



HOME Repayable Loan Underwriting Series Module 2: Qualifying Income

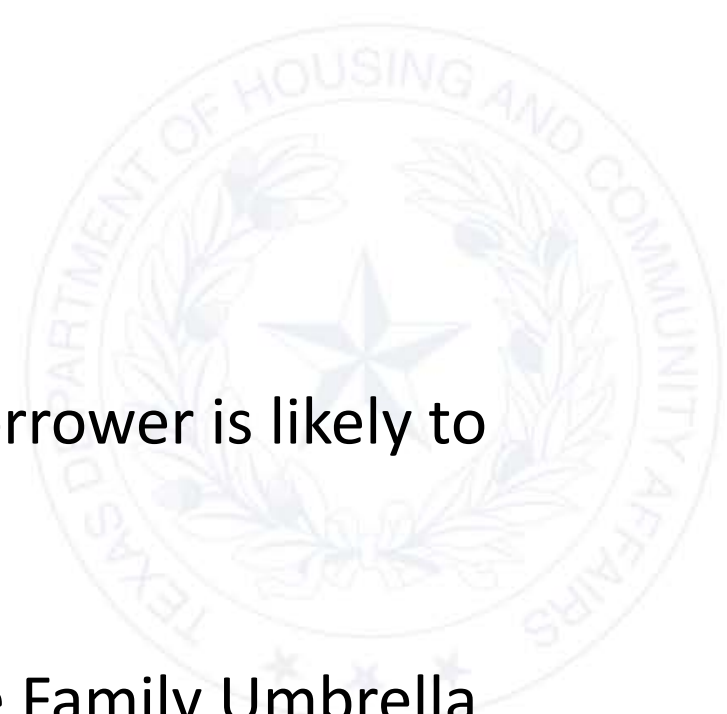
12/13/2019

Section 1: Overview



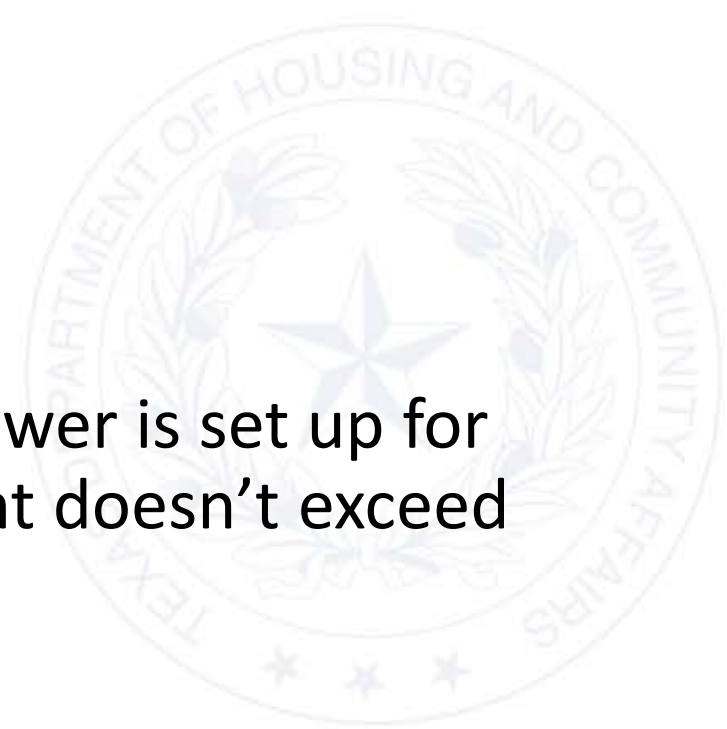
What is loan underwriting?

- Loan underwriting is the process used to determine if a borrower is likely to repay a loan based on the agreed upon terms
- TDHCA's underwriting guidelines are included in the Single Family Umbrella Rule at [10 TAC Chapter 20.13](#) and in the HOME Program Rules at [10 TAC Chapter 23](#).
- Loan underwriting is required for any repayable mortgage loan issued by TDHCA, including HOME repayable loans under Single Family Development (SFD) and Homebuyer Assistance with New Construction (HANC)



Why does TDHCA require underwriting?

- TDHCA requires underwriting to ensure that the borrower is set up for successful repayment by making sure that the payment doesn't exceed the ability to repay.
- HOME requires additional underwriting to ensure that the borrower is not over subsidized as required by the HOME Final Rule at 24 CFR 92.250.



