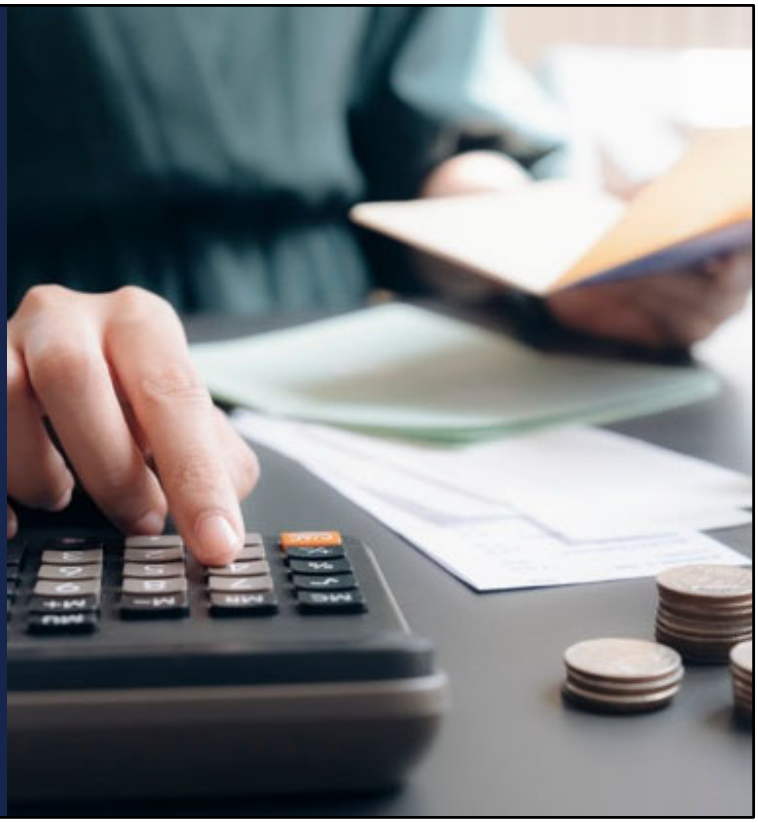
USDA Rural Development
U.S. DEPARTMENT OF AGRICULTURE

Repayment Income

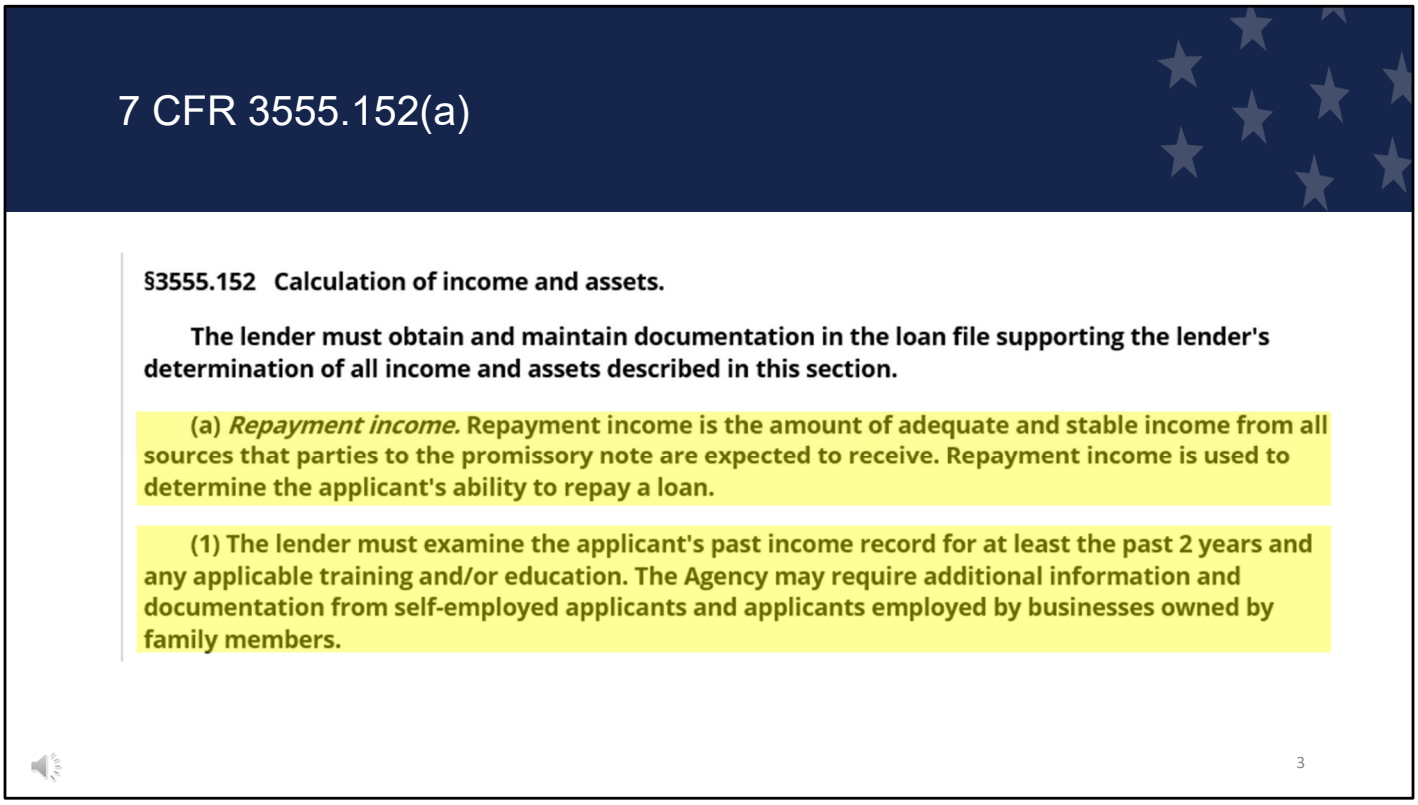
Single Family Housing Guaranteed Loan Program (SFHGLP)

09/2020



Welcome to the Repayment Income online training module presented by USDA's Single Family Housing Guaranteed Loan Program.

