Income from Assets

With the first day of summer setting the tone, many of us have started looking at our bank accounts to budget for summer vacation. Keeping in line with the mind track of assets, this month we are going to shine some light on income from assets.

"Surround yourself with assets, not liabilities."

The income from assets must be included when determining annual income for a household.[1] However, before we discuss income from assets, let's define what an asset is. An asset is defined as "*…an item of value that can be turned into cash*". The most common examples include checking accounts, savings accounts and cash on hand. *Exhibit 5-2* in the HUD Handbook 4350.3 provides us with a full list of asset inclusions and exclusions.

There are assets that do not generate income, such as cash on hand. For example, cash hidden under a mattress or burning a hole in your pocket does not earn interest and therefore does not generate any *actual income* from the asset. Other assets do generate income in the form of interest earned; a savings account and a certificate of deposit are common examples of assets that generate *actual income*.

In order to account for asset income correctly on our certification forms (HUD 50059, RD 3560-8, LIHTC TIC), we first need to determine the *cash value* of all assets.[2] If the **total *cash value* of all household assets is $5,000 or less**, **use the *actual income* from assets** received as annual asset income for the household. (*See Example in the table below.*)

Actual income from assets includes interest, dividends and other net income of any kind—think interest earned on a savings account. The interest earned on a savings account is the *actual income* from the asset.

If the **total *cash value* of a household's assets exceeds $5,000, the annual asset income is the GREATER of**[3]:

a. *Actual income* from assets; or
b. *Imputed income* from assets

To determine *imputed income* from assets, multiply the *cash value* of all assets by the current HUD passbook savings rate[4]. The product of this calculation is the *imputed income from assets*. Compare the *imputed income* against the *actual income* from assets and use the GREATER of the two as your *annual income from assets*. (*See Example in the table below.*)

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[1] HUD Handbook 4350.3, Exhibit 5-1 Income Inclusions (3)
[2] For further guidance determining cash value of assets, see HUD 4350.3 Chapter 5-2
[3] HUD 4350.3, 5-7.F/5-27
[4] Effective February 1, 2015, the current HUD passbook savings rate is .06%.

Actual Income From Assets

Type of Asset	Market Value[1]	Cash Value[2]	Actual Income[3]
Checking Account (non-interest bearing)	$650 (6-month average)	$650	$0
Savings Account (Interest Rate 3%)	$2,000	$2,000	$60
Certificate of Deposit (Interest Rate 5% and Early Withdrawal Penalty of 20%)	$2,400	$1,920	$120
TOTALS:	**$5,050**	**$4,570**	**$180**
The income from assets used on the certification form for this household would be $180.[4]			

Explanations:

1. The *market value* of each asset is equal what it would sell for on the open market.
2. The *cash value* is the *market value* minus any costs, penalties or fees to turn into cash.
3. *Actual income* from the asset is the *market value* multiplied by the interest rate.
4. Because the total *cash value* of all assets is LESS than $5,000, we do NOT impute income. The *actual income* from assets is used.

Imputed Income from Assets

Type of Asset	Market Value[1]	Cash Value[2]	Actual Income[3]
Checking Account (non-interest bearing)	$650 (6-month average)	$650	$0
Savings Account (Interest Rate 3%)	$2,000	$2,000	$60
Certificate of Deposit (Interest Rate 5% and Early Withdrawal Penalty of 2%)	$2,400	$2,352	$120
TOTALS:	**$5,050**	**$5,002**	**$180**
The income from assets used on the certification form for this household would be $180.[4]			

Explanations:

1. The *market value* of each asset is equal to what it would sell for on the open market.
2. The *cash value* is the *market value* minus any costs, penalties or fees to turn into cash.
3. *Actual income* from the asset is the *market value* multiplied by the interest rate.
4. Because the total *cash value* of all assets is GREATER than $5,000, we MUST impute income. Once *imputed income* is determined, we use the GREATER of *actual income* or *imputed income*. The *actual income* from assets is used because it is the greater of the two.