Repayment Income

Single Family Housing Guaranteed Loan Program

Revised December 2018
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!
7 CFR Part 3555

7 CFR Part 3555

Handbooks
HB-1-3555 SFH Guaranteed Loan Program Technical Handbook
HB-2-3555 Direct Single Family Housing Loans and Grants - Field Office Handbook
HB-3-3555 MFH Loan Origination Handbook
HB-2-3556 MFH Asset Management Handbook
HB-3-3556 MFH Project Servicing Handbook
HB-4-3556 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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Chapter 10 - Credit Analysis
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Acronyms
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Appendix 8 - EDI Documentation
Appendix 9 - Penalties
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7 CFR Part 3555

3555.152 Calculation of income and assets.
(a) Repayment income.
(b) Annual income.
(c) Adjusted annual income.
(d) Net family assets.
7 CFR Part 3555: 3555.152(a)

(a) Repayment income. Repayment income is the amount of adequate and stable income from all sources that parties to the promissory note are expected to receive. Repayment income is used to determine the applicant's ability to repay a loan.

(1) The lender must examine the applicant's past income record for at least the past 2 years and any applicable training and/or education. The Agency may require additional information and documentation from self-employed applicants and applicants employed by businesses owned by family members.
7 CFR Part 3555: 3555.152(a)

(2) The lender must establish an applicant's anticipated amount of repayment income and the likelihood of its continuance for at least the next 3 years to determine an applicant's capacity to repay a requested mortgage loan in accordance with Sec. 3555.151(h)(1).

(3) Income may not be used in calculating an applicant's ratios if it is from any source that cannot be verified, is not stable, or is likely not to continue.
7 CFR Part 3555: 3555.152(a)

(4) The following types of income are examples of income not included in repayment income:

(i) Any student financial aid received by household members for tuition, fees, books, equipment, materials, and transportation;

(ii) Amounts received that are specifically for, or in reimbursement of the cost of medical expenses for any family member;

(iii) Temporary, nonrecurring, or sporadic income (including gifts);

(iv) Lump sum additions to family assets such as inheritances, capital gains, insurance payments and personal or property settlements;

(v) Payments for the care of foster children or adults; and

(vi) Supplemental Nutrition Assistance Program payments.
HB 9.7: Repayment Income

9.7 OVERVIEW

Repayment income will determine if the applicant(s) has sufficient income to repay the mortgage in addition to recurring debts. Repayment income calculations often differ from the calculation of annual and adjusted annual income.

Repayment income is the stable and dependable income of the applicants who will be parties to the note. Co-signers and non-occupant co-borrowers are not permitted for a guaranteed loan transaction.
HB 9.8: Repayment Income

9.8 STABLE AND DEPENDABLE INCOME

3555.152(a) and Attachment 9-A assist lenders to review income types. The following guidance also assists lenders to consider repayment income sources:

- The income source must be documented.

- There must be evidence of receipt of earnings.

- Lenders are responsible to analyze any gaps in employment in order to make a final determination of stable and dependable income. An employment gap does not automatically render an applicant ineligible.

- Caution should be utilized for any applicant that has documented declining wages or earnings. Lenders must ensure repayment income is not inflated/overstated.
**ATTACHMENT 9-A**

**Income and Documentation Matrix**

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
</tr>
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| 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:**
- 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 expenditure 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. |
# ATTACHMENT 9-A

## Income and Documentation Matrix

**Income guidance:** 7 CFR 3555, Section 3555.152(a) and (b)

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EVERY INCOME TYPE CANNOT BE LISTED

KEEP CALM AND KEEP IT SIMPLE

• Can the source be documented?
• Is there a stable receipt of earnings? Minimum 12 months.
• Is there evidence this income source will not continue 3 years into the mortgage?
**ATTACHMENT 9-A**

**Income and Documentation Matrix**

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HB 9: “Continuity”

