SC HOUSING

Mortgage Production

South Carolina State Housing Finance and Development Authority

COMPLIANCE UNDERWRITING – HOUSEHOLD INCOME

For program purposes the borrower must meet credit qualifying income requirements as well as household income requirements **(Compliance Underwriting).** The methods used to calculate Household Income for compliance are different from those used to calculate income for credit underwriting.

Household Income is generally the current or projected gross income from all sources and includes the income of the borrower and any other person(s) who is expected both to live in the residence being financed and to be secondarily liable on the mortgage. **Borrowers must meet Household Income limits.**

The following are guidelines to aid in the computing of Household Income for compliance with Program Household Income limits. **These guidelines apply to all loans delivered to and serviced by SC Housing.**

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SC Housing may revise the Household Income that was calculated by the lender after a complete analysis of the income is performed.

INCOME INCLUDED IN HOUSEHOLD INCOME

Lenders should ask borrowers to disclose all sources of income for all borrowers and any other person(s) who is expected both to live in the residence being financed and to be secondarily liable on the mortgage at the time of closing or within the 12-month period immediately following loan closing. This includes, but is not limited to, the following:

- All forms of income from current full-time or part-time jobs
- Alimony
- Annuities
- Auto Allowance
- Bonus
- Business Income
- Child Support
- Commission
- Disability or Death Benefits
- Dividends and Interest
- Education Benefits Used for Subsistence
- Inheritance Received on a Regular, On-going Basis
- Insurance Benefits Received on a Regular, On-going Basis
- Monetary Contributions Received from Persons not Living in the Property on a Regular, On-going Basis
- Overtime
- Pensions
- Public Assistance (Welfare, Food Stamps, AFDC or other forms)
- Rental Income
- Royalties
- Severance Pay
- Separate Maintenance (required by Separation Agreement)
- Shift Differential
- Sick Pay
- Social Security Benefits
- Special Pay and Allowances from the Armed Forces (excluding hazardous duty pay)
- Tips
- Trusts
- Unemployment Benefits
- VA Compensation
- Worker's Compensation – if received on a regular, on-going basis

INCOME **EXCLUDED** FROM HOUSEHOLD INCOME

The following types of income can be excluded when determining Household Income:

- Educational scholarships paid directly to the student or to the educational institution
- Amounts paid by the federal government to a Veteran for use in meeting the costs of tuition, fees, books and equipment
- Amounts that are specifically for reimbursement of business and/or educational expenses
- One-time sign-on bonuses
- Lump sum additions to family assets, such as inheritance, insurance payments (including payments under health and accident insurance and workmen's compensation), capital gains, and settlement for personal or property losses
- Payments received for the care of foster children
- Sporadic or irregular gifts
- Amounts that are specifically for, or in reimbursement of, medical expenses

Temporary or one-time income may be excluded if the income was earned during the current year only, there is no prior history of the earnings and the earnings will not continue after loan closing. **A statement must be obtained from the employer confirming that the income will not continue.**

COMPUTING HOUSEHOLD INCOME

Compliance Income is the total gross annual income at time of application, plus any additional income from alimony, annuities, auto allowance, bonuses, child support, commission, disability or death benefits, dividends, education benefits used for subsistence fees, interest, income received from business activities or investments, income received from trusts, inheritances, insurance policies, net rental income, overtime, pensions, public assistance, recurring monetary contributions regularly received from persons not living in the unit, royalties, severance pay, shift differential, sick pay, social security benefits, special pay and allowances of a member of the armed forces (excluding hazardous duty pay), tips, unemployment compensation, Veterans Administration (VA) compensation, and workers compensation.

This includes any income from any source.

EMPLOYMENT & INCOME CHANGES – IMPORTANT GUIDELINES

REPORT CHANGES IMMEDIATELY

Any changes in the employment or earnings status of occupants between the time of application and the time of loan closing must be reported to SC Housing.

SECOND JOBS – MUST BE DISCONTINUED PRIOR TO APPLICATION

Borrowers leaving a second job to program qualify must have done so prior to loan application.

