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## Walk through example: Annual household income

### All files must include an income calculation worksheet.

Lenders may document their income calculations on their own in-house income worksheet, Fannie Mae Form 1008, or [Attachment 9-B "Worksheet for Documenting Eligible Household and Repayment Income"](#).

**7 CFR 3555.10** Defines Annual Income as: Income from all household members who live or propose to live in the dwelling as their primary residence for all or part of the ensuing 12 months. Adjusted annual income is used to determine whether an applicant is income-eligible for a guaranteed loan, or interest assistance, if applicable. Adjusted annual income provides for deductions to account for varying household circumstances and expenses.

### When USDA reviews the lender's income calculation, what are they looking for?

Lenders must spell out how they determined income figures, show the math. Here are two examples of income calculations to give an idea of what USDA is looking for, one that is correct and one that is incorrect.

**Incorrect calculation:** Annual Income based on Hrly Rate at 40hr/wk + YTD OT Avg (**Show me the numbers!**)

**Correct calculation:** Annual Income:  $\$32.50 \times 40 \text{ hrs} = \$1,300 \times 52 = \$67,500$   
 $\text{YTD OT } 7500/5.4 \text{ mos} = \$1,388.88 \times 12 = \$16,666.67 + \text{hrly } \$67,500 = \$84,166.67$  (**Beautifully documented!**)

Here are actual examples of income calculations submitted to USDA, one that is correct and one that is incorrect.

*Correct. Nicely done!*

<p>1. Applicant (Wages, salary, self-employed, commission, overtime, bonus, tips, alimony, child support, pension/retirement, social security, disability, trust income, etc.). Calculate and record how the calculation of each income source/type was determined in the space below.</p>	
<p>Base- YTD, 2020 &amp; 2019 earnings / by 34 months= \$2654.51 ----- Bonus- YTD \$657.66/10.17 months=\$64.67 ----- Overtime- YTD, 2020 &amp; 2019 / by 34 months = \$42.17 -----  <math>\\$2654.51 + 64.67 + 42.17 = \\$2761.34</math> monthly income *12 = \$33136.08</p>	<p>\$33,136.08</p>

*Incorrect calculation. Double check the data and that it seems realistic.*

### Application Highlights

- The most recent pay stub in the file is through 11/21 for a total of 7.16 months (since he started 4/16/21).
- When using all figures from the most recent pay stub through 11/21, it results in household income that exceeds the limit. When USDA contacted the lender, they agreed the Agency Calculations were correct and requested the file be withdrawn.
- RD Calculations:
  - Salary =  $\$33.44 \times 40 = \$1337.60 \times 52 = \$69,555.20$
  - OT/Call In Pay  $\$19,312.29 / 7.16 = \$2697.25 \times 12 = \$32,367 + \$69,555.20 = \$101,922.20$
  - Lender Calculations: what is highlighted is what they used in GUS—lender used old information from VOE instead of most recent paystub.

**\*Annual: 40504.21 / 6.40 = 6328.76 Ot 7895.70 / 7.2 = 1296.96**

**Underwriter Comments**  
**Repayment: Base 33.44 x 40 x 52 / 12 = 5796.27**  
**Ot: 9338.14 / 7.20 = 1296.96 evidence in the file of**

5. Hire Date(MM/DD/YYYY)* 04/16/2021	6. Present Position * Operations Tech II	7. Currently Active * <input checked="" type="radio"/> Yes <input type="radio"/> No	8. Probability of Continued Employment * <input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> Unable to Answer
9. Current Gross Base Pay (Enter Amount & Select Pay Type) * 33.44 Hourly Describe Other			
9A. In addition to the Applicant's Gross Base pay, they receive (check the appropriate box(s)) * <input checked="" type="checkbox"/> Overtime <input type="checkbox"/> Commissions <input type="checkbox"/> Bonus <input type="checkbox"/> NA <input type="checkbox"/> Unable to Answer <input checked="" type="checkbox"/> Other			
<b>9B. Gross Earnings</b>			
Type	Year to Date	Past Year	Past Year
Base Pay	Thru * 10/28/2021		
	32536.45 *		
Overtime	7895.7		
Commissions			
Bonus			
Other	7967.75		
	\$48,399.90	\$0.00	\$0.00
10. If Overtime or Bonus is applicable, is continuance likely? Overtime* <input checked="" type="radio"/> Yes <input type="radio"/> No <input type="radio"/> NA <input type="radio"/> Unable to Answer Bonus* <input type="radio"/> Yes <input type="radio"/> No <input type="radio"/> NA <input checked="" type="radio"/> Unable to Answer			

