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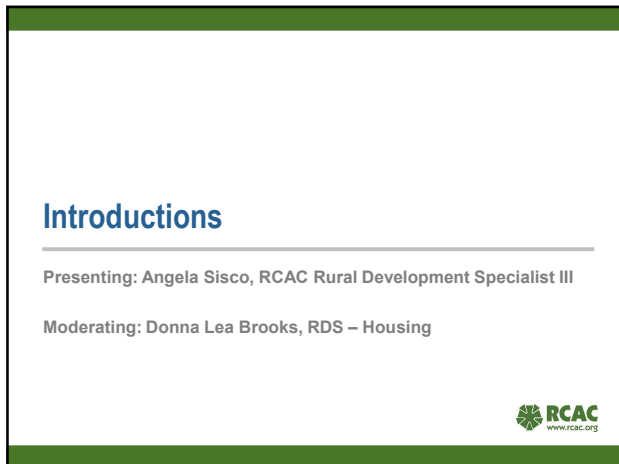
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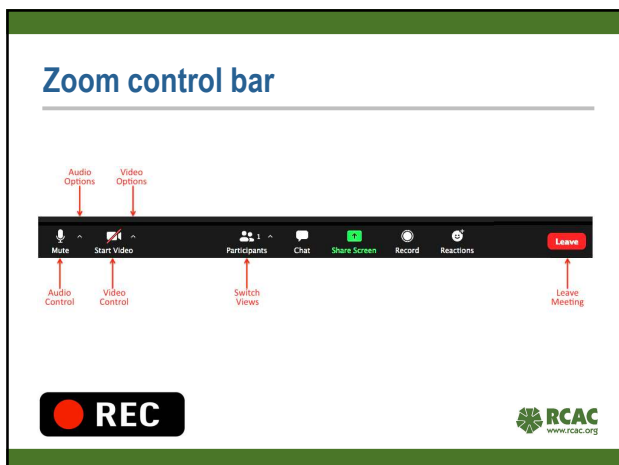
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## Webinar Etiquette

- ✓ Be present and engaged
- ✓ Use chat for questions
- ✓ Have fun learning and sharing!



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## Handouts




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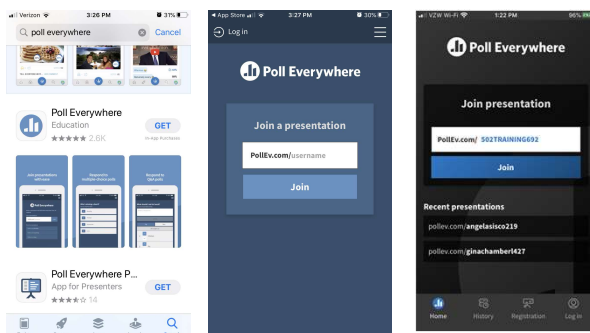
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## Join Poll Everywhere using the App



