3 – ELIGIBLE BORROWERS

NON DISCRIMINATION

All applicants must be considered irrespective of age, race, color, religion, national origin, sex, marital status or physical handicap.

IRS TAX CODE COMPLIANCE

To be eligible for a Mortgage Loan, the applicant must satisfy the requirements of the IRS Code described in this section. The Commission requires documentation that the loan applicant meets these requirements and is eligible to receive a Mortgage Loan.

RESIDENCY TYPE REQUIREMENTS

In order to be named on the Note and/or Deed of Trust, a person must meet the guidelines established by the loan type originated under the Program.

Documentation Required. The Commission requires the same documentation used to meet the guidelines established by the loan type originated under the Program.

Eligible borrowers are either U.S Citizens or Non-U.S. Citizens as follows:

- **U.S. Citizen:**
  - The borrower must have a valid social security number and be a citizen of the United States or of a U.S. Possession or Territory.
- **Non-U.S. Citizen:**
  - *Permanent Resident*: A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. Document with acceptable evidence of permanent residency issued by the Immigration and Naturalization Service (INS).

  OR
  - *Non-Permanent Resident:* A non-permanent resident is a non-U.S. citizen who lawfully enters the United States for specific time-periods under the terms of a visa. A non-permanent resident status may or may not permit employment. Document with acceptable visas: H-1, H-2A, H-2B, H-3, L-1, E-1, and G series.

DACA borrowers are not eligible under the program.

OCCUPANCY REQUIREMENT

All Borrowers must occupy the Single-Family Residence as their personal principal residence within 60 days from the date the Mortgage Loan is closed. At no time can the Single-Family Residence be used as an investment property, vacation or recreational home.

Documentation Required. At loan application, the Borrower(s) signs and the Mortgage Lender has notarized the Addendum to Residential Loan Application whereby the Borrower(s) attests that the Single-Family Residence intended to be purchased will be used as a personal principal residence.

FIRST-TIME HOMEBUYER REQUIREMENT

The Borrower(s) must be a First-Time Homebuyer unless the Single-Family Residence is located within a Targeted Area or the Borrower is a Veteran. A First-Time Homebuyer is defined as someone who has not owned <u>and</u> occupied a primary residence at any time in the three years preceding the closing of the Mortgage Loan. Please see Appendix IV for further information on the Veterans Exception.

A Borrower may qualify if they owned other property such as vacation property, a recreational vehicle, a mobile home (not affixed to real property and for which they paid no property tax or claimed a mortgage interest deduction), or if they inherited property in which they did not reside.

Documentation Required. The primary form of documentation is the federal income tax returns for the last three years submitted by the Borrower at loan application. The Mortgage Lender must examine the returns to determine that no mortgage interest or real estate tax deductions were taken.

DEFINITION OF HOUSEHOLD SIZE

Household size includes <u>all</u> persons who will permanently reside in the Single-Family Residence.

Household size does <u>not</u> include:

- dependents that are claimed on tax returns, but will not permanently reside in the home.

Household size does include:

- non-borrowing co-habitants that will reside in the Single-Family Residence (income must also be included in Annualized Gross Household Income for persons 18 years of age or older);
- persons who are full-time household occupants regardless of age;

- children expected to be born to a pregnant woman;
- children in joint custody arrangements who are present in the household 50% or more of the time;
- children who are away at school and who live at home during recesses.

CALCULATION OF INCOME FOR TAX COMPLIANCE PURPOSES

The income calculation described below for the purpose of determining Program loan eligibility for federal tax purposes is an entirely different process than the one used for credit underwriting.

The income used for Program purposes is the anticipated (future) income for the 12 months following Mortgage Loan closing. The income used to qualify the Borrower(s) for credit underwriting may not exceed the income used to qualify for Program compliance. (Exception: foster care payments may be used for credit underwriting even though they are excluded for Program loan eligibility. See also "Examples of Income to Include or Not to Include" in this Section.).

The household income of a Borrower is referred to as the Borrower's "annualized gross (before any taxes or deductions) household income." Annualized Gross Household Income is defined as the Borrower's gross monthly household income multiplied by 12. Gross monthly household income is the sum of: monthly gross pay; any additional income from overtime, part-time employment, bonuses, dividend, interest, royalties, pensions, IRAs. 401(k) plans, Veterans Administration (VA) compensation, net rental income, etc.; and other income (such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments.)

Income from all sources must be verified and included when calculating an applicant's gross monthly household income. The income of all residents 18 years or older (related and unrelated) must be included in the calculation of Annualized Gross Household Income and may not exceed the Program limits established by the Commission at the time of loan closing. These limits are located under the heading "Maximum Total Annual Income" in this section of the Program Manual.

To determine Annual Gross Household Income for full-time employment, multiply

- hourly wages by 2080
- weekly wages by 52
- bi-weekly wages by 26
- semi-monthly wages by 24
- monthly wages by 12

To determine Annual Gross Household Income for less than full-time employment, multiply:

- hourly wages by the number of hours the person is expected to work per week x 52. If a range of hours is given, you must use the highest number of hours. If this puts the household over income, you may need to contact the employer and clarify.

