Welcome to the Annual Income online training module presented by USDA’s Single Family Housing Guaranteed Loan Program.
• The use and calculation method of Annual Income is unique to Rural Development, and a better understanding of the process and methodology will aid you in providing the most accurate and efficient service for your applicants.
• This training will highlight key areas of section 152 of the Regulation and Chapter 9 of the Handbook to help clarify this process.
Section 3555.152 (b) outlines the following important points to remember regarding the analysis of annual income:

- Include all eligible income sources from all adult household members, including household members who will not be party to the Note.
- The annual income for the household will be used to calculate the adjusted annual household income.
- This adjusted annual income is used to determine if the household is eligible for a guaranteed loan.
- Annual income is calculated for the upcoming 12 months, based on the documentation obtained by the lender.
- The lender must review all documentation to ensure the calculation used for qualification is supported.
- Lenders must obtain income verifications for all adult members for the previous two years.
- Lenders will review this history to compare it to the projected income for the upcoming year.
- If these figures do not appear to be logical based on the verified earnings at the same employer and position, then the lender may wish to evaluate and recalculate the types of income earned per this section.
Some income types are not included in the annual income calculation such as:

- income of minors,
- foster child/adult payments,
- reimbursements for medical expenses,
- earnings of dependents over the age of 18 that may be full time students (in these case, only count the first $480 of their income),
- and temporary or sporadic income such as wedding gifts, one time bonuses, or income with no recurring pattern.
Additional excluded sources include:

- lump sum payments,
- earned income tax credits,
- adoption assistance,
- refunds for property taxes, and
- amounts paid by a State agency to a family with a disabled family member living at home.
7 CFR 3555.152(b)

(xii) Any other revenue exempted by a Federal statute, a list of which is available from any Rural Development office;
(xiii) Income received by live-in aides, regardless of whether the live-in aide is paid by the family or a social service program;
(ix) Employer-provided fringe benefit packages unless reported as taxable income; and
(x) Amounts received through the Supplemental Nutrition Assistance Program.

- Student financial aid,
- revenue exempt by Federal statute, earnings of live in aids,
- employer fringe benefit packages unless they are taxable income, and
- SNAP benefits are also all excluded from annual income.
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 annual 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 their annual income calculations for all adult household members on Page 3 of Form RD 3555-21.
• First, identify all household members and document their age, if they are a full-time student, disabled, if they receive income, and the source of income. Document every person that intends to occupy the home as their primary residence, regardless of age.
• Next, document the income calculations for each adult household member. Rural Development does not see income documentation for streamlined GUS “Accept” loans so lenders must show the numerical information used in calculations. Avoid using words such as “year to date”, “average”, etc. only and include the actual numbers.
• Add lines 1-5 and put the total in line 6. This will be the total annual household income.
• This total must match the total annual income entered on the “Eligibility” GUS application page.
• More information regarding annual income can be found in Chapter 9 of the 3555 handbook.
Here are some useful tips to keep in mind when reviewing annual income for qualification purposes.

Firstly, it is best to go back to the basics of the 3555 regulation and overall underwriting protocol.

Questions to ask include:

- Can the income be documented?
- Review the current earnings to determine the amount of income that is anticipated to be received for the upcoming 12 months. Earnings from a previous job that is no longer active will not be considered in the annual income figure. Lenders must review the current job and earnings.
- If there is documentation that states the income source will not continue or be received within the upcoming 12 months, do not include these amounts in the annual income calculation.
- If you cannot respond positively to these basic questions, the income source is likely ineligible.

The underwriter of the loan is the approved lender’s underwriter. USDA is NOT the underwriter of the loan.
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!

Let’s get started!
• Sally receives a monthly $1,300 housing allowance.
• Her new contract is valid for the next two years.
• The housing allowance is included in annual income.

A. TRUE    B. FALSE

Read the question on the slide and select a response.
ANSWER
Annual Income

355.152(b), HB 9

A. TRUE

The housing allowance is part of her salary package.

True.
• The housing allowance is taxable income as part of her salary package. Therefore, it must be included in her annual income calculation.
• Sam has inherited $30,000 from his uncle.
• The inheritance must be included in the annual income.

A. TRUE    B. FALSE
B. FALSE

- The inheritance is a lump sum addition, and therefore not included.
- Capital gains, worker’s compensation, settlements, etc. are also not included in annual income.
- Lender must consider income earned from this asset as indicated in 3555.152(d) and HB 9.

False.
- The inheritance is a one time lump sum addition to income.
- This lump sum addition is similar to capital gains, worker’s compensation payments, or insurance payout settlements which are also not included in annual income.
- Lenders may need to consider any asset income derived from this income as part of the annual income calculation.
• Applicant’s household includes a 19-year-old, full time student.
• The 19-year-old has a part time job at Starbucks.
• Current annual earnings: $12,500
• Which amount must be included in annual income?

