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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Rural Development

7 CFR Part 3555

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

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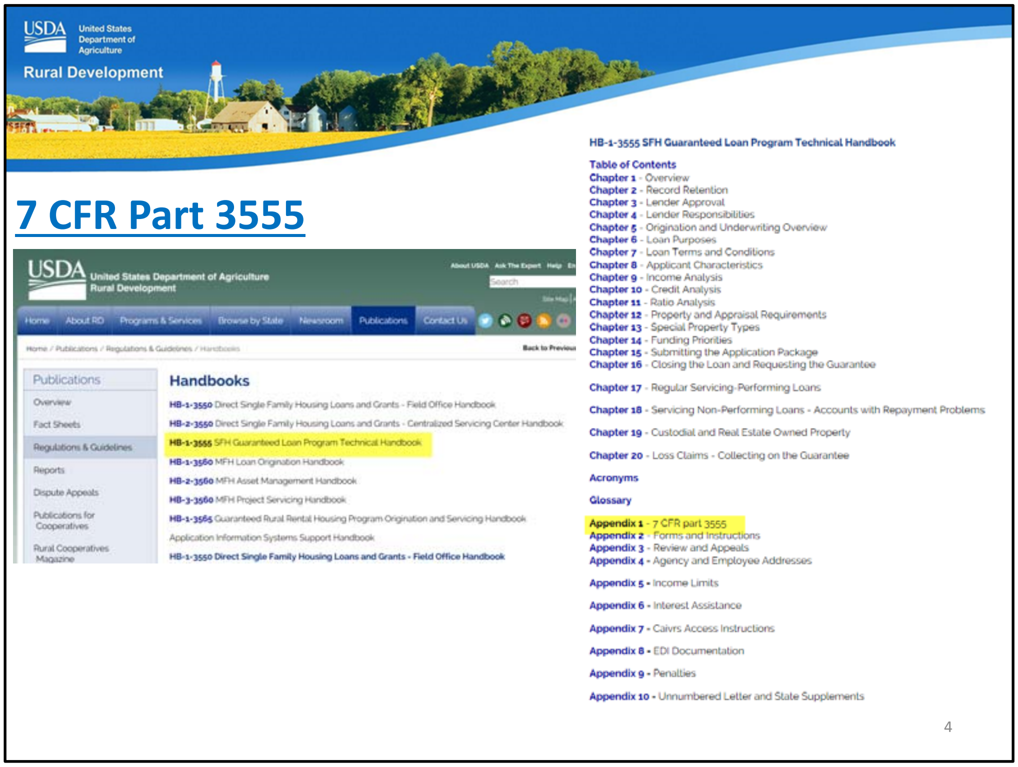
The Regulations and Guidelines website is located from the link shown on the slide. Under “Rural Development” there are many items available from this home page. To access the regulation and technical handbook, select “Handbooks.”



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.

