

Annual Income – Removing the Mystery – Question and Answer from Live the Training

- 1) Is there a training or a Step-by-Step Guide to entering a loan available for people new to GUS?

Yes! Rural Development has great resources and training options available at the [LINC Training and Resource](#) library page. The library of resources groups the information in various categories. The “Guaranteed Underwriting System” tab/category will take you to a document library where you can find the “GUS Lender User Guide” and a “GUS File Import Guide” resources.

- 2) Can you provide the website for the USDA and where we can find the guidelines for the income limit?

This is the link to check borrower and property eligibility:
<https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do> and here is a link to the actual income limits document: <https://www.rd.usda.gov/files/RD-GRHLimitMap.pdf>.

- 3) Do all letters of explanations regarding deposits need to be signed and dated by the borrower?

Rural Development does not require that the borrower sign the letter of explanation. However, the lender is responsible for the integrity and accuracy of the information in the mortgage underwriting file regardless of the documentation used to support their underwriting analysis.

- 4) How can we be sure about income calculation on a complicated borrower and be confident to issue a pre-approval letter?

Rural Development relies on the lenders underwriting staff to determine the income calculation formula, Rural Development staff are required to recalculate income calculations submitted, but do not make underwriting decisions. If you have a specific question or a scenario, you can email the General Delivery mailbox and they might be able to provide some guidance, that email address is: sfhgld.program@usda.gov. The lender’s file should document their income calculations and the file evidence should support those calculations.

- 5) RD Form 3555-21 was updated removing the income calculations, is this information still required to be provided? If so, what can a lender use to provide it instead of the 3 income calculation pages that were removed?

The lender is required to document how they calculated all income, this can be done on the Attachment 9-B, the 1008, or a Lender Calculation Sheet. Income calculations are not required to be submitted to the Agency for GUS submissions receiving a recommendation of "Accept". "Accept with full documentation", "Refer", and "Refer with Caution" files would still require an income calculation to be submitted to the Agency.

- 6) What is the revision date of the 3555-21 form that should be used by Lenders?

The most recent RD Form 3555-21, with a Revision date of 03/21, can be pulled on the [LINC Training and Resource Library](#) page or under the "Request Forms" tab in GUS.

- 7) Will you provide links to all the things you mentioned like the forms and handbook?

The Link to the Handbook 1-3555 can be located under the [Loan Origination Tab](#) on the [LINC Training and Resource Library](#) page as well as the forms discussed in this presentation.

- 8) What is the Attachment 9A and can we get a copy of it?

The Attachment 9A is the Income and Documentation Matrix and it breaks down different income types, then suggests how to calculate and document them for both Annual and Repayment income. This Matrix is located in Chapter 9 of the Handbook or the [Loan Origination Tab](#) of the [LINC Training and Resource Library](#) page.

- 9) Is the Income calculation sheet still required or does it just need to be in the lender loan file?

You can utilize either the RD Attachment 9B, GRH Income Worksheet, a lender income calculation sheet or show your calculations on the 1008. Income calculations are required to be shown on all files to show how the Annual Household, Adjusted Annual Household and Repayment Income were calculated. If the file a GUS Accept you will retain your income calculation documentation in the lender loan file, otherwise, you will need to submit your Income Calculation with the file, including GUS "Accept Full Documentation" Review Files.

- 10) Why does the income limit matter on a USDA to USDA streamline refinance?

The Housing Act of 1949 provides the authority for our programs and gives us the definition of an eligible borrower: "ELIGIBLE BORROWERS". —Loans guaranteed

pursuant to this subsection shall be made only to borrowers who are low- or moderate-income families or persons, whose incomes do not exceed 115 percent of the median income of the area, as determined by the Secretary.”

11) When is median income calculated each year?

Usually, it occurs around April or May. A GovDelivery notice will be distributed when the new figures have been released.

12) If a borrower has OT and Bonus income in previous years that would push them over the income limits, but the employer has documented it will no longer continue or the borrower has since changed jobs and no longer receives OT and Bonus income, will they still be considered over the income limits and not qualify for the loan?

Rural Development relies on the lenders underwriting staff to calculate the income; however, the Annual Household Income can be calculated using an average, or the ensuing 12 month forecasted amount based on information collected, whichever most accurately reflects and documents what the income may be. The agency does not require that averaging is utilized as the calculation for determining income. Any of the acceptable methods of income calculation can be utilized (i.e. salary /12, hourly rate x hours, etc.), and this is determined by the lender.

13) If a person’s 2-year average is less than household income limit, but current income is higher than annual household limit, which do we use?

