Annual Income – Removing the Mystery

Presented by: Trish Cousins, Finance and Loan Analyst, Lender and Partner Activities Branch
Today’s Topics

- Income Eligibility
- Annual Household Income
- Adjusted Annual Household Income
- Q&A
**Income Definitions**

- **Annual Income**: The income of all adult household members, not just parties to the note.
- **Adjusted Annual Income**: The household’s annual income minus certain qualified household deductions.
- **Repayment Income**: The stable and dependable income used to calculate debt ratios and determine whether the applicant(s) can afford the home.
Eligibility Requirements

7 CFR Part 3555
Subpart D
3555.151
“Eligibility Requirements”

What the “regulation” says.

(a) Income eligibility: At the time of loan approval, the household's adjusted income must not exceed the applicable moderate-income limit. The lender is responsible for documenting the household's income to determine eligibility for the SFHGLP.
“Annual income will include all eligible income sources from all adult household members, not just parties to the loan note. The annual income for the household will be used to calculate the adjusted annual household income. The adjusted annual income determines if the household is eligible for a guaranteed loan.”
Adjusted annual income. Income from all household members who live or propose to live in the dwelling as their primary residence for all or part of the ensuing 12 months. Adjusted annual income is used to determine whether an applicant is income-eligible for a guaranteed loan, or interest assistance, if applicable. Adjusted annual income provides for deductions to account for varying household circumstances and expenses. See 3555.152(c) for a complete description of adjusted annual income.
Total Household Income

- Applicant
- Co-applicant
- Other adults age 18 and older

Annual Household Income
Annual Income

Include ALL sources of income for ALL adult household members.

Review income documentation.

Types of income earned and its history. (salary/hourly, overtime, bonus, commission, self-employed, child support, unemployment, etc.)

Consider the time of year the applicant applies.
Calculation of Annual Income

Use the **gross amount**, before any payroll deductions, of base wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances and other compensations for personal services of all adult members of the household.

(Unless they meet the exclusion criteria of 3555.152(b)(2) and Attachment 9-A).

Documented cost of living allowances or wage increases that will be effective on or before loan closing, must be included in the annual income calculation.

Only include the **first $480** of earned income from **adult full-time students** who are not the applicant, co-applicant, or spouse of an applicant.

Include the income of an applicant’s spouse, unless the spouse has been **living apart** from the applicant for at least **three months**.

(For reasons other than military or work assignment. OR
Court proceeding for divorce or legal separation have been commenced.)
Calculation of Annual Income

An adult member that is currently unemployed but is seeking new employment must have their previous earnings included in the annual income.

- The previous earnings are not required to be included when there is documented evidence to support they are not seeking to be reemployed, such as a tendered resignation, official termination from previous employer, or a signed statement from the adult household member that they do not plan to pursue new employment.

Income verifications provided by the applicant that do not currently support historical earnings with the same employer.

Verified changes of income amounts or sources in the ensuing 12 months must be documented.
Calculation of Annual Income

- Income sources that will not be received for the entire ensuing 12 months must continue to be included in annual income unless excluded under 3555.152(b)(5).

- Annual income is the total of all income sources for a 12-month timeframe.

- The Income Calculations must state: the income source, the number of months receipt remaining for the ensuing 12-month timeframe, and the total amount to be received.
Verification Requirements

Written, oral, or electronic verifications, and documents provided or prepared by third-party

Original forms replaced with Fax, photocopies, digital images and computer-generated documents

Verifications or documents transmitted by or passed through an interested third party such as builders, real estate professionals, or sellers are not acceptable

Altered documents are not acceptable
Verification Requirements

The lender is responsible for the integrity and accuracy of the information in the mortgage underwriting file.

Verification and documentation of household annual income will be retained in the lender’s permanent case file.

Paystubs/earning statements must include adequate information to calculate income and include year-to-date earnings.

All Paystubs/earning statements that are dated no earlier than 30 days prior to their initial loan application date.

W-2 forms must include the most recent one-or-two years as applicable. W-2’s must clearly identify the applicant and employer.
### Income and Documentation Matrix

**Income guidance:** 3 CFR 1555, Section 1555.151(a) and (b)

This matrix cannot cover every income-related type, employment scenario, etc. USDA requires approved lenders to use sound judgment to make accurate and dependable analysis of income per 1555.151(a). Exclusions may apply under 1555.152(b)(2) and Attachment D-D.

#### Considerations for Income Calculations
- Income used in Repayment Income calculations must be confirmed to continue a minimum of three years into the mortgage.
- If tax income is tax exempt, it may be grossed up 25 percent.
- Documentation Source Options: Use eligible documentation. Every item listed is not required unless otherwise noted. Lenders must retain the income verification documentation requirements outlined in this chart.

