




Missouri Housing
Development Commission

LENDER TRAINING: Calculating Household Income



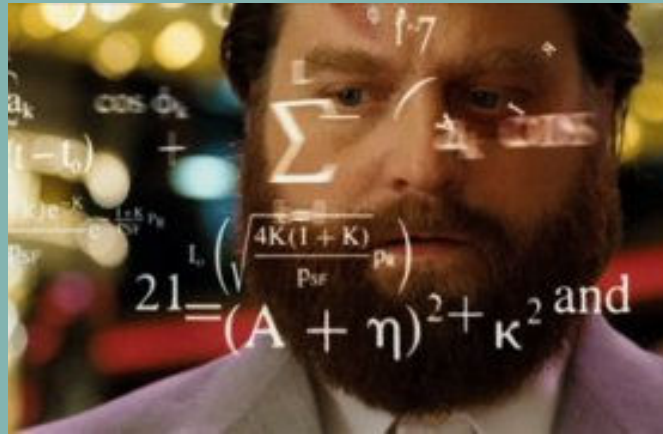

MHDC.com

First Place MRB

Next Step TBA

Mortgage Credit Certificate

CALCULATING BORROWER INCOME



FORMS OF INCOME

- **Hourly/Base Pay**
- **Self-Employment**
- **Part-Time Income**
- **Child Support**
- **Seasonal**
- **Unemployment**
- **Interest Income**
- **Commission**
- **Bonuses**
- **Stipends**
- **Social Security**
- **Trust Income**
- **Investment Income**
- **Dividend**
- **Royalties**
- **Pension**
- **Alimony**
- **Clergy Housing Allowance**
- **Assets**

VERIFICATION OF EMPLOYMENT

- **Three options for verifying household income:**
 - **“Alternative Documentation” Method**
 - **“Work-Number-For-Everyone” Method**
 - **Employer Verification of Income Method**

SELF-EMPLOYMENT INCOME

- **Income listed on the 1040 (net earnings) is used from the most recently filed tax returns.**
- **MHDC does not average self-employment income over several tax years.**
- **If net income through self-employment is a loss, income for MHDC loan programs is counted as \$0.**

HOW TO CALCULATE INCOME

IF BORROWER HAS BEEN ON THE SAME JOB FOR **12 MONTHS OR MORE**:

- Base earnings are projected forward for a full 12-month period. For example, if currently earning \$20 per hour, $\$20 \times 2080 \text{ hours} = \$41,600$ annually.
- If overtime, bonuses, commissions, etc., are shown earned, we calculate how much of this type of income has been received over the last 12 month period. ***If borrower has been on job for 12 months or more, income is not averaged.**

HOW TO CALCULATE INCOME

12A. Current **Gross Base Pay** (Enter Amount and Check Payment Frequency)
 Annual Hourly
 Monthly Other (Specify)
 \$ 1,386.56 Weekly

Type	12B. Gross Earnings	
	Year to Date 2021 Thru <u>6/2</u>	Past Year 2020
Base Pay	\$ 30,526.76	\$ 71,259.34
Overtime	\$ 9,151.34	\$ 22,219.74
Commissions	\$	\$
Bonus	\$	\$ 3,000.00
Total	\$ 39,678.10	\$ 96,479.08

Base = \$1,386.56 X 52 = \$72,101.12
Overtime = \$9,151.34 + \$22,219.74 = \$31,371.08
Bonus = \$3,000.00
Total = \$106,472.20

HOW TO CALCULATE INCOME

IF BORROWER HAS BEEN ON THE JOB FOR **LESS THAN 12 MONTHS**

- Income is calculated by taking the total income earned YTD and dividing by the months on the job. We then project that amount forward for a 12 month period.
- Ex. Borrower has been at their job for 6 months and earned \$20,364.00.

$\$20,364 \div 6$ (months on job) = \$3,394 per month avg.

$\$3,394 \times 12 = \$40,728.00$

HOW TO CALCULATE INCOME

THINGS TO REMEMBER WHEN CALCULATING INCOME

- Income amounts for the person(s) on the loan, married to the person(s) on the loan, and any adult child or parent living in the home are required for calculating household income.
- Seasonal/Irregular Income (Nurses, Auto Plant Workers, etc.) can be calculated using the last 12 months of income earned.
- Loan qualifying income will usually be less than MHDC required income.
- If income was used to qualify the borrower, it must be counted here as well.
- Child support income not counted if not received.
- If a borrower states they no longer can receive OT income, etc. we still have to count what has been earned over the last 12 months.

TREATMENT OF ASSETS

- **Liquid Assets over \$5,000 must be calculated as income.**
- **Multiply the total amount of liquid assets by 2%.**

Example: Bank Acct = \$10,500.00

$$\begin{array}{r} \underline{\quad\quad\quad} \\ \times 2\% \\ \hline \end{array} = \$210.00 \text{ (to be added to annual income)}$$

UNIQUE INCOME SCENARIOS

- **Inconsistent Child Support:** MHDC only requires counting the amount actually received.
- **Foster Care Income and Food Stamps** are not used by MHDC unless included in qualifying income.
- **Unemployment Income** is included if currently being received.
- **Use Form 522** to verify no income status of spouse.
- **Use Form 523** to verify absence of child-support/ public assistance.

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CONCLUSION

- **Seek prior approval for income close to maximum.**
- **MHDC requires all income received to be counted when calculating household income**
- **Income limits vary according to loan program, household size, and whether the property in question is in a targeted area.**