Montana Board of Housing (the Board or MBOH)

INCOME DETERMINATION GUIDE

Revised April 2026

Purpose

Gross Annual Income is the anticipated total income, from all sources and before taxes or withholding, of the mortgagor(s), the spouse of a mortgagor, and any other adult person who lives in the Residence being financed. Based on income information received through the loan application process and substantiated through a Written Verification of Employment or, in the case of military income, the Defense Finance and Accounting Service Statement, household income shall be projected for the 12-month period following the date of the WVOE. See Section 2.04(d) Income Requirement in the MBOH Mortgage Purchase and Servicing Guide for details.

All income should be included, whether received by check, in cash, or in the form of goods and services. Income includes, but is not limited to, the full gross amount, before any payroll deductions, wages and salaries, overtime pay, commissions, fees, tips and bonuses, and any other compensation.

Eligible Borrower Gross Annual Limits

The Board establishes income limits for each program, based on the Internal Revenue Code of 1986, as amended. Each program may have its own Gross Annual Income limit requirements. It is the responsibility of the Participating Lender to ensure they are utilizing the correct program Gross Annual Income limits when completing their calculations. These Gross Annual Income limits are updated annually and the latest version can always be found on the Commerce website at https://commerce.mt.gov/Housing/Homeownership/Current-Rates-Income-and-Purchase-Price-Limits.

The Gross Annual Income of all Household Member(s) who are expected to live in the Residence or will be of legal adult age at the time of closing, or who will be legally responsible for the payment of the Mortgage Loan for the Residence to be financed by the Board will be included.

Similarly, a relative who provides a guarantee of the Mortgage Loan and expects to live in the Residence must provide income information. For these purposes, spouses will be considered jointly responsible for the loan and residents of the dwelling, absent satisfactory evidence to the MBOH which conclusively demonstrates otherwise and that the spouse is not a member of the armed services. By contrast, a guarantee by a relative, such as a parent or in-law, who does not intend to live in the Residence except as an occasional guest, will not cause the inclusion of that relative's income. The income of a parent, grandparent, or other adult relative (except a spouse) who qualifies as a dependent and is expected to live in the Residence but will not be legally responsible for the loan, will also be included. If there are unusual circumstances, or if the relative is not expected to stay in the dwelling for the full year, exceptions to this rule can be granted by the MBOH on a case-by-case basis.

Income Calculations - Salaried Household Member

In calculating the income of the Household Member, the Participating Lender shall project each verified gross monthly income over 12 months following the date based on the WVOE completed by the employer(s) of the Household Member. Projected salary increases which are verified by the employer must be included in the income calculation. Overtime earnings must also be included when calculating the Household Member's Gross Annual Income. To calculate the amount of overtime earnings used to determine the Household Member's income eligibility, the Participating Lender shall use the total amount of overtime earnings received by the Household Member for the preceding 12-month period. The Lender shall also include tips, fees, bonuses, dividends and profits, interest and insurance payments received by the Household Member for the preceding 12-month period.

Example: The Household Member works 40 hours a week as a full-time employee and makes a wage of 25 dollars an hour and is paid weekly. There is no scheduled overtime on the WVOE, nor are there bonuses given. The calculation for this Household Member would be as follows:

$25.00 x 40 x 52 = $52,000.00

Example: The Household Member is paid bi-weekly (26 pay periods) at a set amount of 1,300 dollars per pay period, the calculation for this Household Member would be as follows:

$1,300.00 x 26 = $33,800.00

Example: The Household Member is paid bi-monthly (24 pay periods), on the 15th and the 28th of each month, at a set amount of 2,249 dollars per pay period. There is no scheduled overtime on the WVOE, nor are there bonuses given. The calculation for this Household Member would be as follows:

$2,249 x 24 = $53,976.00

If the employer has marked the WVOE or given written indication that bonuses and/or overtime are present but will not be continued, those amounts can be excluded, providing an explanation for their discontinuation is given if there is an established history of those amounts being included in the borrower's pay over the prior 2-year period.

In the case of variable hours or variable pay, the Participating Lender shall project each Household Member's verified Gross Monthly Income over the prior 24 months and average the gross total for a 12-month estimate. If the Household Member's current employment is less than 24 months, then we will average the gross income based on the current time worked.

Example: The Household Member is employed as a nurse with shift differential times that vary from paycheck to paycheck. Because the differentials may differ

from paycheck to paycheck, a variable pay calculation would be appropriate for income calculation.