This training will highlight key areas of section 152 of the Regulation and Chapter 9 of the Handbook to clarify how Rural Development considers income types and scenarios for loan repayment purposes and determining your applicant's purchasing power.



Repayment income is utilized to calculate qualifying ratios to determine if the applicant may be a successful homeowner. 3555.152(a) provides important guidance for lenders to follow regarding repayment income:

- Repayment income is calculated only for individuals who will be parties to the Note and the income must be stable and dependable based on the history of receipt.
- Lenders should review an applicant's previous two years of employment and training/education to determine if the income source is stable and dependable. Time spent in college, technical school, and career-based certificates may be included towards requirements for annual and repayment income. Please note that an applicant may still be eligible even when there is not a full two year employment history.

7 CFR 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 §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.

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- Repayment income should be anticipated to continue for at least three years from the date of loan closing.
- There should not be evidence of the income source ending within the first three years of the mortgage debt.
- Income sources that cannot be verified or documented, are unstable, or have no history of receipt may not be utilized for repayment purposes.

7 CFR 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.

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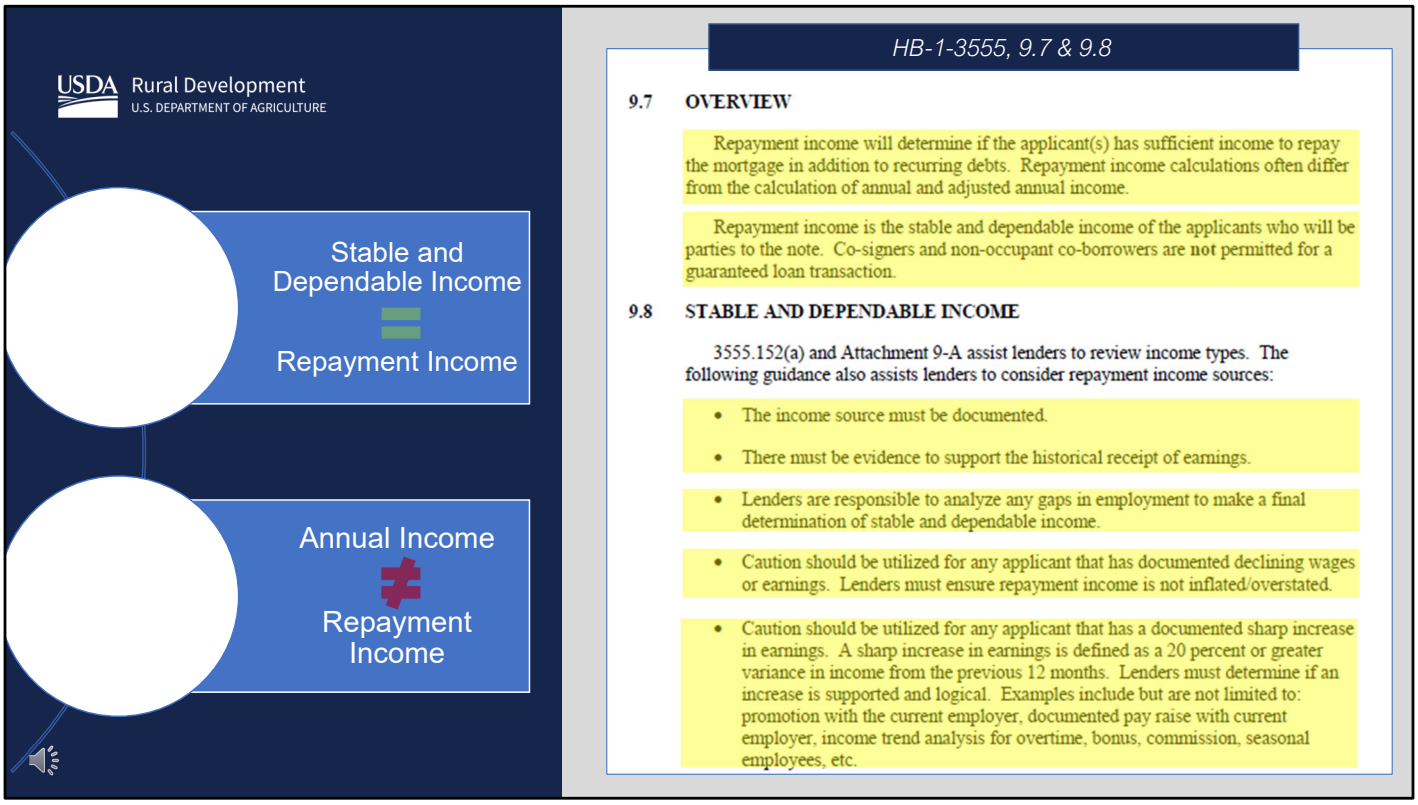
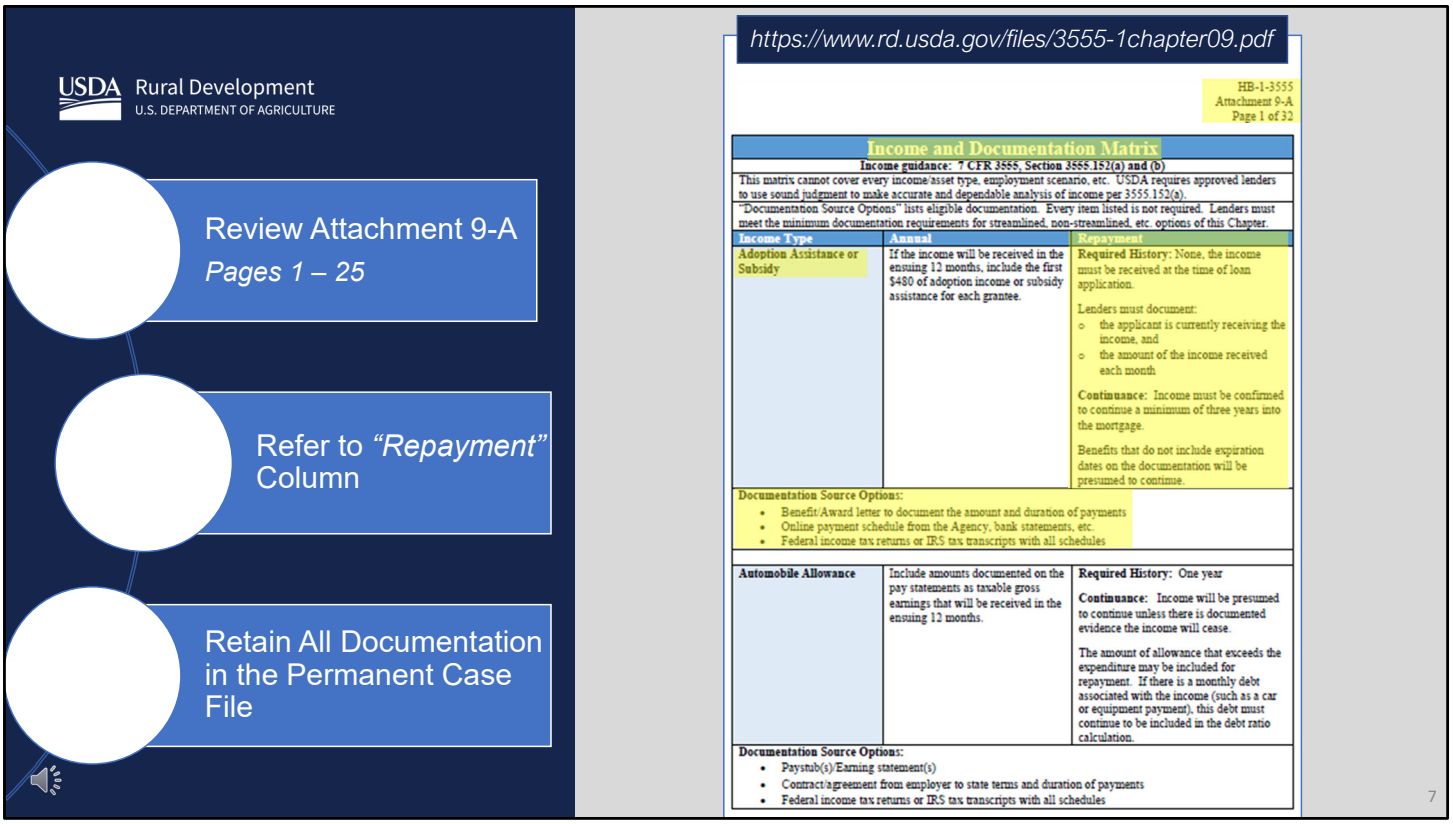
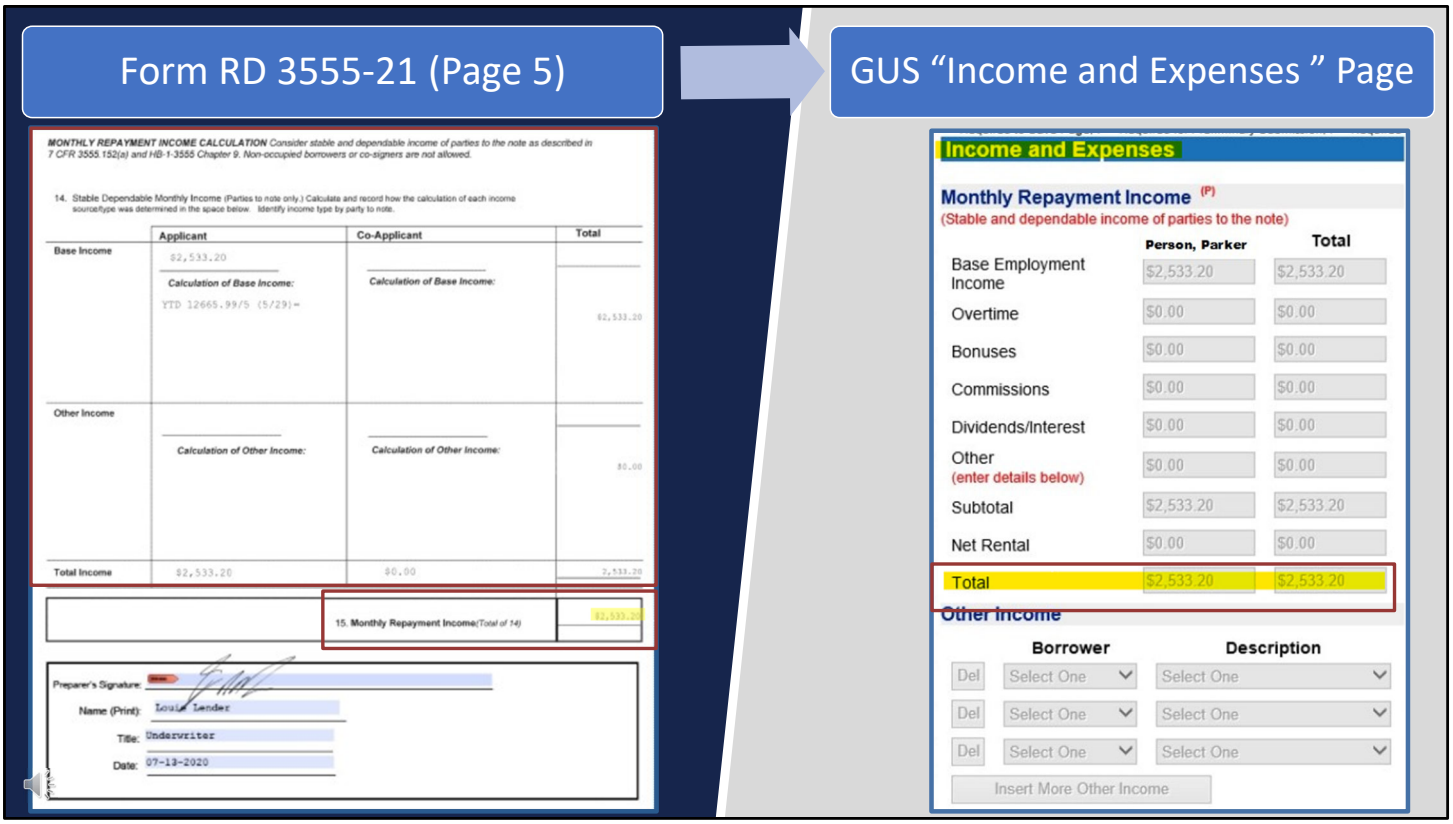
Some income types are not included in repayment income, and they are listed in 3555.152(a)(4).



