



DEFINITION OF GROSS ANNUAL HOUSEHOLD INCOME FOR ALL FUNDING SOURCES

"Gross Annual Household Income" (Compliance Income) is the sum of the total anticipated income from all sources received by the proposed occupant of the single-family residence **during the 12-month period commencing with the date of initial occupancy (closing)**. Spouses and all other adults (18 years old or older) who intend to live in the property and who are not co-applicants and will not be on the Note or Deed must disclose all sources of income including any alimony or child support which they may be receiving. The non-applicant's income must be documented by providing current income documentation. Therefore, the income of the head of the household, spouse, co-head, other adults and 18 year-old and older household members must be counted to ensure the household does not exceed the income limitations.

Special Note: When New Bond Funds are being utilized and the property is located in a non-targeted area, the most recent three years of federal income tax returns will be required of all household occupants age 18 years and older.

KHC requires that all employment be verified. A current paycheck stub reflecting at least 30 days earnings and showing the total year-to-date earnings less than 60 days old at the time of underwriting is required on all current employment. If a detailed pay stub is not available, or the pay stub does not reflect year-to-date earnings, a certified payroll ledger from the employer showing total year-to-date earnings less deductions is required. KHC's Verbal Verification of Employment Form (Form 88) can be used **or a Verification of Employment must be obtained**. If Form 88 is used, the lender must also provide all W-2 forms for a two-year period. **The lender must also obtain a signed copy of form IRS 4506; request for copy of tax form or form IRS 8821.** (When a W-2 is provided indicating a previous employer or their Federal tax returns reflect income from a previous employer, the 1003 must state the ending month and year of the previous employment, a previous VOE must be obtained or the above Form 88 must be completed.) KHC will accept Veterans Administration (VA)'s Leave and Earnings Statement (LES) for active duty applicants in lieu of a Verification of Employment form when they are obtaining a VA loan.

Special Note: Only income that is considered to be stable and has a continuance for at least three years will be used as "effective income" to calculate the household's debt ratios.

COMPLIANCE INCOME INCLUDES:

- The full amount (before any payroll deductions) of wages and salaries (including projected raises identified on VOEs), overtime pay, commissions, fees, tips and bonuses and other compensation for personal services.

If overtime varies, the amount of overtime earnings may be determined by averaging the previous year's and year-to-date overtime if rate of pay has remained the same. If a pay increase has occurred, the increased rate must be used in the calculation. If the year-to-date overtime is more stable, only it will be used to determine an average to be used to calculate expected overtime for a 12-month period.

- The net income from the operation of a business or profession. A year-to-date profit and loss statement and a balance sheet must be provided. Expenditures for business expansion or amortization of capital indebtedness shall not be used as a deduction in determining net income. An allowance for depreciation of assets used in business or profession may be deducted, based on straight-line depreciation, as provided in Internal Revenue Service regulations. Any withdrawal of cash or assets from the operation of a business or profession will be included in income, except to the extent the withdrawal is a reimbursement of cash or assets invested in the operation by the household. If net income from a business is negative, it must be shown as zero income. The negative amount may not be used to offset other income of the household. The applicant must sign IRS Form 8821, which must be a part of the closed loan file submitted to KHC.
- Interest, dividends and other net income of any kind from real or personal property. Expenditures for amortization of capital indebtedness shall not be used as a deduction in determining net income. An allowance for depreciation is permitted only as authorized in the above paragraph. Any withdrawal of cash or assets from an investment will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested by the household.
- Earnings up to \$480 for each full-time student 18 years old or older (excluding the head of household, co-head and spouse).
- Income from assets. If the household has net family assets after loan closing less than \$5,000, the actual income from the assets must be estimated and included in the calculation of compliance income. If the assets after loan closing are in excess of \$5,000, annual income must include the greater of actual income or imputed income. Imputed income is calculated by multiplying total cash value (net of penalties and transaction costs of withdrawal) of all household assets (amounts in checking and savings, stocks and bonds, CDs, equity in real property, individual retirement and Keogh accounts, cash value of life insurance policies available to individuals before death, revocable trusts, personal property held as an investment such as: gems, jewelry, coin collections, lump sum receipts, etc.) by a passbook

rate of 2 percent. Do not include furniture and automobiles. The amount calculated would be used in the compliance income calculation.

Example: CALCULATING INCOME FROM ASSETS		
Type of Asset	Cash Value of Asset	Actual Income Per Year
Checking Account	\$300	\$0
Savings Account	\$2,000	\$115
Certificates of Deposit	\$10,000	\$986
TOTALS	\$12,300	\$1,101

Multiply the cash value of assets by 2 percent ($\$12,300 \times 2\% = \246). Then, select the higher of the imputed income or actual income used in calculating the compliance income.

- The full amount of periodic payments received from Social Security (gross amount before deduction for Medicare), annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar type of periodic receipts.
- Payments in lieu of earnings, such as unemployment and disability compensation, workers' compensation and severance pay.
- Welfare assistance where payments include amounts specifically designated for shelter and utilities.
- Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling; alimony and child support must be verified by a copy of a divorce decree and property settlement agreement, paternity papers and documentation of stability, e.g., copies of canceled checks for the past 12 months or records from the appropriate court if support is paid through the court.

If an applicant is not receiving child support payments due him/her and does not expect to receive such in the foreseeable future, KHC will not count it in determining income. KHC's Child Support Certification Form 32 must be signed by applicant and submitted in KHC's underwriting file.

If the applicant has been receiving irregular child support payments, KHC will use the average of the amount received over the last 12 months in its calculation of annual income.

- Applicants who have terminated employment of their own accord less than three months before time of application must provide a detailed explanation of the reason for termination and their intent of future employment. Verification from the employer of the termination of employment may be requested. KHC will examine the credit package carefully to determine if the applicant can reasonably be expected to meet monthly obligations without the income from the recently terminated employment.

KHC will also be alert to any indication that the employment termination is temporary and/or may be for the purpose of meeting KHC Income Guidelines.

- All regular pay, special pay and allowances of a member of the armed forces.
- Recurring monetary contributions or gifts.
- Actual income distributed from trust funds.

Special Note: RHS loans must qualify under KHC and RHS income calculations and limits.

BUT EXCLUDES:

- Earnings in excess of \$480 for each full-time student 18 years old or older (excluding the head of household, co-head and spouse).
- Income from employment of children (including foster children) under 18.
- Payments received for the care of foster children.
- Lump-sum additions to household assets, such as inheritances, insurance payments (including accident insurance and workers' compensation); capital gains; settlement for personal or property losses; and deferred periodic payments of Supplemental Security Income and Social Security benefits.
- Amounts received by the household that are specifically for, or in reimbursement of, the cost of medical expenses for any household member.
- Income of a live-in aide.
- Amounts of educational scholarships paid directly to the student or to the educational institution, and amounts paid by the government to a veteran, for use of meeting the costs of tuition, fees, books and equipment, but in any such case only to the extent used for such purposes.
- The special pay of a household member serving in the Armed Forces who is exposed to hostile fire.
- Temporary, nonrecurring or sporadic income (including gifts).
- Relocation payments under Title II of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970.
- Payments received pursuant to participation in ACTION volunteer programs.
- The value of coupon allotments for the purchase of food.