Welcome to the Section 502 Direct Loan and 504 Loan/Grant Programs training on Determining Repayment Income. This presentation is prepared by the Single Family Housing Direct Division with a revision date of September 1, 2023.

The purpose of this presentation is to give viewers a basic overview of how to determine repayment income for the 502 and 504 Single Family Housing Direct Programs.

What is Repayment Income?

- Applicant (note signer) income
- Stable
- Dependable
- Used to determine ability to repay loan

REPAYMENT INCOME is just the income of the applicant and co-applicant and is used to determine the applicant's ability to repay a loan.

Repayment income is income that the applicant(s) receives that is considered stable and dependable that will be used to repay the loan. The Loan Originator or Loan Approval Official must determine repayment income in order to determine the amount of loan the applicants qualify for.

Similar to the annual and adjusted annual income calculations, repayment income is also projected for the next 12 months. However, unlike those income sources, only the income from the applicant(s) is considered – also known as the note signers - and not the income of the entire household. This is because the note signers are agreeing to repay the loan, so their income is used to determine the loan amount.

Additionally, only stable sources of income are included as a source of repayment income. As a lender, the Agency looks to reduce its risk level. By using income that is from stable sources, the Agency has more assurance that the applicant will be a successful homeowner.

The common income sources and how to verify and project income are similar to annual income with some notable differences.

Annual Income vs. Repayment Income

- Only Applicant income
- Must be stable and dependable
- Not all annual income types are considered for repayment
- Nontaxable income is grossed up 120% (for Section 502 program)

Let's go through the differences between annual and repayment income in more detail. The differences go beyond just household income vs. applicant's income and income eligibility vs. ability to repay a loan.

For repayment income:

- Only applicant income is considered. This is because only the applicants will sign the promissory note and agree to repay the loan. Therefore, only their income can be counted on to repay that loan.

- The applicant's income is only considered if it is determined to be stable and dependable.
  - It is highly unlikely that any income source would be guaranteed for the full term of the loan. Rather, an analysis must be done to determine if there is a likelihood that the income will continue into the foreseeable future, based on what has happened in the past and/or what is projected to happen in the future.
  - If the income source has a strong history of being received but has a known end date in the near future, then regardless of how stable it has been in the

past, you would not consider it for repayment. For example, an applicant may have been receiving child support for the past 5 years. It is very stable and dependable, but the child is 6 months away from turning 18 and the child support is expected to end, in this situation, child support would not be included in repayment income because it has a known end date in the near future.

  - This does not mean that the income must be confirmed as "guaranteed to continue". A Loan Approval Official need not have a letter or confirmation stating that a certain income will continue into the future for the next 2 years. However, when an end date is KNOWN or specified for a specific income source, then it is not included.
  - On the other hand, an income source with a minimal history may be included in repayment income if there is information to show that it is stable and will continue. For instance, an applicant may have just been accepted into an apprenticeship program. The new position includes a pay raise. While she did not have a history of the same income in the past, she has a history of receiving income from that employer, so the additional pay raise from the new position could be considered in repayment income for the applicant.

- There are many income sources excluded from annual income but included in repayment income. Refer to Handbook-1-3550, Chapter 4 for examples of what is/is not considered.

- All of the applicant's nontaxable income is grossed up 120% for repayment income purposes in the Section 502 program.

Stable and Dependable Income

- Historical – prior two years
- Future - expectations for the next two years
- Reliable and likely to continue
  - No minimum requirements
  - Historical analysis

The determination of whether or not the applicant's income is stable and dependable involves looking at the applicant's income history during the last two years and their income expectations for the next two years. Only income that is reliable and likely to continue is included in repayment income.

The program does not have a minimum length of employment requirement, the historical analysis considers the consistency and pattern of income. It also considers the applicant's situation, such as:

- Multiple employers
- Various types of employment
- Seasonal or temporary employment with various employers and routine periods of unemployment

In these situations, if the applicant's historical income reflects stable similar income from year to year, the income may be considered dependable.

If an applicant has gaps of employment in excess of 30 days, the applicant must provide an explanation, but the gaps in and of themselves do not necessarily indicate that the income is not stable. The concept is to focus on the history of income/employment and whether the history demonstrates a reasonable expectation that similar income will be received in the future.

Let’s look at an example.

Stable and Dependable Income – Applicant John

Paystubs	One Year Prior Tax Return	Two Year Prior Tax Return
• Employer: DoughBread • Projected Repayment income: $40,450	• Employer: Marlo's Restaurant • Income: $65,000	• Employer: University Grill • Income: $14,480

John's income for the current year and two years prior seems to be unstable, given the fluctuations in income and changes in employers from year-to-year, but further analysis is needed.

