



## HOTMA for LIHTC: Student Financial Aid Calculations

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The Housing Opportunity Through Modernization Act of 2016 (HOTMA) went into effect on January 1, 2024; however, the US Department of Housing and Urban Development (HUD) has issued several extensions for public housing and other rental assistance programs with a current implementation date of January 1, 2027. Several states, including Texas, began monitoring under the HOTMA changes in 2024, but many have elected to wait until all programs align with the monitoring requirements. HOTMA changed the process for calculating certain sources of income, including student financial assistance, and how certain household members are handled for eligibility. HUD has indicated that the Handbook 4350.3 (Revised November 2013) is still in effect with the HOTMA changes folding into the requirements of the Handbook. If the two regulations have conflicting guidance the HOTMA regulations are to be used to determine family income for eligibility. In the Housing Tax Credit world, we focus on chapters 3 and 5 of the Handbook; both were impacted by the HOTMA changes. This article will focus on the changes to student financial assistance and how the income is calculated for eligibility purposes under the new HOTMA rules.

Student eligibility under the Tax Credit program has not changed currently. Additionally, the earned income for full-time student dependents of the household is still limited by the Dependent Deduction (\$500 in 2026; \$480 in prior years). The process for calculating this has not changed. Full-Time student households must continue to meet one exception as required prior to HOTMA. Owners must continue documenting the household files to evidence student screening and verification, if required. All students in higher education where financial assistance may be present must be screened for the income source. Applications should be updated to list Student Financial Assistance as a source of income. Owners should verify student financial assistance for households containing students, full-time or part-time, in higher education to determine if this income source is present. HOTMA differentiates how student financial assistance is determined for non-Section 8 programs subject to the HOTMA changes; since Tax Credit is not a Section 8 program the following process should be used for determining what student financial assistance counts towards eligibility.

Educational expenses include tuition, books, supplies (including those to support students with learning or other disabilities), room and board, and fees required and charged to a



student by the institution of higher education. However, room and board are not an eligible expense for the head, spouse or co-head of household that resides in the assisted unit. A student household member that is not the head, spouse or co-head can include their reasonable and actual costs for housing and meal expenses while attending the institution of higher education and not residing in the assisted unit. Owners should obtain statements from the institute of higher education to determine the expenses (tuition, room and board, and fees) and financial assistance which is received through the institute. To determine the amount for books and supplies the household member would need to provide receipts from the most current semester. It is reasonable, in most cases, to use the current semester and estimate the next semester if the information for the future semester is not available.

Student financial assistance received under Section 479B of the Higher Education Act (HEA) is excluded as income but must be evaluated for coverage of allowed educational expenses. The HEA is updated annually in July and should be monitored for changes that would impact what is included under this financial assistance umbrella. Some of the items included in the HEA list are Federal Pell Grants, Federal Work Study Programs, Federal Perkins Loans, Student financial assistance received under the Bureau of Indian Education, Higher Education Tribal Grant, and Employment training programs under section 134 of the Workforce Innovation and Opportunity Act (WIOA). This list is not exhaustive; the full list of exceptions can be found in Section 479B of the HEA. Higher Education Act financial assistance must always be applied to allowable educational expenses before other financial assistance is evaluated.

Other student financial assistance includes scholarships received from the Federal government, a state, tribe or local government, a private nonprofit foundation, a business entity, an institution of higher education, and other official sources not covered under Section 479B of the HEA. Student financial assistance may be paid to the institution of higher education or paid directly to the student. The Owner must verify both methods of payment with the student household member.

Student financial assistance does not include income from work study programs or fellowships that are not excluded under 479B of the HEA. Student assistance also excludes gifts, including those from friends and family that may be intended to cover expenses while the tenant is in school.

The three steps to determine student financial income from assistance are as follows:  
Step 1: Determine the total amount of allowable educational expenses. Step 2: Determine the total student financial assistance received from Section 479B of the HEA sources. Step 3: Determine the total other student financial assistance received by the student directly or through the institute of higher education. If the amount of HEA assistance covers all allowed educational expenses, then any other type of student financial assistance received will be



considered income; no further calculations are needed. If the amount of HEA assistance does not fully cover the allowed educational expenses, then all other student financial assistance received must be applied to the remaining educational expenses. If there is excess assistance this will be considered income for the household member and should be listed on the Income Certification. If there are expenses leftover after the application of the other student financial assistance the process ends as the household member has more educational expenses for their pursuit of higher education than they receive as financial assistance and there is no income from this source.