EMPLOYMENT CHANGE (SALARIED TO SELF-EMPLOYED) – 6 MONTH RULE

Borrowers changing employment (ex. salaried to self-employed) must have done so at least six months prior to application in order for SC Housing to exclude previous income from compliance income calculation.

REVIEW & DOCUMENT ALL INCOME

The lender should review all employment verification documentation (e.g., IRS federal tax transcripts, tax returns, W-2s, paystubs, etc.) to substantiate income calculations from all sources of income. When there are inconsistencies between current income, year-to-date or past income, the lender must document and explain the inconsistencies so that the income which most accurately represents the occupant's income can be used to project income for the 12 month period following loan closing.

INCOME CALCULATION CONSIDERATIONS

When an occupant has not been employed for a total of 12 months during the past year, income should be averaged by the applicable number of months. If an occupant has changed jobs, received an increase or decrease in rate of pay, or change in pay structure, it may be necessary to calculate compliance income using only year-to-date income. These types of exceptions to compliance income guidelines must be noted and occumented. In cases where borrowers and any other person(s) who is expected both to live in the residence being financed and to be secondarily liable on the mortgage current income cannot be used to qualify for financing, it should be verified and considered for inclusion in Household Income.

CALCULATING SALARIED INCOME

The lender must include all borrowers and any other person(s) who is expected both to live in the residence being financed and to be secondarily liable on the mortgage current income (full-time and part-time) from all sources when calculating Household Income. Standard FHA, RHS and Fannie Mae income documentation may be used.

NOTE: SC Housing reserves the right to request additional documentation to clarify income, up to and including a full written Verification of Employment.

For the benefit of the borrower and for qualifying purposes, the lender and SC Housing underwriting may calculate income in one of the following methods:

a. If an **employer** verifies on VOE, a **specific hourly rate and a specific number of hours worked per week,** or provides a monthly salary, then those figures should be used to calculate current base income if **supported by past year and year-to-date earnings.** If the employer does not verify a specific hourly rate and/or a specific number of hours worked per week, and that information cannot be obtained from the occupant's pay stub, the current income should be calculated by **averaging past year and year-to-date earnings from the same employer.**

b. In the event that a borrower has income from multiple sources (i.e.; base, OT, shift differential, bonus, vacation, sick, holiday, etc.) Lender may take from the borrower/occupant's pay-stub, the **current YTD total earnings** and calculate by **averaging past year and year-to-date earnings** as long as they are from the same employer.

Lenders and UW are encouraged to take the most conservative approach when calculating income for salaried borrowers.

COMMISSION INCOME

- Commission income for an occupant who earns **greater than 25 percent** of total earnings as commission (or a "guaranteed" draw) should be calculated as it is for a self-employed occupant, by averaging the past two years and year-to-date income. ***(See Section VII. Self-Employment Income).***

- Commission income for an occupant who earns **less than or equal to 25 percent** of his total earnings as commission, should be calculated by averaging the past year plus year-to-date commission income and adding it to the occupant's base earnings.

BONUS AND OVERTIME INCOME

Current income for an occupant who earns bonus and overtime income should be calculated by **averaging the past year and year-to-date income.**

DIVIDENDS AND INTEREST INCOME

Current dividend and interest income should be calculated by **averaging the past year and year-to-date dividend and interest income**. Tax transcripts and 1098's may be used to verify dividend and interest income received for the prior year. The occupant should furnish copies of bank statements or other documentation to substantiate year-to-date dividend and interest income.

CHILD SUPPORT AND ALIMONY INCOME

LEGAL DOCUMENT REQUIRED

A copy of the occupant's Order of Separate Maintenance and Support, Separation Agreement, Divorce Decree, Court Order or Administrative Order (child support) should be submitted and the amount of child support and/or alimony indicated in the legal document **should be included in Household Income.**

NO LEGAL DOCUMENT OR VARIABLE PAYMENTS

In the event there is no legal document verifying child support, or the payments received have been variable and do not adhere to the legal document ordering payment, the issue of child support must be explained in writing and signed/dated. In the event the explanation is coming from an non-borrowing spouse or significant other, a HUD 1010 warning may be requested. **An email explanation is not acceptable.**

