

## **Income Documentation for Residential Financing and Incentive Applicants**

The NYSERDA Residential Financing and Income Screening Application requires the applicant to state his/her current annual income amount and the income amounts received by all adult household members who are not full-time students. The income for an applicant and co-applicant is used to determine Debt to Income Ratio (“DTI”) for loan underwriting purposes; while household income is used to determine the loan interest rate and/or eligibility for an incentive.

Provided that an applicant is not seeking a reduced interest rate or an incentive, the DTI calculation for applicants with a credit score (“FICO”) of 780 and above will be based on the stated income only and no documentation of income will be required. Applicants with a FICO of below 780 must document all income and DTI calculations for these applicants will be based on the documented income.

Any applicants seeking an incentive or a reduced interest rate loan they must document income from all adult household members, age of 18 or older, that are not full-time students, no matter the FICO scores of the applicant. A household is any individual or group of individuals who are or expected to be living together at the premises at the time of application to the NYSERDA program. If a person is considered to be a household member then any income associated with that person shall be counted (i.e. foster children).

If an applicant submits loan and incentive applications at different times, but within six months of each other, and the stated income on the applications is different, the applicant will choose which income to document and the documented income shall apply to both applications, even if it results in revising the decision on the prior application. For example, the applicant may choose to use either historic income or anticipated income for the coming year that reflects changes in job status, but the new income must be adequately justified. The applicant must be consistent in providing forms of documentation (i.e. “historic” path or the anticipated/projected path).

The documentation of income may be accomplished through either of the means detailed below but the customer must be consistent in providing forms of documentation (i.e. “historic” path or the anticipated/projected path). Income documentation through prior year’s tax return is the most efficient method and applicants should be encouraged to use that option whenever possible. An applicant may be advised that a different documentation method may be more advantageous, but the applicant must make the final decision regarding the method of documentation to use. If an applicant states that s/he had a significant change in income from what is documented, the applicant may submit alternative documentation to substantiate the current income. If the documentation submitted were something other than a tax return and does not reflect the stated amount in the application, the loan originator will undertake further outreach until the applicant either provides all of the income documentation for the stated amount or verifies to the loan

originator that they have provided all of the income documentation and the stated amount of income in the application needs to be changed to the documented amount.

Federal Income Tax Return:

If the applicant(s) elect to document income through a copy or transcript of the prior year's Federal Income Tax Return (Form 1040, 1040A or 1040EZ and to the extent they are filed Schedules C, E and/or F)<sup>1</sup>, the following standards shall apply:

- a) The total reportable income stated on the applicant's tax return will be used. Reportable income is calculated by taking the total income stated on line 22 of Form 1040<sup>2</sup>; line 15 of Form 1040A or line 4 of Form 1040EZ (listed as Adjusted Gross Income on Form 1040EZ) and adding to it any non-taxable income reported on the return. Non-taxable reportable income includes certain Social Security benefits, pension/annuity benefits, IRA distributions, and tax-exempt interest. No adjustments should be made to this calculation based on the statement, or reasonable assumption, that a line item on the tax return is a retirement account rollover or a lump-sum distribution of income, unless the tax return states that a reported amount was a rollover or lump sum distribution.
- b) Self-employment income includes income reported by an applicant on a Schedule C, E, or F. Income for self-employed applicants should be based upon federal income tax reporting standards and are based on net business income. Any mortgage interest and depreciation expenses on those schedules will be added back to the income or loss. This sum will be used as net income or loss when calculating the DTI Ratio. For calculation of incentives/lower interest rates the mortgage interest and depreciation will not be added back to the income or loss. Where there is a sole applicant who filed a joint tax return, only self-employment income attributable to the applicant may be included in the calculation of income.
- c) If the prior year tax return has not yet been filed by an applicant who applies for a loan and submits income documentation between January 1 and "Tax Day" of a given calendar year, EFS may accept the tax return from the preceding year. A loan applicant who submits income documentation on or after "Tax Day" of a given calendar year and has not filed the prior year tax return must provide proof of current income as outlined in "Other Documentation" below.