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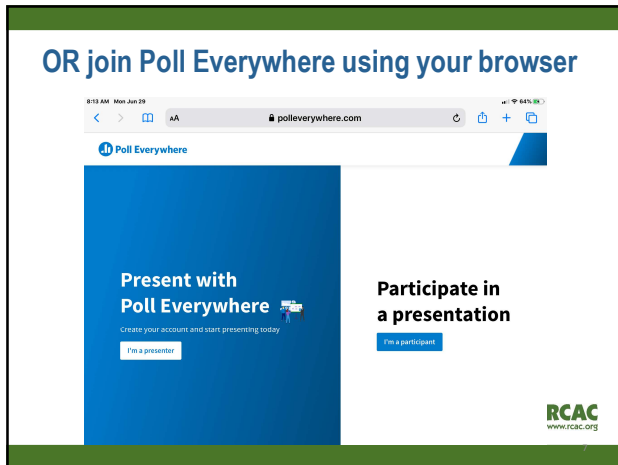
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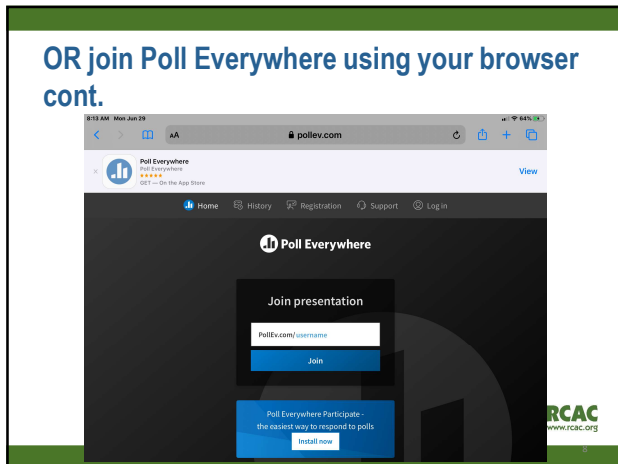
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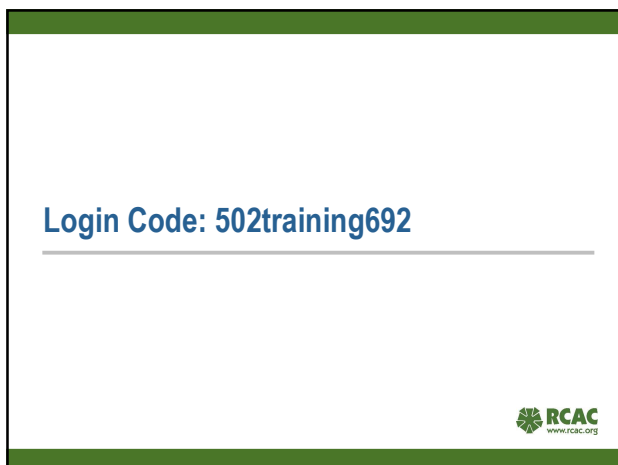
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## Poll Everywhere test question

Let's try this out!



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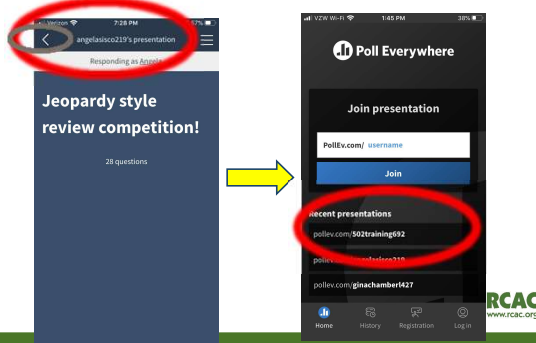
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## A little Poll Everywhere instruction if your screen locks up



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## INCOME CALCULATIONS & APPLICANT INCOME ELIGIBILITY



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## Income

There are three types of income in the 502 loan program:

1. Annual income
2. Adjusted income
3. Repayment income

ANNUAL

ADJUSTED

REPAYMENT



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## RD Worksheet for Computing Income and Maximum Loan Amount Calculator

Located on the USDA RD Direct Loan Application Packagers Page: <https://www.rd.usda.gov/programs-services/services/direct-loan-application-packagers>

- Packager completes to document income calculations
- RD reviews and concurs/revises as needed



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## Evaluating Annual Income

ANNUAL

ADJUSTED

REPAYMENT

I. **Annual Income:** TOTAL yearly (gross) income of the household

- Consider income of ALL household members
- Used as the base for computing adjusted income



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## Evaluating Annual Income

- Count income of all members that are 18 years or older and are not a full-time student
- Cash flow analysis when Self Employed
- Interest Income
- Social Security Income (including benefits rec'd by adults on behalf of minors)
- Fringe Benefits included if treated as taxable income
- Public Assistance
- Child Support/Alimony
- Recurring Gifts
- Unemployment Income associated with seasonal layoffs