A. $480    B. $12,500

Read the question on the slide and select a response.
$480

- Income that is never counted: Earnings of a full-time student 18 years of age, or older, in excess of $480 unless the student is a spouse or head of household.
- The student also qualifies as a dependent per 3555.152(c)(1) = $480 annual income deduction.
- The final amount in annual income will be $0.

A. $480

- For household members that are 18 and older, but are full time students, you only need to count the first $480 of their income.
- The student is also an eligible dependent, which means the applicant will also receive a $480 deduction to their annual income calculation.
- The final amount included for annual income purposes will be $0.
• Jared has worked at River City Construction for five years.
• He earned overtime throughout 2018 and 2019, as well as the first 3 months of 2020.
• His employer has provided a letter stating that Jared will no longer earn overtime in the future.
• Can the overtime earnings be excluded from total annual income calculations?

A. YES    B. NO
B. NO

- Historical data is utilized when calculating and projecting annual income.
- If documentation cannot be provided confirming overtime earnings have seized, then the income must be included.

B. No

- It is not enough to obtain a letter from the employer stating that from this point on the borrower will not be receiving OT.
- Historical data is utilized when calculating projected annual income.
- The lender must use sound judgment when evaluating the documentation provided.
Supplemental Nutrition Assistance Program (SNAP) benefits are included in annual income.

A. TRUE    B. FALSE

Read the question on the slide and select a response.
B. FALSE

SNAP and other revenue exempt by a Federal statute, are not included in annual income.

False.
- SNAP and other revenue exempt for consideration of a Federal benefit are excluded from annual income.
The annual income calculation is based on ____ earnings.

A. NET  B. GROSS

Read the question on the slide and select a response.
B. GROSS

• The gross amount before payroll deductions:
  – Base wages/salaries, overtime pay, commissions, fees, tips, housing allowances and other compensation for personal services of all adult members of the household.

B. Gross
• Annual income is calculated from gross earnings before payroll deductions are applied.
• Annual income includes wages/salaries, overtime pay, commissions, fees, tips, etc. of all adult household members.
• In order to exclude sporadic income types the lender must be able to support through historical income documentation that these income types have never been received and there would be employer verification that these types will not continue.
Foster care payments for children and/or adults must be included in annual income.

A. TRUE  B. FALSE

Read the question on the slide and select a response.
ANSWER
Annual Income

3555.152(b)(5)(ii), HB 9

B. FALSE

Payments received for foster children/adults are not included in annual income.

False.
- These payments are contingent upon the household maintaining a child/adult to be eligible for these payments.
- Therefore these are excluded from annual income.
QUESTION
Annual Income

- Applicant is due to receive wage increase.
- Increase will occur before loan approval by USDA (issuance of Conditional Commitment).
- The increase must be included in annual income.

A. TRUE  B. FALSE

Read the question on the slide and select a response.
ANSWER
Annual Income

3555.152(b)(2), HB 9

A. TRUE

• Annual income is based on upcoming 12 months.
• Wage increases prior to commitment must be included.

True.
• The annual income is based on the upcoming 12 months of anticipated income based on the history of earnings and the documentation provided to the lender.
• Wage increases that will become effective when a conditional commitment/loan closing will occur must be included.
• Applicant receives social security benefits for their minor child.
• The social security benefit must be included in the annual income.

A. TRUE B. FALSE
A. TRUE

The full amount of periodic payments received from Social Security including payments received by adults on behalf of a minor must be included.

True.

• The regulation requires the full amount of Social Security Income received by adults on behalf of minors to be included in the annual income.
• Joe has annual income of $125,000.
• He has a business loss of $45,000.
• Joe’s adjusted annual income with consideration of the business loss is:

A. $80,000    B. $125,000

Read the question on the slide and select a response.
3555.152(b), HB 9

B. $125,000

Business losses are treated as zero for annual income.

B. 125,000
• Business losses are treated as zero in the annual income calculation.
• They are not deducted from annual income.
Melissa is a Pampered Chef sales professional, annual income is $85,000.
Tax returns reflect eligible deductions for mortgage interest/taxes/insurance of $13,500.
Melissa’s annual income with consideration of these deductions is:

A. $85,000  B. $71,500

Read the question on the slide and select a response.
A. $85,000

Home based operation related expenses such as mortgage interest/taxes/insurance are not deducted from annual income.

A. $85,000

- Home based operation related expenses are not eligible deductions that may be utilized to reduce an applicant’s annual income calculation.
Betty receives a $500 flexible benefit from her employer in addition to her annual salary of $80,000.

Betty pays for her daughter’s $400 monthly child care expense with this benefit.

Are the flexible benefit funds to be included in the total annual income?

A. YES  B. NO

Read the question on the slide and select a response.
B. YES

Taxable income including fringe benefits such as flexible pay must be included in annual income calculations.

B. Yes
- The gross amount of all earnings and other compensation such as employer paid fringe benefits must be included when the earnings are taxable.
Lender retains the following income documentation:

- Applicant: Written VOE plus recent paystub with YTD figure
- Household member: Recent paystub with YTD figure
- The file is properly documented

A. TRUE   B. FALSE

Read the question on the slide and select a response.
B. FALSE

- Household members must be documented at the same level as an applicant.
- Applicable IRS 4506-T requirements must also be met: HB 9.