If their current income represents what the income will be over the upcoming 12 months, you should utilize the current income, unless you can document it will not continue. Rural Development relies on the lenders underwriting staff to calculate the income, however OPD staff are required to recalculate the income if its within 10% of the income limits.

14) If there is income from a person living in the home but not on the application, where do we list that income on the 1003?

You list it on either the attachment 9B-income calculation sheet, 1008 (comment section), or a lenders income calculation, along with the eligibility tab in GUS.

15) Do I include SSI or Disability income for a disabled child over 18 in the Annual Household Income Calculation?

Yes, you will include all sources of income for all adult members of the household.

16) Do you need to still have 30 consecutive days of paystubs?

There are two documentation and verification options for a Non-Self-Employed applicant:

Full Documentation

W-2 forms for the most recent two years;
Paycheck subs for the most recent four weeks of earnings, including year to date earnings; and
Verbal Verification of Employment within 10 days of closing.

OR

Streamlined Documentation

Written Verification of Employment;
Recent Paycheck including year to date earnings; and
Verbal Verification of Employment within 10 days of closing.

Rural Development requires that if you have a written VOE you are only required to collect 1 recent paystub with Year-to-Date figures and a verbal VOE must be obtain within 10 business days of closing. If you cannot obtain a written VOE you will need to collect paystubs coving the most recent four weeks of earnings, W-2's for the most recent two tax years and a verbal VOE must be obtained within 10 business days of closing.

17) For W2 employee, are one- or two-years transcripts required?

Two years of IRS transcripts are required for all adult household members in addition to the documentation option selected by the lender. 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.

18) Are tax returns required on borrowers who are not self-employed?

For Borrowers that are not Self Employed the following are required:
Documentation Source Options:

- Paystub(s)/Earning statement(s), most recent four weeks of earnings, with current year to date earnings.
- W-2's
- Written Verification of Employment (VOE) or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

IRS transcripts are required for all required household members in addition to the documentation option selected by the lender. 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.

19) If there is short term income such as a sale of a business or asset with a 18–24-month term that puts borrower over income limit for that time, will this be counted against borrower's qualifying income?

Temporary or sporadic income such as wedding gifts, one-time bonuses, or income without a reoccurring pattern. lump sum payments may be omitted from the annual income calculation.

20) Do tax refunds count as income?

Temporary or sporadic income such as wedding gifts, one-time bonuses, or income without a reoccurring pattern. lump sum payments may be omitted from the annual income calculation.

21) Can you better define sporadic income?

Income without a reoccurring pattern, lump sum payments.

22) Do we still need a paystub if we have a Work Number for the borrower?

Yes, paystubs are still required. Please refer to question 16 in this document for documentation options/requirements. Lenders must compare a recent paystub that includes YTD earnings and employment information to the VOE to confirm these two documents reasonably agree.

23) Please clarify the calculation of per diem, is Per Diem only included if it is taxable income? Does this include Mileage and Employer HSA Contributions?

Correct, employer provided fringe benefit packages are not included in the income calculation unless they are reported as taxable income. If Mileage and employer HSA Contributions are reported as Non-Taxable Income, then they are not included in the calculation for Annual and Adjusted Annual Household Income.

24) Do we still have to have proof that income will continue for three years? Example (child support)

For repayment income you must establish the likelihood of its continuance for at least 3 years into the mortgage.

25) What is needed to verify income for non-purchasing household members? Is it the same as the borrower/co-borrower?

Lenders must verify the income for each applicant and adult household member (excluding eligible full-time students age 18 and above) using one of the verification methods identified in Chapter 9. The same verification requirements apply for non-applicant household members as applicants. Refer to Attachment 9-A for documentation and verification options that are acceptable to support income types.

26) If a Borrower or Co-borrower have numerous job changes in the past 24 months. Do we need to obtain VOE's for all employment or will W2's be all we need?

Lenders will need to meet verification requirements for all employers, per the Attachment 9-A.

27) For applicants or household members with multiple jobs in the past 2-year period, is a verbal VOE required to verify that this employment has been terminated?

Lenders will need to meet verification requirements for all employers, per the Attachment 9-A.

28) If a borrower has income and the new spouse has child support only, is the child support considered income?

Yes, the Child Support will be included in the Annual Household Income calculation.

29) If we notice consistent Zelle/Venmo payments on the Borrower Bank Statements. How would you recommend we document that "potential" additional income? How much investigation must go into these to determine their source and consideration as potential income?

Rural Development relies on the lenders underwriting staff to determine the income calculation formula, these must be fully investigated and documented through letters of explanation or documents tied to the deposits, such as rental agreements, payment agreements, employment contracts etc. If they are sporadic payments, they do not need to be included in the annual income calculation, if they are regular payments, they will need to be documented and included in the annual income calculation. If these can be attributed to a side business or self-employment type situation these income streams must be included in the annual income calculations and be documented per the handbook guidance.