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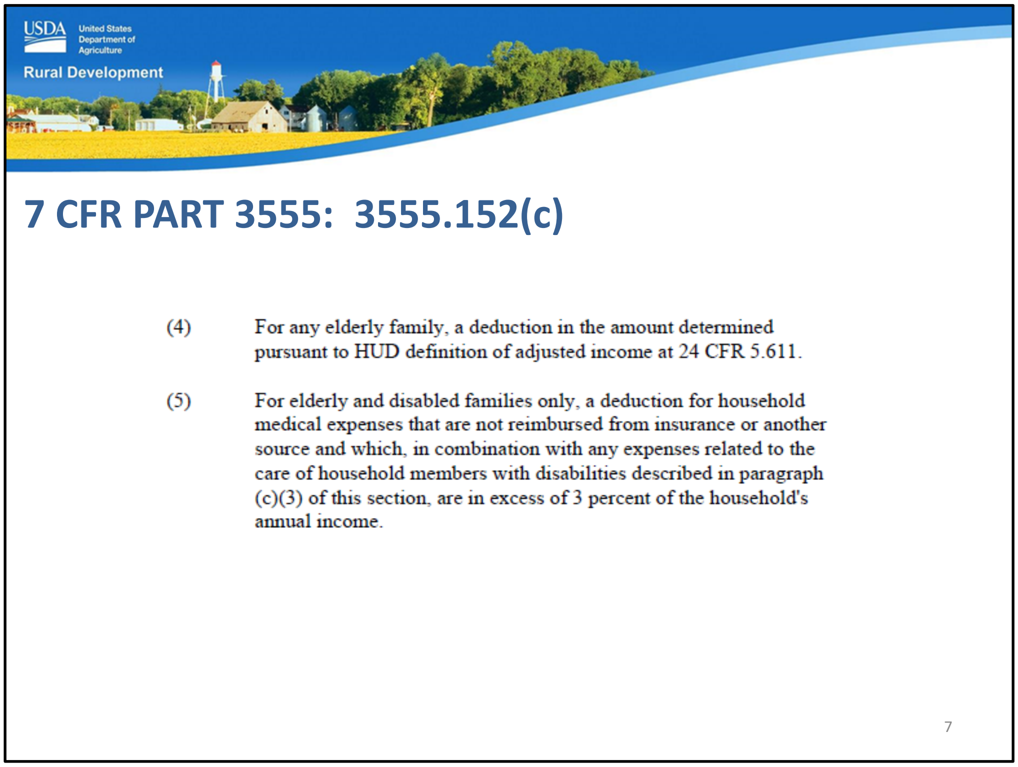
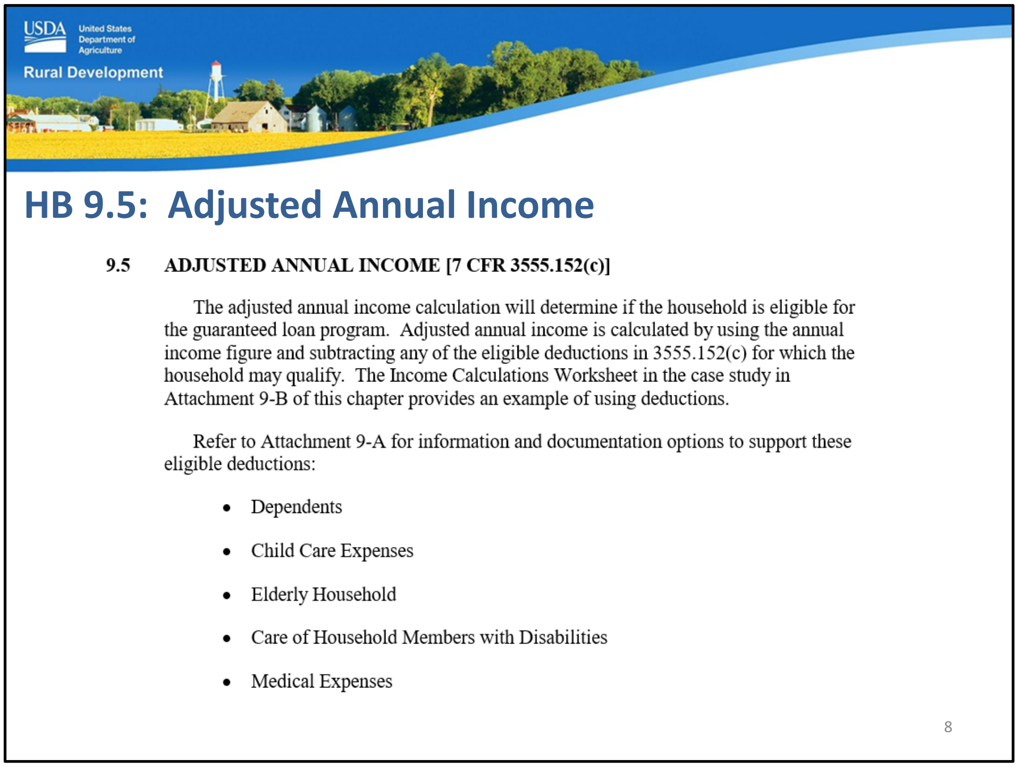
Another eligible deduction is for reasonable expenses related to the care of household members with disabilities that meet eligibility requirements.