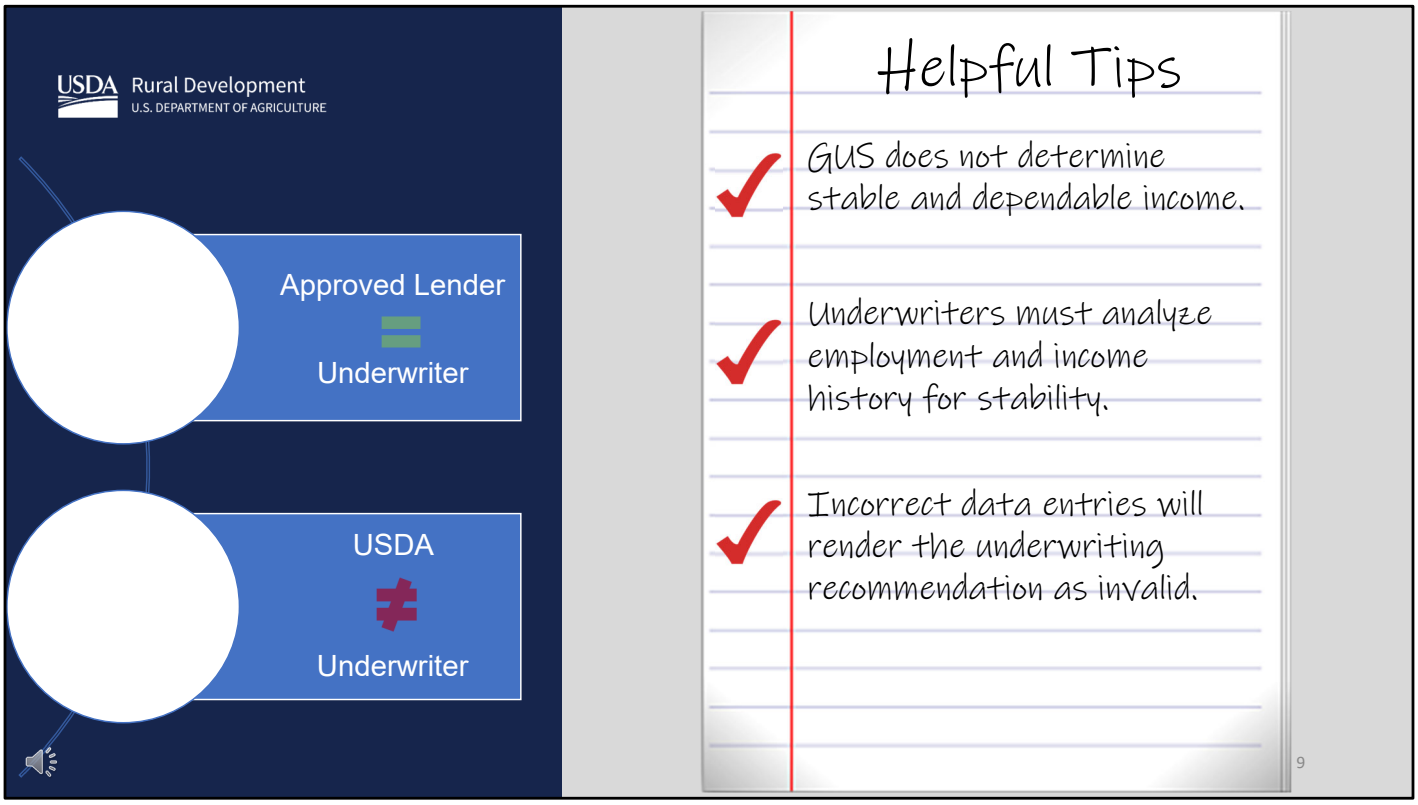
- Chapter 9 of the technical handbook provides additional guidance to support 3555.152(a).
- Repayment income must support the repayment of the proposed mortgage debt plus the applicant's additional debts.
- Repayment income amounts may differ from annual and adjusted annual income determinations.
- Income used for repayment must be stable and dependable.
- Nonoccupant cosigners are not permitted for USDA guaranteed loans.
- The income source must be documented and there must be documented evidence of earnings.
- The lender must analyze gaps in employment.
- An applicant with declining wages must be carefully reviewed.
- Inflated or overstated repayment income is a prime contributor to loan delinquency.
- The key to successful homeownership is stable and dependable repayment income. No one benefits from placing an applicant in a home that they cannot afford by inflating wages or relying upon secondary income sources to meet acceptable ratios.



- To better assist with income review and documentation, Chapter 9 includes Attachment 9-A: "Income and Documentation Matrix."
- The matrix was designed to assist lenders and USDA to more efficiently locate many income sources, annual income adjustments, and asset guidance.
- The matrix lists income types in alphabetical order and indicates how to consider each income type for both annual and repayment incomes.
- This training will concentrate on repayment income.
- "Documentation Source Options" will list the options to properly document the income type.
- Every documentation item listed may not be required.
- USDA allows multiple options to provide flexibility to lenders when documenting income sources.



- The lender will document monthly repayment income on page 5 of Form RD 3555-21.
- Repayment income will include the stable and dependable income of parties to the note only.
- Include the monthly income of the applicant and any co-applicants. Remember to document your calculations and show the numerical information used in calculations.
- Enter the total monthly repayment income on line 15.
- The preparer of the form must complete this information and sign the form. An electronic signature is acceptable.
- This total must match the “Monthly Repayment Income” entered on the “Income and Expenses” GUS application page.
- More information regarding repayment income can be found in Chapter 9 of the 3555 handbook.