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
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</thead>
<tbody>
<tr>
<td>Adoption Assistance</td>
<td></td>
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<tr>
<td>Adoption Assistance</td>
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<tr>
<td>Subsidy</td>
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<td>Subsidy</td>
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<tr>
<td>Total</td>
<td></td>
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<tr>
<td>Required Income (g)</td>
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<td>Required Income (g)</td>
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<tr>
<td>Benefits</td>
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<td>Benefits</td>
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#### Documentation Source Options:
- Benefits Award letter to document the amount and duration of payments.
- Online payment schedule from the Agency, bank statement, etc.
- Federal income tax returns or IRS tax transcripts with all schedules.

**Automobile Allowance**
- Include amount documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months.
- Required History: One year

**Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease. The amount of allowance that exceeds the deduction 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:
- Paycheck(s)/Banking statement(s)
- Contract statement from employer to state terms and duration of payments
- Federal income tax returns or IRS tax transcripts with all schedules
NOT Included in Annual Household Income

- Earned wage income of minors
- Foster child/adult payments
- Reimbursements for medical expenses
- Income of dependents over 18 that are full time students (only count first $480)
- Temporary or sporadic income
- Income with no recurring pattern
- Lump sum payments
- Earned income tax credits
- Adoption assistance
- Refunds for property taxes
- Amounts paid by a State agency to a family with a disabled family member living at home
- Student financial aid
- Earnings of live in aids
- Employer fringe benefit packages unless they are taxable income
- SNAP benefits
Income Verification Requirements

**Streamlined Documentation**
- 1 recent paystub with YTD figure
- Written VOE (may be electronically generated from employer or verification service if complete information is provided)
- Verbal VOE (must be obtained within 10 business days of closing)

**Full Documentation**
- Paystubs covering the most recent four weeks of earnings
- W-2’s for the most recent two tax years
- Verbal VOE (must be obtained within 10 business days of closing)
Income Verification Requirements

2-years of signed individual and business tax returns with all schedules plus a recent profit and loss statement (not required to be audited)

OR

IRS transcripts with all schedules plus a recent profit and loss statement (not required to be audited)

Trend analysis for the applicant’s business (Recommend use of Fannie Mae Form 1084, “Cash Flow Analysis” and Fannie Mae Form 1088, “Comparative Income Analysis”)

Confirmation the business is operational within 30 days of loan closing
Verification Requirements

Tax returns for self-employed borrowers must be copies of the original returns filed with the IRS and include all supporting schedules.

Lenders may substitute IRS transcripts obtained directly from the IRS with all supporting schedules.

Lenders must continue to obtain the most recent two years of returns as applicable.

USDA requires all applicants to be current on their income tax filings.
Verification Requirements

Applicants with approved IRS extensions for the current tax year may continue to be eligible if they are not delinquent on taxes owed.

Evidence of the extension and tax payment made, if applicable, must be retained in the lender’s permanent loan file.

USDA does not require an applicant to file a return for the current tax year if the IRS schedule/deadline for that tax year has not passed (i.e. prior to April 15th).

*Refer to Attachment 10-A for IRS Taxes/Delinquency guidance*
Verification Requirements

Income and asset documents and verifications cannot be greater than 120 days old at time of loan closing.

Divorce decrees, income tax returns, and other documents that do not expire, will continue to have the most recent or filed copy accepted.

Income and asset documents greater than 120 days old at the time of loan closing must be updated or re-verified to support applicant/household eligibility.
Income From Assets

Cumulative net family assets (non-retirement) of $50,000 or greater

Lenders must review asset information provided by applicant(s) and household members at the time of loan application

Net family assets with **actual earnings**

Use the **stated rate of interest** to calculate annual income

Net family assets that **do not earn** interest

Use a **current passbook savings rate** (verified through the lender’s personal banking rates, online website, etc.) to calculate annual income
## Types of Income

<table>
<thead>
<tr>
<th>Adults</th>
<th>Minors</th>
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<tbody>
<tr>
<td><strong>Bob (Applicant)</strong></td>
<td><strong>Jenny</strong> (part-time employment)</td>
</tr>
<tr>
<td>(full-time employment; $20,000 joint checking/savings)</td>
<td></td>
</tr>
<tr>
<td><strong>Sue (Co-Applicant)</strong></td>
<td><strong>Lily</strong></td>
</tr>
<tr>
<td>(full-time employment; $20,000 joint checking/savings)</td>
<td></td>
</tr>
<tr>
<td><strong>Grandpa Happy</strong></td>
<td><strong>Ben</strong></td>
</tr>
<tr>
<td>(SSI and 401k; $70,000 joint checking &amp; savings)</td>
<td></td>
</tr>
<tr>
<td><strong>Grandma Happy</strong></td>
<td><strong>Sophie</strong></td>
</tr>
<tr>
<td>(SSI and 401k; $70,000 joint checking &amp; savings)</td>
<td></td>
</tr>
<tr>
<td><strong>Sam</strong></td>
<td><strong>Twins Lucy &amp; Lucas</strong></td>
</tr>
<tr>
<td>(full-time college student)</td>
<td></td>
</tr>
</tbody>
</table>