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

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HB 9: Attachment 9-A

Adjusted Annual Income Deductions
3555.152(c)
Dependent Deduction: 3555.152(c)(1) • $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: • 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) • 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: • Utilize income tax returns, receipts, or third party 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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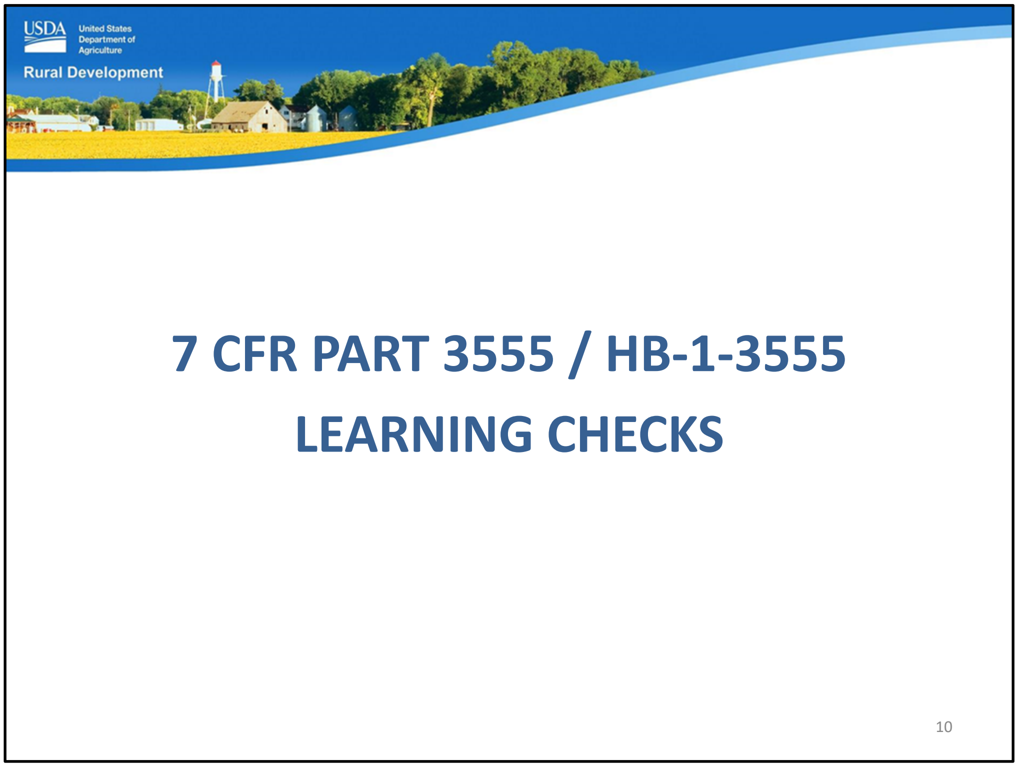
HB Chapter 9 also includes clarification for each adjustment available to the adjusted annual income. There are documentation options listed to assist lenders to document these deductions. These options DO NOT mean that every item listed must be retained. These are simply options to offer a lender help to identify acceptable documents that may be applicable to their client.



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

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Read the question on the slide and select a response.

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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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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 x 3= $1,440
- Full time childcare: $12,600 per year
- The household is eligible