DOCUMENTATION OF ACTUAL PAYMENTS

The occupant should furnish documentation of the actual amount of child support received for the past 12 months with bank statements, court records or agency records. **The actual amount of** child support received during the past 12 months should be **averaged to determine child support.**

SOCIAL SECURITY INCOME

SOCIAL SECURITY

- Social Security income should be verified based on the **benefit letter** from the Social Security Administration.
- Social Security income **includes payments received by adults on behalf of minors** for their own support.
- Social Security Income **cannot be grossed up** for SC Housing program compliance purposes, however if the insurer allows the lenders to gross up for credit underwriting purposes, **lender may do so.**

SELF-EMPLOYMENT INCOME – IRS TAX TRANSCRIPTS / FEDERAL TAX RETURNS

TRANSCRIPTS PREFERRED

The guidelines below address IRS tax transcript and federal tax return requirements for the calculation of self-employed income. In general, **IRS tax transcripts are required rather than tax returns.** However, transcripts for the previous tax year are generally not available from the IRS until 60 days after the date of filing. If a loan application is received by SC Housing after June 15th, but before the transcript is available from the IRS, SC Housing **will accept a copy of the previous year's federal tax return** along with evidence that the tax transcript is not yet available.

SC Housing will not accept extensions filed with the IRS in lieu of the previous year's transcript or tax return.

TAX RETURNS REQUIREMENTS

When tax returns are submitted they must be **dated and signed by all borrowers** and must **include all schedules, W-2s, 1099s and K-1s.** If a borrower or any other person(s) who is expected both to live in the residence being financed and to be secondarily liable on the mortgage was not required to file a tax return, an **Affidavit of Non-Taxpayer** must be in the file. In all cases, SC Housing reserves the right, for any reason, to request federal tax returns in addition to transcripts.

SC HOUSING RESERVES THE RIGHT

In all cases, SC Housing reserves the right, for any reason, to **request federal tax returns in addition to transcripts**.

PREVIOUS SELF-EMPLOYMENT REQUIRES STATEMENT

If a borrower indicated at the time of application that he was not currently self-employed, but the federal tax return or transcript from the past year indicates that the borrower was previously self-employed, the borrower must provide a **signed statement certifying the date** that he was **last self-employed**.

SELF-EMPLOYMENT – MORE THAN 2 YEARS

TAX TRANSCRIPTS REQUIRED

Tax transcripts for the **past two years** must be submitted.

INCOME CALCULATION

Income will be calculated by averaging the net income reported on the **previous two years'** federal income tax returns and **year-to-date net income.**

Depreciation and depletion are to be added back to net income.

YEAR-TO-DATE INCOME DOCUMENTATION

Year-to-date income must be documented by a profit and loss statement that is **current through the most recent quarter.**

A profit and loss statement will not be required if no more than three months have passed since the end of the last fiscal year reported on the most recent tax return.

PROFIT AND LOSS STATEMENT REQUIREMENTS

- Must be **signed** by all taxpayers.
- Must reflect the **business name, address, tax ID** and **period covered.**
- May be self-prepared.

SELF-EMPLOYED INCOME CALCULATION

1. **PAST YEAR 1 NET INCOME**
   (Add back depreciation & depletion)
2. **PAST YEAR 2 NET INCOME**
   (Add back depreciation & depletion)
3. **YEAR-TO-DATE (YTD) NET INCOME**
   (Through most recent quarter)
   (Add back depreciation & depletion)
4. **TOTAL** (Year 1 + Year 2 + YTD)
5. **DIVIDE BY THE NUMBER OF MONTHS**
   (Average Monthly Income)
   Total ÷ Number of Months

This average monthly income is used to calculate Household Income.

CALCULATION EXAMPLE

2026 YTD earning from P&L (through most recent quarter)	$ 33,000.00
2025 net earnings (plus depreciation) from Schedule C (12-month period)	+ 38,000.00
2024 net earnings (plus depreciation) from Schedule C (12-month period)	+ 36,000.00

$33,000 + $38,000 + $36,000 = $107,000.00

$107,000.00 divided by 33 months = $3,242.00
(12 + 12 + 9 = 33 months)

$3,242 × 12 months = annual income of **$38,904.00**

NOTE: If the self-employed income calculation is a negative income figure, the lender should treat the sum as a $0 for the purpose of calculating Household Income.