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## Student Income

Count only the first \$480 of **earned** income from **adult full-time students** who are not the borrower, co-borrower, or spouse

### Example

Jeremiah receives \$1,000/month in disability assistance and \$800/month from his part time job. Income:  
 $\$1,000 \times 12 = \$12,000$   
 $\$800 \times 12 = \$9,600$   
 (only use the first \$480)  
**Annual income = \$12,480**



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## Verifying Income Sources and Amounts

(Use HB-1-3550 Verification Requirements and Procedures Table in Chapter 4)

- Paycheck Stubs or Payroll Earnings Statements for not less than four (4) consecutive weeks are the preferred source.
- Verifications are typically valid for 120 days or 180 for new construction. Verifications must be valid at time of eligibility, loan approval, loan closing and loan conversion to permanent.



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## Projecting Annual Income

- Current household income/circumstances are used to project household income for the next 12 months unless there is verifiable evidence that a change will occur
- Historical income may be used to estimate income that is anticipated to be received for less than 12 months, for instance:
  - Seasonal income
  - Unemployment income
  - Self Employment income



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## Projecting Annual Income: Calculation Method 1

### Straight-based

The gross benefit or wage is converted to annual equivalent

$$\text{\$15/hour} \times 40 \text{ hours} \times 52 \text{ weeks} = \text{\$31,200}$$

$$\text{\$1200/month} \times 12 = \text{\$14,400}$$

$$\text{\$800/week} \times 52 \text{ weeks} = \text{\$41,600}$$

$$\text{\$70/day} \times 4 \text{ days/week} \times 46 \text{ weeks} = \text{\$14,560}$$

$$\text{\$800/quarter} \times 4 \text{ quarters} = \text{\$3,200}$$



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## Projecting Annual Income: Method 2

### Average

The gross benefit or wage for last 30 days is averaged, then converted to annual equivalent

$$\text{Week 1: } \$ 460$$

$$\text{Week 2: } \$ 415$$

$$\text{Week 3: } \$ 475$$

$$\text{Week 4: } \$ 445$$

$$\text{Total 30 days: } \$1,795$$

$$\begin{aligned} &\text{\$1,795 divided by 4 weeks =} \\ &\text{\$448.75/week avg} \end{aligned}$$

$$\text{\$448.75/week} \times 52 \text{ weeks} = \text{\$23,335}$$



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### Projecting Annual Income: Method 3

#### Year to Date (YTD)

Gross YTD earnings or benefits divided by number of days, then multiplied by 365

Gross Year to date \$5,885  
from  
January 1 – May 1 (121 days)  
 $\$5,885 / 121 \text{ days} = 48.64/\text{day}$   
 $48.64/\text{day} \times 365 \text{ days} = \$17,754/\text{year}$



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### Projecting Annual Income: Method 4

#### Historical

Income from  
previous year's  
tax return

Prior Year's Tax  
Return/W-2: \$30,425

a. Employer's social security number		Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile	
b. Employer identification number (EIN)		1. Wages, tips, other compensation	2. Federal income tax withheld
c. Employer's name, address, and ZIP code		3. Social security wages	4. Social security tax withheld
		5. Medicare wages and tips	6. Medicare tax withheld
		7. Social security tips	8. Allocated tips
d. Control number	9. Verification code	10. Dependent care benefits	



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### Projecting Annual Income: Which method do I use?

- Are the incomes similar or do they vary significantly?
- Questions to ask:
  - Did you receive a pay raise/benefit increase?
  - Have your hours declined or increased?
  - When do you typically receive overtime/bonuses?
  - When did you start receiving benefits



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### Projecting Annual Income Dante Example

