



Annual Income

**Single Family Housing Guaranteed
Loan Program**

Revised December 2018

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Welcome to Annual Income, presented by USDA's Single Family Housing Guaranteed Loan Program!



Training Objectives

- Where is the topic located?
 - * 7 CFR Part 3555 and HB-1-3555
- Learning Checks
- Resources

Always refer to the current version of published guidance!

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The objectives of the training include:

1. Demonstrating where the training topic is located in the program regulation, 7 CFR Part 3555 and the technical handbook, HB-1-3555.
2. Providing learning checks to help you gain a working knowledge of the topic, and
3. Links to online resources to assist in locating program information.

Guidelines can change or be altered. Every effort is made to ensure training resources are accurate. However, always refer to the most recent published version of USDA guidelines. Refer to the 7 CFR 3555 and HB-1-3555 overview to access these materials online.

The screenshot shows the USDA Rural Development website. At the top, there is a header with the USDA logo and the text "United States Department of Agriculture Rural Development". Below the header is a banner image of a rural landscape. The main content area is titled "7 CFR Part 3555" and includes a URL: <http://www.rd.usda.gov/publications/regulations-guidelines>. The website interface features a navigation menu with options like "Home", "About RD", "Programs & Services", "Browse by State", "Newsroom", "Publications", and "Contact Us". The "Publications" section is highlighted, and the "Regulations & Guidelines" page is displayed. This page contains information about federal regulations, a list of publications, and a "Rural Development" section with links to various documents.

The Regulations and Guidelines website is located from the link shown on the slide.

Under “Rural Development” there are many items available from this home page.

To access the regulation, select “Handbooks.”

7 CFR Part 3555

Handbooks

- HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook
- HB-2-3550 Direct Single Family Housing Loans and Grants - Centralized Servicing Center Handbook
- HB-1-3555 SFH Guaranteed Loan Program Technical Handbook**
- HB-1-3560 MFH Loan Origination Handbook
- HB-2-3560 MFH Asset Management Handbook
- HB-2-3560 MFH Project Servicing Handbook
- HB-1-3565 Guaranteed Rural Rental Housing Program Origination and Servicing Handbook
- Application Information Systems Support Handbook
- HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook

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- Chapter 18 - Servicing Non-Performing Loans - Accounts with Repayment Problems
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Acronyms

Glossary

- Appendix 1 - 7 CFR part 3555
- Appendix 2 - Forms and Instructions
- Appendix 3 - Review and Appeals
- Appendix 4 - Agency and Employee Addresses
- Appendix 5 - Income Limits
- Appendix 6 - Interest Assistance
- Appendix 7 - Calvrs Access Instructions
- Appendix 8 - EDI Documentation
- Appendix 9 - Penalties
- Appendix 10 - Unnumbered Letter and State Supplements

A list of all USDA Rural Development handbooks will display.
 Select HB-1-3555.
 7 CFR 3555 is Appendix 1.



7 CFR Part 3555

- 3555.152 Calculation of income and assets.
- (a) Repayment income.
 - (b) Annual income.
 - (c) Adjusted annual income.
 - (d) Net family assets.



Annual income is located in Subpart D, Section 3555.152.

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7 CFR Part 3555: 3555.152(b)

(b) Annual income. Annual income is the income of all household members, regardless of whether they will be parties to the promissory note.

- (1) Applicants must provide the income, expense and household information necessary to enable the lender to make income determinations.
- (2) Lenders must verify employment and income information provided by the applicant for all household members. Lenders will verify the income for each adult household member for the previous 2 years. Written or oral verifications provided by third-party sources or documents prepared by third-party sources are acceptable. Lenders must project the expected annual income for the next 12 months from the verified sources.
- (3) The lender remains responsible for the quality and accuracy of all information used to establish a household's eligibility.
- (4) Household income from all sources including, but not limited to, income from temporarily absent household members, allowances for tax-exempt income and net family assets as defined in paragraph (d) of this section are to be considered in the calculation of annual income.