30) If bank statements show unidentified deposits outside of payroll and the borrower states they sold misc. items, would a letter of explanation from the borrower be sufficient?

Rural Development relies on the lenders underwriting staff to determine the income calculation formula, if the deposits are sporadic a letter of explanation from the borrower may be sufficient.

31) Would it be acceptable to include un-explained deposits as income in the annual household amount rather than document them as worst-case scenario?

Rural Development relies on the lenders underwriting staff to determine the income calculation formula, and it is the lenders responsibility to investigate for the possibility of a loan that must be repaid or unreported income source.

32) If the borrower qualifies for repayment without the overtime do we still include it in that calculation for Annual Income qualification for the program but leaving it out of the Repayment income calculation?

Rural Development relies on the lenders underwriting staff to determine the income calculation formula, but if a borrower qualifies for repayment without the overtime, you are not required to include it in the repayment income calculation. You are required to include in the Annual Income Calculation if the overtime will continue over the ensuing 12 months.

33) For calculating overtime do you use a 2 year average?

For calculation of Annual Household Income, you will forecast what the overtime will be over the ensuing 12 months. This can be done by using an average or pulling data from the VOE. We rely on the lenders underwriting staff to determine the income calculation formula. The agency does not require that averaging is utilized as the calculation for determining income. Any of the acceptable methods of income calculation can be utilized (i.e., salary /12, hourly rate x hours, etc.), and this is determined by the lender.

34) Is bonus only counted when received for 2 years?

For annual household income, if there is a history of receiving bonus income, you will need to include it in your calculations, regardless of the historical duration, unless you can document with certainty it will no longer continue.

35) If we average the total OT earned, we would be calculating a much larger amount than they would earn.

Rural Development does not require that averaging is utilized as the calculation for determining income. Any of the acceptable methods of income calculation can be utilized

36) What if the 1st paystub average is over the income limit but the latest paystub is not?

Rural Development does not require that averaging is utilized as the calculation for determining income. Any of the acceptable methods of income calculation can be utilized.

37) If you have a household member that is a non-citizen and the income could not be used to qualify for the application, do you still use that in the household income?

Yes, you will include all sources of income for all adult members of the household.

38) If a client's application is in process and the client reports that they have taken a new part time job, when do you consider the new income? The client gave you a letter from human resources department of the new job and submitted it with her application.

You consider it for the annual household income calculation immediately. You will need to calculate an estimate of what the income will be over the upcoming 12 months based on any paystubs and Verification of Employment documents.

Assets:

39) Are we required to collect bank statements for all adult household adult member including those not party to the loan? Does this include adults over 18 but enrolled in school?

Household assets must be reviewed for evidence of additional income and to determine if interest from assets is required to be added to the Annual Income calculation (must include income from assets when household assets exceed \$50K). Bank statements are therefore required for all adult household members, with the exception of full-time students unless they are the applicant or spouse of the applicant, since income from fulltime students in excess of \$480 is not included in the Annual Income calculation.

40) We obtain asset statements, but do we have to put the assets in GUS?

You are not required to put the assets into GUS.

41) Is a VOD required on all assets?

The following is required to verify Checking, Money Market Accounts, and Savings:

- Two months of recent bank statements, or
- Verification of Deposit (VOD) and a recent bank statement, or
- Alternate evidence (example: statement print outs stamped by lender) to support account activity and monthly balances

42) Is a two-month VOA acceptable in lieu of bank statements since they include all transactions?

Yes, a VOA including deposit and withdrawals is acceptable.

43) Can 401K funds be used for reserves in GUS?

Yes, 60 percent of the vested amount available to the applicant may be used as reserves.

44) Are IRAs or 401k exempt from the asset calculation and earning?

Yes, retirement accounts are exempt from income from assets calculation requirements, unless funds are being regularly disbursed from the retirement account.

Retirement accounts do not count for income from interest calculations, and they are not included in the conventional credit test

45) To calculate assets do you average the balance over 2 months?

Lenders must use the lesser of the current balance or previous months ending balance.

46) If there is Interest and Dividends reflected on Tax returns but they have not been provided to the lender as current assets, should we ask to verify if those assets are opened or closed?

Yes, if they are open you will need to include the Interest and Dividends in the Annual Household Income Calculation. If they are closed, you will want to look for previous earnings and document they will no longer continue.

47) Do you deduct funds for closing before determining if they have \$50,000 in assets?

