

## Addendum A

Program qualifying income (or compliance income) is not the same as credit qualifying income. The calculation of Program qualifying income is different than the calculation of credit qualifying income, the income that is used for credit underwriting the borrower's FHA, USDA- RD, VA or Freddie Mac loan.

**Program qualifying income considers the income of borrowers and their spouses (regardless of spouse's occupancy of the primary residence and whether or not a party to the loan) AND all household members 18 years of age or older (related or unrelated).**

Unlike income that is averaged for credit underwriting, the Program considers the actual **Current Gross Annual Income**. Participating Lenders should be reviewing the YTD income. Use the below for determining the actual Current Gross Annual Income for the borrower(s). Current gross monthly income is generally determined first then it is multiplied by 12 months to determine the total Current Gross Annual Income. The Current Gross Annual Income for each occupant, the Household Income for the borrower(s) is then compared to the Income Limits and household size for the county in which the borrower(s) are purchasing (set forth in the table below) to determine if the borrower(s) are eligible.

Please note that this serves as a guide only. Participating Lenders must determine the most accurate actual Current Gross Annual Income based on the pay documentation collected from borrower(s). Participating Lenders must exercise due diligence in determining Program qualifying income and collect the appropriate pay documentation for the borrower(s) and validate the Program qualifying. Please note that this documentation may vary depending on the particular borrower's profession, income source, work, schedule or how often income is received. Just as a Participating Lender would collect the necessary income documentation to support and validate credit qualifying income for the borrower(s), Participating Lenders Page 24 should collect the necessary income documentation to support and validate the Program qualifying income of the borrower(s).

**Gross monthly income** considers the sum of monthly gross pay; any additional income from overtime, part-time employment, bonuses, income from self-employment, dividends, interest, royalties, pensions, VA compensation and net rental income, other income (such as alimony, child support, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments), and the continuation of which is probable for the next 12 months based on foreseeable economic circumstances determined at the time of application.

**Program Qualifying Income** will be confirmed on the eHousingPlus eHPortal, Underwriter's Certification and Mortgage Affidavit which is executed by the borrower(s) on the date of mortgage loan closing. Any income obtained from these Program documents that reflect a Current Gross Annual Income exceeding the income limit will result in the pending of the loan file and non-purchase of the loan until the Participating Lender resolves the discrepancy. Participating Lenders can resolve by providing any necessary documentation to support income eligibility or, if it is determined through the review of additional documentation submitted by the Participating Lender that the Program qualifying does exceed the Income Limit, the loan will be cancelled and the borrower will not be eligible for participation in the Program.

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Use the information below as a general guide.

Please contact the eHousingPlus Compliance Team with any questions or concerns at [services@eHousingPlus.com](mailto:services@eHousingPlus.com) or 954-217-0817.

**IMPORTANT! PLEASE READ.**

Alternative pay or income documentation used to support Program qualifying income should be retained by the Participating Lender and any alternative documentation used to validate Program qualifying income should be acceptable to the Agencies. Alternative pay or income documentation includes, but may not be limited to, current pay stubs which delineate "current period", W-2's, for the borrower(s) and all employers, and bank statements to verify the receipt of income. For clarification on which documentation should be submitted to eHousing to confirm borrower(s) are eligible for participation in the Program, please see the "Closing, Shipping and Clearing Loans for Purchase" section of this Lender Guide.

Pay or income documentation to support credit underwriting for the first mortgage loan and to support AUS findings are forwarded to the Master Servicer upon loan closing in the first mortgage closed loan file. **The Master Servicer does not re-underwrite loans.** The Master Servicer will confirm that the pay/income documentation included in the first mortgage closed loan file supports the AUS findings and credit underwriting approval. For clarification on which pay/income documentation is required by the Master Page 25 Servicer for loan purchase, please refer to the loan delivery checklists available on the Master Servicer's website at [www.hfa.usbank.com](http://www.hfa.usbank.com).