7 CFR Part 3555, 3555.152(b) states the requirements for annual income.

1. Every adult household member must have all of their eligible income sources included in the annual income calculation. This applies regardless if they are a party to the loan or not.
2. 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 appear illogical based on the verified earnings at the same employer/position, then the lender may wish to evaluate the types of income earned per this section and recalculate.
3. Lenders are responsible for the accuracy of all information utilized for this calculation.
4. Some household income sources may be excluded from the annual income calculation.

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7 CFR Part 3555: 3555.152(b)

- (5) The following sources of income will not be considered in the calculation of annual income:
 - (i) Earned income of persons under the age of 18 unless they are an applicant or a spouse of a member of the household;
 - (ii) Payments received for the care of foster children or foster adults and incomes received by foster children or foster adults who live in the household;
 - (iii) Amounts granted for, or in reimbursement of, the cost of medical expenses;
 - (iv) Earnings of each full-time student 18 years of age or older, except the head of household or spouse, that are in excess of any amount determined pursuant to HUD definition of annual income at 24 CFR 5.609(c);
 - (v) Temporary, nonrecurring, or sporadic income (including gifts);



5. 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 that may be full time students (only count the first \$480), and temporary/sporadic income (think wedding gifts, one time bonuses, income with no recurring pattern).



7 CFR Part 3555: 3555.152(b)

- (5) The following sources of income will not be considered in the calculation of annual income:
- (vi) Lump sum additions to family assets such as inheritances; capital gains; insurance payments under health, accident, or worker's compensation policies; settlements for personal or property losses; and deferred periodic payments of supplemental social security income and Social Security benefits received in a lump sum;
 - (vii) Any earned income tax credit;
 - (viii) Adoption assistance in excess of any amount determined pursuant to HUD's definition of annual income at 24 CFR 5.609(c);
 - (ix) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling;
 - (x) Amounts paid by a State agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home;



5. 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 developmentally disabled family member living at home to offset costs of placement elsewhere.



7 CFR Part 3555: 3555.152(b)

- (5) The following sources of income will not be considered in the calculation of annual income:
 - (xi) The full amount of any student financial aid;
 - (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.



5. 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.



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HB 9: 9.3 Annual Income

- A. Income that is never counted
- B. Calculation of Income
- C. Income of Temporarily Absent Household Members
- D. Assets

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Chapter 9 of the technical handbook provides additional guidance to support 3555.152(b).



HB-1-3555: Chapter 9

ATTACHMENT 9-A

Income and Documentation Matrix		
Income guidance: 7 CFR 3555, Section 3555.152(a) and (b)		
Income Type	Annual	Repayment
Adoption Assistance or Subsidy	If the income will be received in the ensuing 12 months, include the first \$480 of adoption income or subsidy assistance for each grantee.	History: 2 years Continuance: 3 years Benefits that do not include expiration dates on the documentation will be presumed to continue.
Documentation Source Options: <ul style="list-style-type: none"> • Benefit/Award letter to document the amount and duration of payments • 2 years of Federal income tax returns or IRS tax transcripts with all schedules 		
Automobile Allowance	Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months.	History: 2 years Continuance: Income will be presumed to continue unless there is documented evidence the income will cease The amount of allowance that exceeds the expenditure may be included for repayment. If there is a monthly debt associated with the income (such as a car or equipment payment), this debt must continue to be included in the debt ratio calculation.

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To better assist with income review and documentation, the newly revised 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. For the purposes of this training we will focus on the income type portion of the matrix.



HB-1-3555: Chapter 9

ATTACHMENT 9-A

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The matrix will list income types in alphabetical order.



EVERY INCOME TYPE CANNOT BE LISTED

KEEP CALM AND KEEP IT SIMPLE

- Can the source be documented?
- Review the current earnings to determine the amount of income to be received for the ensuing 12 months
- Evidence of discontinuance within the ensuing 12 months, do not include

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USDA cannot possibly list every single potential income type that occurs in nature. Just because an income type isn't listed does not render it ineligible.

GO BACK TO THE BASICS OF THE 3555 REGULATION (and basic underwriting protocol)!

