



Rural Development



HB-1-3555
Chapter 9 Revision Overview
SFH Guaranteed Loan Program

Welcome to the technical handbook Chapter 9 Revision Overview for the Single Family Housing Guaranteed Loan Program.

CHAPTER 9: Income Analysis



This short presentation will cover the TOP THIRTEEN changes you can look forward to in the new Chapter 9 for income analysis!

HB 9 Revisions

#1: STREAMLINED

- Over 20 pages eliminated
- Improved guidance



#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.

HB 9 Revisions

#2: SIMPLIFIED

- Confusing language removed



#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.

HB 9 Revisions

#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



#3: Living apart....It's serious (for program eligibility)

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.

HB 9 Revisions

#4: SHARED CUSTODY

- No more IRS Publication 501
- Certify to HHM # on 3555-21
- No additional documentation



#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.

HB 9 Revisions

#5: ASSETS

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



#5: Assets

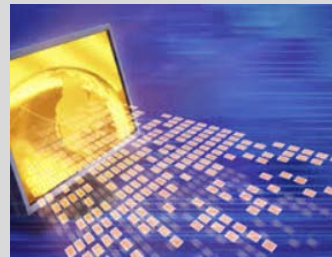
The asset guideline for annual income consideration has been raised from \$5,000 to \$50,000!

If the cumulative total of non-retirement assets exceeds \$50,000, lenders must perform the applicable annual income calculation.

HB 9 Revisions

#6: ELECTRONIC VERIFICATIONS

- Employment, Wages, Assets, Rent
- YES PLEASE!



#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.

HB 9 Revisions

#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!

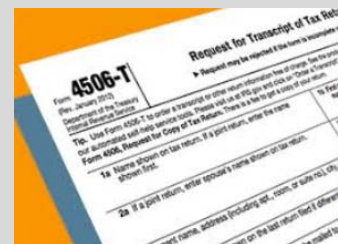
Many lenders expressed their concern with the requirement of the balance sheet, as well as the efforts behind their applicant's to present this item throughout the year.

Lenders may continue to require a balance sheet at their discretion.

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!



#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

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.

HB 9 Revisions

#9: MATRIX: Attachment 9-A

- Income, Assets, Deductions
- Documentation options
- REVIEW IT!

ATTACHMENT 9-A		
Income and Documentation Matrix		
Income guidance: 7 CFR 3555, Section 3555.152(a) and (b)		
Income Type	Annual	Repayment
Adoption Assistance or Subsidy	If the income will be received in the ensuing 12 months, include the first \$480 of adoption income or subsidy assistance for each grantee.	History: 2 years Continuance: 3 years Benefits that do not include expiration dates on the documentation will be presumed to continue
Documentation Source Options: <ul style="list-style-type: none">• Benefit Award letter to document the amount and duration of payments• 2 years of Federal income tax returns or IRS tax transcripts with all schedules		
Automobile Allowance	Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months.	History: 2 years Continuance: Income will be presumed to continue unless there is documented evidence the income will cease The amount of allowance that exceeds the expenditures may be included for repayment. If there is a monthly debt associated with the income (such as a car or equipment payment), this debt must continue to be included in the debt ratio calculation.
Documentation Source Options: <ul style="list-style-type: none">• Paystub(s)• Contract/agreement from employer to state terms and duration of payments• 2 years of Federal income tax returns or IRS tax transcripts with all schedules		

#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!

HB 9 Revisions

Income and Documentation Matrix		
Income guidance: 7 CFR 3555, Section 3555.152(a) and (b)		
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Documentation Source Options: <ul style="list-style-type: none"> Paystub(s) Contract/agreement from employer to state terms and duration of payments 2 years of Federal income tax returns or IRS tax transcripts with all schedules 		

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.

HB 9 Revisions

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	

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.

HB 9 Revisions

Assets
3555.152(d)
Business Accounts
Documentation Options and Guidance:
<ul style="list-style-type: none"> • 2 months of bank statements, Verification of Deposit (VOD), or acceptable evidence to support average <u>2 month</u> balance carried and current balance • Lenders may use the lessor of the average <u>2 month</u> balance or the current balance • Lenders must use caution and not overstate assets • USDA does not require evidence for access to joint accounts from all parties to the account
Cash on Hand
Documentation Options and Guidance:
<ul style="list-style-type: none"> • Applicant must supply a letter of explanation to state how the funds were retained (how much weekly/monthly/etc.) • Lender may accept applicant explanation to verify funds for closing • Cash on hand cannot be considered for reserves
Certificate of Deposit (CD)
Documentation Options and Guidance:
<ul style="list-style-type: none"> • 2 statements (monthly, quarterly, etc.) to evidence the account balance and early withdraw penalty if applicable • Lenders may use the lessor of the average <u>2 month</u> balance or current balance, minus applicable fees • Lenders must use caution and not overstate assets • USDA does not require evidence for access to joint accounts from all parties to the account

The asset section will also present asset types in alphabetical order, provide options to document the source, and offer assistance to calculate as applicable.