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<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Wages</td>
<td>Include amounts received before deductions for payroll taxes, insurance, etc. Include amounts that will be received in the ensuing 12 months. Full time students age 18 and above that are not an applicant, co-applicant, or spouse of an applicant will only have $480 of their earnings included in the annual income calculation. These household members are not required to present income documentation.</td>
<td><strong>History:</strong> Minimum 1 year (with current employer or employment continuity) Applicants with job gaps due to maternity leave, medical leave, relocation, etc. are considered to have employment continuity. Applicants returning to the workforce after leaving a previous job to care for a child/family member, complete education, etc. will require a 12 month employment history. <strong>Continuance:</strong> Income will be presumed to continue unless there is documented evidence the income will cease</td>
</tr>
</tbody>
</table>

**Documentation Source Options:**
- Paystub(s)
- W-2’s for the previous 2 years
- Written Verification of Employment (VOE) or electronic verifications
- 2 years of Federal income tax returns or IRS tax transcripts with all schedules
HB 9: Continuity

TWO TYPES

1. Employment
2. Income

Lenders must examine both to ensure 3555.152(a) is met.
**HB 9: Continuity**

**EMPLOYMENT CONTINUITY**

Continuous Employment:

- Always employed
- Cumulative, not the same job
- Job gaps may occur, use good judgement:
  - Relocation, Time before new job starts: not an issue
  - Termination, loss of job, months of unemployment: analyze risk appropriately
HB 9: Continuity

INCOME CONTINUITY

Continuous Income:

• Approximate level of earnings
• No large increases without documentation
• No sharp/significant decline in wages
HB 9: Continuity

Sara worked at ABC Legal for 2 years. She was unemployed for five years to remain home and care for her child. She is now employed at XYZ Legal for 3 months.

• Does Sara have employment continuity?
HB 9: Continuity

Answer: No

• Sara worked for 2 years.
• She was unemployed for 5 years.
• She only has 3 months on the current job.
• Sara needs 12 months on her current job to use the income for repayment.
Joe was a mechanic at Bentley Motors for 3 years. He has accepted a new position with Johnson Cars, and has been there for 9 months.

- Does Joe have employment continuity?
HB 9: Continuity

Answer: Yes

• Joe has been a mechanic for over 3 years.
• Joe continues to be a mechanic with his new employer.
• Joe has always been employed.
HB 9: Continuity

Joe earned $32,000 annually at Bentley Motors. He will earn $36,000 with Johnson Cars.

• Does Joe have income continuity?
HB 9: Continuity

Answer: Yes

• Joe has earned $32,000 in his previous position for 3 years.
• Joe’s new salary is similar to his history of earnings.
Carmen worked part-time at McDonald’s for 3 years in college. Her annual earnings were roughly $12,000. Carmen has graduated and accepted a position with Buddy’s Pool and Spas. She has worked there 6 months and her annual salary is $35,000.

• Does Carmen have income continuity?
HB 9: Continuity

Answer: No

- Carmen does not have a history of earning $35,000.
- Carmen’s salary may be considered for repayment when she has been on the job for 12 months.
HB 9: Continuity

Julie has graduated nursing school. She passed her license exams. She has accepted a position with Mercy Hospital and has worked there for 2 months. Julie earns base wages, shift differential, and overtime. She is projected to earn $65,000 this year.

• Does Julie have income continuity?
HB 9: Continuity

Answer: No

• Julie does not have a history of earning $65,000.
• Julie’s base earnings may be considered for repayment when she has been on the job for 12 months.
• Julie’s overtime and additional income types earned will require 24 months history to be used for repayment.
Bob worked at Big City bank for 6 months as a teller earning $12 per hour. He moved to Miller Community Bank and has been employed there for 8 months as a Customer Service Representative earning $16 per hour.

• Does Bob have employment continuity?
HB 9: Continuity

Answer: Yes

• Bob has a 14 month employment history.
• USDA does not require 12 months at the same job.
• USDA requires 12 month employment history for certain income types.
Bob worked at Big City bank for 6 months as a teller earning $12 per hour. He moved to Miller Community Bank and has been employed there for 8 months as a Customer Service Representative earning $16 per hour.

- Does Bob have income continuity?
HB 9: Continuity

Answer: Yes

• Bob made $24,960 annually at Big City Bank.
• Bob is earning $33,280 with Miller Community Bank.
• There is less than a $10k increase in the same line of work.  Alert: $10k is not a guideline amount.
• Bob’s most recent paystub must support repayment income.
HB 9: Continuity

Sam worked as loan officer at State Bank for 13 months earning $32,000. Sam has been with AutoCars for 5 months working on all commission. He is doing quite well and is projected to earn $65,000 this year.

