Loan Product Income Calculation Tutorial

MHDC loan products are income restricted and each household must be at or below the income limits for the area where the home to be purchased resides. In order to accurately calculate income, the lender must first establish a total household size to determine all qualifying income. Household members include each person listed as a borrower, their spouse, and any other family members that will occupy the home as their principal residence. MHDC loan products utilize HUD's Section 8 income calculations, which vary slightly from typical mortgage income calculations. Below are some key differences and instructions for appropriately calculating income for MHDC loan products.

Key things to note for MHDC loan product income calculation:

1. Consider all income for the household members who occupy or will occupy the home as their principal residence (please see the full program guides for exclusions)
2. MHDC products only consider **the past 12 calendar months** for current employment variable income
3. All income for the household must be included in the calculation including child support, alimony, or variable irregular income such as Uber or Lyft (please see the full programs guides for exclusions)
4. Variable income for current employment where there is at least a 12 month history utilizes **actual 12 month totals** rather than averages

Variable income with more than 12 months at the current job:

The borrower is paid an hourly rate of at least 40 hours per week with variable income such as Overtime, Bonus, Commission or shift differential:

Calculation:
Hourly rate x 2080 = base income.

For the variable income, there are two options:

a. Combine current and previous year totals for the variable items. If this amount plus the base income is still below MHDC income limits, no further action necessary.

b. 12-month running total (not an average): Utilizing the most current broken out year-to-date (YTD) paystub, go back to as close to one year as possible (e.g. have 7.1.22 paystub in file, would need to go back to 7.1.21 paystub). Using the 7.1.21 paystub, deduct the amount of variable income noted on this stub from the year-end total (from a yearend paystub, W2, or VOE). This gives the amount of variable income from 7.1.21 through the end of the year. Combine this number with the variable income from 7.1.22 paystub, which results in the actual 12-month total. Combine this total with the base to determine the total income for MHDC eligibility.

Variable income with less than 12 months at the current job or irregular hours (not a straight 40 per week):

Hourly rate x 2080 = base income.

Calculation: 1. Less than 12 months: For variable income calculation, take the total variable income items divided by amount of time (number of months) on the job. Multiply this amount by 12 (months) for annual projection. Combine the base plus this projection for total MHDC eligibility income.

2. Less than 40 hours per week: If the Verification of Employment (VOE) states the exact amount of hours per pay period, and that number matches the paystubs: Multiply the hourly amount by the number of hours, and annualize.

a. Example: Borrower has an employment start date of 10/1/2021, and the current date is 5/12/2022 (7.38 months). To calculate, take the income divided by 7.38 months, and then that total multiplied by 12.

3. Where a borrower has less than 12 months on the job and less than 40 hours per week, it is possible to take total YTD income from the most recent paystub divided by the amount of time (number of months) on the job, and then annualize to determine the total average.

Regular salary without variable income:

If the VOE and paystubs show a regular 40-hour workweek only, with no variation in hours or pay, simply use the annual amount.