Tennessee Housing Development Agency

THDA LENDER NOTICE: #2026-31

September 9, 2026

SUBJECT: INCOME CALCULATIONS FOR FHA LOANS

THDA considers the applicable Agency guidelines when validating income used for qualification. We have seen an increase in income-related issues involving variable hours and/or variable pay, particularly for FHA loans. Please review income carefully to validate if the borrower's hours vary.

The guidelines from the HUD Handbook that THDA follows are provided below:

Fluctuating Hourly And Variable Income Calculations

For employees who are paid hourly and whose hours vary, the Mortgagee must use the average of the income over the previous two years. If the Mortgagee can document an increase in pay rate the Mortgagee may use the most recent 12-month average of hours at the current pay rate.

Below are examples of the above scenarios:

- Example #1 – the previous two years would mean 2024 and 2025.
- Example #2 - If documenting an increase in pay rate and utilizing the most recent 12-month average of hours at the new pay rate, please provide those hours in your employment verification or provide 12 months of paystubs.

Overtime, Bonus, Or Tip Income

For employees with Overtime, Bonus, or Tip Income, the Mortgagee must calculate the Effective Income by using the ***lesser of:***

- The average Overtime, Bonus, or Tip Income earned over the previous two years or, if less than two years, the length of time Overtime, Bonus or Tip Income has been earned; or
- The average Overtime, Bonus, or Tip Income earned over the previous year.

In the above scenario, it must be the ***lesser amount*** of the two options – average over the previous two years meaning 2024 and 2025 or average over the previous year, meaning 2025.

Questions may be directed to sfask@thda.org or 615-815-2100.