Yes, you will deduct funds needed for closing before determining if they have \$50,000 in liquid assets and before calculating potential income from assets with the passport savings rate, if interest is not reported.

48) If a Household has more than \$50K in assets, are they still eligible for a USDA Loan?

Yes, if \$50,000 belongs only to the applicant/co-applicant and is not equal to 20% down plus closing costs. If the total equals 20% plus closing costs, you would refer to the other guidance surrounding qualification for conventional credit, they still may qualify, if they don't meet the qualifications for conventional credit. Assets from other members of the household do not count toward the conventional credit test but must be collected to calculate annual household income.

49) Should we be asking for *All* non-retirement assets of all household members?

Yes - since ALL Household Income and assets must be verified.

50) It was just stated that all assets must be documented, regardless of cash required to close. Must all of these assets be re-verified for Quality Control purposes or just the cash to close plus reserves listed by GUS?

The Underwriter must analyze the assets for evidence of possible loan funds and/or unreported income. Cash to close is the responsibility of the lender.

51) For asset accounts if borrower does not have a standard asset account. I am seeing more using Cash App and Venmo. Do you accept these?

Yes-These assets would need to meet the documentation requirements for depository accounts.

Business for Self:

52) When qualifying a Self-Employed borrower for household income, do we use Profit and Loss statements when income is trending upward or do we only use tax returns?

Underwriters will analyze the most recent 2 years of tax returns and the profit and loss to calculate the income expected to be received in the ensuing 12 months weighted analysis may be appropriate if the income is trending up or down. Lenders may utilize Fannie Mae Form 1084 "Cash Flow Analysis," Fannie Mae 1088 "Comparative Income Analysis," or a comparable self-employment evaluation form(s), and Attachment 9-E to assist in the calculation of self-employment income.

53) 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?

Yes, 2 years of tax returns and P&L to cover from last tax return to present.

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. Adverse changes to the business may render the applicant ineligible.

54) Can self-employed individuals qualify for a USDA loan?

Yes, if they meet the Eligibility requirements.

55) When a borrower is self-employed, are we required to add back depreciation to Annual Household Income calculation.

No, you may add back depletion and depreciation for repayment, but you are not required to add it back for Annual income calculations.

56) For a self-employed borrower that has multiple business deductions what income do we use in the max qualifying household income? The gross of adjusted gross income after deductions?

Adjusted gross. Lenders may refer to Fannie Mae Form1084 or comparable self-employed analysis form for assistance.

57) If a business owner uses their personal account for business, do we include that in the assets?

The lender must analyze the asset to determine if it meets the conventional credit test.

58) Do we need to include business assets in total family assets of \$50,000 for income calculation?

Business accounts are not included in the calculation of borrower assets.

59) Can business assets be used for funds required at closing?

Business Accounts are allowed for Reserves and Funds to close- lender should keep in mind to evaluate how using these funds for personal use would change income arrived at for self-employment.

60) If a business has any loss, zero income is included?

Correct, if a business has a loss, you include zero income in Annual Income, and do not subtract a loss.

61) If a borrower began self-employment in June 2021 - previous they were W2 - is there any way to calc income from a P&L since tax returns won't be available (Streamline Assist Refinance)

Since 2021 taxes are not yet due, we would not require them to be filed. However, you may determine that to accurately calculate the income, you will need the 2021 taxes completed prior to your approval. Ultimately that will be your determination to make and will want to document your permanent loan file accordingly.

62) What if we do not used the Self- employed income for qualifying do we need two years tax return and IRS transcript and YTD P & L Can the P&L be prepared by the borrower?

Yes, the income must be calculated for the Annual income. P&Ls are not required to be audited and may be prepared by the borrower.

63) When you have a self-employed borrower, are you basing annualized income on their two-year average or the amount that has been earned YTD?

Rural Development does not require that averaging is utilized as the calculation for determining income. Any of the acceptable methods of income calculation can be utilized.

64) Does the P&L statement need to be signed and dated by the borrower?

The lender is responsible for the integrity of the data used in the underwriting analysis.

Unemployed:

65) Is it acceptable for a household member to resign or quit a job after the loan application date?

Only if they were planning on doing that outside of applying for this income-related loan program. Then, Household & Repayment income must be recalculated. It is not acceptable to quit their job temporarily just to qualify under the income limits.

66) Do we count unemployment compensation?

Yes, you will include any amounts that will be received in the ensuing 12 months in the Annual Income calculation. An adult member that is currently unemployed but is seeking new employment must have their previous earnings included in annual income.

67) Would you need to verify & include the income if the household member was collecting unemployment from loss of job?

Yes, you will collect evidence of compensation.