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)(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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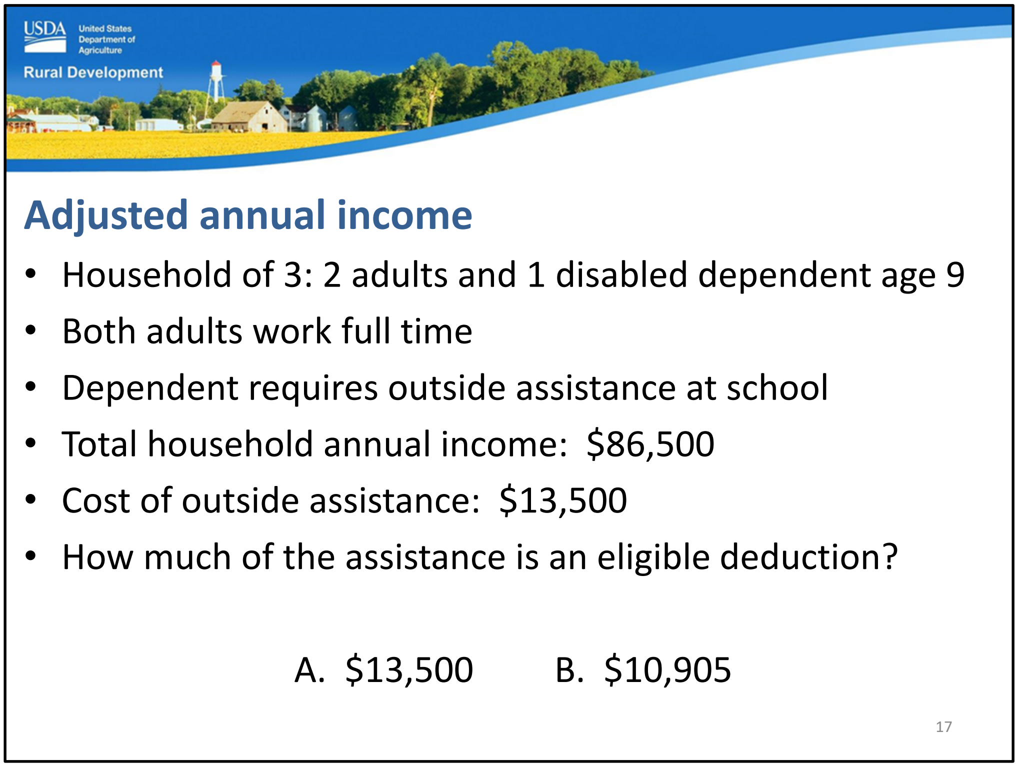
True.
The annual income is $110,000.
The household is eligible for 3 dependent deductions, currently at $480 each = $1,440.
Full time childcare is an eligible deduction when it is being paid to allow an applicant or household member to seek employment or attend education classes. The applicant's have 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.



Read the question on the slide and select a response.

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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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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.

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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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Read the question on the slide and select a response.

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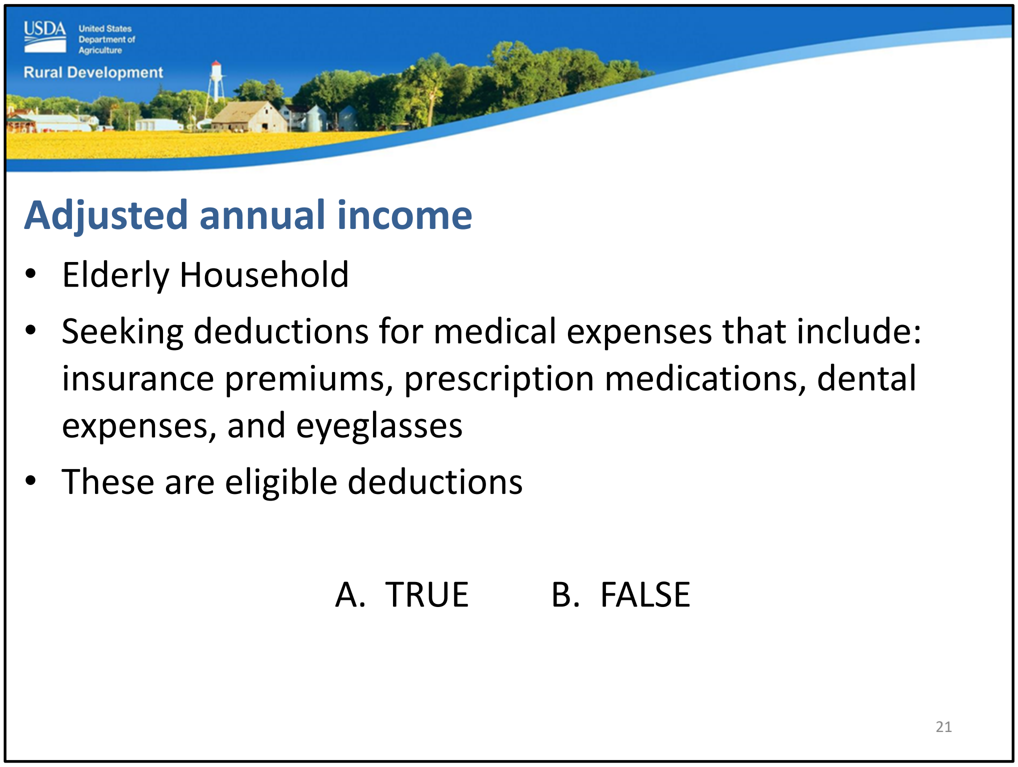
False.
Elderly families (those with an applicant on the loan age 62 or above) may only have one $400 deduction for the adjusted annual income figure.