- Here are some useful tips to keep in mind when reviewing repayment income:
  - GUS does not determine stable and dependable income. GUS assumes the data entered by the lender is accurate.
  - Therefore, the lender must review the applicant's employment and income history and determine what income is stable and dependable per USDA guidelines.
  - Incorrect data entries will render the underwriting recommendation as invalid.

LEARNING CHECKS

7 CFR Part 3555 / HB-1-3555

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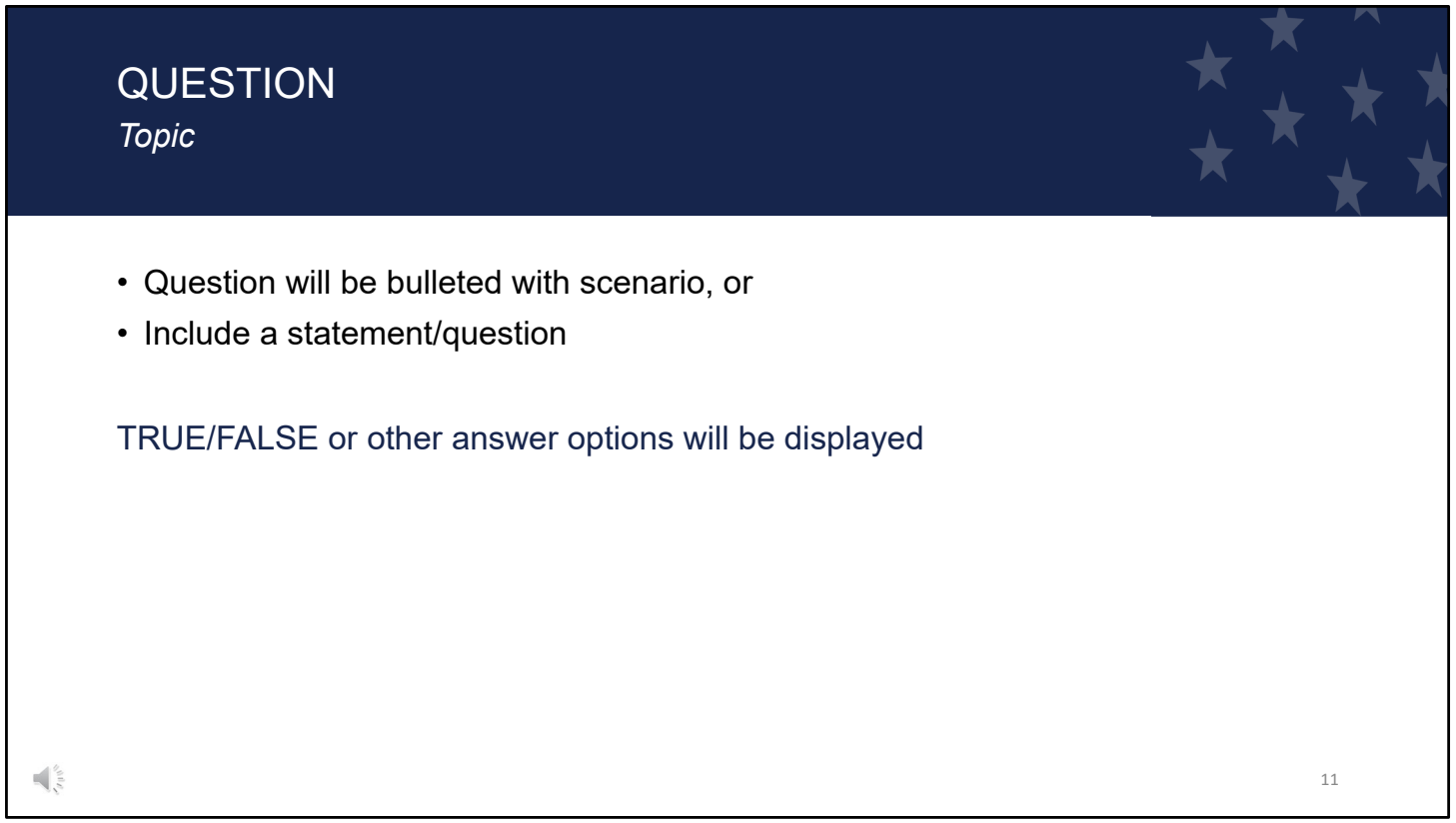
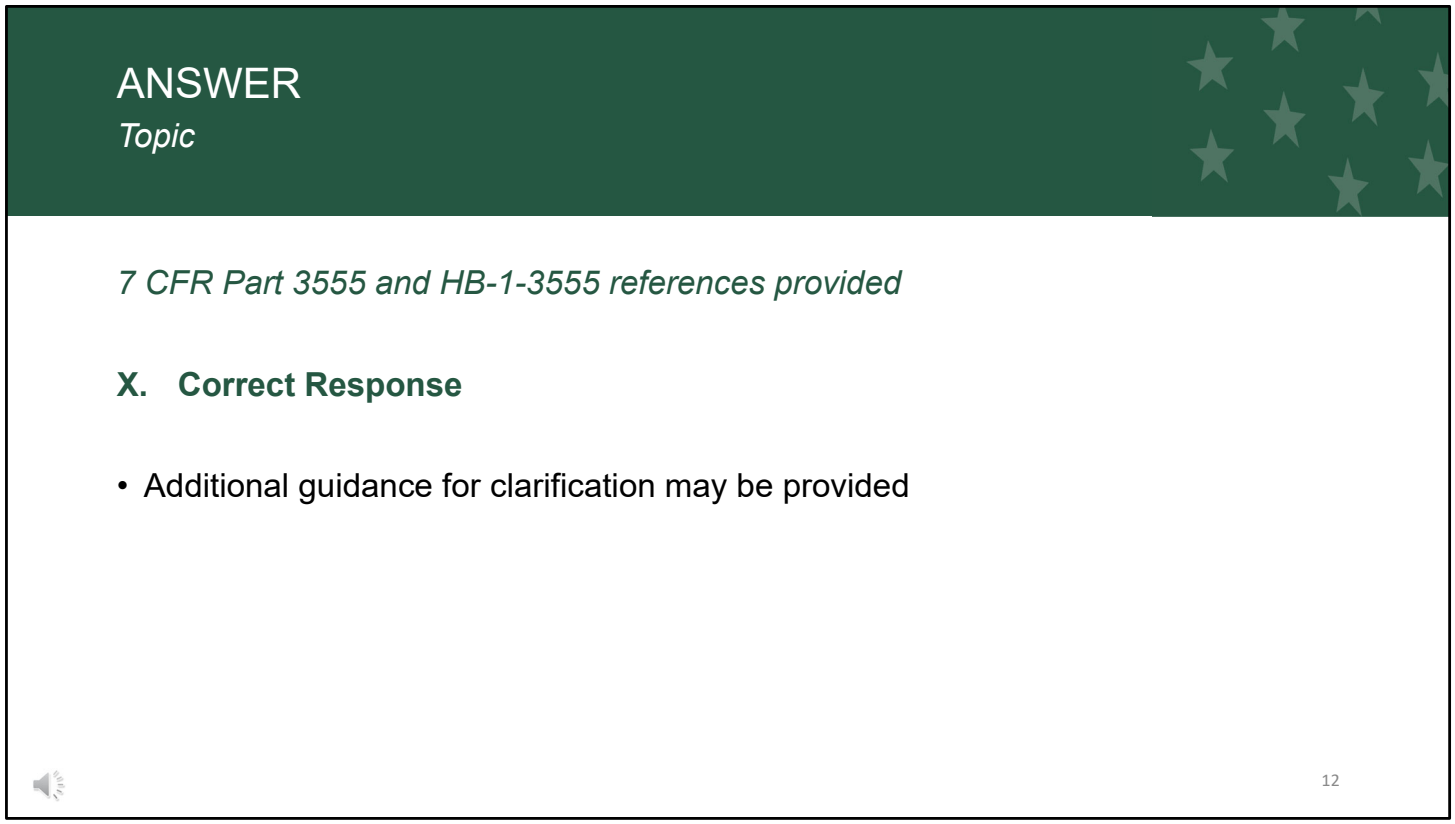
The best way to learn information is to test your knowledge!



