Section 8 households less than 2.5?			
4) Are the rent increases smaller than 5%?			
5) Does the Application for Tenancy or Occupancy Qualifications exclude language that may appear to be discriminatory?			
6) Does the lease or rental agreement inform the resident of Very Low Income/Low Income Recertification requirements?			
7) Is additional monitoring by TSAHC recommended?			
<b>COMMENTS:</b>			

<b>SET-ASIDES</b>		<b>YES</b>	<b>NO</b>	<b>N/A</b>
1) Is the property meeting all occupancy restrictions required by the property's Regulatory Agreement and Asset Oversight and Compliance Agreement?				
2) If either of the set asides have not been met, are any units:				
a) Rented for less than 30 days, not including month-to-month?				
b) Utilized as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, nursing home, hospital, sanitarium, rest home, or trailer court or park?				
c) Leased to a corporation, business or university?				
d) Owned by a cooperative housing corporation?				
e) Not available for rental on a continuous basis to members of the general public?				
<b>COMMENTS:</b>				

UNITS WALKED		
Unit #	USR Designation	Comments
<b>COMMENTS:</b>		

<b>RESIDENT SERVICES</b>		<b>YES</b>	<b>NO</b>	<b>N/A</b>
1) Do the resident services appear to cater to the resident profile of the property?				
2) Is the property meeting the Resident Service requirements as required by the Regulatory Agreement and Asset Oversight and Compliance Agreement?				
3) Is management monitoring the following:				



# Texas State Affordable Housing Corporation

## Compliance Review Observation Report

a) Resident attendance			
b) Frequency of service provided			
c) Notification to residents of services			
d) Number or type of services			
e) Survey of residents			
5) Is management properly submitting monthly Resident Service reports through the Compliance System?			
6) In the last 12 months, has TSAHC provided any assistance regarding the monthly Resident Service reports submitted through the Compliance System? If so, comment below.			
<b>COMMENTS:</b> •			

OFFICE	YES	NO	N/A
1) Is the office neat, the desk uncluttered?			
2) Are accurate office hours posted?			
3) Are the following displayed in full view:			
a) Occupancy Qualifications?			
b) Fair Housing Poster?			
<b>COMMENTS:</b>			

RESIDENT FILE REVIEW	YES	NO	N/A
1) Does the owner maintain all records relating to initial resident income certifications, together with supporting documentation and TSAHC required forms?			
2) Does the Owner/Agent make an effort to determine that the income certification provided by the resident is accurate?			
3) Does the file audit establish that residents are being recertified on an annual basis?			
4) For mixed (low-income and market units) developments, are there any Next Available Unit Rule Violations?			
5) Does the file audit indicate that staff needs additional training?			
<b>COMMENTS:</b>			

*If a new household moves in to any of the units with Findings (listed below), instead of submitting the required Corrective Action documents, submit with your response: the application for tenancy, all income and asset verifications, the executed Income Certification, and the 1<sup>st</sup> page of the lease for the new household occupying the unit.*

Unit	Finding	Corrective Action Requirement
<b>COMMENTS:</b>		

SUMMARY OF FINDINGS AND OBSERVATIONS
--------------------------------------

**Texas State Affordable Housing Corporation**  
**Compliance Review Observation Report**

--



Date

**Owner**

Owner Address

City, State, Zip

Attn: Owner Contact

**RE: Name of Property**

Dear Owner:

On **Date**, a Compliance Review was performed at the above referenced property. Details of the review can be found in the enclosed Observation Report. The purpose of this review is to determine compliance with your TSAHC Multifamily Bonds.

The Compliance review included:

- A review of the Entrance Interview Questionnaire
- A review of the current Unit Status Report
- A 20% file review to verify income eligibility and unit set aside requirements
- A review of resident services, and
- A comprehensive Exit Interview with the Property Manager

This review may indicate items in need of correction in order to be in compliance with your TSAHC Multifamily Bonds. A list of Findings and/or Observations resulting from the review is enclosed in the detailed Compliance Report. Each Finding will include Corrective Action dates for those items considered deficient. Properties with any Corrective Action Requirements will be placed on a Monitoring Status pending correction.