Applicants who filed a joint tax return but are applying for the loan individually must provide the relevant tax schedules, W-2 statements, or 1099 statement, or submit proof of income according to "Other Documentation" below.

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<sup>1</sup> Starting for 2018 tax returns there will no longer be Forms 1040A or 1040EZ.

<sup>2</sup> Starting for 2018 tax returns total income is on line 6 of Form 1040.

Other Documentation:

If the applicant elects to document income by submitting documents other than, or in addition to, a recent tax return to support a stated income amount, the following standards shall apply:

- (a) Wage income shall be calculated by reviewing the applicant's year-to-date gross earnings as reported on a pay statement dated not more than 30 days prior to the date that the paystub was submitted and converting those year-to-date earnings to a monthly amount. Where this calculation does not provide an accurate assessment of the applicant's true income level (i.e. the applicant has not worked for the same employer for the whole year, the applicant's rate of pay or hours worked per week has changed, etc.), additional payment advices or a shorter time horizon shall be used to calculate a monthly gross income level for the applicant.
- (b) Income from seasonal employment may be considered, however the amount that is determined as monthly income must be based upon the annual amount divided by 12 calendar months. Calculations of seasonal income should be supported by documentation of earnings from similar employment conditions in one or more past years.
- (c) Self-employment income (including rental income) shall be calculated by:
  - (i) a profit and loss statement with income/loss calculated prior to mortgage interest and depreciation expense; or
  - (ii) for rental income, the applicant may submit either copies of executed leases or a summary signed by the applicant stating the lease term and monthly rent for all leased units. 75% of the annual gross lease payments shall be used when calculating the DTI Ratio.
- (d) Benefit income, such as Social Security, annuities, and pension income, will be based upon the gross monthly amount of the benefit received. Benefit income may be documented by means of a copy of a current benefit award letter, benefit statement such as a Form 1099R or 1099SS, or a copy of a bank statement evidencing the direct deposit of benefit income.
- (e) Investment income shall be supported by copies of 1099s, brokerage statements, or the previous year's tax return. Income from these sources shall be converted into a monthly amount. Only the reportable portion of investment earnings shall be considered as income for loan qualification purposes. Applicants may not declare a lump sum receipt to be an isolated and non-recurring event to exclude it from consideration for an Assisted Discount Application, while also claiming it as current regular income to support a Residential Credit Application.

- (f) Child support and alimony/maintenance will be supported through a copy of court order documents or payment history provided by the Child Support Collections unit.
- (g) Adoption and foster care subsidies will be supported through documentation of current receipt of subsidy funds.
- (h) Proceeds of student loans, scholarships, and student financial aid shall not be considered as income.
- (i) Housing stipends used to cover living expenses will be supported through documentation on paystubs or a letter or agreement from the employer attesting to the amount and should be included in the calculation of household income and included in the calculation of the DTI Ratio.
- (j) Unemployment compensation received by the applicant at the time a credit application is submitted, and claimed by the applicant as current regular income, should be documented through the applicant's Unemployment Benefit Payment History. The Unemployment Benefit Payment History must confirm that the applicant is receiving benefits at the time of application and has a positive award balance remaining. Income from this source shall be calculated by annualizing the average weekly benefit received during the past four weeks.
- (k) If the applicant or any member of the household is currently eligible for or has received within the past 12 months any of the following services, they will be categorically approved for the AHPwES program by submitting the applicable award letter (Designation of HEAP on a recent utility bill is acceptable documentation);
  - NYSERDA's EmPower NY Program
  - NYS Weatherization Assistance Program,
  - HEAP, SNAP/food stamps,
  - Temporary Assistance for Needy Families (TANF), or
  - Supplemental Security Income

Additional income documentation, other than the award letter, needs to be provided for the purpose of determining DTI and qualification for a loan.

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