Welcome to the technical handbook Chapter 9 Revision Overview for the Single Family Housing Guaranteed Loan Program.
This short presentation will cover the TOP THIRTEEN changes you can look forward to in the new Chapter 9 for income analysis!
#1: Can you say STREAMLINED?

The new handbook chapter 9 has been reduced by over 20 pages!

Guidance that once was displayed in multiple paragraphs and possibly multiple locations within the chapter have been revised to more succinct guidance.
#2: HB 9 is now SIMPLIFIED!

Remember those long paragraphs? Remember how confusing some of that language could be?

The new chapter 9 will be much easier to understand which will allow the regulation to be properly applied.
#3: LIVING APART: IT’S SERIOUS

Trying to eliminate a HHM?

• Living apart for minimum 3 months
• Documentation examples provided
• Applicable to spouse, fiancé, domestic partner, adult parent

We already know that spouses must have their income included in the annual income calculation, UNLESS they have been living apart for a minimum of three months for reasons other than work or military service.

How do you prove this separation? The new chapter 9 includes examples of acceptable documentation to support the required separation timeframe.

USDA routinely encounters questions from lenders regarding non-spouse adult household members that are currently living with the applicant as a family unit. Chapter 9 will require a significant other, fiancé, domestic partner, or adult parent to also document the required three month separation in order to exclude their income from the annual income calculation.
#4: Shared Custody

USDA will abandon the use of IRS Publication 501 guidance for use in determining which parent may claim their child as a household member. Custody agreements may change, and many times these changes are agreed upon between parties without the cost of legal assistance.

The applicant is legally responsible to certify on Form RD 3555-21 to the number of household members that will reside in their home.

No additional documentation will be required.
#5: ASSETS

- $50,000 plus = consider for annual income
- Cumulative
- Non-retirement

#5: Assets

The asset guideline for annual income consideration has been raised from $5,000 to $50,000!

If the cumulative total of non-retirement assets exceeds $50,000, lenders must perform the applicable annual income calculation.
#6: Electronic Verifications

USDA already accepts electronic verifications, but now it’s in writing for those that didn’t believe it was possible.

USDA recognizes that electronic verifications are quickly becoming the gold standard in third party verifications for employment, assets, rent, and other underwriting documentation.
#7: NO MORE BALANCE SHEETS

- Balance sheets eliminated for self-employed
- Lenders may still obtain at their discretion

#7: NO MORE BALANCE SHEETS FOR SELF-EMPLOYED APPLICANTS!

Many lenders expressed their concern with the requirement of the balance sheet, as well as the efforts behind their applicant’s to present this item throughout the year.

Lenders may continue to require a balance sheet at their discretion.
#8: The infamous IRS 4506-T: Request for Income Tax Transcript.

The requirement of the 4506-T has been suspended since December 21, 2017 for all adult household members, which yes, includes applicants.

Chapter 9 will require the 4506-T for all adult household members, with the exception of full time students age 18 and up that are not an applicant, spouse of an applicant, or head of household. Typically full time students are also dependents. If your full time student also works, include $480 of their income and take your $480 deduction as a qualified dependent. Done: no 4506-T required for these individuals.

USDA will continue to require full transcripts to be ordered for the applicable parties. The purpose is to not only validate the income sources you were provided, but also determine that the applicant is not withholding additional income. Receipt of full transcripts is the only way to make this determination.

Lenders may request a Conditional Commitment without submitting the 4506-T transcripts. Lenders must receive and review the full transcripts prior to loan closing. It the lender’s responsibility to ensure the applicants remain income eligible for the

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**HB 9 Revisions**

#8: **4506-T**

- All adult HHM, EXCEPT full time students
- Request full transcripts
- Required in lender file, prior to loan closing
- Issues? Document them! Close the loan!
guaranteed loan.

What if you can’t get a transcript for a household member? There are many legitimate reasons the IRS cannot return a transcript for some household members. Document your correspondence with the IRS. Document the income and asset sources you have. Then keep on swimming. A missing transcript will not disrupt a loan closing.
#9: THE MATRIX!!

Did you enjoy flipping from page 3 to page 38 in order to determine how to treat Social Security income for annual and repayment income? We didn’t care for it either! So enter the MATRIX!

The matrix is bringing back an old favorite format that USDA previously utilized prior to the technical handbook. The matrix will organize income, adjusted annual income deductions, and assets in one convenient location! It will also include documentation options!

The matrix is the new Attachment 9-A, which means some of the current attachments will have changed to a new letter.

REVIEW IT! LIVE IT! LOVE IT!
This is an example of the income documentation. The income types are in alphabetical order.

There is guidance for annual and repayment income for each topic in the same space!

New definitive history and continuance information is listed for repayment purposes. The documentation source options are just that: OPTIONS. Please do not interpret these options as “you must have all of these items.” That is not the intention. The intention was to help a lender find documentation options that are acceptable to support the income source.
This is an example of the adjusted annual income section.

The deductions are stated with reference to 7 CFR 3555, and documentation options are provided.