I appreciate the time and effort your staff allotted to our review. If you wish to discuss the report findings before preparing your response, please feel free to contact me at the number listed below.

Respectfully,

TSAHC Staff Member

Title

E-mail Address

Attachment Seven



Entrance Interview Questionnaire

*Instructions: Answer the questions below and return it to the TSAHC Compliance Staff member conducting the annual Review via email.*

Property Name: \_\_\_\_\_

1. Briefly explain your certification process?
2. How do you track re-certifications?
3. How is the Next Available Unit Rule Tracked?
4. Briefly explain your re-certification process, including when you begin?
5. Are any units on the property rented for less than 30 days, not including month-to-month leases? If so, list the unit numbers.
6. Are any units utilized as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, nursing home, hospital, sanitarium, rest home or trailer court or park? If so, list the units.
7. Are any units leased to a corporation, business or university? If so, list the units.
8. Are any units owned by a cooperative housing corporation? If so, list the units.
9. Are any units not available for rental on a continuous basis to members of the general public? If so, list the unit number and provide an explanation.
10. Does any property staff live on-site? What unit do they live in? What is their job title?

The information contained thereon is, to the best knowledge of the Borrower, true and accurate.

Printed Name: \_\_\_\_\_ Title: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

## Attachment Eight

<b>Property</b>	
<b>Date of Visit</b>	
<b>Monitor(s)</b>	
<b>Post 15?</b>	Select One

<b>USR:</b>	
Unit #	1
BIN # TX-	0
Tenant Name	0
MI Date	1/0/1900
# of Bdms	2
# of Persons	3
Special Needs?	0

<b>Lease:</b>	Effective/Due by:
Type	Select One
Date	
# of Persons	
Lease Rent:	
Initial Lease Term	Select One
Good Cause or Eviction	
Language Present?	Select One
Lock Out Language Present?	Select One
Screened for Student Status?	Select One
Fair Housing Disclosure?	Select One
Amenities Notice?	Select One
Tenants Rights Guide?	Select One
Lead Based Paint Addendum?	Select One
	Built before 1978

<b>Application:</b>	Initial		Current	
Date				
Tenant Release and Consent?	Select One			
Present for each adult?	Select One			
Dated prior to move in?	Select One			
Screen for income & assets?	Select One			
		Age		Age
List dates of birth:				
Yr for Elderly				
Yr for 18 yrs old				

<b>Initial Income Certification</b>	
Date Executed	
Income on IC	
TIC Signed?	Select One

<b>Current Income Certification</b>	
Recertification due	Select One
Date Executed	
Income on IC	
Review Initial Certification?	
TIC Signed?	

<b>Annual Certification:</b>	
Document Due?	Select One
Date Executed	
Document Signed?	
<=120 days of Anniversary?	

<b>Student Status:</b>	
Full-Time Household?	Select One
If yes, Exempt?	
Acceptable Verification?	

		Income Restriction:	Rent Restriction:
Program 1:	HTC		
Program 2:	TCAP		
Program 3:	TCEP		
Program 4:	HTF		
Program 5:	BOND		
Program 6:	HOME		
Program 7:	NSP		

Rent:		Current Limit:	Initial Limit:	Gross Rent:	Rent Restricted?	Tenant Paid Rent:	Utility Allowance:	Rent Assistance:	Mandatory Fee:
Program 1:	HTC								
Program 2:	TCAP								
Program 3:	TCEP								
Program 4:	HTF								
Program 5:	BOND								
Program 6:	HOME								
Program 6:	HOME (I)								
Program 7:	NSP								

Income:		Initial Limit:	Initially Eligible?	Current Limit:	Currently Eligible?
Program 1:	HTC				
Program 2:	TCAP				
Program 3:	TCEP				
Program 4:	HTF				
Program 5:	BOND				
Program 6:	HOME				
Program 7:	NSP				