False.
- Household members that are not a party to the note must continue to present full income documentation to the lender in the same format that an applicant must supply.
- IRS Form 4506-T’s are also required for non-applicants, as well.
• Jennifer was awarded $600 monthly child support by a court order in January 2019.
• Payments were received for 6 months and ceased after June 2019.
• The child support must be counted in annual income.

A. TRUE    B. FALSE
3555.152(b)(2), HB 9

B. FALSE

The amount is not included in annual income when documentation of non-payment and legal action is obtained.

False.
• When the applicant and lender can document that legal action was taken but no payments have been received, then the child support may be excluded from the annual income calculation.
• Fred recently had his hours reduced due to a temporary furlough.
• The employer has indicated Fred’s regular work schedule will continue once the furlough is over in a few months.
• With the reduction in earnings, the total household income now falls below the income limitations for eligibility.
• Can the decreased income be used for calculating annual income?

A. YES  B. NO

Read the question on the slide and select a response.
3555.152(b)(2), HB 9.3 (b)

B. NO

• Annual income is calculated for the ensuing 12-month period.
• Situations temporary in nature may not be included when determining historic earnings.

B. No
• Annual income is calculated for the upcoming 12-month period, based on income verification and documentation.
• Historical data is utilized for calculating and projecting annual household income.
• Checking: $1,500, non-interest, local passbook savings rate is .25%
• Savings: $15,000, earns .50% annually
• Certificate of Deposit: $65,000, earns 2% annually
• What amount of income must be added to annual income?

A. $1,378.75        B. $0

Read the question on the slide and select a response.
A. $1,378.75

- Assets are $50,000 or greater
  - $1,500 x .25% (passbook rate) = $3.75
  - $15,000 x .50% = $75.00
  - $65,000 x 2% = $1,300
- $3.75 + $75.00 + $1,300 = $1,378.75

A. $1,378.75

- The total assets are greater than $50,000. Therefore according to the regulation, the greater of the actual income earned or a local passbook savings rate must be used for the calculation.
- The $1,500 checking is non-interest bearing. Therefore the local passbook savings rate of .25% will be used, which equals $3.75.
- The $15,000 savings earns .50% for an annual total of $75.00.
- The $65,000 CD earns 2% for an annual amount of $1,300.
- Add all of these together and a total of $1,378.75. This amount must be included in the annual income figure.
• Karen has worked at Tech Gen for 4 years.
• Recently she received a $1,500 bonus.
• No history of bonus income in previous years, VOE states no continuance.
• The bonus must be included in annual income.

A. TRUE   B. FALSE
3555.152(b)(5)(v), HB 9

B. FALSE

• No consistent history = sporadic income
• VOE confirms no continuance

False.
• There is no history of bonus income with the employer and it is not a recurring source of income.
• The VOE provided by the employer also states there will be no continuance of bonus income.
• Stan and Fran are married.
• Fran moved out two months ago and filed for divorce.
• Stan is applying for a guaranteed loan.
• Fran’s income must be included in annual income.

A. TRUE  B. FALSE
3555.152(b)(4), HB 9

B. FALSE

Separated less than 3 months, but Legal action for divorce has been filed.

False.
  • They have been separated for less than three months, but legal action for divorce has been filed.
  • The soon to be ex-spouse’s income may be excluded.
QUESTION
Annual Income

• Pat and Carol are married.
• Pat is deployed for two years.
• Carol is applying for a guaranteed loan as a sole applicant.
• Pat's income must be included in annual income.

A. TRUE  B. FALSE

Read the question on the slide and select a response.
A. TRUE

• Separated due to work and/or military assignment.
• Pat continues to be part of the household.

True.
• Pat and Carol are married and the home will be Pat’s primary residence.
Steve and Jody are engaged.
Steve is the only loan applicant.
They are both on the current rental lease, share the address, and have a joint bank account.
Their combined incomes are over the adjusted annual income limit.
The solution is to have Jody live elsewhere until after the wedding.
There currently is no evidence of a separate residence.
Jody’s income can be excluded from the annual income.

A.TRUE  B.FALSE
B. FALSE

• Steve and Jody are currently living together and share a lease and bank account.
• There is no evidence they have been living apart for 3 months.

False.
• There is no evidence that Jody has been living at her own address for the minimum of 3 months.
• Steve and Jody are not married, but they have a history of living together as a family unit.
• It is not acceptable to state Jody will live elsewhere in order to exclude her income or assets from annual income consideration to qualify for a guaranteed loan.
Way to Go!

LEARNING CHECK COMPLETED!

Way to go! You have completed the learning checks!
• This training module has provided you with an overview of the key requirements of Annual Income.

• Complete program requirements and guidance can be found in 7 CFR Part 3555, Subpart D, Section 3555.152 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!