In talking with John, we learn that:

- He worked part-time as a server at University Grill while finishing up his degree in restaurant management. His income was less that year due to the part time status.
- He graduated in the winter and was immediately hired as a full-time restaurant manager for Marlo's Restaurant starting that January. Marlo's is located in a high-cost area in California. His significantly higher income reflects the high-cost area.
- After a year at that position, he relocated to a rural area in Wyoming to be closer to family. Within a month of his relocation, he was hired as a full-time restaurant manager for DoughBread. While the income seems considerably less than the prior year, the income level is reflective of the lower cost of living in that area.

John's income is stable and dependable given his consistency in working in the restaurant industry, his continued likely employment with DoughBread, and the factors driving the fluctuations (i.e. part-time to full-time and wage differentials between high and low cost areas).

Irregular Income Types

- Irregular income can be considered stable and dependable when:
  - There is a consistent pattern of income and
  - There is a reasonable expectation it will continue
- For example, an applicant who has a history of working seasonally based employment (such as; a farmworker for multiple farm businesses during the production season and drawing unemployment during the off season), is considered to have stable and dependable income if that trend is likely to continue.

Irregular income is earnings that may vary on a weekly, monthly, or seasonal basis. Examples include overtime, bonus, second job, part time, and seasonal income. Irregular income can be considered stable and dependable when there is a consistent pattern of income, and it is reasonably expected to continue.

Other sources of irregular or seasonally based income may include employment such as construction, landscaping, temp agencies, day or union labor, tourism industries (i.e., ski resorts), etc.

On the next slide, we’ll review an example.

Stable and Dependable Income – Irregular Income (Seasonal)

Paystubs	One Year Prior Tax Return	Two Year Prior Tax Return
Not applicable	7 employers	10 employers
Seasonal workers need not provide paystubs for all employers	Income: $40,500 Unemployment: $5,000	Income: $34,480 Unemployment: $6,500
	Total: $45,500	Total: $40,980

In this example - an applicant has a history of agricultural work for multiple farms and processing plants during the production season and in the off season, the applicant receives unemployment. Paystubs are not obtained for each employers in this situation since the applicant may not be working at each place of employment. Instead, the historical income from prior tax returns is analyzed:

- Last year's tax return has W-2s from 7 different employers with a total income of $40,500 and total unemployment of $5,000. The annual income is $45,500.
- The year before, the applicant had W-2s from 10 different employers with a total income of $34,480 and unemployment of $6,500. The total annual income for that year is $40,980.
- The applicant's income shows an upward trend. The bank statements that were obtained indicate deposits from their current employer or employers. The applicant's income reflects a pattern of working seasonal income that has been consistent; therefore, applicant demonstrates that they have a stable and dependable income history; which can be used for repayment income.

The income analysis includes determining if the upward trend of increasing income will continue or if an average of the past two years of historical income should be used. You may need to have a conversation with the applicant and ask if they've recently experienced an hourly pay raise/salary increase, how many employers have they worked for year to date, etc. You will also need to consider the time of year you are reviewing the application vs their seasonal employment cycle. For instance- an applicant who is applying in November will be able to provide more detailed answers to the questions than an application in January.

The bottom line is that seasonal and irregular income can and should be considered and used for repayment income when the history shows stability. If unemployment is associated with seasonal layoffs, the applicant is not required to provide a letter of explanation for gaps in employment.

Income Sources Included in Repayment Income Only

- Housing assistance payments (a.k.a. Section 8)
- Adoption assistance payments in excess of $480 per adopted child
- Student financial assistance
  - Paid directly to the educational institution
  - Include only funds provided for living expenses
- Supplemental Nutrition Assistance Program (SNAP) benefits

There are some income sources which are included only in repayment income.

Handbook-1-3550, Paragraph 4.3 (B) provides the list of income sources which can be considered as repayment only income.

Some, but not all of these sources include:

- Housing assistance payments – which are also known as Housing Choice Vouchers or Section 8 assistance.
- Adoption assistance payments in excess of $480 per adopted child.
- The full amount of student financial assistance received by household members or paid directly to the educational institution who are parties to the note. Financial assistance **includes grants, educational entitlements, work study programs, and financial aid packages**. It does not include tuition, fees, student loans, books, equipment, materials and transportation. Any amount provided for living expenses may be counted as **repayment income.**
- Supplemental Nutrition Assistance Program (SNAP) benefits. Since SNAP payments have to be calculated for repayment income in a very specific way, let's address that next.

SNAP

SNAP benefits received by the applicant or co-applicant that do not exceed 20 percent of the applicant's total repayment income can be included in repayment income.