• Does Sam have employment continuity?
HB 9: Continuity

Answer: Yes

• Sam has over 18 months of work history.
• Sam has a minimum employment history.
HB 9: Continuity

Sam worked as loan officer at State Bank for 13 months earning $32,000. Sam has been with AutoCars for 5 months working on all commission. He is doing quite well and is projected to earn $65,000 this year.

• Does Sam have income continuity?
HB 9: Continuity

Answer: No

• Sam is 100 percent commission at his new job.
• Sam does not have 2 year history of earning commission.
• Sam does not have a 12 month history of earning $65,000.
Does this figure match the repayment calculated on the income worksheet (3555-21)?
### Review Documents and GUS Entries

#### MONTHLY REPAYMENT INCOME CALCULATION

Consider stable and dependable income of parties to the note as described in HB-1-3555, Paragraph 9.6 through 9.9.

14. Stable Dependable Monthly Income (Parties to note only) Calculate and record how the calculation of each income source type was determined in the space below. Identify income type by party to note.

<table>
<thead>
<tr>
<th>Base Income</th>
<th>Borrower</th>
<th>Co-Borrower</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,570.67</td>
<td>$3,570.67</td>
<td></td>
<td>$3,570.67</td>
</tr>
</tbody>
</table>

**Calculation of Base Income:**

$20.60 \times 2080 = 42,888/12 = 3,570.67$

<table>
<thead>
<tr>
<th>Other Income</th>
<th>Borrower</th>
<th>Co-Borrower</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$0</td>
<td></td>
<td>$0</td>
</tr>
</tbody>
</table>

**Calculation of Other Income:**

15. Monthly Repayment Income (Enter total of 14) $3,570.67

**Prepared by (Signature):**

<table>
<thead>
<tr>
<th>Name (Print):</th>
<th>Larry Lender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title:</td>
<td>Underwriter</td>
</tr>
<tr>
<td>Lender:</td>
<td>USDA Bank</td>
</tr>
<tr>
<td>Date:</td>
<td>04-20-2016</td>
</tr>
</tbody>
</table>

**Taxing ID:**

123456789

---

**Show the calculation.**

**This figure should match the data entry in GUS.**

**Sign the form.**
HB 9: Stable and Dependable Income

- Lender reviews employment income history
- Lender reviews income history
- Lender determines stable and dependable income per guidelines
- GUS does not determine stable and dependable income
7 CFR PART 3555 / HB-1-3555
LEARNING CHECKS
Repayment Income

• Joe applies for a GRH loan in September
• Joe has worked at ABC Garage since June
• Joe was previously at XYZ Garage for 3 years
• Lender cannot use Joe’s current income until he has 2 years with ABC Garage

A. TRUE     B. FALSE
Repayment Income

ANSWER: 3555.152(a)(1) and (2), HB 9

B. FALSE

• Joe has continuity of employment in same line of work
• Lender must analyze current earnings as compared to history of earnings in this position
Repayment Income

• Joe applies for a GRH loan in September
• Joe has worked at ABC Garage since June
• Joe was previously at XYZ Garage for 3 years
• Lender can average Joe’s income from XYZ Garage with current earnings from ABC Garage

A. TRUE B. FALSE
Repayment Income

**ANSWER: 3555.152(a)(3), HB 9**

**B. FALSE**

- XYZ Garage is no longer Joe’s employer, this income has ended
- Lender must analyze current earnings and determine likelihood of continuance
Repayment Income

- Cathy works for Thompson’s Pharmacy: 4 years
- Most recent paystub indicates a $500 bonus
- Cathy has no stable history of bonus income
- VOE states bonus and commission are not likely to continue
- Lender cannot use $500 bonus towards repayment income

A. TRUE    B. FALSE
Repayment Income

ANSWER: 3555.152(a)(4)(iii), HB 9

A. TRUE

• This was a one time bonus
• There is no history of receipt, and employer states it is unlikely to continue
Repayment Income

• Jack has been employed with Local #853 Plumbing and Pipefitters for 5 years
• Each year there is a 3 month interval where he collects unemployment
• Unemployment income cannot be utilized for repayment income