*The “Happy” Family*
<table>
<thead>
<tr>
<th>Adults</th>
<th>Minors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bob</strong> (Applicant)</td>
<td><strong>Jenny</strong></td>
</tr>
<tr>
<td>(full-time employment; $20,000 joint checking/savings)</td>
<td>(part-time employment; $0)</td>
</tr>
<tr>
<td><strong>Sue</strong></td>
<td><strong>Lily</strong></td>
</tr>
<tr>
<td>(full-time employment; $20,000 joint checking/savings)</td>
<td></td>
</tr>
<tr>
<td><strong>Grandpa Happy</strong></td>
<td><strong>Ben</strong></td>
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<tr>
<td>(SSI and 401k; $70,000 joint checking &amp; savings)</td>
<td></td>
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<tr>
<td><strong>Grandma Happy</strong></td>
<td><strong>Sophie</strong></td>
</tr>
<tr>
<td>(SSI and 401k; $70,000 joint checking &amp; savings)</td>
<td></td>
</tr>
<tr>
<td><strong>Sam</strong></td>
<td><strong>Twins Lucy &amp; Lucas</strong></td>
</tr>
<tr>
<td>(full-time college student)</td>
<td>Only first $480</td>
</tr>
</tbody>
</table>

**The Happy Family’s Annual Income**

![Family Image]
## Adjusted Annual Income

**HB-1-3555, Chapter 9, Section 1**

### Adults

<table>
<thead>
<tr>
<th>Name</th>
<th>Employment Status</th>
<th>Monthly Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bob (Applicant)</td>
<td>full-time employment; $20,000</td>
<td>$2000</td>
</tr>
<tr>
<td>(joint checking/savings)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sue</td>
<td>full-time employment; $20,000</td>
<td>$2000</td>
</tr>
<tr>
<td>Grandpa Happy</td>
<td>SSI and 401k; $70,000</td>
<td>$7000</td>
</tr>
<tr>
<td>(joint checking &amp; savings)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grandma Happy</td>
<td>SSI and 401k; $70,000</td>
<td>$7000</td>
</tr>
<tr>
<td>Sam</td>
<td>full-time college student</td>
<td>$2000</td>
</tr>
</tbody>
</table>

### Minors

<table>
<thead>
<tr>
<th>Name</th>
<th>Employment Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jenny</td>
<td>part-time employment</td>
</tr>
<tr>
<td>Lily</td>
<td></td>
</tr>
<tr>
<td>Ben</td>
<td></td>
</tr>
<tr>
<td>Sophie</td>
<td></td>
</tr>
<tr>
<td>Twins Lucy &amp; Lucas</td>
<td></td>
</tr>
</tbody>
</table>

### The Happy Family’s Adjusted Annual Income

- **Bob**
  - Full-time employment; $20,000 joint checking/savings
  - Monthly income: $2000

- **Sue**
  - Full-time employment; $20,000 joint checking/savings
  - Monthly income: $2000

- **Grandpa Happy**
  - SSI and 401k; $70,000 joint checking & savings
  - Monthly income: $7000

- **Grandma Happy**
  - SSI and 401k; $70,000 joint checking & savings
  - Monthly income: $7000

- **Sam**
  - Full-time college student
  - Monthly income: $2000

- **Jenny**
  - Part-time employment

- **Lily**
  - No employment mentioned

- **Ben**
  - No employment mentioned

- **Sophie**
  - No employment mentioned

- **Twins Lucy & Lucas**
  - No employment mentioned

**Total Monthly Income:**

- $2000 (Bob) + $2000 (Sue) + $7000 (Grandpa Happy) + $7000 (Grandma Happy) + $2000 (Sam) + $480 (Jenny) = $21,560

**Adjusted Annual Income:**

- $21,560 x 7 = $150,920

**May also include verified childcare expenses.**

**Elderly deduction does not apply.**
HELPFUL TIPS

Make sure to include:

Include: Income of all adult household members, including benefits received on behalf of minors.

Include: The first $480 of earned income from adult full-time students who are not the applicant, co-applicant, or spouse of an applicant.

Include: $0 for a business loss.
HELPFUL TIPS

Assets:

Include: Income from cumulative household non-retirement assets of $50,000 or greater.

- Assets with actual earnings will use the stated rate of interest.
- Assets that do not earn interest will use a current passbook savings rate.
- Deduct any funds utilized for down payment, closing costs, pre-paids, etc. in the home purchase transaction PRIOR to calculating asset income.

The Happy Family’s Annual Income
HELPFUL TIPS

Exclude:

- Lump Sum or Sporadic Payments
- Section 8 Housing Vouchers
- Student Loans
- SNAP Benefits
- Unreimbursed Employee Expenses

The Happy Family’s Annual Income
These are solely examples using the assumption that historical information is consistent with the current information being reviewed.

- There may be instances where historical information will need to be factored into the income calculations based on the information available to the underwriter.

Although we have provided some examples in this training, Rural Development does not specify a sole method that the lender must use to calculate income.