Parties to the Loan

- Assisted households are comprised of persons who have different roles as it relates to the loan:
 - Borrower– The borrower is the primary member of the assisted household who is requesting a mortgage loan
 - Co-Borrower – The co-borrower is any adult household member who is not the primary borrower, but will be included on the loan
 - Non-Purchasing Spouse – A non-purchasing spouse is the spouse of the borrower who will not be included on the loan documents.
 - Other household members – Some household members, such as minor children, cannot be co-borrowers. The household may also elect to exclude other adult household members from the loan entirely, such as adult children and other adults living in the home.

Section 2: Applying Qualifying Income



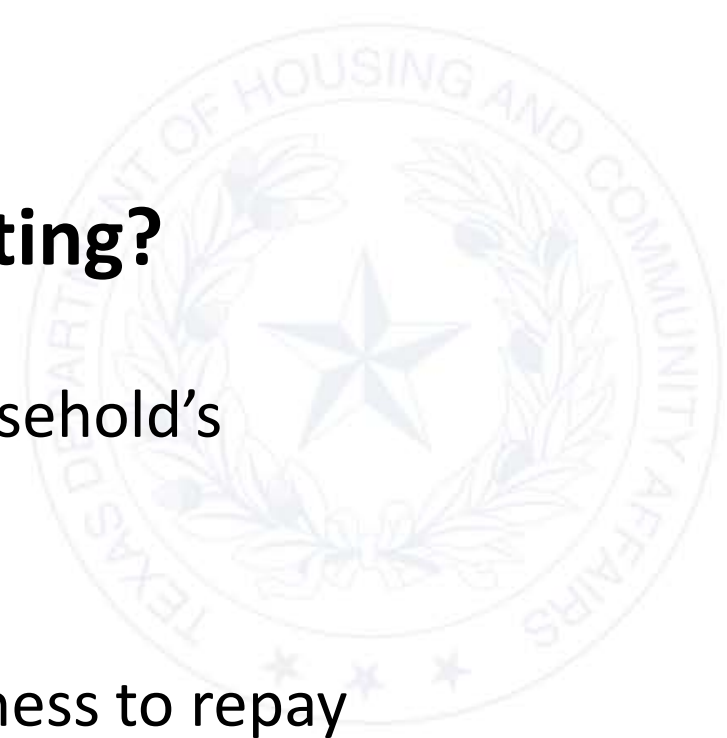
What is Qualifying Income?

- Qualifying Income is defined at 10 TAC 20.3(a)(51) as:

The income used to calculate the Applicant and co-Applicant's debt-to-income ratio and excludes the total of any income not received consistently for the past 12 months from the date of Application including, but not limited to, income from a full or part time job that lacks a stable job history, potential bonuses, commissions, and child support. Income received for less than 12 months such as retirement annuity or court ordered payments will be considered only if it is expected to continue at least 24 months in the foreseeable future.

Why do we use Qualifying Income for underwriting?

- Loan Underwriting is the process used to determine a household's
 - Willingness to repay a mortgage loan and
 - Ability to repay a mortgage loan.
- Credit History is used to determine the borrower's willingness to repay
- Qualifying Income is used in conjunction with the monthly debts and obligations to determine a borrower's ability to repay
- Some income included in eligibility income is excluded from Qualifying Income.



What about Part 5 Income?

- Part 5 income is the income definition utilized by the HOME Program to determine income eligibility to participate, or eligibility income.
- Part 5 income will still need to be calculated to determine whether the household qualifies for HOME assistance.
- Eligibility Income must be at or below 80% AMFI
- Eligibility income will help determine the minimum housing payment under the HOME Program rules

Qualifying Income VS. Eligibility Income

Eligibility Income

- All household members included
- Determines eligibility for HOME Program per the federal requirements and minimum housing payment
- Compared to the Income Limit (80% AMFI) to determine eligibility
- Includes all types of income

Qualifying Income

- Only the borrower and co-borrower's income is counted
- Determines income used to qualify for a HOME Repayable loan
- Does not include all income types
- Is not compared to the Income Limit



Part 5 Income

- All household members
- Includes gift income
- Includes all bonuses and commissions
- May include court-ordered payments that are not actually received, like child support
 - Includes imputed asset income
- Includes income that is temporary in nature