<table>
<thead>
<tr>
<th>Adjusted Annual Income Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Deduction: 3555.152(c)(1)</strong></td>
</tr>
<tr>
<td>• $480 deduction per eligible dependent at the time of loan application</td>
</tr>
<tr>
<td>• Applicants with shared custody may include their child(ren), no documentation required</td>
</tr>
<tr>
<td><strong>Documentation Source Options:</strong></td>
</tr>
<tr>
<td>• Certify to the household member on Form RD 3555-21</td>
</tr>
<tr>
<td>• List all household members and ages on the Income Calculation Worksheet</td>
</tr>
<tr>
<td><strong>Child Care Expenses: 3555.152(c)(2)</strong></td>
</tr>
<tr>
<td>• Care for children age 12 and under</td>
</tr>
<tr>
<td>• Care is necessary to enable a family member to work, seek employment, or attend school</td>
</tr>
<tr>
<td>• Calculate anticipated child care expenses for the ensuing 12 months</td>
</tr>
<tr>
<td>• 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</td>
</tr>
<tr>
<td><strong>Documentation Source Options:</strong></td>
</tr>
<tr>
<td>• 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</td>
</tr>
<tr>
<td>• 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.)</td>
</tr>
<tr>
<td>• Child support payments and school tuition (Pre-K – 8) are not eligible deductions</td>
</tr>
<tr>
<td>• Attachment 9-G is an available option to document childcare expenses</td>
</tr>
<tr>
<td>• Calculations must be included on the Income Calculation Worksheet</td>
</tr>
</tbody>
</table>
The asset section will also present asset types in alphabetical order, provide options to document the source, and offer assistance to calculate as applicable.
#10: GUS RESERVES

Earnest $ and Gift funds

- Data entry on the Transaction Details GUS application page
- Retain eligible checking/savings

#10: GUS Reserves

Many types of assets are not eligible to be included in the reserve calculation in GUS or for a manually underwritten loan.

Earnest money is from the applicant’s own funds, therefore it may be returned at loan closing and retained as a reserve.

Gift funds cannot be considered as reserves because the applicant did not personally save these funds, but they can be utilized to pay for closing costs or pre-paids, which allows the applicant to retain their own funds in checking and savings accounts.

The data entry of these items in GUS to properly reflect assets and reserves is explained in the new matrix!
These are examples of how the matrix provides guidance to enter earnest money and gift funds in the “Other Credits” section of the “Transaction Details” GUS application page. When properly entered, data integrity is retained and a proper reserve calculation may be considered in GUS.
#11: EVERYONE LOVES A GIFT

Gift funds

• Exclusions: Interested Parties

Gifts of Equity

• Reduce the sales price

#11: Everyone loves a gift….but there seems to be confusion on who can provide the gift.

The current list of gift providers in chapter 9 is not all inclusive. It was never meant to be, but that appears to be a common interpretation. This is remedied in the new and improved chapter 9. The only people that cannot provide a gift are those that stand to benefit from the sale, such as the lender, builder, real estate agent, or seller.

Cash isn’t the only gift. Sometimes a gift of equity or sweat equity is provided. But that equity cannot be returned to the applicant as cash at closing. The gift of equity must be expressed as a reduction to the sales price. This allows the applicant a lower loan amount and more room to finance eligible loan costs.
These are the examples of guidance provided for gift funds and gifts of equity in the asset section of the new matrix!
#12: The Julian Calendar has been removed.

The current Attachment 9-D, Julian Calendar will not be in the new HB 9 revision. It’s not that the Julian Calendar is not an optional method to calculate income, but it is not the most widely used method.

Due to the departure of the Julian calendar, some current attachments will have new letters associated to them.
INCOME CALCULATIONS

• One size does not fit all
• Analyze current earnings / history / income types
• Prepare a LOGICAL calculation
• Document: 3555-21

Attachment 9-A can help!

While we are discussing income calculations, let’s revisit some sound advice.

There is no specific income calculation that USDA mandates for income sources.

Approved lenders and their underwriters must analyze current earnings, earning history, and the applicable income types.

Arrive at a logical income calculation based on the documentation that you have been provided.

All income calculations are required to be documented on the Income Calculation Worksheet, which is part of a complete Form RD 3555-21.

Attachment 9-A: THE NEW MATRIX can help!
#13: Paystub Flexibility

- 4 weeks of earnings
- 4 weeks may not = 30 days
- YTD figure still required

#13: Paystub Flexibility: 4 weeks, 30 days, you say potato......

For those who enjoy counting days to the minute detail this will not be good news, but truly, is there any reason to discriminate against February? Is requesting one more paystub to make up for a missing one or two days going to break new ground in underwriting? We don’t think so!

USDA has changed the “paystubs that cover 30 days of earnings” to “4 weeks of earnings”.

Year to Date (YTD) figures will still be required on the earnings statement which will assist in the overall review of income.
HB 9 Revisions

Effective Date

• 60 days from Procedure Notice publication

• Advance Copy available

That sums up the Top 13 changes to handbook Chapter 9.

USDA will publish a Procedure Notice (PN) when handbook Chapter 9 is released.

All new changes will be effective 60 days from the date of PN publication. This will allow lenders ample time for guaranteed loan applications already in progress to receive Conditional Commitments under the current version of Chapter 9.

An Advance Copy of the revised Chapter 9 was provided electronically through a GovDelivery subscriber message. If you are not a GovDelivery subscriber or wish to obtain an Advance Copy, contact your State USDA Office.

This overview of Chapter 9 replaces any written handbook revision guide. Due to extensive formatting changes, the revision guide was not appropriate.
The new and improved handbook chapter 9 will be available online from the USDA Regulations and Guidelines website. The current link is provided on this slide.

Select “Handbooks” and then the option for “HB-1-3555”.

Only published versions of handbook chapters are available from this site. An Advance Copy prior to publication may be obtained from your State USDA Office.
And as a reminder, the USDA LINC Training and Resource Library is a wealth of training and documentation resources. New items will be posted as they become available.
Thank you for reviewing this overview of the revised handbook chapter 9! We hope these changes and improved guidance will assist you to serve more rural homebuyers!
This will conclude the presentation! We appreciate your support of the Single Family Housing Guaranteed Loan Program.