The following question slides will list:

- The topic,
- A question or scenario, and
- potential responses.



The answer slides will list:

- The topic,
- the reference to the answer from the regulation and handbook,
- the correct response, and
- any additional clarification that may be helpful.

Ready?

LET'S GET STARTED!

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Let's get started!

QUESTION
Repayment Income

- Nancy graduated last year from nursing school, passed her license exams and accepted a position with Mercy Hospital where she has been employed for 13 months.
- She earns base wages, shift differential, and overtime.
- She is projected to earn $102,000 this year.
- The lender may use this year's projected earnings when determining repayment income.

A. TRUE B. FALSE

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Read the question on the slide and select a response.

ANSWER
Repayment Income

3555.152(a), HB 9

B. TRUE

- Income sources have been received for more than 12 months.
- Overtime income has been received for at least one year and will be presumed to continue.

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The answer is True. A one year history at the time of loan application is required for base wages and overtime. In regard to overtime pay, underwriters must analyze OT for the current pay period as well as YTD earnings. Significant variances must be analyzed and documented before the income may be considered stable and dependable.

QUESTION
Repayment Income

- Joe worked at ABC Garage for 5 years and then changed jobs in the same line of work to XYZ Garage where he has been for 3 months.
- The lender may include Joe's earnings from both jobs when averaging repayment income.

A. TRUE B. FALSE

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Read the question on the slide and select a response.

ANSWER
Repayment Income

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.

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False. Lenders cannot average income from a previous job (where the applicant is no longer receiving pay) with a new position. The new position is the current source of income. Repayment income may only be calculated from current earnings. Comparing previous employment with current employment does however allow the underwriter the ability to determine income continuity.

QUESTION
Repayment Income

Bonus, overtime, commission, tips, and second jobs must have a minimum ___ year history to be included in repayment income.

A. 1 year
B. 2 year
C. No minimum

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Read the question on the slide and select a response.

ANSWER
Repayment Income

3555.152(a)(3), HB 9

B. 1 year

Bonus, overtime, commissions, tips, and second jobs all require a one-year history.

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Each of these earning sources must have a minimum one year history in order to be included in repayment income calculations.

QUESTION
Repayment Income

- Michelle has worked for Sunshine Pharmacy for 4 years.
- Her most recent paystub indicates a $500 bonus.
- The written VOE states bonus income is not likely to continue and Michelle has no history of bonus income with this company.
- The lender may include the bonus pay into the repayment income.

A. TRUE B. FALSE

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Read the question on the slide and select a response.

ANSWER
Repayment Income

3555.152(a), HB 9

B. FALSE

- This was a one-time bonus.
- There is no history of prior receipt, and employer states it is unlikely to continue.

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Answer: False. There is no history of receipt of this one time bonus. The employer has also confirmed this bonus payout is unlikely to continue. Therefore, it should not be included in the repayment income.

QUESTION
Repayment Income

Applicants must have a minimum ____ month employment history (with current employer or income continuity).

A. 6 months
B. 24 months
C. 12 months

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Read the question on the slide and select a response.

ANSWER
Repayment Income

3555.152(a)

C. 12 months

The applicant must have a 12-month employment history.

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An applicant must have a 12 month employment history. However, the employment does not have to be with the same employer.

QUESTION
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 $3,000/month benefit check to Penelope in her name.
- The lender may include the $3,000 for repayment purposes.

A. TRUE B. FALSE

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Read the question on the slide and select a response.

ANSWER
Repayment Income

3555.152(a), HB 9

A. TRUE

Penelope is the legal payee for Chloe's benefit to meet her needs.

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True
Penelope is Chloe's legal guardian/payee as recognized by the Social Security Administration, therefore this income may be included in repayment for the household.

QUESTION
Repayment Income

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

A. TRUE B. FALSE

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Read the question on the slide and select a response.