Qualifying Income

- Borrower and Co-Borrower income only
 - Does not include gift income
- Does not include temporary (less than 24 months remaining) income
 - Does not include awarded amounts not received
 - Does not include any imputed income

Eligibility and Qualifying Income for Underwriting

Eligibility Income Use and Calculation

- Eligibility Income $\leq 50\%$ AMFI:
 - Minimum housing payment must be $\geq 15\%$ of monthly eligibility income
- Eligibility income $> 50\%$ AMFI:
 - Minimum housing payment must be $\geq 20\%$ of monthly eligibility income

Qualifying Income Use and Calculation

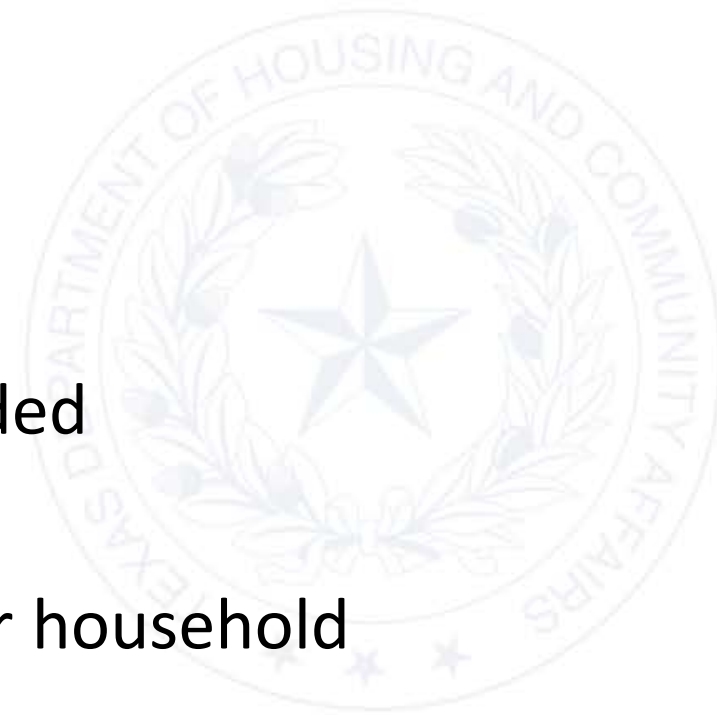
- Total debt service, including the monthly housing payment, may not exceed 45% of monthly qualifying income.

Section 3: Qualifying Income Inclusions



Income Inclusion for Qualifying Income

- Only income for borrower and co-borrower(s) is included
- Income for non-purchasing spouses and non-borrower household members is excluded
- Only certain types of income count.



Documenting Income from Employment

- For HOME Repayable Loans, it is strongly recommended that Administrators utilize the Verification of Employment (VoE) form to document income from employment.
- Pay statements or check stubs may be utilized, but at least 12 months of employment history must be documented for Qualifying Income, and the VoE reduces the paperwork requirements as it may be utilized for both Eligibility Income and Qualifying Income documentation.
- If the borrower or co-borrower has changed employers within 12 months, additional Verification of Employment may be necessary.

Income from Employment - No Changes for 12 Months

- Gross amount of annual wages and salary calculated in accordance with Part 5 for the borrower and co-borrower(s) may be included as Qualifying Income if income has been in place for at least 12 months.
- Length of employment may be verified with a Verification of Employment (VoE) form.
- Exclude bonuses and commissions that are not expected to continue annually. This may be confirmed with a VoE or letter from the employer.

Income from Employment – Pay rate at same employer differs

- When the amount of pay has changed within 12 months with the same employer, and the pay has changed due to a change of position or hours worked, utilize the current pay rate as shown on the Verification of Employment.
- Pay statements may be utilized, but cannot evidence expected continuation of bonuses and/or irregular commissions for inclusion as Qualifying Income.