It remains the approved lender’s responsibility to review the complete income history to accurately calculate the income expected to be received in the ensuing 12 months, and to document their income calculations in their loan file to support their lending decisions.
Income Calculation

- Date of Hire 12/28/2017
- Recent pay raise
- OT to continue
- Paystub as of 11/4/2021

- Hourly pay $13 x 40 = $520 x 52 = $27,040 yr
- OT/Shift Diff $176.91 + $1196.84 + $52.61 + $1.75 + $326.63 = $1754.74 / 10.133 = $173.17 x 12 = $2078.04
- Annual HHLD Income $27,040 + $2078.04 = $29,118.04
- YTD paystub $23,706.70 / 10.133 = $2,339.55 x 12 = $28,074.60
**Income Calculation**

**Employment**
- Division: 01.000.40C.0
- Job Title: CSR I Sr/II
- Original Hire Date: 06/09/2021
- Total Time With Employer: 06/09/2021
- Employment Status: Active
- Most Recent Start Date: 06/09/2021

**Income**
- Employee Rate of Pay: $31,200.00
- Employee Pay Frequency: Annual
- Avg. Hrs. Worked / Pay Period: 80
- Pay Cycle: BiWeekly

**Annual Income Summary**

<table>
<thead>
<tr>
<th></th>
<th>Base Salary</th>
<th>Overtime</th>
<th>Commission</th>
<th>Bonus</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>$2,171.57</td>
<td>$10.87</td>
<td>$0.00</td>
<td>$9.30</td>
<td>$1,763.11</td>
<td>$3,945.35</td>
</tr>
</tbody>
</table>

**Earnings**
- Hours
- Amount
- Year to Date

<table>
<thead>
<tr>
<th></th>
<th>Hours</th>
<th>Amount</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonus Deferred</td>
<td>0.00</td>
<td>0.00</td>
<td>1306.40</td>
</tr>
<tr>
<td>Holiday</td>
<td>0.00</td>
<td>0.00</td>
<td>94.88</td>
</tr>
<tr>
<td>Holiday Other</td>
<td>0.00</td>
<td>0.00</td>
<td>126.00</td>
</tr>
<tr>
<td>Non Discretionary Bonus</td>
<td>0.00</td>
<td>0.00</td>
<td>1.85</td>
</tr>
<tr>
<td>Gross</td>
<td>80.00</td>
<td>957.00</td>
<td>4899.47</td>
</tr>
<tr>
<td>Reg 2nd Shift - 10% Pay</td>
<td>0.00</td>
<td>0.00</td>
<td>602.76</td>
</tr>
<tr>
<td>Regular</td>
<td>83.80</td>
<td>557.00</td>
<td>4899.47</td>
</tr>
<tr>
<td>Unpaid Authorized Time Off</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Unpaid Time Of Hourly</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

**Deduction**
- Amount
- Year to Date

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSA ANTHEM MEDICAL</td>
<td>75.00</td>
<td>150.00</td>
</tr>
<tr>
<td>FSA ANTHEM MEDICAL ARMS</td>
<td>0.00</td>
<td>75.00</td>
</tr>
</tbody>
</table>

**Control Number**
- Control Number: 411001
- Pay Period Start Date: Oct 17, 2021
- Pay Period End Date: Oct 30, 2021
- Rate Type: Hourly
- FLSA: Non-Exempt
- Pay Frequency: Bi-Weekly

- **Borrower DOH:** 8/9/2021
- **Annual Salary:** $31,200
- **Bonus/OT/shift diff:** $1306.40 + $1.85 + $10.68 + $692.75 = $2011.68 / 2.74 = $734.19 x 12 = $8810.28
- **Annual Income $31,200 + $8810.28 = $40,010.28**
Income Calculation

- Hourly rate $11.75 x 40 = $470.00 x 52 = $24,440.00
- OT/Bonus $1367.08 + $650 = $2017.08/8.96 = $225.12 x 12 = $2701.45
- Total Annual HHLD Income $24,440.00 + $2701.45 = $27,141.45
### Cash Flow Analysis (Form 1040)

#### Schedule C - Profits or Loss from Business or Proprietorship

1. **BFS Income Calculation**
   - **Documentation Source Options:**
     - Federal income tax return (it’s a microcosm with all schedules for businesses with less than two years)
     - YTD Profit and Loss (not required to be audited)

2. **Business Line of Credit**
   - **Business loan:**
     - Include zero in annual income for a business line of credit
   - **Required income:**
     - Profit or loss from business line of credit
   - **Required income (cont.):**
     - Profit or loss from business line of credit

3. **Depreciation Expense**
   - **Depreciation Expense:**
     - Business use of home

4. **Non-Ordinary (Income) Loss or Excesses**
   - **Non-Ordinary (Income) Loss or Excesses:**
     - Loss or excess

5. **Business Use of Home**
   - **Business Use of Home:**
     - Loss or excess

6. **Amortization or Depreciation**
   - **Amortization or Depreciation:**
     - Loss or excess

7. **Net Profit or Loss**
   - **Net Profit or Loss:**
     - Loss or excess

8. **Casualty Loss**
   - **Casualty Loss:**
     - Loss or excess

9. **Arbitrary Loss**
   - **Arbitrary Loss:**
     - Loss or excess

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**Notes:**
- Include zero in annual income for a business line of credit.
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- Include zero in annual income for a business line of credit.
Adjusted Annual Household Income

Refer to HB-1-3555, “Attachment 9-A”, Pages 22 – 23 for information on applicable deductions such as:

- Dependents
- Child Care Expenses
- Elderly Household
- Care of Family Members with Disabilities
- Child support and private school tuition are **not** eligible deductions.