A. TRUE    B. FALSE
Repayment Income

ANSWER: 3555.152(a), HB 9

B. FALSE

• Unemployment compensation is associated with seasonal employment
• Jack has over 2 years history of these earnings
Repayment Income

• Penelope’s mother Chloe (age 89) is a household member, but is not a party to the loan
• Chloe receives $5,000/month in Social Security benefits
• The lender may include Chloe’s income for repayment purposes

A. TRUE B. FALSE
Repayment Income

**ANSWER: 3555.152(a), HB 9**

B. FALSE

- Chloe is not a loan applicant
- Only income from parties to the note can have their income included for repayment
- Chloe’s income must be included in the annual income calculation
Repayment Income

• Penelope’s mother Chloe (age 89) is a household member, but is not a party to the loan
• Penelope is Chloe’s legal guardian. The Social Security Administration sends the $5,000/month benefit check to Penelope in her name.
• The lender may include the $5,000 for repayment purposes

A. TRUE  B. FALSE
Repayment Income

ANSWER: 3555.152(a), HB 9

A. TRUE

- Penelope is the legal payee for Chloe’s benefit to meet her needs
Repayment Income

• Sheldon has received a $20,000 student loan
• How much of this loan can be included in the repayment income

A. $20,000
B. Remainder of funds once all tuition/fees/etc. are paid
C. $0
Repayment Income

ANSWER: 3555.152(a)(4)(i), HB 9

C. $0

• Student loans are not eligible income sources
Repayment Income

GUS evaluates the stability and dependability of repayment income in the overall risk evaluation.

A. TRUE       B. FALSE
Repayment Income

ANSWER: 3555.152(a)(1), HB 9

B. FALSE

• The **lender** must determine the history and stability of earnings **prior** to entering repayment income into GUS
Repayment Income

- Howard has worked for Big Bang Builders for 14 months as an engineer.
- Prior to Big Bang Builders, Howard attended college and graduated with an engineering degree.
- Howard’s income from Big Bang Builders can be used for repayment.

A. TRUE B. FALSE
Repayment Income

ANSWER: 3555.152(a)(1), HB 9

A. TRUE

- Howard has been employed at least 12 months
- He also attended college prior to employment to study in his field of employment
- The lender may determine income is stable and dependable based on income verifications
Repayment Income

• Jed has been in the Army Reserve for 3 years
• His reserve income may be included for repayment income

A. TRUE  B. FALSE
Repayment Income

ANSWER: 3555.152(a)(1) and (2), HB 9

A. TRUE

- Jed has a stable history of receipt
- Lender may consider the reserve duty income for repayment
Repayment Income

- Simon has a home in SC that has been listed for 8 months
- Due to a job relocation, he is moving to GA
- He has decided to rent his SC home for $1,500/month
- The mortgage payment is $950
- How much net rental income may the lender use for repayment?

A. $550
B. $175
C. $0
Repayment Income

ANSWER: 3555.152(a)(1), HB 9

C. $0

• Rental income received less than 24 months is not stable and dependable for repayment purposes
• Note: $1500 x 75% = $1,125 - $950 = $175 x 12 months = $2,100 must be included for annual income
Repayment Income

- Bernadette receives monthly SSI of $1,400
- The lender may gross the SSI up by 25% for repayment income

A. TRUE B. FALSE
Repayment Income

ANSWER: 3555.152(a), HB 9

A. TRUE

• Tax exempt income sources may be grossed up 25%
• No additional adjustments are allowed
• NOTE: Do not gross up tax exempt income sources for annual income calculations
Repayment Income

- Patrick has received SSI disability for the previous 3 years
- Benefit statement has no expiration date/continuance
- The SSI disability may be included in repayment income

A. TRUE  B. FALSE
Repayment Income

ANSWER: 3555.152(a)(1) and (2), HB 9

A. TRUE

• Patrick has a stable history of receipt
• Statement does not list expiration of benefit, lender may assume continuance
Repayment Income

• Garth has been employed at USA Credit Union for 8 years
• For the past 4 months he also works at Pizza Planet
• He earns $5.00 per delivery plus tips
• The lender may use the part time employment for repayment