Dante is paid weekly earning \$10/hour with a total of 25 hours of overtime/year

**Straight Based:**

Regular pay: \$10/hour x 40 hrs/wk x 52 wks = \$20,800

Overtime: \$10/hour x 1.5 = \$15/hr x 25 hours = \$ 375

**Straight Based Total \$21,175**

Last 4 pay stubs: \$430; \$415; \$430; \$415

Avg: \$430+ \$415+ \$430 +\$415 =\$1690/ 4 = \$422.50/wk

\$422.50/wk x 52 wks = **Average Total \$21,970**

Discuss OT recurrence with Dante and compare projections to prior year's earnings to determine if OT is year round, or seasonal



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### Dante Example Cont. - Selecting Projected Income

Straight-based: \$21,175

Average: \$21,970

YTD: Last paystub (16 wks) is \$6,640/ 112 days =  
\$59.29 x 365 = \$21,640.85

Historical: Prior year tax return shows total: \$20,350

Which income is accurate?

Why?

What questions should you ask?

**What would you ask if the prior year tax return = \$30,000?**



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### Calculate Annual Income

**Household of 5** (3 adults and 2 children)

**Ms. Smith (applicant)**

\$10.00/hour, 32 hours/week, 48 weeks/year = \$15,360

**Mr. Adams**

\$9.00/hour, 40 hours/week, 52 weeks/year = \$18,720

**Ms. Jones**

\$7.50/hour, 25 hours/week, 52 weeks/year = \$9,750

Based on the information above, what is the annual income for this household?

How did you calculate it?

\$15,360  
\$18,720  
\$ 9,750  
**\$43,830**



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## Importance of Accurate Income Determinations

- Over-estimated income could lead to false determination of repayment ability
- Under-estimated income could lead to unauthorized payment assistance which would have to be repaid by borrower



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## Poll Everywhere question

Grab your web enabled Poll Everywhere device



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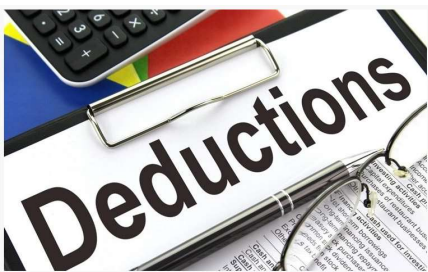
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## Adjusted Income



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## Adjusted Income

ANNUAL      ADJUSTED      REPAYMENT

**Adjusted Income:** used to determine whether the applicant is income-eligible to receive 502 assistance. Adjusted income equals annual income less any of the following five deductions identified in HB-1-3550 Chapter 4 :



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## Adjusted Income

### 1. Dependent Deduction



\$480.00 deduction per qualified dependent

Qualified dependent is a member of the household, who is not the head of household or the spouse; who is 17 years of age or younger; an individual with a disability; or a full-time student.



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## Adjusted Income

### Dependent Deduction Example



Application indicates 4 children under 18

Annual Income: \$45,000  
 $\$480 \times 4 = (\$1,920)$   
 Adjusted Income \$43,080



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## Adjusted Income

### 2. Qualified Child Care Expenses

- Not reimbursed to the applicant
- No other adult member is able to care for the children
- Children are 12 years old or less
- Enables a family member to work, seek employment, or go to school
- Expenses deducted do not exceed income earned by the household member enabled to work (doesn't apply if child care allows the household member to go to school)



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## Adjusted Income

### 2. Qualified Child Care Expenses (Continued)

To Qualify for the deduction, the applicant must:

- Identify (on the application) the children receiving care and the family member who is enabled to work/seek employment/attend school as a result of the care
- Demonstrate (on the application) there is no adult household member to care for the children.
- Identify the child care provider, hours of care and costs (billing statement or contract)
- Identify the educational institution if the expense enables a family member to attend school (need not be full-time student)



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## Adjusted Income

### Dependent & Child Care Deduction Example

Application indicates 4 children under 18, ages 3, 5, 9 and 16. Parents both work full time. Daycare is \$500/month during school and \$1,000/month the 3 months of summer

Annual Income:	\$45,000
\$480 x 4 =	(\$ 1,920)
\$500x9 + \$1,000 x 3 =	(\$7,500)
Adjusted Income	\$35,580



