



Home First Gross Annual Compliance Income Calculation Guidance

What You Need to Know:

- Document your calculations so NH Housing staff can understand how you arrived at the Gross Annual Compliance Income.
- Each loan file will have two income calculations:
 - For **qualifying income**, follow industry standard documentation and calculation requirements. **Under no circumstance shall this income exceed NH Housing's annually published Income Limit.**
 - For Home First **Gross Annual Compliance Income**, provide documents dated within four months of the closing date to support your compliance calculations. Within those four months, use the most recent information available.

Questions?

- Have your underwriter contact the underwriting team at underwriters@nhhfa.org.

Include Gross Annual Compliance Income from the following people:

- A person who will have title to the property and will sign the mortgage. (i.e., a borrower)
- A person expected both to live in the residence being financed and to sign the mortgage note (i.e., an occupant co-signer) or be on title.
- A non-occupant that is both a borrower and on title.

Include the following income type(s) and use the Gross Annual Compliance Income calculation worksheet to show your calculations, per guidance reflected in charts:

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|--------------------------------------|--|
| ○ Base Pay from an Employer | ○ Rental Income for Property Being Purchased |
| ○ Additional Income from an Employer | ○ Investment Property Net Rental Income |
| ○ Employee Allowances | ○ Child/Spousal Support |
| ○ Self-Employment/Business Income | ○ Regular Cash Contributions |
| ○ Income from Financial Assets | ○ Other Sources of Income |
| ○ Insurance or Benefit Payments | ○ Government Transfer Payments |

Income exclusions: Include all income unless specifically listed as excluded below. A complete list is provided in the following pages:

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| ○ Casual, sporadic, or irregular gifts | ○ Lottery Winnings, if paid in lump-sum |
| ○ Medical or education expense reimbursements | ○ Lump-sum additions to assets, such as worker's compensation, insurance claims and/or settlements |
| ○ Hazardous duty pay to Veterans exposed to hostile fire | ○ Delays in processing periodic benefits such as welfare, unemployment, and SS income |
| ○ Foster care payments | ○ Scholarships for education |
| ○ Income from children under 18 | ○ Other specifics listed below |
| ○ Inheritances, if paid in lump-sum | |

Calculating Gross Annual Compliance Income: When calculating Program Eligibility Compliance Income, there are **two** types of income to consider – gross **income from an employer** and **income from all other sources**. Include all income unless specifically listed as excluded on this reference guide. Generally, income which is reasonably anticipated or expected to be received, must be included in the annual calculation.

SECTION 1 - Calculating Income from an Employer: Determine whether the borrower receives base pay only or a combination of **base pay** and **additional income from an employer**. Ask the employer for clarification if the Borrower has not been on the job long enough to establish a history.

Calculate Base Pay from an Employer

Calculate Base Pay from an Employer	
Definition/Inclusions	Exclusions
<u>Regular Hours/Pay:</u> Borrower is scheduled for the same number of hours per pay period. Gross salary or wage income from part-time, full-time, or seasonal work with regular hours/pay. <u>Irregular Hours/Pay:</u> Variable hours, seasonal work, etc., such as nursing, restaurant, construction, retail, or part-time work with varied hours or pay.	<ul style="list-style-type: none"> • Income no longer available • Income not yet earned (i.e., expected raise)
Guidance	
<ul style="list-style-type: none"> • Determine whether base pay is regular hours/pay or irregular hours/pay and follow the calculation instructions on the following pages. • Borrowers cannot manipulate income (quit job, etc.) to become eligible. • If new employment is secured before closing on a loan, income documentation or a regular paystub will be needed to confirm income. • If the borrower has a history of receiving a bonus and the written VOE supports the bonus is likely to continue, include a 2-year average. • If the borrower had income in the 4 months prior to closing and is currently looking for employment, include a 2-year average income (or available timeframe). • Include all income, including sick, holiday and vacation pay. • All income documentation is required and could include, but is not limited to paystubs, VOE, tax returns, W-2's, etc. • Seasonal work requires the same documentation as "Base Pay from an Employer, irregular hours/pay," but should also include any unemployment benefits, if applicable 1099s, tax returns, and/or verification from unemployment office to verify unemployment benefits. 	