Night Shift: 38.28 per hour has worked 28 hours for the week pay period, Day Shift: 34.78 per hour and worked 18 hours for the week pay period, On Call: 14.20 per hour and 4 hours for the week pay period. This varies from week to week. WVOE indicates that the total gross pay for 2024 was $72,080, while the total gross pay for 2025 was $81,123, and the WVOE is dated as paid through 4/15/2026, with a total gross for 2026 at $21,628.

Calculation: (72,080 / 12 * 8.5 + 81,123 + 21,628*) *as this is 3.5 months = $153,807.67 / 2 = $76,903.83. For our income calculation, we would use the $76,903.83 as the 12-month average for a full 24-month period.

Example: The Household Member works construction, but only on days when weather permits. Some days, the Household Member may work 12 to 14 hours, but on other days, the Household Member may not work at all. Because of the inconsistent hours, a variable pay calculation would be appropriate for income calculation.

As the prior example, we would utilize a variable pay calculation, however, in this case, the borrower has worked less than 24 months at this employment. The WVOE indicates that the borrower has only been working for 33 weeks and has made approximately $62,788 gross in that time. Our calculation for this would be as follows:
62,788 / 33 * 52 = $98,938.67

Income Calculations - Self-Employed Household Member

Self-employed people shall submit their I.R.S. tax returns (including any depreciation schedules) for the previous 2 years. Each Household Member shall certify that each

return is a complete, true and exact copy of the original submitted to the I.R.S.

If the Household Member is a partner in a partnership or has an ownership interest in a small corporation (i.e., assets of one million dollars or less), the partnership or corporation returns, together with all schedules, must be submitted with the loan application.

The Participating Lender shall calculate the Gross Annual Income for each self-employed Household Member by averaging the reported net income from Schedule C of the provided I.R.S. tax returns, plus declared depreciation expense, for the previous 2 years.

If the Household Member is self-employed for less than 2 years, a signed and dated copy of the most recent year's tax returns with all schedules, plus a signed and dated current year-to-date profit and loss statement, together with a 1-year projected income statement must be submitted.

Commission Income

Income derived from commissions must be substantiated from at least 2 years' tax returns with all schedules. The average of the past 2 years' commissions will be used to calculate income.

Other Income Included

As part of the determination of a Borrower's eligibility, other income which the Household Member must disclose on the Income Eligibility Worksheet shall include:

- Child support: Child support may be substantiated through a Child Support Enforcement Division statement, judicial child support divorce decree, judicial parenting plan, or affidavit from the obligee, as to monies received from obligor.

- Alimony or separate maintenance payments: Alimony or separate maintenance payments must be substantiated through judicial alimony or spousal support maintenance order or affidavit from the obligee, as to the monies received from obligor;

- Ongoing periodic payments from trusts, annuities, inheritance, insurance policies, pensions, retirement funds, and lotteries;

- All public assistance payments (excluding Medicaid and food stamps) including any amount by which educational grants, scholarships, and/or Veterans Administration educational benefits exceed expenses for tuition, fees, books, and equipment and reasonable rent and utility costs for a student living away from home;

- Recurring investment income, not including gains on a one-time sale or any gains from the sale of the Household Member(s) prior residence; payments in lieu of earnings, including social security, unemployment benefits, worker's compensation, severance pay, disability or death benefits; income from partnerships; income from trusts;

- Recurring net rental or net lease income: This includes ongoing income that a Household Member receives from renting out real estate or leasing property they own. When calculating this income, depreciation that may be deducted for IRS tax purposes must still be counted as income for eligibility purposes. Only the net amount—after allowable expenses directly tied to the rental or lease activity—is considered, and the income must be regular or reasonably expected to continue.

- Undisbursed profits from business owned by Household Member(s) in whole or part; regular cash contributions received from people not living in the household;

- Payments received for the care of adopted children;

- Per diem reimbursement that exceeds federal and/or state allowed limits and taxed by the IRS.

Other Income Excluded

As part of the determination of a Borrower's eligibility, the following types of income shall not be included:

- Income from employment of children (including foster children) under the age of 18 years.

- Payments received for the care of foster children;

- Lump sum additions to household assets, such as inheritance, insurance payments (including payments under health and accident insurance), settlement for personal or property losses;

- Amounts received by the household that are specifically for, or in reimbursement of, the costs 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 in meeting the costs of tuition, fees, books, equipment, materials, supplies, transportation, and miscellaneous personal expenses of the student provided that any amount of such scholarship or payment to a veteran not used for the above purposes that is available for subsistence is to be included in Gross Annual Income determinations;

- Amounts received by a participant in other publicly assisted programs which are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, childcare, etc.) and which are made solely to allow participation in a specific program;

- Per diem reimbursement up to federal and state allowed limits.