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## Adjusted Income

### 3. Elderly Household

- A single \$400.00 family deduction
- Must be a party to the note and at least one of the following:
  - **62 years or older**
  - **An individual with a disability**



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## Adjusted Income

### Elderly Household Example

Application indicates that the applicant is 58 years old and is disabled. The co-applicant is 63. The annual income is \$40,000:

Annual Income:	\$40,000
Elderly household deduction	<u>(\$ 400)</u>
Adjusted Income	\$39,600

Remember – this is a one time household deduction – so only one deduction is given, regardless how many applicants are disabled or over 62



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## Adjusted Income

### 4. Care of Household Members (Deduction for disability assistance expenses)

To qualify for the deduction, applicant(s) must identify the **individual with a disability** on the application. Form RD 1944-4 "Certification of Disability" can be used to request verification from Physician:

- Reasonable documented expenses in excess of 3% of annual income are deducted IF:
- Enables the individual with disabilities or another adult family member to work.
- Are not reimbursable from insurance or any other source.
- Expenses don't exceed the amount earned by the person enabled to work.



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## Adjusted Income

### 4. Care of Household Members

(Deduction for disability assistance expenses), continued

Typical Disability Expenses:

- Care attendant to assist with activities of daily living
- Special apparatus such as wheelchair, ramps, adaptation to vehicles or work equipment
- IF directly related to permitting the individual or another family member to work



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## Adjusted Income

### 4. Care of Household Members -Example

Application indicates a disabled 10 year old child. The applicant provides annual expenses for care of the child:

#### Expenses

In-home care attendant:  
\$1000/mo.

Annual Wheelchair copayment: \$500

Total: \$12,500/year

#### Calculation

Annual income: \$40,000 x 3% = \$1,200

Care Expenses - \$12,500  
Less 3% annual income (\$1,200)

**Disability assistance deduction: \$11,300**



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## Adjusted Income

### 5. Medical Expenses

For Elderly Households ONLY

Medical expenses may be deducted from annual income for elderly households if:

- expenses are not reimbursable from insurance or any other source
- when combined with any disability assistance expenses are in excess of 3% of annual income



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## Typical Medical Expenses

- Services of health care providers
- Services of hospitals, labs, clinics, etc
- Medical, Medicare and long-term care premiums
- Medicine prescribed by a physician
- Dental expenses
- Eyeglasses, contact lenses, eye exams
- Medical/health products or apparatus
- Attendant care
- Periodic scheduled payments on medical bills
- Travel expenses for medical treatment



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## Adjusted Income

### 5. Medical Expenses, continued

#### For Elderly Households ONLY

- If the household qualifies for the deduction, expenses of the **ENTIRE** family are considered
- Expenses are estimated, projected, and ANTICIPATED for the upcoming year



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## Adjusted Income

### 5. Medical Expenses - Example

Applicant is 65 years old. This is a household of 5. The applicant provides medical expenses as follows:

#### Expenses

Health Insurance  
Premium: \$1,000/mo.

Co-Payments for annual  
Dr & Dentist checkups:  
\$50/mo.

Medications: \$40/mo.

Annual Total: \$13,080

#### Calculation

Annual Income: \$45,000 x 3% = \$1,350

Annual Medical Expenses - \$13,080  
Less 3% annual income (\$1,350)

**Medical expense deduction: \$11,730**



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### Applying Deductions Matters!

Annual Income	\$45,000
3 children x \$480 =	- \$ 1,440
Childcare Expenses	
\$500/month x 12 =	- \$ 6,000
Disability Assistance	
Expenses	- \$11,300
<b>Adjusted Income =</b>	<b>\$26,260</b>

Deductions may change income category from  
Moderate to Very Low!



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### Poll Everywhere question

Grab your web enabled Poll Everywhere device



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### Repayment Income



How much income is available to repay the loan?