Negative income cannot be used to reduce total Household Income.

SELF-EMPLOYMENT INCOME – LESS THAN 2 YEARS

TAX TRANSCRIPTS REQUIRED

A tax transcript for the **previous year** must be submitted.

CHANGE IN EMPLOYMENT REQUIREMENT

Borrowers changing employment (ex. salaried to self-employed) must have done so **at least six months prior to application** in order for SC Housing to exclude previous income from compliance income calculation.

INCOME CALCULATION

Income for an occupant who has been self-employed for less than two years will be calculated by averaging the reported net income from the **previous year** and **year-to-date** net income. Depreciation and depletion are to be added back to net income.

YEAR-TO-DATE INCOME DOCUMENTATION

The year-to-date income must be documented by a profit and loss statement that is **current through the date of application or with both a current P&L and previous year W-2** when the change from salaried to self-employment is less than six (6) months.

- The year-to-date profit and loss statement must be **signed by all tax payers.**
- The profit and loss statement may be self prepared.

HOW SELF-EMPLOYMENT INCOME IS CALCULATED

PREVIOUS YEAR NET INCOME
(Add back depreciation & depletion)

YEAR-TO-DATE (YTD) NET INCOME
(Through date of application)
(Add back depreciation & depletion)

TOTAL

TOTAL (Previous Year + YTD)

DIVIDE BY THE NUMBER OF MONTHS
(Average Monthly Income)
Total ÷ Number of Months

NOTE: If the self-employed income calculation is a negative income figure, the lender should treat the sum as a $0 for the purpose of calculating Household Income.
Negative income cannot be used to reduce total Household Income.

SELF-EMPLOYMENT INCOME – PARTNERSHIP OR CORPORATION

TAX TRANSCRIPTS REQUIRED

In addition to personal tax transcripts, **two years' partnership or corporate IRS tax transcripts** must be submitted if the occupant owns a **25% or greater** share of a partnership or corporation.

YEAR-TO-DATE (YTD) PROFIT AND LOSS STATEMENT

A year-to-date profit and loss statement will be required if **more than three months** have passed since the end of the last fiscal year reported on the most recent tax return.

PROFIT AND LOSS STATEMENT REQUIREMENTS

- The profit and loss statement for a partnership or corporation **may not be self-prepared**.
- The statement must be **signed and dated**.

DEPRECIATION AND/OR DEPLETION ALLOCATION (PARTNERSHIPS AND S-CORPS)

The total depreciation and/or depletion to be added back will be calculated based on the **number of partners** or **percent of ownership**. Depreciation and/or depletion should be divided among the partners or owners to determine the amount to be added back to income.

SUMMARY

- Submit **two years'** partnership or corporate IRS tax transcripts when ownership is **25% or greater**.
- Provide a year-to-date P&L if **more than three months** have passed since the end of the last fiscal year.
- P&L for partnership or corporation **may not be self-prepared** and must be **signed and dated**.
- Depreciation and/or depletion must be allocated based on **number of partners** or **percent of ownership**.

NOTE: For partnerships and S-Corps, the total depreciation and/or depletion to be added back will be calculated based on the number of partners or percent of ownership. Depreciation and/or depletion should be divided among the partners or owners to determine the amount to be added back to income.

FUTURE INCOME

If an occupant has accepted future employment that is scheduled to begin after the loan closing, **the income should be verified and included in Household Income.** All future income must begin **within 60 days of closing.** SC Housing will require that the lender obtain from the borrower; **post-closing and prior to purchase from the lender,** a verbal verification that the borrower has started employment and any required document requested per insurer and AUS.

VERIFICATION REQUIREMENT

SC Housing will require that the lender obtain from the borrower, post-closing and prior to purchase from the lender, a verbal verification that the borrower has started employment and any required document requested per insurer and AUS.

EXAMPLES

1. A teacher who has received a contract and **will begin employment** in the new school year (or who has accepted a teaching position mid-year)
2. A full-time student not employed at the time of application, but who has received and accepted an **offer of employment**.
3. A physician who will **begin residency** after the date of loan closing.

SC HOUSING
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