HB 9 Revisions

#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-pays, 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!

HB 9 Revisions

Earnest Money

Documentation Options and Guidance:

- Earnest money that has cleared an applicant's depository account may be entered in the "Other Credits" section of the "Transaction Details" GUS application page. The amount of earnest money should not be reflected in the balance of any asset entered on the "Assets and Liabilities" application page.
- Earnest money that will be returned to the applicant at loan closing is eligible to be included in the reserves.

Gift Funds

Documentation Options and Guidance:

- Gift funds are considered the applicant's own funds, therefore they are eligible to be returned to the applicant at loan closing as applicable
- Gift funds may not be contributed from any source that has an interest in the sale of the property (seller, builder, real estate agent, etc.)
- Gift funds must be properly sourced: Gift letter to state the funds do not have to be repaid, evidence of funds from the party providing the gift, and evidence the funds were deposited into the applicant's account. Cash on hand is not an acceptable explanation for the source of funds.
- Gift funds that will be used for funds to close may be entered in the "Other Credits" section of the "Transaction Details" GUS application page. The amount entered should not exceed the actual amount of funds required to close. Remaining gift funds not used for closing assistance may be entered in the "Asset and Liabilities" application page as "gift funds". If cash back is received at loan closing, it cannot exceed monies advanced by the borrower minus utilized gift funds.
- Gift funds are not eligible to be considered as reserves

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.

HB 9 Revisions

#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.

HB 9 Revisions

Gift Funds

Documentation Options and Guidance:

- Gift funds are considered the applicant's own funds, therefore they are eligible to be returned to the applicant at loan closing as applicable
- Gift funds may not be contributed from any source that has an interest in the sale of the property (seller, builder, real estate agent, etc.)
- Gift funds must be properly sourced: Gift letter to state the funds do not have to be repaid, evidence of funds from the party providing the gift, and evidence the funds were deposited into the applicant's account. Cash on hand is not an acceptable explanation for the source of funds.
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- Gift funds are not eligible to be considered as reserves

Gift of Equity, Sweat Equity, or Rent Credits

Documentation Options and Guidance:

- These gifts or credits should be applied as a reduction to the purchase price of the dwelling
- Ensure the appraiser is aware of the gift and/or credit. This will allow them to properly complete their appraisal report, note the reduction, and support the appraised value compared to purchase price if applicable.
- The borrower may not receive cash back at loan closing for these gifts and/or credits

These are the examples of guidance provided for gift funds and gifts of equity in the asset section of the new matrix!

HB 9 Revisions

#12: JULIAN WHO?