### Adjusted Annual Income Deductions

<table>
<thead>
<tr>
<th>Dependent Deduction: 3555.152(c)(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• $480 deduction per eligible dependent at the time of loan application</td>
</tr>
<tr>
<td>• Applicants with shared custody may include their children</td>
</tr>
</tbody>
</table>

### Documentation Source Options:

- Certify to the household number on Form RD 3555-21
- List all household members and ages in Borrower Information page in GUS and Attachment 9-B, or the lender’s Uniform Transmittal Summary, (FNMA Form 1008/Freddie Mac Form 1077), or equivalent.

<table>
<thead>
<tr>
<th>Child Care Expenses: 3555.152(c)(2)</th>
</tr>
</thead>
<tbody>
<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>
</tbody>
</table>

### Documentation Source Options:

- 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 |
- 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 (K – 8) are not eligible deductions |
- Attachment 9-G is an available option to document childcare expenses, but may not be used alone when additional documentation is required per this section to verify payment (i.e. relatives and private individuals) |
- Calculations must be included on the Income Calculation Worksheet.
Adjusted Annual Household Income

<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)</td>
</tr>
</tbody>
</table>

**Documentation Source Options:**
- Certify to the household number on Form RD 3555-21
- List all household members and ages in Borrower Information page in GUS and Attachment 9-B, or the lender’s Uniform Transmittal Summary, (FNMA Form 1008/Freddie Mac Form 1077), or equivalent.

Does not count for pregnancy. Child must be born at time of application.
Child Care Deduction

**Child Care Expenses: 3555.152(c)(2)**
- 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:**
- 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
- 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 (K – 8) are not eligible deductions
- Attachment 9-G is an available option to document childcare expenses, but may not be used alone when additional documentation is required per this section to verify payment (i.e. relatives and private individuals)
- Calculations must be included in the Income Calculation Worksheet

**Calculation for Child Care**
LaPetit Academy
2 Children @ $206/week per child = $412 x 52 weeks = $21,424 annually

To whom it may concern,

Currently occur to COVID Pandemic subsidy their monthly payment is $115.00.
However, starting 01/01/2022 they will be going back to our regular rate for before & after School care of $206.00 weekly per child.

**Payment History:**
- Jan. 2021 - $115.00
- Feb. 2021 - $115.00
- March 2021 - $115
- April 2021 - $115
- May 2021 - $115
- June 2021 - $115
- July 2021 - $115
- August 2021 - $0.00
- Sept. 2021 - $115
- Oct. 2021 - $115
- Nov. 2021 - $115

Thank you,
Collison Heitman
Academy Director
LaPetite Academy
(353)951-6667
Disability Expenses

<table>
<thead>
<tr>
<th>Disability Expenses: 3555.152(c)(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Deduction for eligible expenses that exceed three percent of the annual income</td>
</tr>
<tr>
<td>• Eligible expenses: 1. allow the disabled individual or another household member to work, 2. are non-reimbursable by insurance or other sources, and 3. do not exceed the income earned by the person who is working due to the care provided</td>
</tr>
<tr>
<td>• Examples include but are not limited to daily living assistance, wheelchairs, ramps, adaptation needs, workplace equipment, etc.</td>
</tr>
<tr>
<td>• Utilize documentation to estimate anticipated annual expenses</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Documentation Source Options:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Third party verifications for caregivers/agencies for the dates, costs, and fees</td>
</tr>
<tr>
<td>• Receipts, itemized income tax returns, and other evidence to support the deductions</td>
</tr>
<tr>
<td>• Calculations must be included on the Income Calculation Worksheet</td>
</tr>
</tbody>
</table>
## Elderly Household Deduction

### Adjusted Annual Income Deductions

**3555.152(c)**

**Elderly Household Deduction: 3555.152(c)(4)**

- Applicant or Co-Applicant is age 62 or older
- One $400 deduction allowed

**Documentation Source Options:**

- Certify to date of birth on Form RD 3555-21 and the loan application

### Medical Expenses: 3555.152(c)(5) (Elderly and Disabled Households Only)**

- Deduction for eligible expenses that exceed 3 percent of the annual income for entire family
- Definition of elderly family is in 3555.10
- Utilize documentation to estimate anticipated annual expenses