If the actual SNAP benefits are less than this amount, the actual benefits will be used in the calculation.

Supplemental Nutrition Assistance Program (SNAP) benefits (also referred to as food stamps) received by the applicant or co-applicant that do not exceed 20 percent of the total repayment income can be included as repayment income.

The amount to include in repayment income is determined by reviewing:
1) the "not to exceed" amount (20 percent of the applicant's total repayment income) and
2) the actual amount received

If the actual SNAP benefits are greater than the not to exceed amount, the amount included in repayment income is the calculated not to exceed amount . If the actual SNAP benefits are less than the not to exceed amount, the amount included in repayment income is the actual benefits received.

Guidance on including SNAP benefits in repayment income is in HB-1-3550, Chapter 4, 4.3 (B)(10). Please note the Worksheet for Computing Income does this calculation and evaluation of the not exceed amount for you which will be shown in a bit.

First, let's look at an example of how this is calculated.

SNAP Calculation Example

Monthly Repayment Income without SNAP =$1,500
Monthly SNAP Benefit = $400

Equalize the Repayment Income $1,500/.80 =	$1,875
Minus Repayment Income	-$1,500
Equals	**=$ 375**

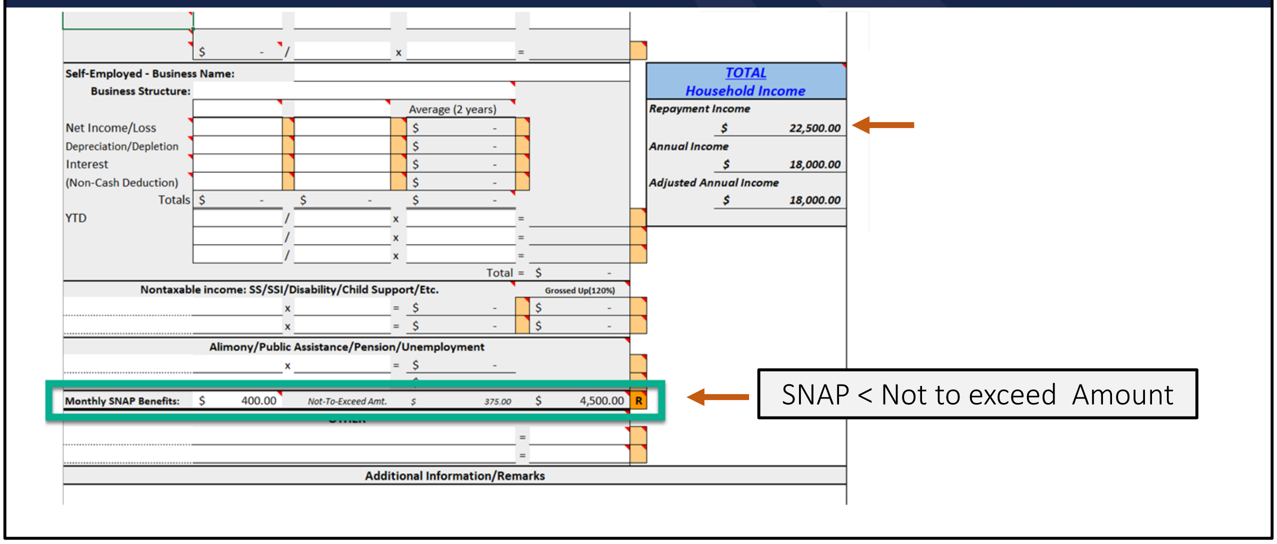
Lesser of the SNAP benefit or the formula = $ 375
Total Repayment Income (with SNAP) $1,500 + 375 = $1,875

In this example, repayment income without the SNAP benefit is $1,500 per month and the SNAP benefit is $400 per month.

To calculate the allowable repayment income with SNAP, divide the monthly repayment income of $1,500 by .80 to get $1,875 then subtract the repayment income of $1,500. The resulting $375 (not to exceed amount) is compared to the actual SNAP benefit received of $400 per month. The lesser of these two figures is $375. The allowable SNAP benefit of $375 is added to the monthly repayment income of $1,500 to reach the total repayment income of $1,875.

Let's look at this example on the calculator.