ANSWER
Repayment Income

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.

False
The GUS takes all data entered by the lender and considers it verified and documented. Therefore the lender must determine the history and stability of earnings before they enter repayment income into the GUS application pages.

QUESTION
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

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Read the question on the slide and select a response.

ANSWER
Repayment Income

3555.152(a), HB 9

A. TRUE

Tax exempt income sources may be grossed up 25%.

No additional adjustments are allowed.

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True. Tax exempt sources may be grossed up by 25%. No additional adjustments are authorized. These types of income sources would not be grossed up for annual income calculations.

QUESTION
Repayment Income

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

A. TRUE B. FALSE

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Read the question on the slide and select a response.

ANSWER
Repayment Income

3555.152(a)(1), HB 9

B. FALSE

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

False. Secondary employment must have a two year history of receipt in order to support the income type as stable and dependable. Even if the income has not been received long enough to be considered for repayment purposes, it must be included in the annual income calculation.

QUESTION
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: $40,000, Applicant 2: $26,000
- Lender submits file with repayment income of salaries only. Is this acceptable?

A. YES B. NO

Read the question on the slide and select a response.

ANSWER
Repayment Income

3555.152(a)(1), HB 9

A. YES

- 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.

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Yes. Both applicants have a 12 month employment history. Lenders may be conservative with repayment calculations. This may mean that some earned income sources are not included in the repayment income. Lenders must however, consider all eligible income sources currently earned for the annual income calculation. Be sure that projected income appears to be reasonable and logical based on previous employment and earning patterns.

QUESTION
Repayment Income

- Carmen worked part-time at McDonald's for 3 years in college.
- Her annual earnings were roughly $12,000.
- She has graduated and accepted a position with Buddy's Pools and Spas.
- She has worked there 6 months and her annual salary is $35,000.
- The lender may use Carmen's current salary of $35,000 for repayment calculations?

A. TRUE B. FALSE

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Read the question on the slide and select a response.

ANSWER
Repayment Income

3555.152(a)(1), HB 9

A. TRUE

- Carmen has an employment history of more than 12 months.
- Carmen has accepted a new, higher paying position following her graduation from college.

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The answer is True. Carmen has an employment history of more than 12 months. Lenders have the discretion to consider increases in earnings when the increase is supported and logical such as a change of employment following the completion of schooling or training.

QUESTION
Repayment Income

- Sam worked as a loan officer at State Bank for 13 months earning $32,000.
- Sam has now been with AutoCars for 5 months as a commission only salesperson.
- He is doing quite well and is projected to earn $82,000 this year.
- The lender may include Sam's current projected earnings when determining repayment income.

A. TRUE B. FALSE

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Read the question on the slide and select a response.

ANSWER
Repayment Income

3555.152(a)(1), HB 9

B. FALSE

- Sam is now 100 percent commission at his new job.
- Sam does not currently have a one-year history of commission earnings.

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False. Sam is now 100 percent commission at his new job and will need a minimum of one year commission earnings to be considered in repayment income.

QUESTION
Repayment Income

Self-employed applicants must have a minimum ____ year history to determine if they have applicable repayment income.

A. 2 Years
B. No Minimum
C. 1 Year

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Read the question on the slide and select a response.

ANSWER
Repayment Income

3555.152(a)

A. 2 Years

Self-employed applicants must have a documented 2-year history of their business income and expenses.

