



UNITED STATES
DEPARTMENT OF
AGRICULTURE

RURAL
DEVELOPMENT

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SFH SECTION

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Rural Development Texas AN No. 526 (3550)

January 7, 2000

SUBJECT: State Director Authorization to "Gross Up" Non-Tax Income for Section 502 Loans.

TO: All Offices
Rural Development, Texas

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: There are no previous ANs issued on this subject.

IMPLEMENTATION RESPONSIBILITIES: 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 7, paragraph 7.16 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. According to HB-1-3550 (7.16) compensating factors require State Director approval.

HB-1 3550, Chapter 7, paragraph 7.16 A.4. states that the income of applicants may be multiplied by 120 percent if the income is non-taxable. By adjusting or "grossing up" the applicant's non-tax income in the amount of 120 percent, the applicant may have repayment ratios which conform to the requirements of HB-1 3550. Non-tax 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 show as "grossed up" income on the Section 502 Worksheet.

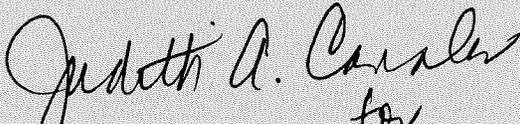
EXPIRATION DATE: December 31, 2000

FILING INSTRUCTIONS: SFH 3550
Field Office Handbook,
State Supplements

*Rural Development is an Equal Opportunity Lender
Complaints of discrimination should be sent to:
Secretary of Agriculture, Washington, DC 20250*

In cases where the applicant is not able to show repayment ability, field office employees are hereby authorized to (and will) "gross up" any non-tax income by 120 percent. "Grossing up" of non-tax 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. By "grossing up" of the non-tax 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 the SFH section for State Director Approval.

Please contact Leon Carey or Scooter Brockett in the Single Family Housing Section if you have any questions.


STEVEN A. CARRIKER *for*
State Director

Attachments

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. See IRS Topic 423 for more information.

Some scholarship and fellowship grants may be non-taxable. See IRS Topic 421.

For more information on non-taxable income read the following IRS Tax Topics on the IRS web site:

Non-Taxable Income

http://www.irs.ustreas.gov/plain/tax_edu/teletax/tc422.html

Social Security Benefits

http://www.irs.ustreas.gov/plain/tax_edu/teletax/tc423.html