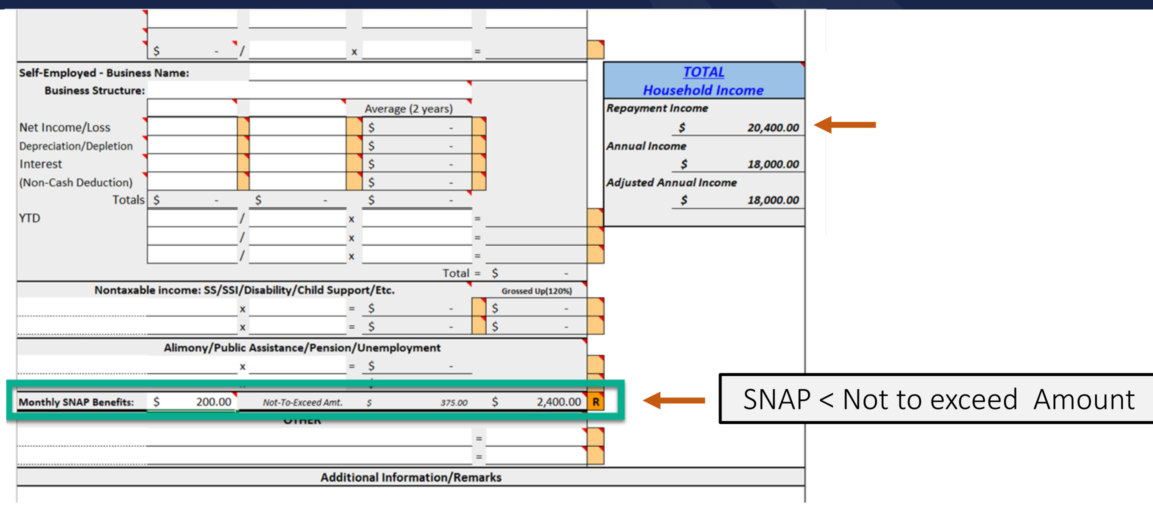
SNAP on the Calculator



SNAP benefits are entered on the WORKSHEET FOR COMPUTING INCOME calculator in the section labeled Monthly SNAP benefits located on the Applicant's income page (indicated by the green box). Please note the SNAP benefit received by any note signer is entered in this section as the other income pages do not include a SNAP Benefits section. Notice the only information you enter on the worksheet is the actual benefit received. The calculator calculates the not to exceed amount and determines which is the correct amount to use for the calculation. You do have to select the "R" for repayment in order to add the calculated total in the repayment income. Since SNAP benefits are only used for repayment income (not annual), the only option available to select is “R” for repayment.

In the example from the previous slide, the monthly repayment income without SNAP benefits was $1,500 and the Monthly SNAP benefit was $400. The $400 actual SNAP benefit is entered. The calculator calculates the not to exceed amount based on $1500 per month repayment income at $375 per month then determines the lesser of the actual amount verses the not to exceed amount, which is this case is $375. The calculator takes the $375 multiplies by 12 for the annualized amount of $4,500. By selecting the "R", the $4,500 is added to repayment income ($18,000 plus $4,500 for a total of $22,500 for total repayment income indicated by the orange arrow).

SNAP on the Calculator (Continued)



What if the actual SNAP benefit received is $200 per month? The actual SNAP benefit received is less than the not to exceed amount so the amount used in repayment income is the actual SNAP benefit received.

Here we have monthly repayment income without SNAP benefits of $1,500 and the monthly SNAP benefit of $200. The $200 actual SNAP benefit is entered. The calculator calculates the not to exceed amount of $375 based on $1500 per month repayment income, the determines the lesser of the actual amount verses the not to exceed amount, which is this case is the actual SNAP benefit received of $200. The calculator multiplies $200/month by 12 to annualized the SNAP benefit totaling $2,400. By selecting the "R", the $2,400 is added to repayment income. The $18,000 plus the $2,400 allowable SNAP benefit totaling $20,400 for total repayment income indicated by the orange arrow).

Nontaxable income – 502 Program

All nontaxable income
Social Security, child support, Section 8, etc.
EXCEPT FOR: SNAP benefits

First – Determine if stable/dependable and if likely to continue

Then - Gross up 120% for repayment income

The standard Principal, Interest, Taxes, and Insurance or PITI and Total Debt ratio limitations assume that the income is taxable. If the income is not subject to Federal taxes, the amount of continuing tax savings from the nontaxable income will be added to the applicant's repayment income. This is called "Grossing Up". In the Section 502 program, all nontaxable income will be grossed up to 120% for repayment income except for SNAP benefits. Examples of non-taxable income include Housing Choice Vouchers, Social Security, child support, or alimony payments (if the instrument was executed or modified after 12/31/18).

The basic purpose of grossing up is to put the nontaxable and taxable income on equal footing. Someone with $32,000 gross (taxable) income may get a $50,000 loan based on having $2,666 gross income per month to repay the loan, even though in reality they only have $2,000 per month net income after taxes. So, by not grossing the nontaxable income up, someone with $24,000 per year nontaxable income (who has the same net income of $2,000 per month as someone earning $32,000) is only getting a $40,000 loan.