Regular Hours/Pay

1. Determine frequency of income - weekly, bi-weekly, semi-monthly, etc.
2. Identify documentation needed to support payment frequency and calculation.
3. Apply Calculation - (Base Wage x Hours Worked in a Pay Period) x (# of Pay Periods Per Year)
4. This should approximate the annualized YTD on VOE or paystubs. If not, check for additional pay, such as overtime, bonus, shift differential, etc. (Employers don't always break this out on the VOE).
5. Don't double count by adding sick, vacation, and holiday earnings.
6. See "**Calculate Additional Pay from an Employer**"

Hourly pay	Bi-weekly pay	Semi-Monthly pay
Multiply the pay per hour by the number of hours worked per week. Multiply total by 52 weeks a year.	Multiply the bi-weekly pay by 26.	Multiply the semi-monthly pay by 24.
Example: 1. \$15 per hour x 40 hours a week = \$600 2. \$600 x 52 weeks a year = \$31,200 3. \$31,200/12 = \$2,600 gross monthly base pay	Example: 1. \$1,200 every two weeks x 26 pay periods a year = \$31,200 2. \$31,200/12 months = \$2,600 gross monthly base pay	Example: 1. \$1,300 semi-monthly pay x 24 pay periods a year = \$31,200 2. \$31,200/12 months = \$2,600 gross monthly base pay

Irregular Hours/Pay

1. Use YTD Earnings total. If using a different timeframe, the underwriter should provide documentation and an explanation to support using a different timeframe.
2. To annualize, divide the resulting amount by the number of months and days worked, and then multiply that number by 12 months to get total average pay from an employer.

Calculate Additional Pay from an Employer

Additional Income from an Employer	
Definition/Inclusions	Exclusions
Income over and above base pay, such as overtime, shift differential, bonuses, profit-sharing, tips, commissions, incentives (opt-out health insurance) etc. Income is counted regardless of the currency in which it is paid (i.e., U.S. Dollars or virtual currency).	One-time (non-recurring) income; i.e., income received once that does not have a history and is unlikely to reoccur in the future, employer provides written notice additional pay is ending.
Guidance	
<ul style="list-style-type: none"> • Documentation of additional pay could include, but is not limited to, paystubs, VOE, etc. • Always use YTD for overtime (unless employer and income history verify OT was for one-time, special project, etc.), commissions, bonuses, shift differentials, and sick/vacation/holiday pay (if not already included in base pay). If using a different timeframe, the underwriter should provide documentation and an explanation to support using a different timeframe. • Include all income that is included in the YTD Earnings Total on a paystub or on a VOE. Virtual currency as compensation for services: Calculate as you would with other income, with frequency documented. For such calculations, use the fair market value of the virtual currency on the date received. Virtual currency documentation may include but is not limited to printouts or screenshots of virtual wallets, ledgers, receipts, etc. Virtual currency income from an employer is included in "Wages, tips, other compensation" reported on Form W-2. 	

1. Review the earnings section of paystub or VOE and add up all additional income that is included in the YTD earning total and not included in base pay. (Sick, vacation, holiday (unless considered OT), etc. are generally included in base pay).
2. Add YTD additional pay total, if available on a VOE. If using a different timeframe, the underwriter should provide documentation and an explanation to support using a different timeframe.
3. To annualize, divide the resulting amount by the number of months and days worked, and then multiply that amount by 12 months to get an average of Additional Pay from an Employer.

SECTION 2 - Calculating Income from Other Sources: Determine if there are other sources of income, apart from wages from an employer.

Employee Allowances		
Definition/Inclusions	Exclusions	Guidance
Housing, car/mileage, cell phone, hand tools, per diems, etc.	<ul style="list-style-type: none"> • Reimbursements for specific employee business expenses, such as mileage reimbursements for a business trip 	<ul style="list-style-type: none"> • Include all allowances, per diems or stipends as income. • Include job-related unreimbursed expenses (i.e., union dues, computer/phone purchase, supplies needed, required training, etc.) These expenses cannot be deducted from eligibility income.
Self-Employment/Business Income		
Definition/Inclusions	Guidance	
Individuals who earn their income through conducting a trade or business that they directly operate instead of working for an employer who pays them a salary or a wage.	<ul style="list-style-type: none"> • Determine self-employment income for annual income calculation • Use the most recent two-years' federal income tax returns, if available, and YTD Profit and Loss statement to determine the higher income. • Self-employment income documentation is required, and may include, but is not limited, to: <ul style="list-style-type: none"> ○ Tax returns (signed/dated) and/or tax transcripts, including all schedules, most recent two-years ○ Tax form(s) Schedule K-1 (Form 1120S, 1065) ○ YTD Profit & Loss Statement(s) (signed/dated) • Request additional supporting documentation (i.e., current balance sheet and income statement) when necessary (to support P&L or other income documentation). • Include/add depreciation/depletion, if reported. Please refer to income worksheet. • For "business use of home" deduction, <u>Max 15% is allowable</u>, in a trade or business (See Form 8829, line 3) • If a net loss, use \$0. Do not subtract the loss from the Gross Annual Compliance Income calculation. • If using a different timeframe to better reflect the borrower's current income, the underwriter should provide documentation and an explanation to support using a different timeframe. 	