**Documentation Source Options:**

- Itemized tax return documents
- Receipts for insurance premiums, prescriptions, dental and eye exams, eyeglasses, medical/health products or apparatus, hearing aids, visiting or live in care providers
- Calculations must be included on Attachment 9-B, or the Uniform Transmittal Summary, (FNMA Form 1008/Freddie Mac Form 1077), or equivalent.
Medical Expenses

<table>
<thead>
<tr>
<th>Adjusted Annual Income Deductions</th>
</tr>
</thead>
<tbody>
<tr>
<td>3555.152(c)</td>
</tr>
<tr>
<td><strong>Elderly Household Deduction:</strong>  3555.152(c)(4)</td>
</tr>
<tr>
<td>• Applicant or Co-Applicant is age 62 or older</td>
</tr>
<tr>
<td>• One $400 deduction allowed</td>
</tr>
<tr>
<td><strong>Documentation Source Options:</strong></td>
</tr>
<tr>
<td>• Certify to date of birth on Form RD 3555-21 and the loan application</td>
</tr>
</tbody>
</table>

**Medical Expenses: 3555.152(c)(5) (Elderly and Disabled Households Only)**

• Deduction for eligible expenses that exceed 3 percent of the annual income for entire family
• Definition of elderly family is in 3555.10
• Utilize documentation to estimate anticipated annual expenses

**Documentation Source Options:**

• Itemized tax return documents
• Receipts for insurance premiums, prescriptions, dental and eye exams, eyeglasses, medical/health products or apparatus, hearing aids, visiting or live in care providers
• Calculations must be included on Attachment 9-B, or the Uniform Transmittal Summary, (FNMA Form 1008/Freddie Mac Form 1077), or equivalent.
Showing your calculations.

<table>
<thead>
<tr>
<th>1. Applicant (Wages, salary, self-employed, commission, overtime, bonus, tips, alimony, child support, pension/retirement, social security, disability, trust income, etc.). <strong>Calculate and record how the calculation of each income source/type was determined in the space below.</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>$33,136.08</td>
</tr>
<tr>
<td>Base- YTD, 2020 &amp; 2019 earnings / by 34 months = $2654.51</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6. Annual Household Income (Total 1 though 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$33,136.08</td>
</tr>
</tbody>
</table>

**ADJUSTED INCOME CALCULATION** *(Consider qualifying deductions as described in 7 CFR 3555.1 52(c) and HB-1-3555 Chapter 9.)*

<table>
<thead>
<tr>
<th>7. Dependent Deduction ($480 for each child under age 18, or full-time student attending school or disabled family member over the age of 18) - #X $480</th>
</tr>
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<tbody>
<tr>
<td>#</td>
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</table>

<table>
<thead>
<tr>
<th>12 Total Household Deductions (Total 7 though 11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,440.00</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>13. Adjusted Annual Income (Item 6 minus item 12)</th>
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<tbody>
<tr>
<td><strong>Income cannot exceed Moderate Income Limit to be eligible for SFHGLP</strong></td>
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<tr>
<td>Moderate Income Limit:</td>
</tr>
</tbody>
</table>
Unable to Secure Conventional Credit

<p>| | | | | |</p>
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<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td><strong>Resources</strong></td>
<td><strong>Ratios</strong></td>
<td><strong>Credit</strong></td>
<td><strong>Loan Terms</strong></td>
</tr>
<tr>
<td>Has personal non-retirement liquid asset funds of at least 20%</td>
<td>Can pay all closing costs (plus the 20% down) associated with the loan</td>
<td>Meets qualifying ratios of no more than 28% PITI and 36% TD when applying the 20% down payment</td>
<td>Demonstrates qualifying credit for such a loan</td>
<td>Conventional loan is 30-year fixed rate loan without PMI</td>
</tr>
</tbody>
</table>
Annual Income FAQs

The applicant has a history of overtime, with a substantial amount received year to date. However, the VOE states the overtime is unlikely to continue. Do I need to include overtime in the annual income calculation?

Annual income is calculated based on what is expected to be received in the ensuing 12 months. If there is a history of overtime, it would need to be considered by the underwriter when calculating annual income. Ultimately it is the approved lender’s responsibility to review the complete income history to determine what is expected to be received in the ensuing 12 months and to document the permanent loan file to support their lending decisions.
Does the IRS child tax credit need to be included in the annual income calculation?

No, tax credits, including the Child Tax Credit are not included in the Annual income calculation.
Is per diem considered in annual income calculations?

If the per diem is taxable income, then it must be included in annual income. If the per diem is non-taxable income, it is considered reimbursement and therefore not included in annual income.
Annual Income FAQs

Q We have a borrower that is divorced and has joint custody of a child that is only claimed on the tax returns as a dependent every other tax year. Can we consider this child a household member for the calculation of family size and income eligibility?

A Applicants with shared custody may include their children as household members and receive the $480 per child deduction.
Annual Income FAQs

Q Are there exceptions or waivers to the maximum income limits?

A No, there are no exceptions or waivers to the maximum income limits.
Annual Income FAQs

Q

Is foster care income included in the annual income?

A

No, foster care income is not included in the annual or repayment income.
An adult household member is currently unemployed, do we need to consider any income for them?