  If the hours are irregular, average the number of regular hours at current regular pay rate and average the overtime hours times current overtime rate.

CURRENT PERIOD

Lenders must determine the household earnings for the "current period." The "current period" begins with the pay period prior to the date of loan application and ends at loan approval.

VERIFICATION OF INCOME

In order to accurately determine "current period" income, all income earners in the household over the age of 18 years of age must provide paycheck stubs or other earnings statement for each source of income for each household resident over the age of 18 years preferably within the 30 day period prior loan closing.

The purpose of these earnings statements is to accurately delineate the current household earnings for a minimum of one pay period.

A full written Verification of Employment from the Borrower's current employer(s) is also required to verify pay raises, bonuses, overtime, and hours worked per week. Paycheck stubs do not always provide this breakdown of information.

Mortgage Lenders must include a copy of the calculation if income is from a source other than a monthly salary.

MAXIMUM TOTAL ANNUAL INCOME

To be eligible for a Program loan, an applicant's Annualized Gross Household Income must not exceed the following Program income limits at the time of loan closing:

For other reservations:

	Non-targeted		*Targeted*	
County	*1-2 persons*	*3 or more persons*	*1-2 persons*	*3 or more persons*
Jefferson/Skagit/Whatcom Island/Kitsap/Thurston	$70,000	$80,000	$70,000	$80,000
Clark/Pierce	$80,000	$90,000	$80,000	$90,000
San Juan	$75,000	$90,000	n/a	n/a
King/Snohomish	$90,000	$97,000	$90,000	$97,000
All Other Counties	$65,000	$75,000	$80,000	$85,000

EXAMPLES OF INCOME TO INCLUDE OR NOT TO INCLUDE

The following guidelines are provided as a general computational aid and may not apply to all situations. Please call the Commission for assistance whenever in doubt as to the correct way to calculate income.

1. **<u>Overtime:</u>** Income earned from overtime will be included if the Borrower has a history of such income or if the income was earned during the "current period." The Mortgage Lender must not include more overtime income in qualifying the Borrower for the Mortgage Loan than is used in determining income for Program compliance. To calculate overtime for compliance purposes, first consider the amount earned during the "current period" and annualize it. If the Borrower claims that the overtime earned in the "current period" is excessive or unusual, the Mortgage Lender may average the number of hours of overtime worked during the previous two years. Multiply the average monthly hours by the current rate of overtime pay and use that figure for overtime earnings.

2. **<u>Bonus:</u>** The gross amount of a recurring bonus before any payroll deductions is to be included in the income calculation when the following applies:
   a. The bonus is part of a collective bargaining agreement and must be paid; or
   b. The bonus is included in the computation of income by the employer; or
   c. There is a history of bonuses.

If the information is available, the amount of the bonus income to be included for compliance is the bonus paid or payable for the calendar year in which the loan is closed.

If there is a history of bonuses but the applicant does not know if a bonus is planned, nor does the employer divulge its plans for a bonus nor the projected bonus amount, the Mortgage Lender is to use an average of past years' bonuses to calculate income. A bonus history for tax compliance purposes is to be considered one year or more.

3. **Commissions:** Income derived from commissions should be based on the "current period" unless evidence is provided which justifies averaging the commissions. Under normal conditions, an individual who earns income based on commissions expects that his income will increase over time.

4. **Military Pay:** Include all regular pay, special pay, and allowances of a member of the military (whether or not living in the Single-Family Residence). Do not include special pay to a family member serving in the Armed Forces who is exposed to hostile fire.

5. **Self-employment:** The procedure for calculating Annual Gross Household Income for self-employed applicants is the same as under FHA, VA or Fannie Mae underwriting guidelines. As in standard underwriting, depreciation and depletion are to be added back to determine annual income. Tax returns, a current financial statement, and a self-employed cash flow analysis are required for all self-employment applicants. Two years signed corporate or partnership tax returns are required in addition to personal returns. In the case of negative income, self employment income is reflected as $0.00.

   Many applicants who are employed by others are also self-employed. These applicants derive their primary income from wages but also generate additional income from side jobs or consulting. Mortgage Lenders should watch for all types of self-employment (i.e., 1099 income received from an employer run through Schedule C, Form 2106, etc.)

6. **Child Support:** If a divorce decree states that child support is due to the applicant, then child support must be added to the Annual Gross Household Income for compliance purposes. Child support documentation is required. The only exception to this rule is if the child support is scheduled to come to the applicant through the courts or Department of Social and Health Services, and that agency provides written verification that the funds have not been received for six months or more.

7. **Alimony:** Alimony or separate maintenance payments received by the applicant must be taken into account in calculating income.

8. **Periodic Payments** – Payments received from social security, annuities, insurance policies, retirement funds, pensions, disabilities, or death benefits, and other similar types

of periodic receipts, including a lump-sum amount or prospective monthly amounts for delayed start of a periodic amount are included as income, except for deferred periodic amounts from supplemental security income and social security benefits that are received in lump-sum amounts or in prospective monthly amounts. These amounts are not grossed up for compliance purposes.