Only nontaxable income that will be included in repayment income (meaning it was determined to be stable and dependable) can be grossed up. For example, if child support payments are not made as agreed or will end in the next two years, they are not stable income and would not be counted as repayment income in any way. However, if it was determined that the income was stable and dependable and it is being used as repayment income, then it will be grossed up.

Example - Grossing Up – 502 Program

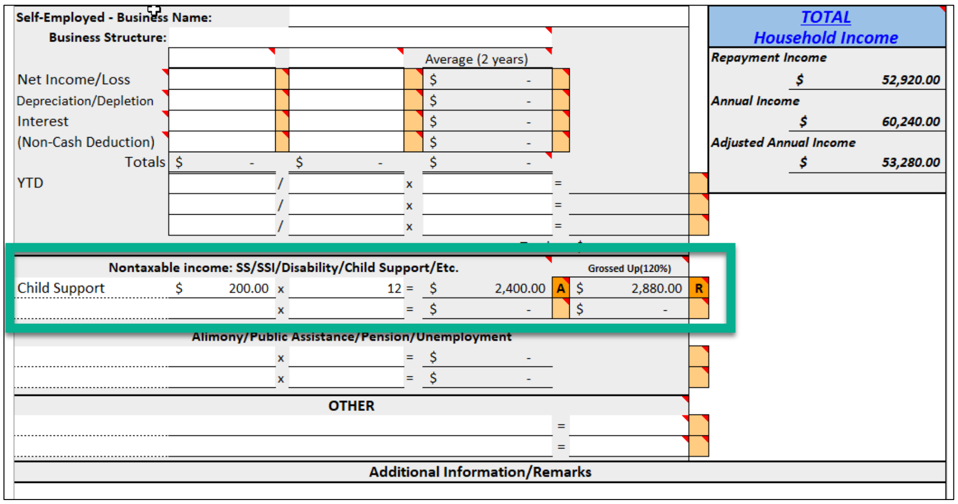
Applicant has taxable income of $21,000 and nontaxable income $4,000 (Social Security). What is the applicant's total repayment ability?

Taxable income	$21,000
Nontaxable income	
Grossed up ($4,000 X 1.2) =	$ 4,800
Total repayment income	$25,800

In this example, the applicant has $21,000 in taxable income, and $4,000 in nontaxable income. Only the nontaxable income is considered for grossing up. To calculate the amount to consider for repayment income, multiply the full amount of the nontaxable income ($4,000) times 1.2. The result is $4,800. When combined with the $21,000 in taxable income, the applicant's repayment income is now $25,800.

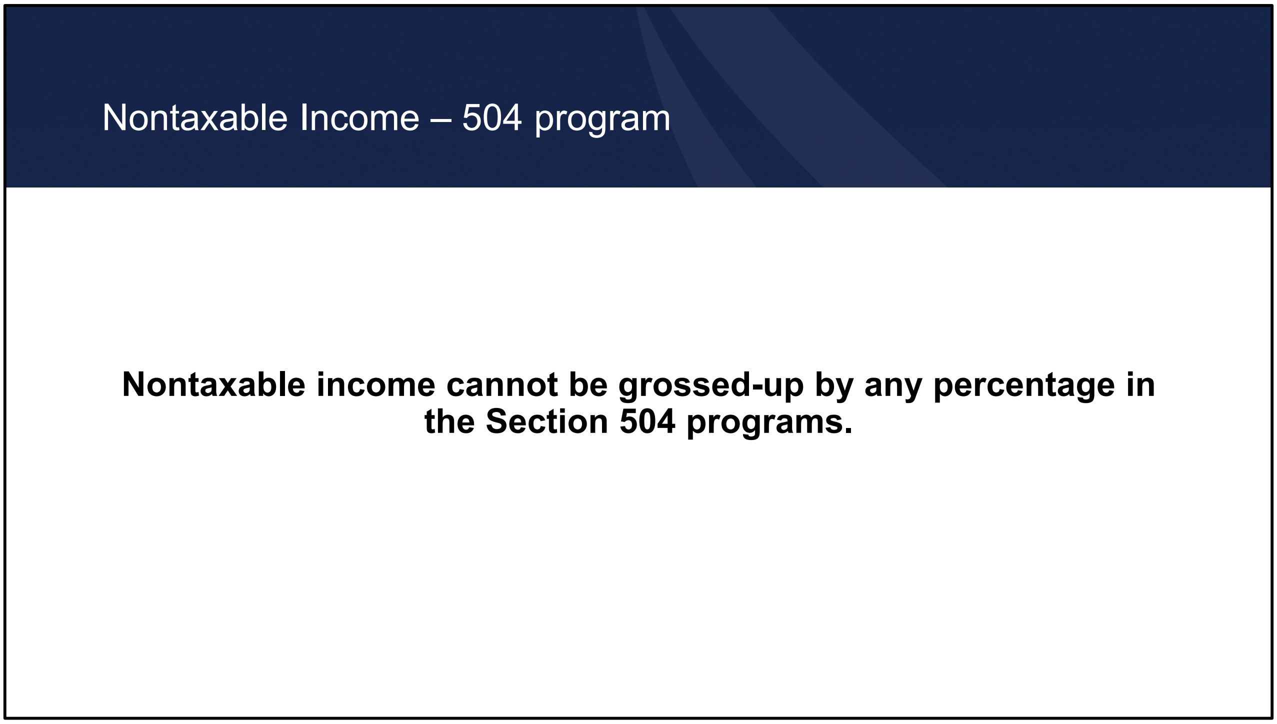
While not a significant difference, the calculation does recognize the fact that the nontaxable income has more "spending power" than a taxable income source.

