



USDA United States Department of Agriculture  
Rural Development

# Adjusted Annual Income

## Single Family Housing Guaranteed Loan Program

Revised December 2018

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### Training Objectives

- Where is the topic located?
  - \* 7 CFR Part 3555 and HB-1-3555
- Learning Checks
- Resources

**Always refer to the current version of published guidance!**

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## 7 CFR Part 3555

<http://www.rd.usda.gov/publications/regulations-guidelines>

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#### Rural Development

- Administrative Notices
- Instructions
- Forms
- Spanish Forms, Form Letters and Guide Letters
- Handbooks
- Procedures Notices
- Significant Guidance Documents
- Unnumbered Letters
- Federal Register Publications

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## 7 CFR Part 3555

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### Handbooks

- HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook
- HB-2-3550 Direct Single Family Housing Loans and Grants - Centralized Servicing Center Handbook
- HB-4-3555 SFH Guaranteed Loan Program Technical Handbook**
- HB-1-3560 MFH Loan Origination Handbook
- HB-2-3560 MFH Asset Management Handbook
- HB-3-3560 MFH Project Servicing Handbook
- HB-1-3565 Guaranteed Rural Rental Housing Program Origination and Servicing Handbook
- Application Information Systems Support Handbook
- HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook

#### HB-4-3555 SFH Guaranteed Loan Program Technical Handbook

Table of Contents

- Chapter 1 - Overview
- Chapter 2 - Record Retention
- Chapter 3 - Lender Approval
- Chapter 4 - Lender Responsibilities
- Chapter 5 - Origination and Underwriting Overview
- Chapter 6 - Loan Purposes
- Chapter 7 - Loan Terms and Conditions
- Chapter 8 - Applicant Characteristics
- Chapter 9 - Income Analysis
- Chapter 10 - Credit Analysis
- Chapter 11 - Ratio Analysis
- Chapter 12 - Property and Appraisal Requirements
- Chapter 13 - Special Property Types
- Chapter 14 - Funding Priorities
- Chapter 15 - Submitting the Application Package
- Chapter 16 - Closing the Loan and Requesting the Guarantee
- Chapter 17 - Regular Servicing-Performing Loans
- Chapter 18 - Servicing Non-Performing Loans - Accounts with Repayment Problems
- Chapter 19 - Custodial and Real Estate Owned Property
- Chapter 20 - Loss Claims - Collecting on the Guarantee

Acronyms

Glossary

- Appendix 1 - 7 CFR part 3555**
- Appendix 2 - Forms and Instructions
- Appendix 3 - Review and Appeals
- Appendix 4 - Agency and Employee Addresses
- Appendix 5 - Income Limits
- Appendix 6 - Interest Assistance
- Appendix 7 - Calvis Access Instructions
- Appendix 8 - EDI Documentation
- Appendix 9 - Penalties
- Appendix 10 - Unnumbered Letter and State Supplements

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## 7 CFR PART 3555: 3555.152(c)

### Adjusted annual income determines program eligibility!

(c) Adjusted annual income. Adjusted annual income is used to determine program eligibility and is annual income as defined in paragraph (b) of this section, less any of the following verified deductions for which the household is eligible.

- (1) A reduction for each family member, except the head of household or spouse, who is under 18 years of age, 18 years of age or older with a disability, or a full-time student, the amount of which will be determined pursuant to HUD definition of adjusted income at 24 CFR 5.611.
- (2) A deduction of reasonable expenses for the care of a child 12 years of age or under that:
  - (i) Enables a family member to work, to actively seek work, or to further a member's education;
  - (ii) Are not reimbursed or paid by another source; and
  - (iii) In the case of expenses to enable a family member to work, do not exceed the amount of income, including the value of any health benefits, earned by the family member enabled to work. If the child care provider is a household member, the cost of the children's care cannot be deducted.

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## 7 CFR PART 3555: 3555.152(c)

- (3) A deduction of reasonable expenses related to the care of household members with disabilities that:
  - (i) Enable a family member or the individual with disabilities to work, to actively seek work, or to further a member's education;
  - (ii) Are not reimbursed from insurance or another source; and
  - (iii) Are in excess of 3 percent of the household's annual income and do not exceed the amount of earned income included in annual income by the person who is able to work as a result of the expenses.

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## 7 CFR PART 3555: 3555.152(c)

(4) For any elderly family, a deduction in the amount determined pursuant to HUD definition of adjusted income at 24 CFR 5.611.

(5) For elderly and disabled families only, a deduction for household medical expenses that are not reimbursed from insurance or another source and which, in combination with any expenses related to the care of household members with disabilities described in paragraph (c)(3) of this section, are in excess of 3 percent of the household's annual income.

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## HB 9.5: Adjusted Annual Income

**9.5 ADJUSTED ANNUAL INCOME [7 CFR 3555.152(e)]**

The adjusted annual income calculation will determine if the household is eligible for the guaranteed loan program. Adjusted annual income is calculated by using the annual income figure and subtracting any of the eligible deductions in 3555.152(c) for which the household may qualify. The Income Calculations Worksheet in the case study in Attachment 9-B of this chapter provides an example of using deductions.