Even if not required for credit underwriting, Participating Lenders should be seeking the two most current paystubs with year-to-date (YTD) earnings. Do not include in the compliance file. Again, Participating Lenders should retain all necessary supporting income documentation in the event it would be required to confirm income eligibility and the income certified by underwriting staff.

**Verification of Employment**

A verification of employment (VOE) may not be required if acceptable pay/income or alternative pay/income documentation can validate Program qualifying income. If a VOE is required by the Agencies then it should be obtained for credit underwriting but it may not necessarily be considered in determining Program qualifying income if alternative documentation provides a more accurate reflection of a borrower/occupant's Current Gross Annual Income.

**Income from a Salary or Wage**

Using the last 4 – 6 weeks' pay stubs, add together the gross pay from each pay stub supplied. Divide this total by the number of pay stubs and then multiply by the number of pay periods within a year (i.e. if paid bi-weekly multiply by 26, if bi-monthly multiply by 24, etc.).

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#### **Commission / Bonus Income**

If commission income was noted to have been received as YTD on the 4 – 6 weeks of paystubs supplied, but was not actually received during the review period:

Divide the YTD commission / bonus income by the number of pay periods that have already occurred in the year to obtain the average per pay period. Multiply this average by the total number of pay periods in the year. Add this amount to the calculated income from salary or wage.

#### **Self-Employed / Income from Business**

Use the quarterly tax returns and financial statements to identify the current net YTD income. Add back in any depreciation. Divide the YTD income by the number of months during which it was earned and multiply by 12. Losses from a business cannot be deducted from another source of income.

#### **Verification that Overtime, Bonus or Commission payments are terminated**

If OT was received during the 4 – 6 weeks of pay subs provided, or bonus or commission income was noted as paid in the YTD information, but verification has been provided in writing from valid third-party source (i.e. employer confirming termination of such income or that it is not likely to continue or change in employment status ceased these payments), you may remove these amounts received when calculating the Program qualifying income.

#### **Interest / Dividends**

Use current earnings statements issued by the bank, investment broker or agent. Identify the YTD interest or dividend earnings. Divide by the number of months this YTD represents and multiply by 12. If statements are not available, and the terms of the investment agreement are available, multiply the principal amount of the asset times the annual interest yield factor for a projected interest earnings amount. If neither are available, use the previous year's earnings statements or tax returns to identify the total annual interest and dividend income. If the assets are still invested in the same instruments, use the previous year's figures.

#### **Alimony / Child Support**

Use the monthly amount appearing in the divorce decree, separation agreement or other support document. If the borrower receives more or less than the amount stipulated in the agreements, use the monthly figure that the borrower declares and that can be verified (on bank statements for example).

Multiply the verified or calculated amount from the above process times 12.

#### **Pensions / Temporary Payments**

Use the benefits statement issued by the benefits provider (pensions, workers compensation, disability compensation, social security, AFDC, etc.) to identify the amount of the benefit, payment frequency and expected term of benefit. Multiply the amount of the benefit times the payment frequency. If the benefit is absolutely not payable to the recipient beyond a given date (a verifiable complete and permanent stop of benefits without extensions, exceptions, waivers or other conditions) and such date

is within 12 calendar months of the anticipated closing date, then calculate the benefits expected through the end of the benefits term.

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#### **Calculation of Current Gross Annual Income**

Add together all sources of income per each borrower. Compare the calculated Current Gross Annual Income to paystubs, VOE's, the previous year's income per W2's. You should not note significant differences that cannot be accounted for (i.e. Child Support income). In some cases, the Current Gross Annual Income will be higher than the previous year's income. Significant variances should be attributable to increases/decreases in pay or number of hours worked. If paystubs are being used as confirmation of eligibility, Participating Lenders should note within their loan file any variances and why any variances have occurred.

#### **Calculation of Program Qualifying Income**

To calculate Program qualifying income, add together the Current Gross Annual Income calculated for each borrower. Compare the Program qualifying income calculated to the Income Limit to ensure compliance with Program requirements.