Income from Employment – New Employer within 12 months

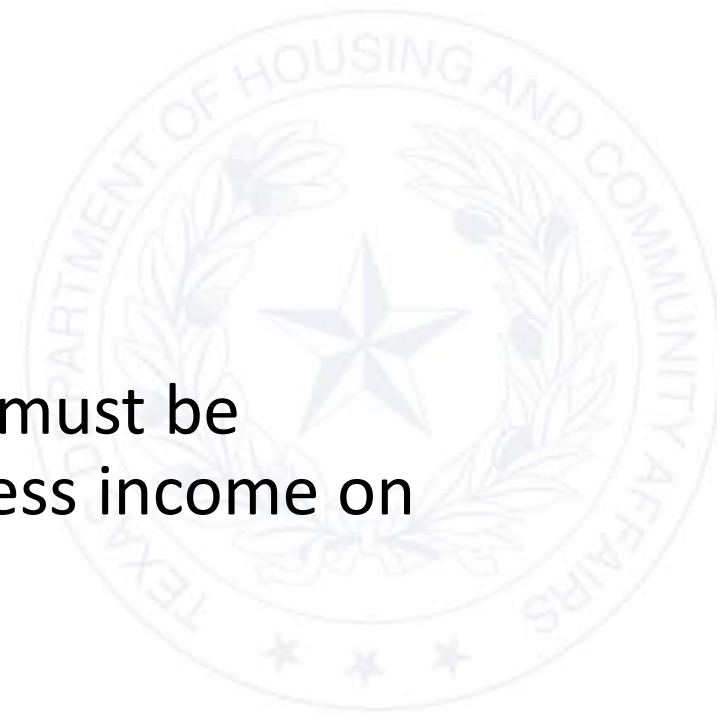
- When employment income has changed within 12 months of the loan application due to a change of employer:
 - Request Verifications of Employment from prior employers to verify no gap in employment that lasted more than 30 days.
 - If there was a gap in employment that lasted more than 30 days, the Borrower will need to submit a letter of explanation for review.
 - If Verification of Employment from a former employer is not available, federal tax returns indicating employment stability may be considered mitigating documentation if they evidence stable employment history.

Income from Retirement, Pension, Annuity, and Trust Accounts

- The gross amount of annual payments to the Borrower and Co-Borrowers from any retirement, pension, annuity or trust accounts is included as Qualifying Income if the payments will continue for at least 24 months.

Social Security, Veterans Administration, and Other Benefits

- The gross amount of annual payments to the Borrower and Co-Borrowers calculated in accordance with Part 5 are included as Qualifying Income if they are expected to continue for at least 24 months.



Income from a Business

- Self-employment income, or income from a business, must be documented with tax returns that show the net business income on Schedule C.
- A minimum of 2 years of tax returns must be provided.

Court Ordered Payments

- The gross amount of court-ordered payments to the Borrower and Co-Borrowers is included as Qualifying Income if:
 - The payments are actually being received AND
 - The payments are expected to continue for at least 24 months.



Questions about Qualifying Income Inclusions?



Section 4: Qualifying Income Worksheet



Loan Tool Workbook Overview

- The Loan Tool Workbook contains 4 worksheets:
 1. Qualifying Income Worksheet for Repayable Loans
 2. Buyer's Closing Cost Estimator
 3. HANC Loan Analysis
 4. SFD Loan Analysis
- The Qualifying Income Worksheet and the Buyer's Closing Cost Estimator feed information into the Loan Analysis for both HANC and SFD



Qualifying Income Worksheet



Qualifying Income Worksheet for Repayable Loans



Enter the requested information into the yellow cells.

Part I. General Information

Administrator/CHDO: Contract Number:

Part II. Borrower Information

Household Member Role	Last Name	First Name and Middle Initial	Relationship to Borrower	Date of Birth
Borrower			Self	
Co-Borrower 1				
Co-Borrower 2				