68) Do we need to obtain verification in a form of a letter from borrower stating they will not be seeking employment if unemployed?

If any adult member of the household is currently unemployed but seeking new employment, you must include their previous earnings in the annual household income. If they are not seeking reemployment due to things such as a tendered resignation, an official termination from a previous employer, or just a signed statement from the adult household member that they do not plan to pursue new employment, then the previous earnings are NOT required to be included in the annual household income.

Living Apart:

69) Can you elaborate the separation and divorce? If a borrower is married, but the couple is legally separated and not living together for more than 3 months, do you still need to use the soon to be ex-spouses' income for eligibility?

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.

Dependents/Students:

70) If an adult receives SSI for a minor child, is this included in household income?

Yes.

71) What if someone under 18 has a part time job in high school?

The income is not included for anyone under the age of 18, only the income of adults is counted in the Annual income.

72) What do you use to verify the kids (dependents) ages?

Rural Development relies on the lenders underwriting staff, Rural Development does not require verification of dependent ages. The borrower and lender will document

ages on the 1003 and Income Calculation sheet, listing all household members and their ages.

73) What is considered a full-time student?

A person who carries at least the minimum number of credit hours considered to be full-time by the college or vocational school in which the person is enrolled.

74) Does USDA require transcripts to prove full time student?

Supporting documents should be retained in the lender's permanent loan file.

75) For Sam (the full-time college student) would we still obtain all income documents, even though we know we will only count the first \$480?

No, Income documentation or IRS transcripts are not required for full time students that are not the borrower or spouse of the borrower.

76) What if they have a child over 18 who isn't working and is not a student?

If they have no income then nothing is counted, they are only listed as a member of the household.

77) Would foster care income be included?

No Foster care income is included in either Annual Household income or Repayment income. A household member is defined as all persons routinely living in the dwelling as a principal residence, except for live in aides, foster children, and foster adults (3555.10). If a member of the household that will make the dwelling their principal residence is temporarily absent, their income must be included.

78) Is adoption assistance included in annual Household income?

If the income will be received in the ensuing 12 months, include the first \$480 of adoption income or subsidy assistance for each grantee.

79) What about a caregiver stipend that a borrower receives and its nontaxable for a parent living in the home?

Income for foster care of children's or adults is considered temporary in nature, therefore not included for Household or Repayment income. If there is a history of income being received as a caregiver, that would be included in the Annual Household Income if it will continue for 12 months following the loan closing.

80) Foster care income for kids & adults cannot be included in repayment nor annual income, correct? We see many times when a borrower is receiving caregiver income that is foster or difficulty of care income for adults & is claimed as SE income - how is this handled?

Income for foster care of children's or adults is considered temporary in nature, therefore not included for Household or Repayment income. If there is a history of Self Employment income being received as a caregiver, that would be included in the Annual Household Income if it will continue for 12 months following the loan closing.

81) Does child support count as annual household income?

Child support is counted in the Annual income unless there is documentation to support it is not received.

82) What if child support income is documented to end within the next 12 months?

Income sources, including child support, 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. 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.

83) Are these child and elderly deductions annually or monthly when calculating the adjusted annual household income?

It's a one-time deduction from the Annual Household Income used to calculate the Adjusted Annual Household Income.

84) How is "part of the year" defined. Is it as little as one day for example?

Any part of the year and whatever income is attributable to the time they will be there (there should be documentation to show when they would no longer be residing in the subject property in order to exclude any additional income going forward).

85) What amount is deducted from income on non-working minors?

The dependent deduction is \$480 per eligible dependent at the time of the loan application, this included applicants with shared custody of their children.

86) Would parents/grandparents' income/assets count if they are not going to live in the subject property?

No, only the borrower/Co-Borrower assets count towards Conventional Credit test and only assets for Household Members to calculate potential income. Assets for anyone not residing at the residence do not count towards either.

87) Can you use preschool or private school tuition fees as a deductions?

No, Child support payments and school tuition (K – 12) are not eligible deductions

88) What if they recently started childcare for the last 3 months?

If you have documented payments, deposits, and registration fees to make a determination that this will continue you may use the deduction.

89) The Attachment 9A does not specify a length of time they need to have for a history? I am unsure how to answer this one?

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.

Help Resources

USDA ITS Service Desk Support Center

For e-Authentication assistance

Email: eAuthHelpDesk@ftc.usda.gov

Phone: 800-457-3642, option 1 (USDA e-Authentication Issues)

Rural Development Help Desk

For GUS system, outage or functionality assistance

Email: RD.HD@STL.USDA.GOV

Phone: 800-457-3642, option 2 (USDA Applications); then option 2 (Rural Development)