Refer to Attachment 9-A for information and documentation options to support these eligible deductions:

- Dependents
- Child Care Expenses
- Elderly Household
- Care of Household Members with Disabilities
- Medical Expenses

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**HB 9: Attachment 9-A**

Adjusted Annual Income Deductions	
3555.152(c)	
<b>Dependent Deduction: 3555.152(c)(1)</b>	
<ul style="list-style-type: none"> <li>\$480 deduction per eligible dependent at the time of loan application</li> <li>Applicants with shared custody may include their child(ren), no documentation required.</li> </ul>	
<b>Documentation Source Options:</b>	
<ul style="list-style-type: none"> <li>Certify to the household number on Form RD 3555-21</li> <li>List all household members and ages on the Income Calculation Worksheet</li> </ul>	
<b>Child Care Expenses: 3555.152(c)(2)</b>	
<ul style="list-style-type: none"> <li>Care for children age 12 and under</li> <li>Care is necessary to enable a family member to work, seek employment, or attend school</li> <li>Calculate anticipated child care expenses for the ensuing 12 months</li> <li>Applicants that have not placed their child into care or have no evidence to support payments, deposits, or registration fees are ineligible for this deduction</li> </ul>	
<b>Documentation Source Options:</b>	
<ul style="list-style-type: none"> <li>Utilize income tax returns, receipts, or <u>third party</u> verifications provided by a licensed childcare facility or provider on letterhead that 1. Identifies the child enrolled, 2. Date of enrollment, 3. Payment due, and 4. Payment history</li> <li>Relatives or non-licensed private individuals who provide care must also provide evidence of payments made (i.e. canceled checks, money order receipts, bank statements, etc.)</li> <li>Child support payments and school tuition (Pre-K – 8) are not eligible deductions</li> <li>Attachment 9-G is an available option to document childcare expenses</li> <li>Calculations must be included on the Income Calculation Worksheet</li> </ul>	

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**7 CFR PART 3555 / HB-1-3555  
LEARNING CHECKS**

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**Adjusted annual income**

Applicant household members:

- Karen, applicant age 35
- John, applicant age 37
- Michael, age 10, Kimberly, age 7, John Jr., age 3, expecting child #4 in six months
- This is a household of six

A. TRUE      B. FALSE

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**Adjusted annual income**

**ANSWER: 3555.152(c)(1), HB 9**

B. FALSE

- They are a household of 5
- Unborn children are not included in the household member count

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**Adjusted annual income**

- Greg, applicant, employed
- Mary, applicant, non-employed
- 2 children ages 12, and 6
- Child age 12 attends an afterschool program: \$150 per month
- Household qualifies for 2 dependent deductions and afterschool program deductions

A. TRUE      B. FALSE

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**Adjusted annual income**

**ANSWER: 3555.152(c)(1), HB 9**

B. FALSE

- Eligible for 2 dependent deductions
- The afterschool program is ineligible for deduction unless Mary is seeing work or attending education classes

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**Adjusted annual income**

Adjusted annual income limit: \$99,500    Household: 5  
 Current annual income: \$110,000

- Three eligible dependents:  $\$480 \times 3 = \$1,440$
- Full time childcare: \$12,600 per year
- The household is eligible

A. TRUE    B. FALSE

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**Adjusted annual income**

**ANSWER: 3555.152(c)(2), HB 9**

A. TRUE

- $\$110,000 - \$1,440 - \$12,500 = \$96,060$
- \$96,060 is below the adjusted annual income limit of \$99,500

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**Adjusted annual income**

- Household of 3: 2 adults and 1 disabled dependent age 9
- Both adults work full time
- Dependent requires outside assistance at school
- Total household annual income: \$86,500
- Cost of outside assistance: \$13,500
- How much of the assistance is an eligible deduction?

A. \$13,500      B. \$10,905

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**Adjusted annual income**

**ANSWER: 3555.152(c)(3), HB 9**

B. \$10,905

- Eligible expenses related to care of disabled household members= amount that exceeds 3% of annual income
- \$86,500 annual income x 3% = \$2,595
- \$13,500 - \$2,595 = \$10,905 eligible to deduct

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**Adjusted annual income**

- Household of 2 adults
- Both are over age 62
- The household qualifies for an \$800 deduction (two adult members over age 62 x \$400)

A. TRUE      B. FALSE

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**Adjusted annual income**

**ANSWER: 3555.152(c)(4), HB 9**

B. FALSE

- Only one \$400 deduction per elderly family
- Elderly family: head of household, spouse, or sole member of family that is party to the note is age 62 or older

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## Adjusted annual income

- Elderly Household
- Seeking deductions for medical expenses that include: insurance premiums, prescription medications, dental expenses, and eyeglasses
- These are eligible deductions

A. TRUE      B. FALSE

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## Adjusted annual income

**ANSWER: 3555.152(c)(5), HB 9**

A. TRUE

- Eligible for elderly families only
- May deduct eligible expenses that exceed 3% of annual income

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# WAY TO GO!

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