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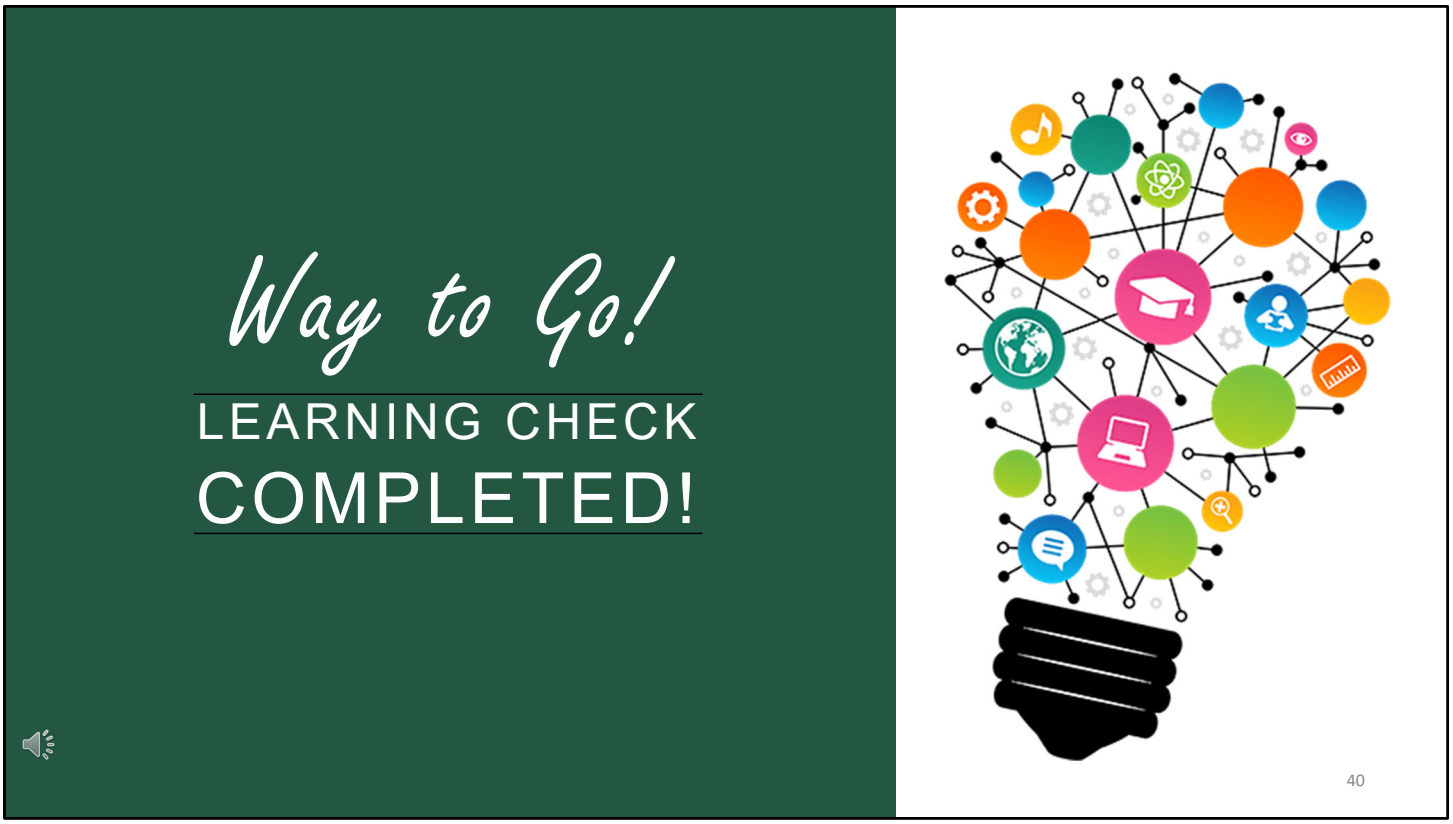
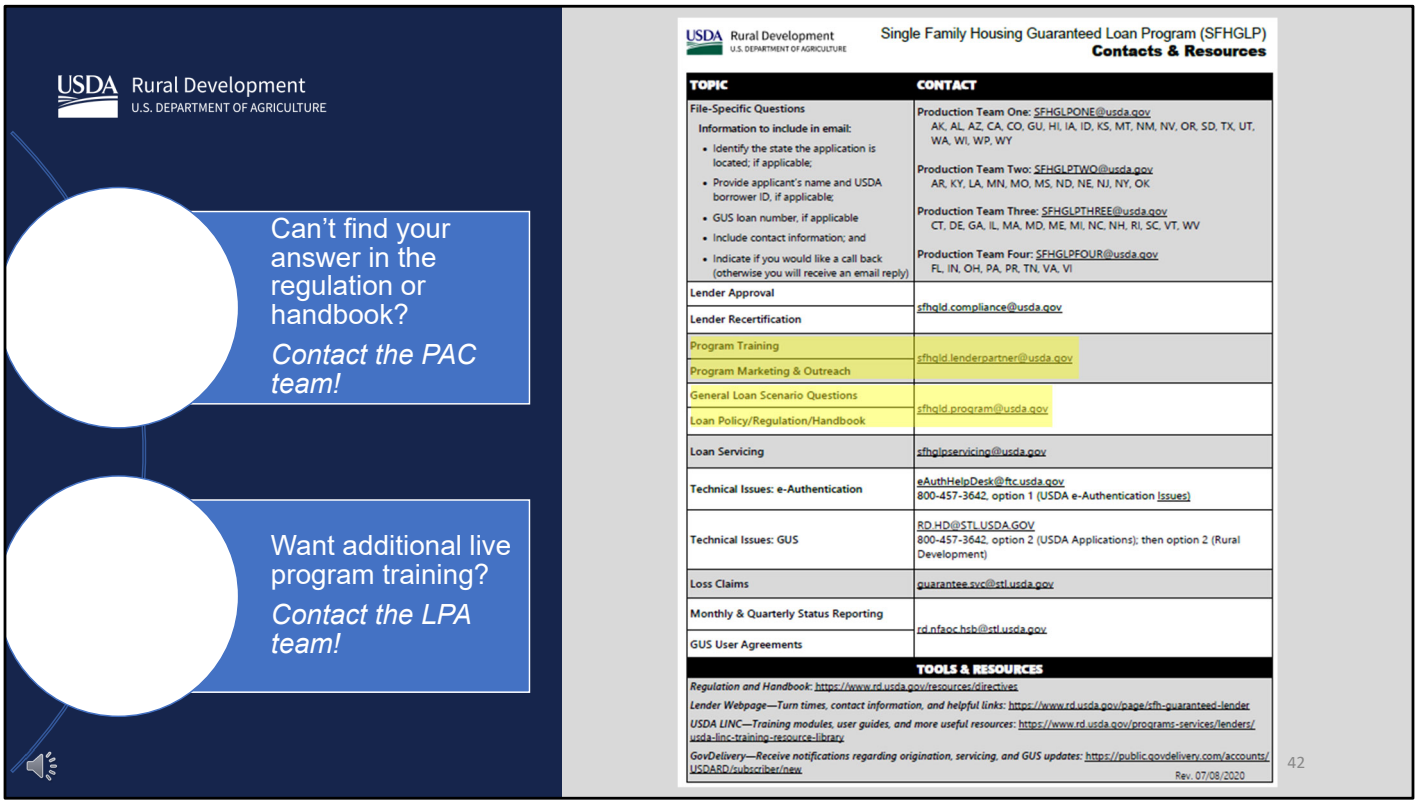
The self-employed applicant must submit current documentation of the business's income and expenses, including applicable Federal tax returns filed with the IRS, plus a year-to-date profit and loss and balance statement. The year-to-date profit and loss statement is used only to analyze the income trend of the business. Repayment income should be based on the reported earnings of the previous 2 years filed tax returns.



Way to go! You have completed the learning checks!

- This training module has provided you with an overview of the key requirements of Repayment Income.
- Complete program requirements and guidance can be found in 7 CFR Part 3555, Subpart D, section 152 and Chapter 9 of HB-1-3555.
- Be sure to bookmark these references, save yourself valuable time by using Cntrl-F to quickly search and find answers, and always ensure you are referencing the most current publications.
- The "Program Overview Training" module will assist you in learning how to navigate through all the resources and tools Rural Development has created to assist you.



- Users should first look for answers to their questions in the regulation and handbook, but if you still have a question after reviewing your resources, we're here to help.
- All policy and regulation questions regarding the topic we just covered should be sent to our Policy, Analysis, and Communications Branch and
- If you would like to request additional program training, contact our Lender and Partner Activities Branch.

Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program and America's rural homebuyers!

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