Income from Financial Assets		
Definition/Inclusions	Exclusions	Guidance
<p>Income from: trusts, annuities, dividends, royalties, interest earned from non- retirement accounts (savings, checking, money market, investments, virtual currency, mutual funds, etc.), certificate of deposit. Normal and/or required minimum distributions (RMD) taken yearly and evidenced by 1099-R</p> <ul style="list-style-type: none"> • Most recent year's tax return may be required. 	<ul style="list-style-type: none"> • One-time lump sum payments • Distributions from investments in retirement accounts (IRA, VIP, 403(b), 401(k)) • Any cash withdrawals from retirements accounts 	<ul style="list-style-type: none"> • Always check tax returns and/or related income documentation provided from 1099-R (for code distribution), 1099-INT and 1099-DIV, etc. for income from financial assets (including virtual currency). • Include average of periodic payments, including recurring, lump-sum payments. • Where assets after closing exceed \$5,000, calculate interest income based on the greater of actual income or imputed income based on the current passbook savings rate, as determined by HUD. <ul style="list-style-type: none"> ○ Additional guidance on virtual currency as an investment: Follow IRS guidance. See the IRS FAQs on Virtual Currency
Insurance or Benefit Payments		
Definition/Inclusions	Exclusions	Guidance
<p>Periodic payments derived from:</p> <ul style="list-style-type: none"> • Long-term care insurance • Disability insurance • Pensions • Death benefits 	<p>Do not include one-time, lump- sum payments.</p>	<p>Include periodic insurance or benefit payments at current level.</p>

Government Transfer Payments		
Definition/Inclusions	Exclusions	Guidance
<p>Government transfer payments involve payments for which no current services are performed and are a component of personal income.</p> <ul style="list-style-type: none"> • Retirement benefits • Disability benefits • Income maintenance benefits • Pensions • Veterans benefits • Veterans Education benefits • Federal education & training assistance • Public assistance • Adoption assistance (in excess of \$480 per adopted child) • Worker's compensation • Social Security benefits • Unemployment insurance compensation 	<ul style="list-style-type: none"> • Food stamps • Government-paid childcare paid directly to the provider • Foster care income • Section 8 vouchers • Survivor benefits received on behalf of minor children • Adoption Assistance/Subsidy for children with special needs 	<ul style="list-style-type: none"> • Include all sources of this income at current level. Do not gross up.
Rental Income for Property Being Purchased		
Definition/Inclusions	Exclusions	Guidance
Income from rental property being purchased	Income from Unit being occupied by buyer	<p>To calculate the effective income from the subject property where the borrower does not have a history of rental income from the subject property since the previous tax filing, the Mortgagee must use the lesser of</p> <ul style="list-style-type: none"> • The monthly operating income reported on Fannie Mae Form 216 • 75% of the lesser of: <ul style="list-style-type: none"> ○ Fair market rent reported by the appraiser or ○ The rent reflected in the lease or other rental agreement
Investment Property Net Rental Income		
Definition/Inclusions	Exclusions	Guidance
Income from an Investment Property	Potential roommate income or rental income of future duplex or accessory dwelling unit	<p>Calculate investment property net rental income</p> <ul style="list-style-type: none"> • Calculate the net Rental Income by averaging the amount shown on the Schedule E, provided the Borrower continues to own all Properties included on the Schedule E. Depreciation or Depletion shown on Schedule E may be added back to the net income or loss.

Child/Spousal Support		
Definition/Inclusions	Exclusions	Guidance
Child support, childcare, alimony, spousal maintenance	Court-ordered support not received; must document support was not received	<ul style="list-style-type: none"> • Use average of actual support received. • Review divorce/child support agreement. • Check with county social service agency to determine whether any payment adjustments have been made since the original payment schedule. • Cross-check payment schedule with bank statements, etc. • Contact NH Housing if less than six months remain.
Regular Cash Contributions		
Definition/Inclusions	Exclusions	Guidance
Regular cash contributions from residents and non-resident(s)		Check bank statements for regular cash contributions. Include all regular cash contributions from non-residents.
Other Sources of Income		
Definition/Inclusions	Exclusions	Guidance
<p>Contract-for-deed interest income</p> <p>Any other sources of income as identified or represented in the loan file and applicable documentation.</p> <p>Gambling winnings (unless proof of one-time earning is provided); gambling losses cannot be deducted from winnings.</p>	<p>Loans; scholarships; grants and tuition reimbursement; Earned Income Tax Credit refund payments; health insurance premium reimbursements (deducted from gross pay) and any out-of-pocket expense (co-pays etc.) reimbursements</p> <p>One-time lump sum (non-recurring) payments from:</p> <ul style="list-style-type: none"> o Inheritances o Insurances settlements o Lottery winnings o Gambling winnings o Capital gains o Liquidation of assets o Settlements for personal loss 	<p>Always include other sources of income not specifically excluded.</p> <p>For contract-for-deed interest income, include interest portion of payments per the terms of the agreement/contract.</p>