




Adjusted Annual Income

**Single Family Housing Guaranteed
Loan Program**

Revised December 2018

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Welcome to Adjusted Annual Income, presented by USDA's Single Family Housing Guaranteed Loan Program!



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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The objectives of the training include:

1. Demonstrating where the training topic is located in the program regulation, 7 CFR Part 3555 and the technical handbook, HB-1-3555.
2. Providing learning checks to help you gain a working knowledge of the topic, and
3. Links to online resources to assist in locating program information.

Guidelines can change or be altered. Every effort is made to ensure training resources are accurate. However, always refer to the most recent published version of USDA guidelines. Refer to the 7 CFR 3555 and HB-1-3555 overview to access these materials online.

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7 CFR Part 3555

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

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As a service to our customers, we post Rural Development's Instructions, Administrative Notices, and forms. The instructions are available in three file formats: Adobe Acrobat (PDF), Microsoft Word 6.0 (doc) and Text (txt). To the extent possible, all documents have been made available in either Adobe Acrobat Ver 5.0 and higher, or Text and are 508 compliant. If you should have accessibility issues and need a hard copy, please send an e-mail to comments@wdc.usda.gov.

If you are having problems with this page, need a hard copy of any of the documents due to accessibility issues or would like to be added to the Regulations Update distribution list (available for Rural Development employees only with a valid Rural Development e-mail address), please e-mail comments@wdc.usda.gov.

Rural Development

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The Regulations and Guidelines website is located from the link shown on the slide. Under “Rural Development” there are many items available from this home page. To access the regulation and technical handbook, select “Handbooks.”

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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-1-3555** SFH Guaranteed Loan Program Technical Handbook
- HB-1-3550** MFH Loan Origination Handbook
- HB-2-3550** MFH Asset Management Handbook
- HB-2-3550** MFH Project Servicing Handbook
- HB-1-3555** 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-1-3555 SFH Guaranteed Loan Program Technical Handbook

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Acronyms

Glossary

- Appendix 1** - 7 CFR part 3555
- Appendix 2** - Forms and Instructions
- Appendix 3** - Review and Appeals
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A list of all USDA Rural Development handbooks will display.
 Select HB-1-3555.
 7 CFR 3555 is Appendix 1.



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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There are ultimately three income calculations in the guaranteed loan program: 1. Annual Income, 2. Adjusted Annual Income, and 3. Repayment Income.

Adjusted annual income guidance is located in 3555.152(c).

Adjusted annual income is very important because this is the calculation that will determine if the household is eligible for the guaranteed loan program.

Adjusted annual income is the annual income of all adult household members MINUS eligible deductions, which may assist households to qualify for the program.


Deductions from this portion of the regulation include dependents and eligible childcare expenses.



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.

Another eligible deduction is for reasonable expenses related to the care of household members with disabilities that meet eligibility requirements.



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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An elderly family may be eligible for a flat deduction. An elderly family must have an applicant on the loan application that is age 62 years or older.

Elderly and disabled families may also deduct eligible medical expenses as indicated in the regulation.

As you can see, there are many deductions available from the regulation to assist more households to meet the adjusted annual income limit for the State and County where the property is located.



HB 9.5: Adjusted Annual Income


9.5 ADJUSTED ANNUAL INCOME [7 CFR 3555.152(c)]

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

HB Chapter 9, section 9.5 includes guidance to support 3555.152(c).