1. Can you document the income?
2. Review the current earnings. This will assist you to determine the amount of income that is anticipated to be received for the ensuing 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.
3. If there is documentation that states the income source will not continue or be received for the within the ensuing 12 months, do not include those amounts in the annual income calculation.

If you cannot respond positively to these basic questions, the income source is likely ineligible.



HB-1-3555: Attachment 9-A

ATTACHMENT 9-A

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The second column will discuss how to consider the income type for annual income purposes, which is the focus of this training.



HB-1-3555: Attachment 9-A

ATTACHMENT 9-A

Income and Documentation Matrix		
Income guidance: 7 CFR 3555, Section 3555.152(a) and (b)		
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“Documentation Source Options” will list the OPTIONS to properly document the income type. Every item listed may not be required. USDA allows multiple options to provide flexibility to lenders when documenting income sources.



**7 CFR PART 3555 / HB-1-3555
LEARNING CHECKS**



The best way to learn information is to test your knowledge! So let's get started!

Annual income

- 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.

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Annual income

ANSWER: 3555.152(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.



Annual income

Sam has inherited \$30,000 from his uncle. The inheritance must be included in the annual income.

- A. TRUE B. FALSE



Read the question on the slide and select a response.

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Annual income

ANSWER: 3555.152(b)(5)(vi), HB 9

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 one time lump sum addition to income.

This lump sum addition is similar to capital gains, worker's compensation payments, insurance payout settlements, etc., 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.



Annual income

- Applicant household includes 19 year old, full time student
- The 19 year old has 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.

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Annual income

ANSWER: 3555.152(b)(5)(i), HB 9

A. \$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



Response A

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.



Annual income

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.

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Annual income

ANSWER: 3555.152(5)(x), 9

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.



Annual income

The annual income calculation is based on ____ earnings.

- A. Net B. Gross



Read the question on the slide and select a response.

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Annual income

ANSWER: 3555.152(b), HB 9

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.



Response B

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.

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Annual income

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.

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Annual income

ANSWER: 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.

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Annual income

- Applicant 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.

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Annual income

ANSWER: 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.

Annual income

- Applicant receives social security benefits for their minor child
- The social security benefit must be included in the annual income

A. TRUE B. FALSE



Read the question on the slide and select a response.

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Annual income

ANSWER: 3555.152(b)(4), HB 9

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.



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.



Annual income

ANSWER: 3555.152(b), HB 9

B. \$125,000

- Business losses are treated as zero for annual income



Response B

Business losses are treated as zero in the annual income calculation. They are not deducted from annual income.



Annual income

- Missy is a Pampered Chef sales professional, annual income is \$85,000
- Tax returns reflect eligible deductions for mortgage interest/taxes/insurance of \$13,500
- Missy'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.

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Annual income

ANSWER: 3555.152(b), HB 9

A. \$85,000

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



Response A

Home based operation related expenses are not eligible deductions that may be utilized to reduce an applicant's annual income calculation.

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Annual income

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.

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Annual income

ANSWER: 3555.152(b)(2), HB 9

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-applicant's as well.



Annual income

- Jennifer was awarded in court \$600 monthly child support in January 2014
- Payments were received for 6 months and ceased after June 2014
- The child support must be counted in annual income

A. TRUE B. FALSE



Read the question on the slide and select a response.

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Annual income

ANSWER: 3555.152(b)(2), HB 9

B. FALSE

- Documentation of non-payment and legal actions to collect= the amount is not included in annual income



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.



Annual income

- Checking: \$2,500
- What amount of income must be added to annual income:

A. \$15.50

B. \$0



Read the question on the slide and select a response.

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Annual income

ANSWER: 3555.152(b)(4), HB 9

B. \$0

- Assets are below \$50,000
- Refer to 3555.152(d) and Asset training module



Response B

The assets are below \$5,000, therefore no calculation is required.

Additional information regarding the calculation of net family assets as part of the annual income calculation may be explored further in the Asset training module.

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Annual 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.

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Annual income

ANSWER: 3555.152(b)(4), HB 9

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**



Response A

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.