An adult member that is currently unemployed but is seeking new employment must have their previous earnings included in the annual household income. The previous earnings are not required to be included when there is documented evidence to support, they are not seeking to be reemployed, such as a tendered resignation, official termination from previous employer, or a signed statement from the adult household member that they do not plan to pursue new employment.
How is a business loss for a self-employed applicant considered?

A business loss is counted as zero in annual household income, not as a reduction to annual income.
Manual File Submission Process

To be used for loan types not supported by GUS

The following guidance provides a process for manual file submissions that will assist Rural Development in expediting loan application requests, while also protecting applicants' personal information.

Manual file submissions take a significant amount of Agency time to process. As a result, we feel it is important to collaborate with lenders to ensure applications are reviewed, and Conditional Commitments issued, as quickly as possible. While we encourage lenders to submit files via the Guaranteed Underwriting System (GUS), manual file submissions are necessary for loan types not supported in GUS, such as the Streamlined Assist Refinance product and certain Pilot programs.

What Do I Need to Do?

To expedite manual file submissions, please follow the 2-step instructions below to upload documents directly into GUS, even though the file will not be a final submission in GUS.

STEP 1: Required GUS Entries

In GUS, the lender will enter, at a minimum, the following items:

a. “Eligibility” Page - Enter the following data points:
   - Subject Property Address (Street)
   - Subject Property Address (City)
   - Subject Property Address (State)
   - Subject Property Address (County)
   - Subject Property Address (ZIP Code)
   - Household Income

b. “Borrower” Page - Enter the following data points for at least one applicant:
   - Borrower First Name
   - Borrower Last Name
   - Borrower Social Security Number

c. “Application Documents” Page - Upload all required documents as indicated on Attachment 15-A:
   - Additional guidance on uploading documents is found in the GUS user guide, located in the USDA Linc Training Resource Library https://www.rd.usda.gov/resources/usda-linc-training-resource-library

d. Lenders should not order or resubmit credit reports in GUS or run SAVE for manual file submissions using this process.
Manual File Submissions

Eligibility

Property Information

Street Address
City
County
MSA
Zip Code

Check Property Eligibility

Display Property Map

Household Member Information
**Eligibility**

### Property Information

### Household Member Information

<table>
<thead>
<tr>
<th>Number of People in Household</th>
<th>Is Loan Applicant or Co-Applicant age 62 or older? (P)</th>
<th>Annual Medical Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>No</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of residents under 18 years old, Disabled or Full Time Students 18 years of age (P)</th>
<th>Annual Child Care Expenses</th>
<th>Are there any Disabled persons living in the household? (P)</th>
<th>Annual Disability Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$0.00</td>
<td>No</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

### Monthly Gross Income For All Household Members
## Manual File Submissions

### Eligibility

#### Monthly Gross Income For All Household Members

Enter the current monthly gross income of all adult household members required to determine annual household income eligibility.

<table>
<thead>
<tr>
<th>Primary Borrower (P)</th>
<th>Commission</th>
<th>Overtime</th>
<th>Military Entitlements</th>
<th>Bonus</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>Military Entitlements</td>
<td>$0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Other Monthly Income Received by Adult Members of the Household</td>
<td>$0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The **Total Household Income** is **$0.00**.

- *Allowable Adjustments*: $0.00
- *Adjusted Household Income*: $0.00

Check Income Eligibility

Status: **UNKNOWN**
Manual File Submissions

- **First Name**
- **Last Name**
- **SSN**

Borrower Information

- **Personal Information**
  - First Name
  - Middle Name
  - Last Name
  - Social Security Number (XXX-XX-XXXX)
  - Date of Birth (MM/DD/YYYY)
  - Citizenship (Select option)
  - Marital Status (Select option)
  - Number of Dependents
Manual File Submissions

Don’t order or reissue credit report

Don’t run SAVE
Manual File Submissions

1. **Input data into GUS**

2. **Upload documents to GUS**

3. **Email Production Team**

<table>
<thead>
<tr>
<th>Production Teams</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production Team One</td>
<td>AK, AI, AZ, CA, CO, GU, HI, IA, ID, KS, MT, NM, NV, OR, SD, TX, UT, WA, WI, WP, WY</td>
</tr>
<tr>
<td><a href="mailto:SFHGLPONE@usda.gov">SFHGLPONE@usda.gov</a></td>
<td></td>
</tr>
<tr>
<td>Production Team Two</td>
<td>AR, KY, IA, MN, MO, MS, ND, NE, NJ, NY, OK</td>
</tr>
<tr>
<td><a href="mailto:SFHGLPTWO@usda.gov">SFHGLPTWO@usda.gov</a></td>
<td></td>
</tr>
<tr>
<td>Production Team Three</td>
<td>CT, DE, GA, IL, MA, ND, ME, MI, NC, NH, RI, SC, VT, WV</td>
</tr>
<tr>
<td><a href="mailto:SFHGLPTHREE@usda.gov">SFHGLPTHREE@usda.gov</a></td>
<td></td>
</tr>
<tr>
<td>Production Team Four</td>
<td>FL, IN, OH, PA, PR, TN, VA, VI</td>
</tr>
<tr>
<td><a href="mailto:SFHGLPFOUR@usda.gov">SFHGLPFOUR@usda.gov</a></td>
<td></td>
</tr>
</tbody>
</table>
An applicant has enough liquid assets to put 20% down and pay all closing costs. However, the total debt ratio will exceed 36%. Is the applicant eligible?

