

## **Income Determination Definition –**

Gross Annual Income is the anticipated total income, from all sources and before taxes or withholding, of the mortgagor(s), the spouse of a mortgagor, and any other adult person who lives in the Residence being financed or who is secondarily liable on the Mortgage Loan. Based on income information received through the loan application process, household income shall be projected for the 12-month period following the date of application.

All income should be included, whether received by check, in cash, or in the form of goods and services. Income includes, but is not limited to, the full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and any other compensation.

### **Eligible Borrower Gross Annual Limits**

The Board establishes income limits for each program, based on the Internal Revenue Code of 1986, as amended. Lenders need to refer to each individual program's documents for Gross Annual Income Limits.

Those persons' incomes included in determining Gross Annual Income are those who are expected to live in the residence or who will be legally responsible for the payment of the loan for the residence to be financed by the Board. For example, two unrelated persons who are planning to live in the residence would provide data on both incomes if both are expected to sign the note or, through a side agreement, have arranged to share responsibility for payment. Similarly, a relative who gives a guarantee of the loan and expects to live in the residence must give income information. For these purposes, husbands and wives will be considered jointly responsible for the loan and residents of the dwelling, absent satisfactory evidence to the Board of Housing which conclusively demonstrates otherwise and that the spouse is not a member of the armed services. By contrast, a guarantee by a relative, such as a parent or in-law, who does not intend to live in the residence except as an occasional guest, will not cause the inclusion of that relative's income. Similarly, the income of a parent, grandparent, or other relative (except a spouse) who qualifies as a dependent and is expected to live in the home, but will not be legally responsible for the loan, does not need to be included.

### **Income Calculations - Salaried Borrowers**

In calculating the income of each borrower, the lender shall project each borrower's verified gross monthly income over twelve (12) months following the date the application is made. Projected salary increases which are verified by the employer shall be included in the income calculation. Overtime earnings shall be included when calculating the borrower's gross annual income. To calculate the amount of overtime earnings used to determine the borrower's income eligibility, the Lender shall use the total amount of overtime earnings received by the borrower for the preceding 12-month period. The Lender shall also use tips, fees, bonuses, dividends and profits, interest and insurance payments received by the borrower for the preceding 12-month period.

## **Income Calculations - Self Employed Borrower**

Self employed persons shall submit their I.R.S. tax returns (including any depreciation schedules) for the previous two (2) years. Each borrower shall certify that each return is a complete, true and exact copy of the original submitted to the I.R.S. Business income that cannot be supported by an income tax return shall not be included in the income calculations.

If the borrower is a partner in a partnership or has an ownership interest in a small corporation (i.e., assets of one million dollars or less), the partnership or corporation returns, together with all schedules, must be submitted with the loan application.

The lender shall calculate the gross annual income for each self-employed borrower by averaging the reported net income plus declared depreciation expense for the previous two (2) years.

If the borrower is self-employed for less than two (2) years, the most recent year's tax returns with all schedules, plus a current year-to-date professionally prepared profit and loss statement, together with a one (1) year projected income statement must be submitted.

## **Commission Income**

Income derived from commissions may be substantiated from at least two (2) years tax returns with all schedules. The average of the past two (2) years' commissions will be used to calculate income.

## **Other Income Included**

As part of the determination of a borrower's eligibility, other income which the borrower must disclose on the Income eligibility Worksheet shall include:

Child support; alimony or separate maintenance payments; periodic payments from trusts, annuities, inheritance, insurance policies, pensions, retirement funds, and lotteries; all public assistance payments (excluding Medicaid and food stamps) including any amount by which educational grants, scholarships, and/or Veterans Administration educational benefits exceed expenses for tuition, fees, books, and equipment and reasonable rent and utility costs for a student living away from home; recurring investment income, not including gains on a one-time sale or any gains from the sale of the borrower(s) prior residence; all public assistance payments; payments in lieu of earnings, including social security, unemployment benefits, worker's compensation, severance pay, disability or death benefits; income from partnerships; undisbursed profits from business owned by borrower(s) in whole or part; regular cash contributions received from persons not living in the household.

## **Other Income Excluded**

As part of the determination of a borrower's eligibility, the following types of income shall not be included:

Income from employment of children (including foster children) under the age of 18 years; payments received for the care of foster children or foster adults; lump sum additions to household assets, such as inheritances, insurance payments (including payments under health and accident insurance), settlement for personal or property losses; amounts received by the household that are specifically for, or in reimbursement of, the costs of medical expenses for any household member; income of a live-in aide; amounts of educational scholarships paid directly to the student or to the educational institution, and amounts paid by the Government to a veteran, for use in meeting the costs of tuition, fees, books, equipment, materials, supplies, transportation, and miscellaneous personal expenses of the student provided that any amount of such scholarship or payment to a veteran not used for the above purposes that is available for subsistence is to be included in income; amounts received by a participant in other publicly assisted programs which are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, childcare, etc.) and which are made solely to allow participation in a specific program.

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