9. **Adoption Assistance Payments**: Adoption assistance payments in excess of $480 annually per adopted child are excluded from gross monthly household income.

10. **Foster Care Payments:** Payments received for the care of foster children are excluded from gross monthly household income. (See also "Foster Care in Home" in Section 4, Property Requirements.)

11. **Full-Time Student, 18 Years or Older:** Exclude earnings in excess of $480 annually for each full-time student 18 years or older from gross monthly household income unless that person is the head of household, spouse or co-head.

12. **Rental Property or Contract Income:** Net rental income is to be included. The use of standard underwriting criteria and procedures to document this income is acceptable. Depreciation should be added back to the net rental income where applicable. The standard vacancy factor for FHA, VA or Conventional loans is acceptable when calculating net rental income.

    Contract income must be included. If there is an underlying mortgage, the Mortgage Lender may use the net amount in calculating Annualized Gross Household Income.

13. **Gambling Winnings:** Money from gambling is considered to be income. One time gambling winnings should not be included as income and should be included when determining income from assets (See Income from Assets).

14. **Education Grants:** All forms of student financial assistance (grants, scholarships, educational entitlements, work study programs, and financial aid packages) are excluded from annual income. This is true whether the assistance is paid to the student or directly to the educational institution.

15. **Car Allowance:** Income received from employers for car allowance must be included in Annualized Gross Household Income if the applicant has no accounting responsibility to the company.

16. **Moving Expenses:** Moving expenses paid by the employer will not be considered as income if documented by the employer as reimbursement only. Do not deduct from income, any moving or relocation expenses not paid by the employer.

17. **Capital Gains/Losses:** Both the taxable and non-taxable portions of capital gains are to be included as income if a history of this income exists. If the two year average results in

a gain, then it must be added to gross monthly household income, and losses are to be disregarded. Losses cannot be used to reduce gross monthly household income.

18. **<u>401(k):</u>** The funds that the applicant contributes to a 401(k) savings plan are not taxable earnings and as such are not usually reflected in year-to-date earnings on pay stubs.

    These savings plans are voluntary and are actually a part of the applicant's earnings. When the Mortgage Lender calculates earnings the savings contribution must be added to the year-to-date figures.

19. **<u>Lump Sum Payments:</u>** Lump sum payments, including but not limited to, inheritances, re-enlistment bonuses, lottery winnings paid in one payment, and disbursements from insurance policies do not have to be included in Annualized Gross Household Income. Lump Sum payments should be included when determining income from assets (See Income from Assets). If the income is received in any other form other than lump sum (i.e., monthly, quarterly, or annually) it must be treated as permanent income and added to the Annualized Gross Household Income.

20. **<u>Inheritance and Trust Income:</u>** Income received from inheritances and trust funds will be regarded in the same way as all other income. If the distribution is made from an inheritance or trust fund in a lump sum, it will not be considered as part of Annualized Gross Household Income. If the distribution is other than a lump sum (annual, quarterly, or monthly), it will be added as part of Annualized Gross Household Income.

21. **<u>Income from Assets:</u>** Interest, dividend and royalty earnings are considered income. The cash value of all assets (including 401(k)'s, pension, retirement, CD's, annuities, stock, etc.) must be verified and listed on the Loan Application. The cash value is the total value less any penalties and fees for early withdrawal. Retirement accounts are included as assets only if the money is accessible, even though a penalty may be assessed. Do not include a retirement account if the funds are accessible only upon retirement.

    If it is estimated that the applicant will have $5,000 or more in the cash value of their assets at closing, after downpayment and closing costs, calculate the earnings at an interest rate based on HUD's passbook rate at the time the application is taken. Use the higher of this calculation or the actual income earned.

22. **<u>Withdrawal of Cash or Assets:</u>** Withdrawal of cash or assets from an investment (i.e. pensions and stocks) received as periodic payments should be counted as income unless the applicant can document that the amounts withdrawn are reimbursement of amounts originally invested. However, annuity or interest payments from an investment are considered income (See Income from Assets.

BORROWER/CO-BORROWER

For purposes of this Program, any person who signs the Mortgage Note, Deed of Trust and/or takes title to the Single-Family Residence is considered a "Borrower/Co-Borrower".

CO-SIGNER/GUARANTOR

The Commission defines a co-signer as a person who signs the Note, may or may not take title to the property, and is only responsible for payments if the primary Borrower does not make the payments. The Commission will not accept a non-occupant co-signer.

MARRIED INDIVIDUAL TAKING TITLE IN SEPARATE ESTATE

The spouse of a Borrower does not have to take title to the property. However, the spouse's income must be included on all Program documents and the spouse's tax returns for the past three years, paystubs and full written VOE must be included with the pre-closing compliance package regardless of occupancy.

If the Borrower is legally separated, the Mortgage Lender does not include the spouse’s income and does not need their tax returns.