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.

Way to go! You have completed the learning checks!

Regulations

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

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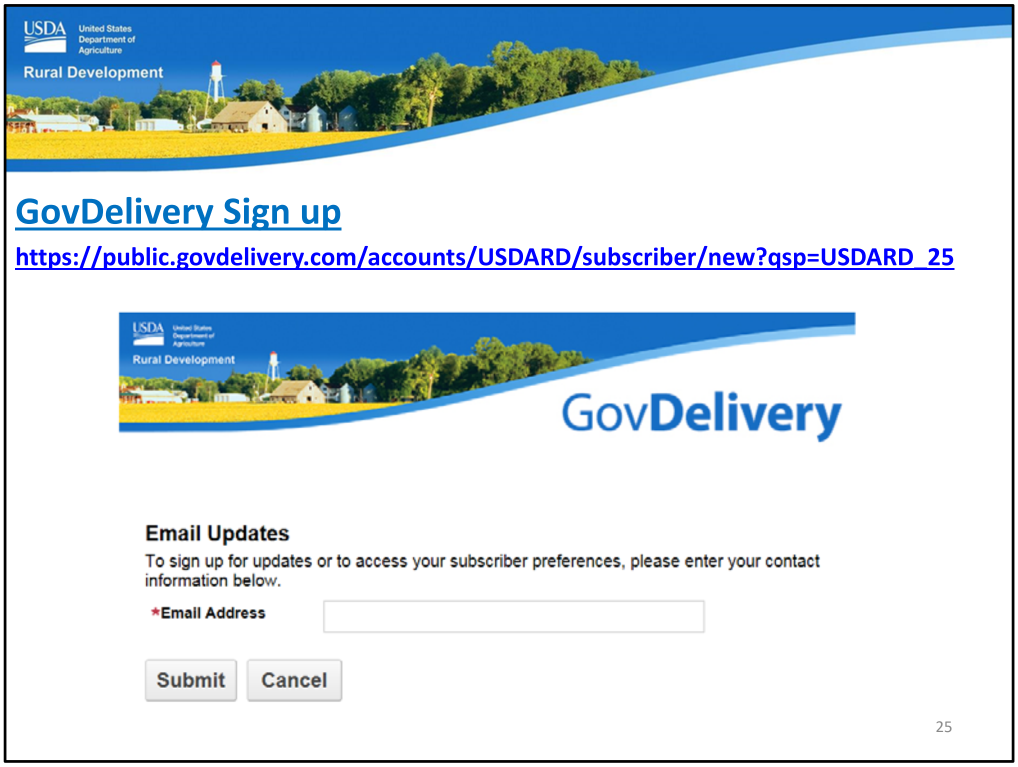
Don’t forget the Regulations and Guidelines website is a treasure trove of USDA guideline knowledge.



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Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program!

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