

## USDA Income Requirements — This is a quick reference for the most commonly referenced income types

For many more details on income, refer to Chapter 9 in the USDA Handbook at <https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>.

### Full Time

2 years of full time employment income is required. Income that has been received for a shorter period of time may be considered as acceptable income, as long as the borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter income history.

### Self-Employment

2 years of self-employment history is required. Case-by-case exception for 12 to 24 months if self-employment is in a similar line of work as previous employment, training or education, solid work history prior to self-employment. Must provide most recent two years signed tax returns.

**New Employment:** If a borrower is scheduled to begin new employment within 60 days of the loan closing, the lender may, depending on risk, use the borrower's offer or contract for future employment and income to underwrite and close the loan. We must verify the applicant will have sufficient income, or cash reserves, to support mortgage payments and other obligations during the time between loan closing and start of employment. If receipt of the income or employment information cannot be obtained prior to delivery to USDA the loan is ineligible for delivery.

## Most Common Variable Income Requirements

### Part Time

2 years of uninterrupted part-time employment income history is required and must be likely to continue. Part-time income received less than 2 years may be counted if we are able to determine that the income's continuance is likely at the level of receipt verified in the past.

### Overtime

2 consecutive years of overtime history is required and must be likely to continue. Overtime income earned for less than one year with the current employer should not be considered for repayment income without significant compensating factors.

### Commission

2 consecutive years of commission history is required. Commission income earned less than one year should not be considered repayment income without significant compensating factors. Case-by-case exception may be made if the borrower's compensation was changed from a salary to commission within a similar position with the same employer.

### Bonus

2 consecutive years of bonus income history is required and be likely to continue. Bonus income earned for less than one year with the current employer should not be considered for repayment income without significant compensating factors.

### Tips

2 years of uninterrupted tip income history is required and must be likely to continue.

### Seasonal

A 2 year history in the same job or same line of seasonal work is required. Confirm employer has reasonable expectation the borrower will be rehired next season.

### Secondary Employment

2 years of uninterrupted secondary employment income history is required and must be reasonably likely to continue.

## USDA Income Requirements (continued)

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**Job Gap:** Generally speaking, with an extended absence of 6 months or more, a borrower should establish 6 months on the job in order to be eligible to use their income from the new job to qualify. USDA may allow an exception with a strong file, same line of work, similar earnings, cert of degree in the field of current employment.

**Determining income:** For employees who are salaried and whose income has been and will likely be consistently earned, we must use the current salary to calculate income. For employees who are paid hourly, and whose hours do not vary, we must consider the borrower's current hourly rate to calculate income. For employees who are paid hourly and whose hours vary, we must average the income over the previous two years. For part-time and secondary employment income, we must multiply the base hourly wage by the anticipated number of hours. For overtime and bonus income, we must average the income over the most recent two years. If there has been a decrease in overtime or bonus income, we must determine the amount of income, if any, which can be justified as stable and document the explanation for the decrease. For commission income, if it is determined that the commission income is consistent, we must divide the total of the most recent two years (minus business expenses when applicable) by 24 months.

**Continuity of Income:** A key driver of successful homeownership is confidence that all income used in qualifying a borrower will continue to be received by the borrower for the foreseeable future. That being said, there are certain types of income in which we must verify will continue for at least 3 years.

We must document 3 year continuance for the following types of income:

- Alimony or Child Support
- Social Security Income—not including retirement (i.e.—received for a teenage child)
- Pension/Retirement Income
- Trust Income
- Distributions from a Retirement Account
- Any other type of fixed income that may have a defined expiration date

## USDA Income Requirements (continued) - Types of Income to Consider for Loan Eligibility and Repayment

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**Annual Income:** The projected income for all adult household members for the coming year

**\*\*\*Important note—any income earned or expected to be earned from any source should be counted toward the Annual Income\*\*\***

- ◆ Income for all adult household members, not just parties on the mortgage, must be considered when computing annual income.
  - ◇ Wages, salary, self-employed, commission, overtime, bonus, tips, alimony, child support, pension/retirement, social security, disability, trust income, etc.
- ◆ Additional income to primary income
  - ◇ Automobile allowance, mortgage differential, military, secondary employment, seasonal employment, unemployment.
- ◆ Income from assets
  - ◇ Assets of all household members are considered. We must review the two most recent bank statements for any additional household income. Large deposits may indicate additional income.
  - ◇ Some examples, but not limited to: Stocks, bonds, investment accounts, savings certificates, certificates of deposit, money market funds, etc.
    - ◇ Interest earned from these types of assets is considered income.

**\*\*In some circumstances, we will use historical data to project the anticipated Annual Income, i.e.— Seasonal, Unemployed**

- ◇ Seasonal income: If a household member currently has no income but historically has seasonal income, we must confirm with the borrower and the employer that the same seasonal pattern is expected to continue. We will then use the historical data to project the annual income for the coming 12 months.
- ◇ Unemployed: If a household member is not presently employed but there is recent history of employment, that person's income will be considered in the annual household income calculation. We will use historical data to project the annual income for the coming 12 months. If the household member is not presently employed and doesn't intend to resume employment in the foreseeable future, they must provide an executed statement indicating they do not plan to resume working.

**Adjusted Annual Income:** The household's annual income minus certain qualified household deductions

- ◆ Qualified household deductions
  - ◇ Dependent deduction (\$480 for each child under age 18, full-time student attending school or disabled family member over the age of 18)
  - ◇ Annual child care expenses (Reasonable expenses for children 12 and under)
    - ◇ When a child is 12 years or under, with qualifying documentation, reasonable child care can be deducted as long as it enables a family member to work, to actively seek work, or to further a family member's education as long as they are not reimbursed or paid by another source.
  - ◇ Elderly/disabled household (one household deduction of \$400 if 62 years or older, or elderly and a party to the note)
  - ◇ Disability (Unreimbursed expenses in excess of 3% of annual income)
  - ◇ Medical expenses (Elderly/Disabled households only. Unreimbursed medical expenses in excess of 3% of annual income)

**Qualifying Income:** Adjusted annual income compared to established income limits to determine eligibility of the household

- ◆ Applicant(s) must fall at or below the established moderate income level to be eligible.

**Repayment Income:** The stable and dependable income used to calculate debt ratios and determine whether the applicant can afford a home. To compute repayment income, we only count the income of the person(s) who will be on the mortgage loan.