Grossing Up on the Worksheet to Compute Income

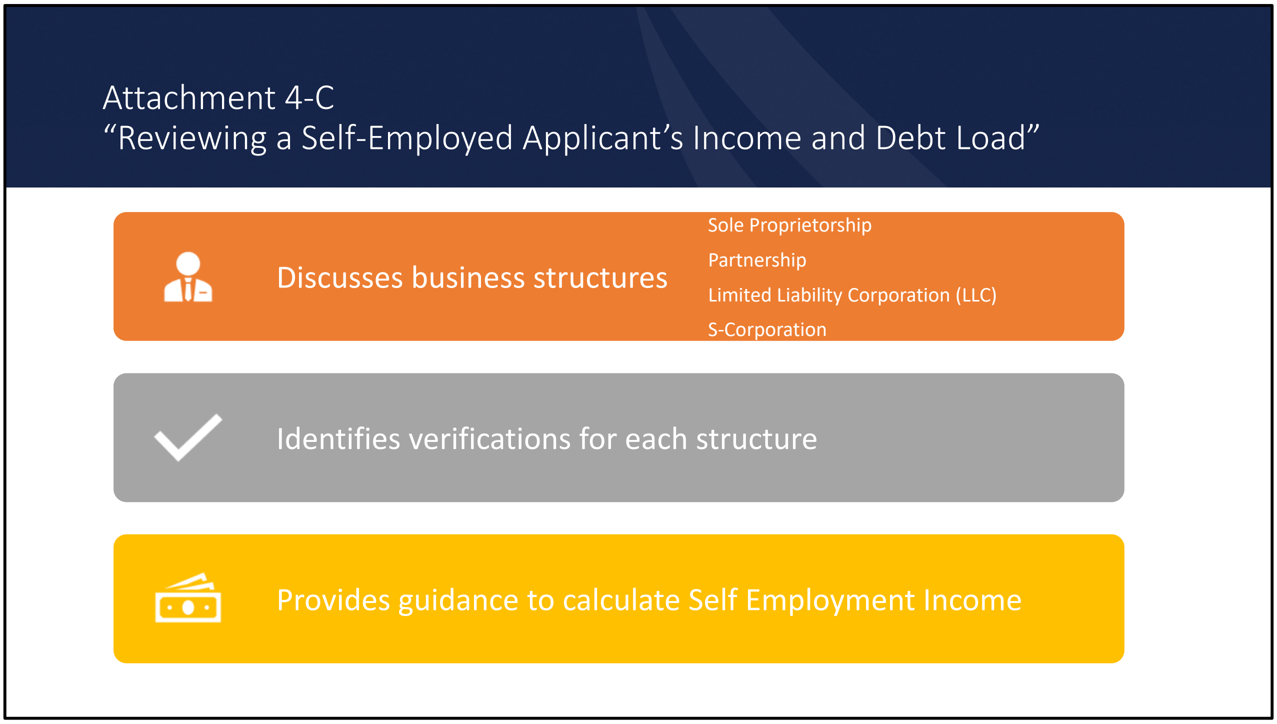


For the calculator, nontaxable income is entered on each household members income page under the Nontaxable Income section (indicated by the green box). Only the applicant and co-applicant's income pages have the grossed-up section, where the worksheet will automatically complete the 120% calculation. You need to select the appropriate select in the orange boxes indicating annual and repayment income.