- Attachment 9-D

Julian Calendar removed

ATTACHMENT 9-D – Julian Calendar

Day of													Day of												
Mo	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Mo	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1	31	32	60	91	121	152	182	213	244	274	305	335	1	388	397	425	456	486	517	547	578	608	638	670	700
2	2	33	61	92	122	153	183	214	245	275	306	336	2	387	396	424	455	485	516	546	577	607	637	669	701
3	3	34	62	93	123	154	184	215	246	276	307	337	3	388	398	427	458	488	519	549	580	611	641	672	702
4	4	35	63	94	124	155	185	216	247	277	308	338	4	389	400	428	459	489	520	550	581	612	642	673	703
5	5	36	64	95	125	156	186	217	248	278	309	339	5	370	401	429	460	490	521	551	582	613	643	674	704
6	6	37	65	96	126	157	187	218	249	279	310	340	6	371	402	430	461	491	522	552	583	614	644	675	705
7	7	38	66	97	127	158	188	219	250	280	311	341	7	372	403	431	462	492	523	553	584	615	645	676	706
8	8	39	67	98	128	159	189	220	251	281	312	342	8	373	404	432	463	493	524	554	585	616	646	677	707
9	9	40	68	99	129	160	190	221	252	282	313	343	9	374	405	433	464	494	525	555	586	617	647	678	708
10	10	41	69	100	130	161	191	222	253	283	314	344	10	375	406	434	465	495	526	556	587	618	648	679	709
11	11	42	70	101	131	162	192	223	254	284	315	345	11	376	407	435	466	496	527	557	588	619	649	680	710
12	12	43	71	102	132	163	193	224	255	285	316	346	12	377	408	436	467	497	528	558	589	620	650	681	711
13	13	44	72	103	133	164	194	225	256	286	317	347	13	378	409	437	468	498	529	559	590	621	651	682	712
14	14	45	73	104	134	165	195	226	257	287	318	348	14	379	410	438	469	499	530	560	591	622	652	683	713
15	15	46	74	105	135	166	196	227	258	288	319	349	15	380	411	439	470	500	531	561	592	623	653	684	714
16	16	47	75	106	136	167	197	228	259	289	320	350	16	381	412	440	471	501	532	562	593	624	654	685	715
17	17	48	76	107	137	168	198	229	260	290	321	351	17	382	413	441	472	502	533	563	594	625	655	686	716
18	18	49	77	108	138	169	199	230	261	291	322	352	18	383	414	442	473	503	534	564	595	626	656	687	717
19	19	50	78	109	139	170	200	231	262	292	323	353	19	384	415	443	474	504	535	565	596	627	657	688	718
20	20	51	79	110	140	171	201	232	263	293	324	354	20	385	416	444	475	505	536	566	597	628	658	689	719
21	21	52	80	111	141	172	202	233	264	294	325	355	21	386	417	445	476	506	537	567	598	629	659	690	720
22	22	53	81	112	142	173	203	234	265	295	326	356	22	387	418	446	477	507	538	568	599	630	660	691	721
23	23	54	82	113	143	174	204	235	266	296	327	357	23	388	419	447	478	508	539	569	600	631	661	692	722
24	24	55	83	114	144	175	205	236	267	297	328	358	24	389	420	448	479	509	540	570	601	632	662	693	723
25	25	56	84	115	145	176	206	237	268	298	329	359	25	390	421	449	480	510	541	571	602	633	663	694	724
26	26	57	85	116	146	177	207	238	269	299	330	360	26	391	422	450	481	511	542	572	603	634	664	695	725
27	27	58	86	117	147	178	208	239	270	300	331	361	27	392	423	451	482	512	543	573	604	635	665	696	726
28	28	59	87	118	148	179	209	240	271	301	332	362	28	393	424	452	483	513	544	574	605	636	666	697	727
29	29		88	119	149	180	210	241	272	302	333	363	29	394		453	484	514	545	575	606	637	667	698	728
30	30		89	120	150	181	211	242	273	303	334	364	30	395		454	485	515	546	576	607	638	668	699	729
31	31		90		151		212	243		304		365	31	396		455		516		577	608		669		730

#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.

HB 9 Revisions

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!

HB 9 Revisions

#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.

HB 9 Revisions

USDA Regulations and Guidelines: HB-1-3555

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

The screenshot displays the USDA Rural Development website's 'Regulations & Guidelines' page. The page features a navigation menu at the top with options like 'Home', 'About RD', 'Programs & Services', 'Browse by State', 'Newsroom', 'Publications', and 'Contact Us'. The main content area is divided into two columns. The left column contains a sidebar with 'Publications' and 'Regulations & Guidelines' sections. The right column is titled 'Regulations & Guidelines' and contains text about federal regulations, a service notice, and a list of 'Rural Development' documents. A 'Handbooks' link is highlighted in yellow. To the right of the main content is a 'Table of Contents' for the 'HB-1-3555 SFH GUARANTEED LOAN PROGRAM TECHNICAL HANDBOOK', listing chapters from 1 to 19 and appendices from 1 to 10.

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.

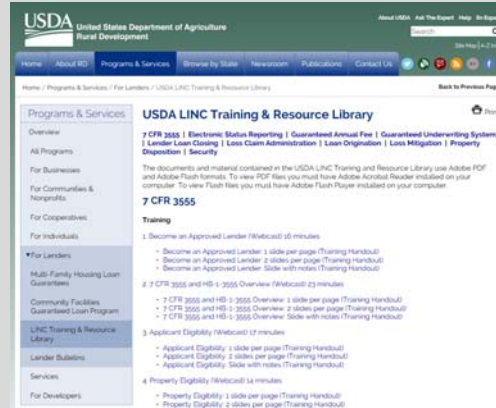
Select “Handbooks” and then the option for “HB-1-3555”.

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.

HB 9 Revisions

USDA LINC: Training and Resource Library

<https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library>



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!

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To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at [How to File a Program Discrimination Complaint](#) and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by: (1) mail: U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW, Washington, D.C. 20250-9410; (2) fax: (202) 690-7442; or (3) email: program.intake@usda.gov.

USDA is an equal opportunity provider, employer, and lender.



This will conclude the presentation! We appreciate your support of the Single Family Housing Guaranteed Loan Program.