Part III. Employment Income

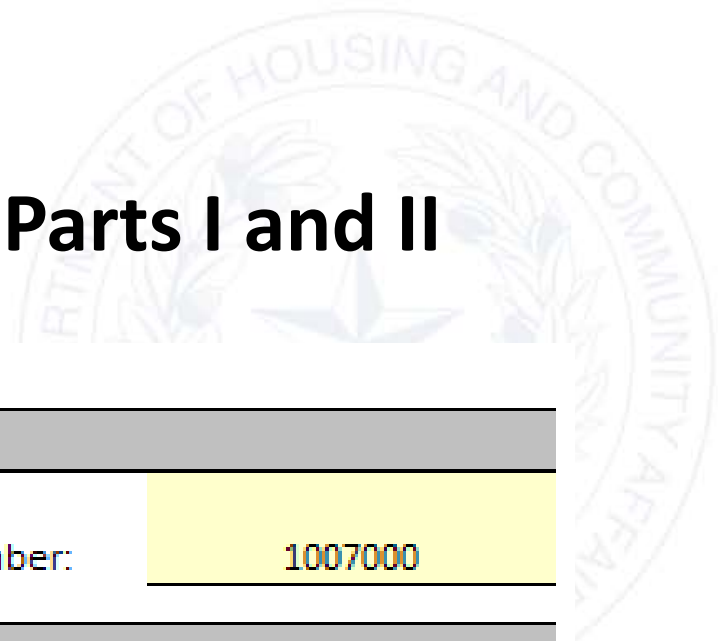
	Annual Wages/Salary <i>(May include bonuses/commissions only if received regularly for at least 12 months)</i>	Source of Income (Name of Employer)	Length of Time with Employer	Current employment term is less than 12 months and additional documentation is attached
Borrower	\$ -	\$ -		
Co-Borrower 1	\$ -			
Co-Borrower 2	\$ -			
	\$ -			

Part IV. Other Income. Include only if expected to continue for at least 24 months.

Household Member Number	Retirement/Pension/Annuity/Trust	Social Security/SSI/SSDI/VA Benefits/Other Benefits	Court-Ordered Payments (Child support, spousal support, etc.)	Net Self-Employment/Business Income
Borrower	\$ -	\$ -	\$ -	\$ -
Co-Borrower 1	\$ -	\$ -	\$ -	\$ -
Co-Borrower 2	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -	\$ -

Annual employment income from retirement, annuity, trust, or

TOTAL HOUSEHOLD QUALIFYING INCOME: \$ -



Completing the Qualifying Income Worksheet – Parts I and II

Enter the requested information into the yellow cells.

Part I. General Information			
Administrator/CHDO:	Rural Texas CDC	Contract Number:	1007000

Part II. Borrower Information				
Household Member Role	Last Name	First Name and Middle Initial	Relationship to Borrower	Date of Birth
Borrower	Smith	Robert	Self	1/2/1975
Co-Borrower 1	Smith	Barbara	Spouse	2/3/1977
Co-Borrower 2				

Part III. Employment Income

Household Member Role	Last Name	First Name and Middle Initial	Relationship to Borrower	Date of Birth	Employment

Spouse
Sibling
Parent
Adult Child
Other

Completing the Qualifying Income Worksheet – Part III

Part III. Employment Income				
	Annual Wages/Salary <i>(May include bonuses/commissions only if received regularly for at least 12 months)</i>	Source of Income <i>(Name of Employer)</i>	Length of Time with Employer	Current employment term is less than 12 months and additional documentation is attached
Borrower	\$ 29,800.00	Texas Home Health	12 months or more	No
Co-Borrower 1	\$ 18,000.00	Texas ISD	Less than 12 months	
Co-Borrower 2	\$ -			Yes
	\$ 47,800.00			No

Completing the Qualifying Income Worksheet – Part IV

Part IV. Other Income. Include only if expected to continue for at least 24 months.				
Household Member Number	Retirement/Pension/Annuity/Trust	Social Security/SSI/SSDI/VA Benefits/Other Benefits	Court-Ordered Payments (Child support, spousal support, etc.)	Net Self-Employment/Business Income
Borrower	\$ -	\$ -	\$ -	\$ -
Co-Borrower 1	\$ -	\$ 7,200.00	\$ -	\$ -
Co-Borrower 2	\$ -	\$ -	\$ -	\$ -
	\$ -	\$ 7,200.00	\$ -	\$ -

Completing the Qualifying Income Worksheet – Part V

TOTAL HOUSEHOLD QUALIFYING INCOME:

\$

55,000.00

Part V. Certification Statement

Under penalty of perjury, Borrower(s) and Non-Purchasing Spouse certify that the information presented in this Qualifying Income Worksheet is true and accurate to the best of their knowledge and belief. The undersigned further understand that providing false representations herein constitutes an act of fraud. False, misleading or incomplete information may result in the termination from the HOME Program.

Borrower Signature

Date

Co-Borrower 1 Signature

Date

Co-Borrower 2 Signature

Date

Administrator/CHDO Signature

Date

Questions about Qualifying Income Worksheet?





For more information, contact:

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