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## Evaluating Repayment Income

**ANNUAL** **ADJUSTED** **REPAYMENT**

**Repayment Income** is used to determine whether the potential applicant has repayment ability.

- Consider only the income of **NOTE SIGNERS**  
(May include social security received by an applicant who is a representative payee for an adult household member who will reside in the property)
- Projected income for next 12 months
- Stable income sources
- Used for ratio calculation

*Repayment income and Annual income often differ.*



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## Stable and Dependable Income

- No minimum history needed for employment in a particular position
- Typically look for a 2 year history of receiving stable income
- Reasonable expectation the income will continue for the next 2 years
  - does **NOT** mean income is guaranteed
  - **DOES** mean income has no **KNOWN** end date within the 2 year period



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## Less than Two Years of History

- Applies to an applicant who is:
  - New to the work force
  - On a probationary period
  - Returned to work after an extended absence
- Allowances may be considered for
  - Same line of work but recent job change
  - Income continuity but frequently changes jobs
  - Recent graduate or recently discharged from the military
  - Recently re-entered the workforce



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## Stable and Dependable Example

- Applicant has 5 different employers in the last 2.5 years:
  - Last year's tax return = \$40,000
  - Prior year = \$39,000
  - Projected per YTD is \$41,000
- Child Support of \$200/mo. for 17 year old dependent ends on 18<sup>th</sup> birthday

Wages are dependable; child support is not



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## Income That is NEVER Counted For repayment OR annual income (HB-1-3550, 4.3, C)



- 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 by or payments for the care of foster children or foster adults who live in the household.
- Earned income of a minor (less than 18 years of age).
  - Unless the minor is the spouse of the applicant;
  - Child support or Temporary Assistance for Needy Families (TANF) is not considered the earned income of the minor;
- Only count \$480.00 of earned income if an adult is a full-time student, but is NOT a borrower, co-borrower or spouse.
- Payments received on reverse amortization mortgages.
- Special-purpose payments (such as TANF).



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## Supplemental Nutrition Assistance Program (SNAP) Guidance

- Included in Repayment Income only
- Count only SNAP received by **note signers**
- Only the lesser of the not to exceed (NTE) amount (20% of total Repayment Income), or the actual SNAP benefits is included



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## SNAP Calculation Example

Monthly Repayment Income without SNAP = \$1500

80% of Repayment Income  $\$1500 / .80 = \$1875$

Minus Repayment Income  $\underline{-\$1500}$   
Equals  $\$375$

Monthly SNAP Benefit = \$400

Lesser of the **two amounts** \$375

Allowable Repayment Income  $\$1500 + \$375 = \$1875$



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## Grossing Up

With the exception of SNAP benefits, **all non-taxable income will be grossed up to 120%** for Repayment Income only

Examples include: Social Security, Child Support, Section 8, etc.



Remember: only stable and dependable income is included in repayment income.



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## Grossing Up Explained

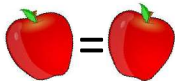


Applicant A:  
Takes home \$20,000  
per year (makes  
\$24,000)



Applicant B:  
Takes home \$20,000 per  
year in disability income  
(not taxed)

Applicant B grossed up:  $\$20,000 \times 1.2 = \$24,000$



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### Example--Grossing Up

Mary's repayment income of \$25,800 includes  
\$4,800 of nontaxable income

Taxable income \$21,000

Nontaxable child support\*

Grossed up ( $\$4,800 \times 1.2$ ) = \$ 5,760

Revised repayment income \$26,760

Verification indicates child support of \$400  
received each month for the past 12



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### Grossing up Example

Howard's annual employment income = \$30,000.

A court order awarded him \$500/month in alimony  
three months ago and so far one payment of \$300  
has been received.