Income & Asset Calculations Summary:		Initial HH Income:	Initial HH Asset Annual Income:	Total Initial HH Income & Assets	Current HH Income:	Current HH Asset Annual Income:	Total Current HH Income & Assets
Household Member 1		\$0.00			\$0.00		
Household Member 2		\$0.00			\$0.00		
Household Member 3		\$0.00			\$0.00		
Household Member 4		\$0.00			\$0.00		
Household Member 5		\$0.00			\$0.00		
<b>Total</b>		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>Total HH Imputed Income</b>			\$0.00	\$0.00		\$0.00	\$0.00

<b>Technical Assistance:</b>			
<b>Findings:</b>			
<b>Date of Noncompliance:</b>	Household income exceeds limit	Rent over limit (Fees / UA)	Late Recert
	Annual Certification	Lease Provisions	Student Household
<b>Corrections Needed:</b>			

Attachment Nine



Date

**Owner**

Owner Address

City, State, Zip

Attn: Owner Contact

Re: ***Property***

Dear Owner:

The Texas State Affordable Housing Corporation (TSAHC) has received the corrective action submitted by **Name of Person** on **Date**, for the Compliance Review performed on **Date**.

Compliance Audit:

This response is sufficient information to establish that the Findings identified on the Compliance Review Observation Report dated **Date**, sent to you **Date** have been corrected.

Thank you for your attention to this important matter. Please do not hesitate to call should you have any questions regarding this notice.

Respectfully,

TSAHC Staff Member

Title

E-mail Address



Date

By Facsimile/Original by Certified Mail  
Return Receipt Requested

**NON RESPONSE NOTICE  
REQUEST FOR CORRECTIVE ACTION**

**Owner**

Owner Address  
City, State, Zip  
Attn: Owner Contact

RE: **Name of Property**

Dear Owner:

The Texas State Affordable Housing Corporation (TSAHC) has not received a response to the Findings identified on the Asset Oversight Review Observation Report dated **Date**, sent to you **Date**. To ensure compliance, we must receive documents meeting the Corrective Action Requirements set out in the Report no later than **Date**. Please refer to the Narrative pages of the Report for the corrective action requirements.

Thank you for your attention to this important matter. If you have forwarded the required documents, please contact us to ensure we have received the information that you submitted. Please do not hesitate to call should you require additional information or clarification on this important request.

Respectfully,

TSAHC Staff Member  
Title  
E-mail Address



Date

**By Email/Original by Certified Mail**  
**Return Receipt Requested**

**1<sup>st</sup> NOTICE OF  
INCOMPLETE OF INSUFFICIENT  
RESPONSE NOTICE REQUEST  
FOR CORRECTIVE ACTION**

**Owner**

Owner Address  
City, State, Zip  
Attn: Owner Contact

**RE: Name of Property**

Dear Owner:

The Texas State Affordable Housing Corporation (TSAHC) has received an incomplete or insufficient response from **Name of Person** to the Findings identified on the Compliance Review Observation Report dated **Date**, sent to you **Date**. Specifically, your response has not sufficiently addressed the following Corrective Action requirements:

**List the Incomplete Findings**

To ensure that corrective action has been reviewed by a 3<sup>rd</sup> party, information requested in this notice must come from the Compliance Department. It is recommended, site staff should submit documents to the Compliance Department in a timely manner to avoid delays in meeting the TSAHC corrective action deadline.

All units listed above **MUST** reflect a Market unit on the Unit Status Report until TSAHC has submitted a letter stating that all findings have been corrected.

Please refer to the original report submitted to you on **Date**, for a complete review of the findings and the corrective action requested.

To ensure compliance, we must receive documents meeting the Corrective Action Requirements set out in the Report no later than **Date**.

Thank you for your attention to this important matter. Please do not hesitate to call should you require additional information or clarification on this important request.

Respectfully,

TSAHC Staff Member  
Title  
E-mail Address