A. TRUE   B. FALSE
Repayment Income

ANSWER: 3555.152(a)(1), HB 9

B. FALSE

• Second/part-time job/tips should have a two year history to be stable and dependable
• Note: second job income must be included in annual income calculation
Repayment Income

• Penny receives monthly child support income of $1,200 for her 2 children
• Amy is 11 years old and Leonard Jr. is 16 years old (his support ends at age 18)
• All child support may be used for repayment income

A. TRUE   B. FALSE
Repayment Income

ANSWER: 3555.152(a)(1) and (2), HB 9

B. FALSE

• Amy is 11, support will continue for the next three years, it may be eligible
• Leonard Jr.’s support will end within the ensuing 3 years of the mortgage, therefore it must be excluded
• Lenders may exclude any support if it has not been received in a stable/timely manner
Repayment Income

• Clark is a pastor and receives a housing allowance of $900 each month
• His contract is for 5 years
• The lender may use the housing allowance for repayment income

A. TRUE    B. FALSE
Repayment Income

**ANSWER:** 3555.152(a)(1) and (2), HB 9

A. TRUE

- Lender must determine stable and dependable nature of payments
- The contract states continuance for the next 3 years
- The allowance may be added to repayment income, but it may not be used to offset the PITI calculation
Repayment Income

• April 29th YTD earnings: $18,535.32
• Applicant began employment on January 1st, no previous employment
• Base wages: $12,000 and Commissions: $6,535.32
• This calculation is acceptable for repayment income:

\[ \frac{18,535.32}{4 \text{ months}} = 4,633.83 \times 12 \text{ months} = 55,605.96 \]

A. TRUE     B. FALSE
Repayment Income

ANSWER: 3555.152(a)(1),(2), and (3), HB 9

B. FALSE

- There is not 12 months of employment history, therefore the applicant is ineligible
Repayment Income

• Applicant 1: $35,450 salary, 2 years on job
• Applicant 2: $23,650 salary: 18 months on job
• YTD paystubs project: Applicant 1: $40,376, Applicant 2: $25,358
• Lender submits file with repayment income of salaries only, USDA will accept this calculation

A. TRUE B. FALSE
Repayment Income

ANSWER: 3555.152(a)(1), HB 9

A. TRUE

- Lenders may be conservative with repayment income calculations

- NOTE: Lenders must consider the projected income for annual income calculations. Ensure this projection is reasonable when compared to history of earnings at same employer/position
Repayment Income

• Applicant has been on current job for 6 months
• Previous employment was 13 months earning $8.25 per hour
• New hourly wage: $8.50
• 4 paystubs were provided with the following hours worked: 38, 22, 33, and 40
• Lender calculates repayment income: $8.50 x 40 hrs. x 52 weeks = $17,680: This is acceptable

A. TRUE     B. FALSE
Repayment Income

ANSWER: 3555.152(a)(1), HB 9

B. FALSE

• Applicant has not demonstrated that they work 40 hours a week consistently
• Better option: YTD earnings from most recent paystub, for calculation
• Lender may determine wages/hours are not stable
• Applicant does have over 12 months employment history with income continuity
Repayment Income

• Leonard and Penny are foster parents
• They receive $800/month for the care of two children
• The lender may include this income for repayment purposes

A. TRUE B. FALSE
Repayment Income

ANSWER: 3555.152(a)(4)(ii), HB 9

B. FALSE

- Payments for the care of foster children or adults are not eligible for repayment income
Repayment Income

• Howard and Bernadette receive $750/month in adoption assistance
• This assistance may be included in repayment income

A. TRUE       B. FALSE
Repayment Income

ANSWER: 3555.152(a)(1) and (2), HB 9

A. TRUE

• Income received under government assistance programs may be used for repayment income
• Must be determined stable and dependable
• NOTE: Only the first $480 of adoption assistance received must be included in the annual income calculation
WAY TO GO!
Regulations


Regulations & Guidelines

All Federal regulations can be found at Regulations.gov and customers can search, review and submit comments on Federal documents that are open for comment and published in the Federal Register.

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

- Administrative Notices
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- Handbooks
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- Significant Guidance Documents
- Unnumbered Letters
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