HB 9: Attachment 9-A

Adjusted Annual Income Deductions	
3555.152(c)	
Dependent Deduction: 3555.152(c)(1)	
<ul style="list-style-type: none"> \$480 deduction per eligible dependent at the time of loan application Applicants with shared custody may include their child(ren), no documentation required. 	
Documentation Source Options:	
<ul style="list-style-type: none"> Certify to the household number on Form RD 3555-21 List all household members and ages on the Income Calculation Worksheet 	
Child Care Expenses: 3555.152(c)(2)	
<ul style="list-style-type: none"> Care for children age 12 and under Care is necessary to enable a family member to work, seek employment, or attend school Calculate anticipated child care expenses for the ensuing 12 months 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 	
Documentation Source Options:	
<ul style="list-style-type: none"> 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 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.) Child support payments and school tuition (Pre-K – 8) are not eligible deductions Attachment 9-G is an available option to document childcare expenses Calculations must be included on the Income Calculation Worksheet 	

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HB Chapter 9 also includes clarification for each adjustment available to the adjusted annual income. There are documentation options listed to assist lenders to document these deductions. These options DO NOT mean that every item listed must be retained. These are simply options to offer a lender help to identify acceptable documents that may be applicable to their client.



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

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The best way to learn information is to test your knowledge! So let's get started!




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

Read the question on the slide and select a response.



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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False.

The unborn child is not eligible to be counted as a family member.

This leaves the household at: Karen, John, Michael, Kimberly, and John Jr. = 5




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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Read the question on the slide and select a response.



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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False.

The household is eligible for two dependent deductions (ages 12 and 6).

The afterschool program for one of the children is ineligible based on the information provided on the question slide.

Mary is not currently employed. Therefore, unless Mary is seeking employment or is taking education courses, the afterschool program will remain an ineligible deduction.



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

Read the question on the slide and select a response.



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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True.

The annual income is \$110,000.

The household is eligible for 3 dependent deductions, currently at \$480 each = \$1,440. Full time childcare is an eligible deduction when it is being paid to allow an applicant or household member to seek employment or attend education classes. The applicant's have documentation to support an annual deduction of \$12,600. Childcare must be documented in compliance with HB Chapter 9.

Therefore: $\$110,000 - \$1,440 - \$12,600 =$ an adjusted annual income total of $\$96,060$. $\$96,060$ is below the adjusted annual income limit for this State and County for a Household of 5 of $\$99,500$.

The household is income eligible.

The deductions utilized to calculate adjusted annual income are not considered when calculating repayment income to qualify for the mortgage loan. Repayment income is addressed in HB Chapter 9 and in a separate training module.




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

Read the question on the slide and select a response.



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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Response B.

Lenders may currently deduct eligible expenses from the costs of care for disabled household members that exceed 3% of the household's annual income.

In this example the annual income of the household is \$86,500. 3% of \$86,500 is \$2,595. The household has eligible and documented care expenses of \$13,500. $\$13,500 - \$2,595 = \$10,905$

Therefore, \$10,905 would be eligible to be deducted from the household's annual income to determine the adjusted annual income figure.




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

Read the question on the slide and select a response.



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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False.

Elderly families (those with an applicant on the loan age 62 or above) may only have one \$400 deduction for the adjusted annual income figure.




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

Read the question on the slide and select a response.



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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True.

These deductions are eligible for elderly families as defined under 7 CFR Part 3555. The amount that exceeds 3% of household annual income is eligible for deduction.

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WAY TO GO!

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Way to go! You have completed the learning checks!

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The screenshot shows a web page for signing up for GovDelivery. At the top left, there is a header with the USDA logo (United States Department of Agriculture) and the text "Rural Development". Below this is a banner image of a rural landscape with a yellow field, a white lighthouse, and a house. The main heading is "GovDelivery Sign up" in blue, followed by a URL: https://public.govdelivery.com/accounts/USDARD/subscriber/new?qsp=USDARD_25. Below the URL is a smaller version of the USDA Rural Development banner. To the right of the banner is the "GovDelivery" logo. Underneath, there is a section titled "Email Updates" with the text: "To sign up for updates or to access your subscriber preferences, please enter your contact information below." This is followed by a label "*Email Address" and an empty text input field. At the bottom of the form are two buttons: "Submit" and "Cancel". In the bottom right corner of the page, the number "25" is displayed.

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This will conclude the training module. Thank you and have a great day!