Annual income

- Karen has worked at TechGen for 4 years
- Recently she received a \$1,500 bonus
- No history of bonus in previous years, VOE states no continuance
- Bonus must be included in annual income

A. TRUE B. FALSE



Read the question on the slide and select a response.

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Annual income

ANSWER: 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 with the employer. It is clearly not a recurring source of income.

The VOE provided by the employer also states there will be continuance of bonuses.

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Annual 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



Read the question on the slide and select a response.

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Annual income

ANSWER: 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.

Therefore the other soon to be ex-spouse's income may be excluded.



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.

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Annual income

ANSWER: 3555.152(b)(4), HB 9

A. TRUE

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



True

They may be separated due to military deployment but they are still married.

Where Carol lives, Pat will also consider this as his primary residence, and he continues to be a member of the household.

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Annual income

- 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 is no evidence of a separate residence at this time.
- Jody's income can be excluded from the annual income

A. TRUE B. FALSE



Read the question on the slide and select a response.

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Annual income

ANSWER: 3555.152(b)(4), HB 9

B. FALSE

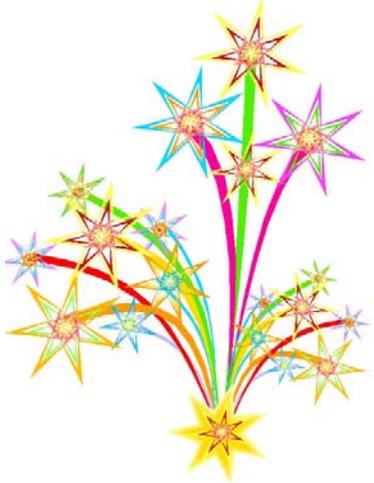
- Steve and Jody are currently living together and share a lease and bank account
- There is no evidence they have been living apart for 3 months



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.

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WAY TO GO!



Way to go! You have completed the learning checks!

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Regulations

<http://www.rd.usda.gov/publications/regulations-guidelines>

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Rural Development

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Regulations & Guidelines

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

As a service to our customers, we post Rural Development's Instructions, Administrative Notices, and forms. The instructions are available in three file formats: Adobe Acrobat (PDF), Microsoft Word 6.0 (.doc) and Text (.txt). To the extent possible, all documents have been made available in either Adobe Acrobat Ver 5.0 and higher, or Text and are 508 compliant. If you should have accessibility issues and need a hard copy, please send an e-mail to comments@wdc.usda.gov.

If you are having problems with this page, need a hard copy of any of the documents due to accessibility issues or would like to be added to the Regulations Update distribution list (available for Rural Development employees only with a valid Rural Development e-mail address), please e-mail comments@wdc.usda.gov.

Rural Development

- Administrative Notices
- Instructions
- Forms
- Spanish Forms, Form Letters and Guide Letters
- Handbooks
- Procedures Notices
- Significant Guidance Documents
- Unnumbered Letters
- Federal Register Publications

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Don't forget the Regulations and Guidelines website is a treasure trove of USDA guideline knowledge.

The screenshot shows a web page for signing up for GovDelivery messages. At the top left, there is a header with the USDA logo (United States Department of Agriculture) and the text "Rural Development" above a scenic image of a farm. Below this, the main heading is "GovDelivery Sign up" in blue, followed by a URL: https://public.govdelivery.com/accounts/USDARD/subscriber/new?qsp=USDARD_25. A smaller version of the USDA Rural Development header is positioned above the "GovDelivery" logo. The main content area is titled "Email Updates" and contains the text: "To sign up for updates or to access your subscriber preferences, please enter your contact information below." Below this text is a form field labeled "*Email Address" with a white input box. At the bottom of the form are two buttons: "Submit" and "Cancel". In the bottom right corner of the page, there is a small speaker icon with the number "55" next to it.

Please sign up for GovDelivery messages. USDA sends out origination (including GUS) and servicing messages to alert lenders of new publications, clarifications, and additional program updates.

USDA United States Department of Agriculture
Rural Development



Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program!



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Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program! We appreciate the opportunity to help you serve more rural homebuyers!


Rural Development



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