In this example – child support was determined stable and dependable. The child support calculation of $2,400 is the amount included in annual income (the only option to select is "A" – Annual). The calculator grossed up the child support to $2,880. Since this child support is stable and dependable, the "R" for repayment is selected to include the $2,880 in repayment income.



Nontaxable income cannot be grossed-up by any percentage in the Section 504 programs.



HB-1-3550, Chapter 4, Attachment 4-C, Reviewing a Self-Employed Applicant’s Income and Debt Load provides information on types of business structures and how to document income for each business structure. The most common business structures are sole proprietorship, partnership, limited liability corporation (LLC) and S-corporation. It is important to understand the applicant's business structure to effectively document, calculate, and analyze annual and repayment income. An applicant that owns 25% or greater in a business is considered self-employed and a cash flow analysis of the applicant’s Federal Income Tax Returns and all supporting schedules for the individual and business is required.

If the applicant reports a significant increase or decrease in their self-employment income or does not have two full years of filed tax returns, the applicant must submit the most recent year-to-date profit and loss and balance statement. The year-to-date profit and loss statement and Verification of Business Expenses is only used to analyze the income trend of the business when calculating annual income if there is a significant increase or decrease in self-employment income. Repayment income should only be based on the reported earnings of the previous two years of filed tax returns, unless the Loan Originator documents that the applicant has two years of previous successful employment in a similar line of work. The applicant’s individual tax returns must reflect a history of receiving income at the same (or greater) level in a field that provides the same products or services as the current business.

For example, the applicant worked at a hair salon for five years prior earning $30,000, but about a year and a half ago decided to start their own business and opened a own hair salon and her Federal Income taxes reflect that net earning are approximately $25,000. Since this applicant shows successful in a similar line of work for two plus years, we could potentially consider her net business income towards repayment even though she does not have two full years of filed tax returns for the business.

Calculating Self Employment Income Using the Tax Return

Add Back into Repayment	Not Added Back
Depreciation	Employee Business Expenses
Depletion	Meals and Entertainment Exclusion
Nonrecurring Losses	Nonrecurring income (generally reported as “Other Income”)
Amortization / Casualty Loss (if non-recurring)	Nonrecurring Capital Loss
Recurring Capital Gains	

Tax forms by themselves do not wholly reflect the amount of income that may be used towards repayment income. To calculate self employment income, it is necessary to make a cash flow analysis of the applicant’s income. There are some non-cash deductions that can be added back into repayment income but are not added back to the annual income calculation. Depreciation and depletion are classic examples of non-cash deductions that reduce taxable income but increase the applicant’s income for loan qualification purposes.

The following are the most common adjustments to the net profit/income reported in the applicable tax forms/schedules:

- Adjustments that are added back to repayment income only are: Depreciation, Depletion, Non-recurring losses, Amortization/Casualty Loss (if nonrecurring), and Recurring Capital Gains.

- Adjustments that are not added back to net income are: Employee Business Expenses, Meals and Entertainment Exclusion, Nonrecurring income (generally reported as "Other Income") and Nonrecurring Capital Loss.

Business losses are considered ‘0’ in determining annual income; however, Loan Originators should analyze federal tax returns and review if there are any non-cash deductions that should be added back into repayment income, which could result in a positive repayment income figure. A business loss reported to the IRS is considered “$0” in income calculations because a negative amount cannot be used to offset other family income. A negative amount (loss) must not be used to offset other family income for repayment and/or annual income.