Earnings Statement						
Name: [REDACTED]		Payroll: Weekly (Monday) Pay period: 11/15/2021 to 11/21/2021 Pay Date: 11/24/2021				
Personnel No: [REDACTED] SSN: [REDACTED]		Tax Information	Status	Exemptions	Additional	
		Federal	Single or Married	00	0.00	
		Arkansas	filling sepa Married claiming	00	0.00	
Check Amount	=	Gross	-	Tax Exempt Ded	-	Taxes
1,518.55		2,692.25		68.22		805.94
						-
						Non Tax Exempt Ded
						299.54
EARNINGS AND DEDUCTIONS						
CATEGORY	Retro Amount	Rate	Hrs/Mile	Amount	Total	YTD Amount
Normal Working Hours		33.44	26.51	886.40	886.40	37,052.52
Vacation						287.52
Holiday						802.56
Call in Pay 1.5X		50.16	24.00	1,203.84	1,203.84	7,950.36
Call in Pay 2.0X		66.88	9.00	601.92	601.92	2,023.79
Sick						535.04
Jury Duty						287.52
Overtime 1.5X						8,803.10
Overtime 2.0X						535.04
<b>Earnings Total</b>				2,692.25	2,692.25	58,237.45

Correct. Excellent example of what to do!

**Comments from USDA staff:** This is a good example, but what makes it great are the underwriter comments. This is what the review specialist said when asked if this was a good or bad example of income calculation: “Overall I would say it is a good example. At first I was going to ask for additional calculations, but then found they were in the comments from the underwriter. At least they matched what was input in GUS, so that helped me to see they had provided what we want to see.”

	2021	2020	2019	Method	Calculated	Adjusted	Final
Included	Yes	Yes	Yes				
From Date	01/01/21	01/01/20	01/01/19				
Through Date	11/12/21	12/31/20	12/31/19				
Months	10.40	12.00	12.00				
Base	\$33,198.43	\$35,104.87	\$36,876.26	Manual	\$3,133.87	\$0.00	\$3,133.87
Overtime	\$373.96	\$2,096.95	\$591.38	Non-Qualifying	\$0.00	\$0.00	\$0.00
Bonus	\$1,371.12	\$1,525.46	\$4,189.31	Non-Qualifying	\$0.00	\$0.00	\$0.00
Commission	\$0.00	\$0.00	\$0.00	Not Eligible	\$0.00	\$0.00	\$0.00
Tip	\$0.00	\$0.00	\$0.00	Not Eligible	\$0.00	\$0.00	\$0.00
Unreimbursed Business Expenses	\$0.00	\$0.00	\$0.00	Not Eligible	\$0.00		
Total	\$34,943.51	\$38,727.28	\$41,656.95			Actual Monthly	\$3,133.87
Monthly	\$3,359.96	\$3,227.28	\$3,471.41			Annual	\$37,606.44
Commission	0.00%	0.00%	0.00%			Commission	0.00%

**Underwriter Comments:**

1. Manual method indicates the calculated amount was determined manually.
2. Non-Qualifying method indicates the income is eligible, but was not used to qualify.
3. Not Eligible method indicates the income was deemed not eligible.
4. Per TWN WVOE base pay is  $\$18.08/\text{hr} * 40 * 52 / 12 = \$3133.87/\text{mo}$ . OT for eligibility highest avg is from 2020 for  $\$174.75/\text{mo}$ . Bonus for eligibility highest avg is from 2019 for  $\$349.11/\text{mo}$ . NPS receives SS; per award letter  $\$1389.90/\text{mo}$  for eligibility.

**Key reminders for income calculations:**

- Look at the date of employment, date the recent paystub pays through, and the VOE.
- Look for overtime, bonus, commission, or any additional income that should be counted and count it.
- Make sure you are calculating your days correctly when averaging the income.
- If there has been a recent increase in salary or hourly rate, use the higher salary or hourly rate when calculating the Annual Household Income.
- #1 Reminder: Document your process. USDA reviewers look for Underwriter notes and any sort of explanation. It helps them to review a file faster if they don't have to recreate what has already been done.

**Common income questions submitted to the General Scenario email box (sfhglid.program@usda.gov):**

- Q. The applicant has a history of overtime, with a substantial amount received year to date; however, the VOE states the overtime is unlikely to continue. Do I need to include overtime in the annual income calculation?
- A. Annual income is calculated based on what is expected to be received in the ensuing 12 months. If there is a history of overtime, it would need to be considered by the underwriter when calculating annual income. Ultimately it is the approved lender's responsibility to review the complete income history to determine what is expected to be received in the ensuing 12 months and to document the permanent loan file to support their lending decisions.
- Q. Does the IRS child tax credit need to be included in the annual income calculation?
- A. No, tax credits, including the Child Tax Credit are not included in the Annual income calculation.
- Q. Is per diem considered in annual income calculations?
- A. If the per diem is taxable income, then it must be included in annual income. If the per diem is non-taxable income, it is considered reimbursement and therefore not included in annual income.
- Q. The VOE states the applicant is expected to receive a 3% pay raise within the next 3 months. Do we have to count this expected increase in annual income?
- A. Annual income is calculated based on what is expected to be received in the ensuing 12 months, including bonus income, projected pay raises, etc. If a pay raise is expected within the next 12 months, it would need to be included in the annual income calculation.
- Q. We have a borrower that is divorced and has joint custody of a child that is only claimed on the tax returns as a dependent every other tax year. Can we consider this child a household member for the calculation of family size and income eligibility?
- A. Applicants with shared custody may include their children as household members and receive the \$480 per child deduction.