Welcome to Adjusted Annual Income, presented by USDA’s Single Family Housing Guaranteed Loan Program!
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.
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.”
A list of all USDA Rural Development handbooks will display. Select HB-1-3555. 7 CFR 3555 is Appendix 1.
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.
Another eligible deduction is for reasonable expenses related to the care of household members with disabilities that meet eligibility requirements.
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 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.
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

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

Read the question on the slide and select a response.
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 x 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

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.
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

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.
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.
Way to go! You have completed the learning checks!
Don’t forget the Regulations and Guidelines website is a treasure trove of USDA guideline knowledge.
Please sign up for GovDelivery messages. USDA sends out origination (including GUS) and servicing messages to alert lenders of new publications, clarifications, and additional program updates.
Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program! We appreciate the opportunity to help you serve more rural homebuyers!
This will conclude the training module. Thank you and have a great day!