#### **A few examples:**

Joe is a part-time student dependent. He receives a Federal Pell Grant in the amount of \$20,000; University Scholarship of \$5,000 and a local nonprofit scholarship of \$1,000. Joe resides in the assisted unit and is not eligible to have room and board considered as educational expenses. Joe's allowable educational expenses (tuition, books, supplies and fees) total \$18,000. We must first apply the Pell Grant of \$20,000; \$18,000 expenses minus \$20,000 Pell Grant equals an excess of HEA monies in the amount of \$2,000. The process for this household member stops at this time; the remaining scholarships (\$5,000 and \$1,000) are considered "other" income for Joe and must be included on the Income Certification and documented for eligibility purposes.

- \$18,000 Educational Expenses
- - \$20,000 Pell Grant (HEA assistance)
- = (\$2,000) Remaining assistance
- \$5,000 Scholarship + \$1,000 scholarship = \$6,000 "other" income listed for Joe.

Damian is a full-time student dependent. They receive a Federal Pell Grant in the amount of \$8,000; University Scholarship of \$5,000 and a local nonprofit scholarship of \$1,000. Damian resides in student housing on-campus at the university they attend, so they are eligible to have room and board considered as educational expenses. Damian's allowable educational expenses (tuition, books, supplies, room and board, and fees) total \$28,000. We must first apply the Pell Grant of \$8,000; \$28,000 expenses minus \$8,000 Pell Grant equals an excess of educational expenses in the amount of \$20,000. The other financial assistance must then be applied to the expenses; \$20,000 remaining expenses minus \$5,000 University Scholarship minus \$1,000 nonprofit scholarship equals an excess of expenses in the amount of \$14,000. Damian has educational expenses which are not covered by the financial assistance, and they have indicated that loans are used to cover these expenses. Damian will not have any "other" income from this source on the Income Certification.

- \$28,000 Educational Expenses



- - \$8,000 Pell Grant (HEA assistance)
- = \$20,000 Remaining Expenses
- - \$5,000 Scholarship
- = \$15,000 Remaining Expenses
- - \$1,000 nonprofit scholarship
- = \$14,000 Remaining Expenses
- No "other" income will be listed for Damian.

Tara is a part-time student household member; she receives a Federal Perkins Loan in the amount of \$5,000, a local scholarship which was paid directly to her in the amount of \$1,000 and a monthly gift from her aunt in the amount of \$1,000 to help with books, supplies and other expenses. We know the monthly gift of \$1,000 is considered gift income and is fully included but not evaluated for student financial assistance. Tara's educational expenses total \$8,000 (tuition, books and fees). We must first apply the Federal Perkins Loan of \$5,000; \$8,000 expenses minus \$5,000 Loan equals \$3,000 remaining expenses. We can then apply the \$1,000 scholarship to the remaining expenses leaving unpaid expenses in the amount of \$2,000. Tara will not have student financial assistance listed on the Income Certification; however, she will have gift income of \$12,000 per year included in the household income.

- \$8,000 Educational Expenses
- - \$5,000 Federal Perkins Loan (HEA assistance)
- = \$3,000 Remaining Expenses
- - \$1,000 local scholarship
- = \$2,000 Remaining Expenses
- No student financial assistance will be listed as "other" income for Tara.
- Tara has \$12,000 in gift income that must be included.

The HOTMA guidance outlines a process for determining student financial assistance for any household member in a non-Section 8 voucher household. The guidance also outlines a process for determining student financial assistance for the Section 8 program households; however, the Tax Credit program does not award Section 8 vouchers and does not follow this process. The Section 8 voucher household process includes the HEA student financial assistance for some households; however, it is excluded for household where the student is over the age or 23 with dependent children. If the student is over the age of 23 with dependent children, the student financial assistance will be calculated as outlined in this article.

In conclusion, The Housing Opportunity Through Modernization Act of 2016 (HOTMA) has changed several aspects of income and asset calculations for the Tax Credit program. One of the biggest changes was the inclusion of student financial assistance as a source of income for all



households and not explicitly for Section 8 voucher holders. Knowing how to screen for this income source and apply the financial assistance to the allowable educational expenses is key to success with the HOTMA changes for student financial assistance income.

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