USDA

United States Department of Agriculture
Rural Development

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Rural Development Texas AN No. 575 (3550)

TO: All Offices
USDA Rural Development, Texas

March 25, 2003

FROM: Bryan Daniel
State Director
USDA Rural Development, Temple

SUBJECT: Authorization to "Gross Up" Non-Taxable Income for Direct Section 502 Loans.

PURPOSE/INTENDED OUTCOME: The purpose of this Texas Administrative Notice (AN) is to grant exceptions to the standard method of determining repayment ability when there is non-taxable income as described in HB-1-3550, "Field Office Handbook".

COMPARISON WITH PREVIOUS AN: This AN replaces Texas AN No. 562 (3550) which expired on January 31, 2003.

IMPLEMENTATION RESPONSIBILITIES: USDA Rural Development employees will review and process non-taxable income in the manner described below.

The standard Principal, Interest Taxes and Insurance (PITI) ratio and Total Debt (TD) ratio limitations are based on an assumption that the applicant's income is taxable. HB-1 3550, Chapter 4, paragraph 4.25 A. states that exceptions to the standard method of determining repayment ability may be made, if there is information that indicates that the prospective borrower may be able to make larger regular loan payments than the ratio analysis suggests. Exceptions to the standard method of computing income are called compensating factors. HB-1 3550, Chapter 4, paragraph 4.25 A. 4. states that the income of applicants may be multiplied by 120 percent if the income is non-taxable. According to HB-1-3550 paragraph 4.25 compensating factors require State Director approval. **This AN delegates the authority to "gross up" non-taxable income by 120 percent to field office employees.**

In cases where a Section 502 applicant is not able to show repayment ability, field office employees are hereby authorized and directed to "gross up" any non-taxable income by 120 percent. "Grossing up" of non-taxable income will be calculated in every case where ratios limit the loan amount to an amount less than the amount needed to purchase a particular home.

EXPIRATION DATE:
February 29, 2004

FILING INSTRUCTIONS:
HB-1- 3550
State Supplements

USDA Rural Development is an Equal Opportunity Lender,
Provider and Employer. Complaints of discrimination should be
sent to: USDA, Director, Office of Civil Rights, Washington, DC 20250-9410

By "grossing up" the non-taxable income in every situation where it is needed to show repayment, we will be treating all applicants with non-taxable income fairly. Requests for "grossing up" of non-taxable income, in excess of 120 percent, must still be submitted (along with justifications) to Rural Housing Programs for State Director Approval.

By adjusting or "grossing up" the applicant's non-taxable income in the amount of 120 percent, the applicant may have repayment ratios which conform to the requirements of HB-1-3550. Non-taxable income may be "grossed up" in UniFi by entering it as Annual Non-taxable Income on the Household Member's screen in the Prequalification or Underwriting area of UniFi. It will then show as "grossed up" income on the Section 502 Worksheet. "Grossing up" of non-taxable income only applies to direct Section 502 program loan applicants. It may not be used for co-signers.

Please contact Leon Carey, Rural Housing Programs, if you have any questions.

Attachment

Some types of income that generally are not taxable include:

1. Child support payments.
2. Welfare benefits.
3. Life insurance proceeds that are received because of the death of an individual.
4. Interest on state or local government obligations.
5. Accident and health insurance proceeds, including certain long term care insurance contracts.
6. Certain property received as a gift or inheritance.
7. Benefits received under any law administered by the Department of Veteran's Affairs.
8. Amounts received under a worker's compensation act for an occupational sickness or injury.
9. Qualified education IRA distributions.
10. Certain Roth IRA distributions.
11. All or a portion of Social Security or equivalent Railroad Retirement Benefits may be nontaxable.

Some scholarship and fellowship grants may be non-taxable.