Because the alimony received to date isn't  
stable/dependable, it is not included in repayment  
income and there is no need to gross up;  
repayment income = \$30,000



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### Poll Everywhere question

Grab your web enabled Poll Everywhere device



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### Exercise: Calculate Repayment Income

#### Ms. Smith (applicant)

\$10.00/hour, 32 hours/week, 48 weeks/year

= \$15,360

#### Mr. Adams

\$9.00/hour, 40 hours/week, 52 weeks/year

= \$18,720

#### Ms. Jones

\$7.50/hour, 25 hours/week, 52 weeks/year

= \$9,750

Based on the information above, what is the annual repayment income for this household?

= \$15,360  
Because Ms. Smith is the only applicant, she is the only note-signer

How did you calculate it?



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### Income of Temporarily Absent Family Members HB-1-3550 4.3, E 4

#### What is it?

- Must be considered a member of household
- Temporary Employment (i.e. spouse working in another state on assignment for 6 months)
- Students living away during school year
- Certain military income



#### How Do I Use it?

- Count for annual household income
- Count for repayment income, IF the person is party to the note
- If the absent person is not considered a member of household and is not party to the note, do not use in any way (including income, household size or deductions)



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### EXERCISE: Temporarily Absent Family Member

Mr. and Mrs. Gunho live in Ohio with their two kids aged 2 and 4. Depending on the harvest, Mrs. Gunho is assigned to her company's distribution center in Florida for 3-4 months during the busy citrus season.

#### Annual Income

Mr. - \$18,000 Mrs. - \$21,000

Child Care: \$400 per month at Kids Care

What is the annual income?  
What is the adjusted income?



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## Gunho Exercise

Annual income:	\$18,000
	+ \$21,000
Total	\$39,000 Annual Income

### Deductions for Adjusted Income

Dependent - 480 x children	= \$
Child care - \$ x 12	= \$
Total	= \$ Adjusted Income

While Mrs. Gunho is absent from the household for 3-4 months/year, her salary continues to be included because she is 'temporarily absent' during that time.

Repayment income is \$



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## Gunho Exercise

Annual income:	\$18,000
	+ \$21,000
Total	\$39,000 Annual Income

### Deductions for Adjusted Income

Dependent - 480 x 2 children	= \$ 960
Child care - \$400 x 12	= \$ 4,800
Total	= \$33,240 Adjusted Income

While Mrs. Gunho is absent from the household for 3-4 months/year, her salary continues to be included because she is 'temporarily absent' during that time.

Repayment income is \$39,000



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## FILE RULE REMOVES the below – Military and Student Applicants may not receive loans unless:

- Active Duty
  - Discharge is within a reasonable timeframe
  - Family agrees to occupy home if military member applicant is transferred before discharge
- Full-Time Students
  - Intend to make the home their permanent residence
  - Have good prospects for securing employment in the area after graduation



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### **Worksheet for Computing Income and Max Loan Calculator**

<https://www.youtube.com/watch?v=l1ux3VcZkLM>

Watch the automated calculator tutorial using the above link.



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### **ASSETS**



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### **ASSETS**

- Assets can affect an applicant in 2 ways:
  - Down Payment: Applicants may be required to use assets to make a down payment
  - Income: many types of assets generate income that must be included as annual income



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## Asset Documentation

- Obtain complete copies of bank/brokerage statements for the past two months (if reported quarterly or annually, obtain one statement)
- Packagers assist with documentation/narrative:
  - Confirm the applicant has adequate funds for closing
  - Obtain an explanation for
    - large or recurring deposits
    - increases in the account balance



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## Asset Values

### Market Value

Dollar value on the open market

VS

### Cash Value

Value, less reasonable expenses to convert to cash

Savings acct = \$2,000  
Market value = \$2,000

Stock Value = \$5,000  
Broker's Fees to sell - \$ 500  
Cash Value = \$4,500



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HB-1-3550, Chapter 4, Exhibit 4-3 details asset types which are/are not

Exhibit 4-3  
Types of Assets

The following types of assets must be considered:

Non-retirement assets including:

- Savings accounts; the average 2-month balance of checking accounts; safe deposit boxes;
- Stocks, bonds, Treasury bills, savings certificates, money market funds, and other investment accounts;
- Equity in real property or other capital investments;
- Revocable trust funds that are available to the household;
- Lump-sum receipts, such as inheritances, capital gains, lottery winnings and settlement on insurance claims;
- (including health and accident insurance, worker's compensation, and personal or property losses);
- Assets held in foreign countries; and



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### Retirement Assets:

Savings/investments specifically designated as retirement funds, with access restricted by law, employer policy, or both

Applicants are not required to use retirement assets as a down payment, regardless of their retirement status



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### Nonretirement Assets

Cash values in excess of these limits are used toward the purchase of the property:

Elderly Household - \$20,000

Nonelderly Household - \$15,000



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### Excess Nonretirement Assets may be used to

- Make a down payment
- Pay closing costs
- Pay architectural, engineering, inspection, & testing fees (for new construction/ repairs)
- Establish the RD initial escrow account
- Reduce non-housing debts
- Contribute to a retirement asset
- Make purchases which are not considered an asset (see Exhibit 4-3)



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### Non Elderly Applicant - Asset Exercise

#### Applicant Assets

IRA Account -  
\$100,000

Savings - \$20,000  
Checking- \$ 5,000  
Cash Value of  
Stocks - \$ 5,000

#### Loan Costs

Closing Costs -\$ 6,000  
House Inspection- \$500  
Initial Escrow Account  
Deposit - \$ 2,000

Use this information to  
determine the required  
down payment



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### Non Elderly Applicant - Exercise/Answer

#### Applicant Assets

IRA Account -  
\$100,000

Savings - \$20,000  
Checking- \$ 5,000  
Cash Value of  
Stocks - \$ 5,000

#### Down payment Calculation

Assets to Consider \$30,000  
Closing Costs (\$ 6,000)  
House Inspection (\$ 500)  
Initial Escrow Acct (\$ 2,000)  
Balance \$21,500  
Minus Maximum (\$15,000)  
Down Payment = \$ 6,500



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### Income from Assets

#### Annual Income

The current assets of all  
applicants/co-applicants  
as well as applicable net  
family assets, are  
considered.

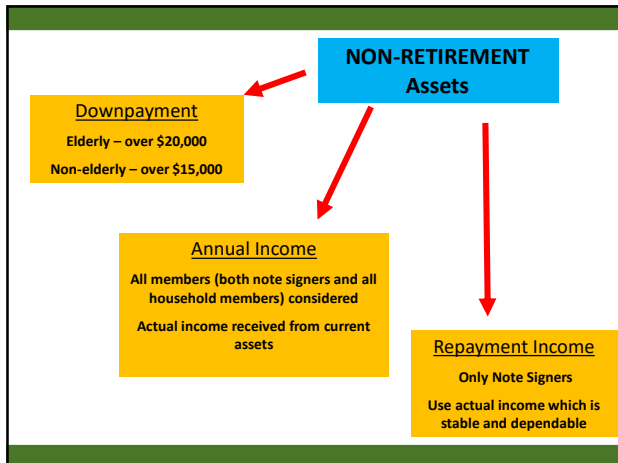
#### Repayment Income

Only the assets of the  
applicants/co-applicants  
are considered.

The actual income  
derived from the assets,  
which are determined  
stable and dependable,  
are used.



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### Disposal of Assets

- Based on Final Rule 6/21/2019
- Became effective July 22, 2019
- Regarding of disposal of business or household assets for less than fair market value in the past (two-years)
- No longer need to consider these assets

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### Poll Everywhere question

Grab your web enabled Poll Everywhere device

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## SELF-HELP 502 GUIDEBOOK

PROVIDED BY REGIONAL T&MA  
CONTRACTORS  
SECTION 523 MUTUAL SELF-HELP



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## Evaluation Survey

- You will receive an evaluation after you log out of the webinar, please complete this to let us know what we did right and where we can improve.
- Add to the Word Cloud on the next slide of one or two words of evaluation this training.



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Questions?



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