Yes, the applicant qualifies since the cumulative criteria from HB-1-3555, Chapter 8, cannot be met.
Do liquid funds in a self-employed applicant's business account count towards the conventional credit test?

No, business assets that are held in specifically designated business accounts do not count against the conventional credit test.
An applicant claimed interest income on their tax return, but current assets are less than the $50,000 threshold. Does interest income need to be included in annual income?

No, net family assets that do not exceed a cumulative total of $50,000 are not required to be considered in the annual income calculation.
Annual Income FAQs

Q
What figure is used to determine the balance on a checking or savings account?

A
Lenders must use the lessor of the current balance or previous months ending balance.
An applicant has one $150 deposit in the last 60 days that is outside of their payroll. Do we need to question it when they are below the income limit?

All individual deposits that are not attributed to wages or earnings need to be investigated. The guaranteed loan program is an income-based program and any unrecognized deposits should be reviewed to determine it is not undisclosed income. There is no tolerance or percentage of income that may be utilized to disqualify deposits from further consideration.
If an applicant does not need funds to close, are we required to verify assets?

Yes, assets must be verified, regardless if they are required for funds to close or not. Assets may affect income eligibility (Chapter 9) and applicant eligibility (Chapter 8).
Annual Income FAQs

Q

The guideline for obtaining bank statements for checking, savings, and money market accounts indicates we are to obtain two months of the most recent statements. Is that considered most recent upon submission to Rural Development or the application date?

A

The most recent statements obtainable at the time of submission to Rural Development
Is obtaining a Verification of Deposit sufficient documentation of assets?

No, the verification of assets needs to include two months of recent bank statements, a Verification of Deposit with one recent bank statement, or alternate evidence (statement printouts) to support account activity and balances.
Are tax transcripts required for all borrowers?

IRS transcripts are required for all household members in addition to the documentation option selected by the lender, with the exception of children under the age of 18 and Full-time students age 18 and up that are not the applicant, co-applicant, or spouse. Lenders must require each adult household member as applicable to complete and sign IRS Form 4506-T or IRS Form 4506-C for the previous two tax years at the time of loan application. The 4506-T/4506-C must be used to request full transcripts with all schedules.
Is SSI for a minor child included?

Yes, Social Security received by the applicant on behalf of a minor child is counted in Annual income and may be used in Repayment income if it is expected to continue at least three years into the mortgage.
Annual Income FAQs

Q  What about income from kids under 18?

A  Only the income of household members that are 18 and over are counted in the Annual income calculation.
Q If there is income from an adult in the household who isn’t on the application, where do we put that on the 1003?

A This is not on the 1003 but will be entered in GUS in the “Eligibility” tab, “Monthly Gross Income for All Household Members” drop down.

For Manual submissions, the lender may use Attachment 9-B, or the Uniform Transmittal Summary, (FNMA FORM 1008/FREDDIE MAC FORM 1077), or equivalent to document their income calculations.
If a borrower is married but the couple is separated, can they be left out of the calculation?

Include the income of an applicant’s spouse, unless the spouse has been living apart from the applicant for at least three months (for reasons other than military or work assignment), or court proceedings for divorce or legal separation have been commenced. Evidence to support living apart for three months may include, but is not limited to, an apartment lease, bills, or bank statements in their name alone delivered to a different address, etc. This guidance applies to domestic partners, significant others, and fiancée’s that are currently living with the applicant as a household/family unit. This guidance does not apply to adult dependents age 18 and up.
For Self Employed Borrowers - what documentation is needed when underwriting between Jan 1 to April 15 when prior year 1040 has not been filed? Do you need P&L and balance sheet for previous year and YTD for current year? Do you need to re-validate within 10 days like a salaried borrower.

Q

A

- Federal Income tax return for the most recent 2 years with all schedules and a recent profit and loss statement – previous year and current YTD P &L.
- Lenders may utilize Fannie Mae Form 1084 “Cash Flow Analysis,” 1088 “Comparative Income Analysis,” or a comparable self-employment evaluation form(s), and Attachment 9-E of the HB-1-3555 to assist in the calculation of self-employment income.
- Confirmation the business is operational, obtained within 30 days of the note date/loan closing. Documentation may include evidence of a website, additional internet documentation, licensing bureau certification, etc.
Interested in additional training?

Have your organization reach out to the Lender Partner Activities Branch with a specific training request, we will make it happen!

Contact us at: sfhgl;l.lenderpartner@usda.gov, we look forward to hearing from you!