Income NEVER Counted
For repayment OR annual income

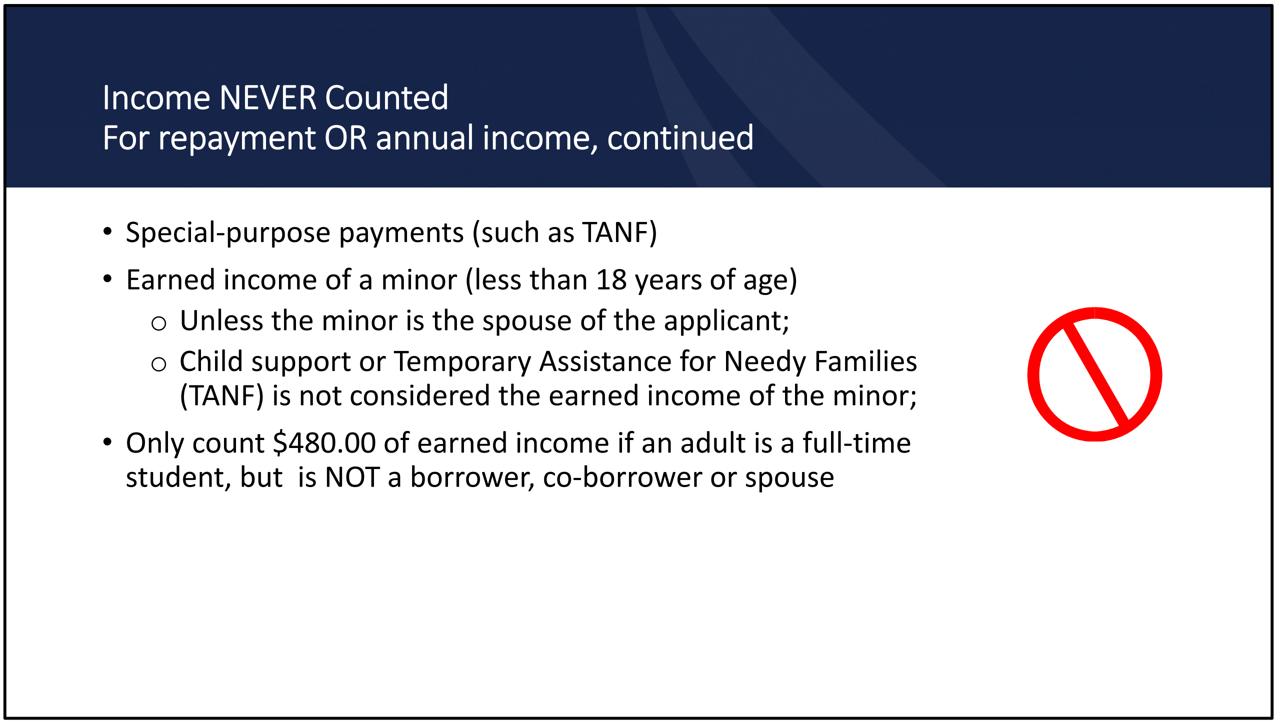
- Temporary, nonrecurring, or sporadic income
- Lump sum additions to family assets
- Income received by live-in aides:
  - Family members are not considered live-in aides unless they are being paid by a health agency and have an address

    (other than a post office box) elsewhere;
- Income received for the care of foster children or foster adults who live in the household

Some income is never considered for annual or repayment income. These are defined in HB-1-3550, Chapter 4, 4.3 C.

Some, but not all of these sources include:

- Temporary, nonrecurring, or sporadic income (including gifts)
- Lump sum additions to family assets such as inheritances, capital gains, insurance payments including health, accident, hazard, or worker' compensation policies, and settlements for personal or property losses.
- Income received by live-in aides regardless of whether the live-in aide is paid by the family or a social services program. A live-in aide is not considered a household member. A family member cannot be considered live-in aides unless they are paid by a health agency and have an address, other than a post office box, elsewhere.
- Income received by or for the care of foster children or foster adults. You do not count the income, nor do you count them as household members.



Additional income that is never counted toward repayment or annual income include:

- Special-Purpose Payments. These are payments made to the applicant's household that would be discontinued if not spent for a specific purpose. For example, a non-profit organization reimburses the family for the rental fee on medical equipment for a disabled family member.

- Earned income of a minor (less than 18 years of age), unless the minor is the spouse of the applicant or co-applicant. Child support or Temporary Assistance for Needy Families (TANF) is not considered earned income of a minor.

- For an adult household member that is a full-time student, only count $480 of earned income. This does not apply for the applicant, co-applicant or spouse of the applicant or co-applicant. The unearned income of a full-time student is fully counted in annual income (i.e.. child support, social security, etc.).

Closing Thoughts

Repayment Income calculations affect:

- Program Eligibility
- Loan Amounts
- Affordability

To recap:
Accurately identifying, verifying, projecting, and calculating income is critical. Inaccurate decisions affect the applicant's program eligibility and/or the applicant's ability to repay a loan.

Repayment income is the foundation for determining the amount of loan for which an applicant qualifies. If the repayment income calculation is over- or under-calculated, it could result in the household being considered ineligible for the program, qualify them for a loan that is too small to find adequate housing, or qualify them for a loan which they cannot afford.

Contact Us

Are you interested in learning more about the Single Family Housing Direct Programs?

Please contact your applicable RD State Office:
https://www.rd.usda.gov/contact-us/state-offices

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

In this webinar, we have examined how to determine repayment income which is the basis for other calculations related to applicant eligibility.

If you are interested in learning more about the Single Family Housing Direct Programs, contact your applicable RD State Office using the link on this slide.

Finally, please note that the contents of this training are current as of this presentation's revision date. Refer to Handbook-1-3550 for the most recent guidance on the programs.

Thank you for joining us for this webinar on determining repayment income for the Single Family Housing Direct programs.

Rural Development
U.S. DEPARTMENT OF AGRICULTURE