Income Job Aid

09-27-21

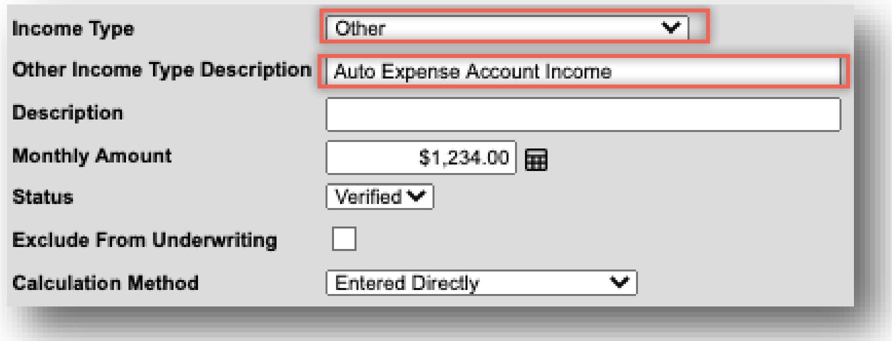
Main Page - Type of Income	Definitions	Requirement
2106 Expenses Alimony or Child Support Annuities Automobile Allowance Base Pay (Salary or Hourly) Boarder Bonus and Overtime Capital Gains Commission Disability Income-Long-Term Dividends/Interest Employed by Family Employment Offers or Contracts Employment-Related Assets Employment-Related Expenses Foreign Income Foster Care Grossing Up Non Taxable Income Housing Allowance Job Gap K-1 Income Military Pay Mortgage Credit Certificates (MCC) Mortgage Differential Payments Notes Receivable/Installment Debt Part Time Income (main job) Pension and Retirement Rental Income/Loss FHA Rental Income/Loss FHLMC Rental Income/Loss FNMA Rental Income/Loss VA Restricted Stocks Royalty Income	**Variable Income -** Hourly borrowers with fluctuating hours, overtime, bonus or commission earnings	All income that is calculated using an averaging method must be reviewed to assess the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received. Examples of income of this type include income from hourly workers with fluctuating hours, or income that includes commission, bonuses, or overtime. **History of Receipt:** Two (2) or more years of receipt of a particular type of variable income is recommended; however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history. **Frequency of Receipt:** Determine the frequency of the payment (weekly, biweekly, monthly, quarterly, or annually) to arrive at an accurate calculation of the monthly income to be used in the trending analysis (see below income trending) Examples: • If a borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. Note that dividing the bonus received on March 31st by 3 months produces a much higher, inaccurate monthly average. • If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year to date overtime earnings are consistent and, if not, why. There are legitimate reasons why these amounts may be inconsistent yet still eligible for use as qualifying income. For example, borrowers may have overtime income that is cyclical (i.e. transportation employees who operate snow plows in winter, package delivery service workers who work longer hours through the holidays). The underwriter must investigate the difference between current period overtime and year to date earning and document the analysis before using the income amount in the trending analysis (below). **Income Trending:** After the monthly year to date income amount is calculated, it must be compared to prior years earnings using the borrower's W-2's, signed federal • If the trend in the amount of the income is stable or increasing, the income amount should be averaged. • If the trend is declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used. • If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used, but in no instance may it be averaged over the period when the declination occurred.
Seasonal	**Continuity of Income -**	A key driver of successful homeownership is confidence that all income used in qualifying the borrower will continue to be received by the borrower

Secondary Employment Self Employed Borrowers Social Security Disability Temporary Leave Tip Income Trust Income Unemployment/Public Assistance VA Benefits (non-education) Verbal Verification of Employment	**Income with and without defined expiration dates**	for the foreseeable future. Unless the lender has knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented (per specific income type), the lender may conclude that the income is stable, predictable, and likely to continue. If the income source does have a defined expiration date or is dependent on the depletion of an asset account or other limited benefit, the underwriter must document the likelihood of continued receipt of the income for at least three (3) years. The following table contains examples of income types with and without defined expiration dates. This information is provided to assist in determining whether additional income documentation may be necessary to support a three (3) year continuance. Note that the underwriter remains responsible for making the final determination of whether the borrower's specific income source has a defined expiration date.

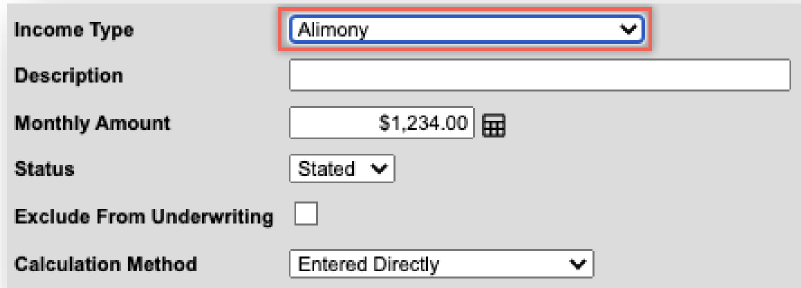
Expiration Date Not Defined	Defined Expiration date
Underwriter does not need to document 3 year continuance. • Base Salary • Bonus, overtime, commission or tip • Capital gains income • Corporate retirement or pension • Disability income – long term • Foster care income • Interest and dividend income (unless other evidence asset will be depleted is known) • Mortgage credit certificates • Part time job, second job or seasonal income • Rental income • Self employment income • Social Security, VA or other government or annuity	Underwriter must document 3 year continuance • Automobile allowance (except on FNMA loans) • Alimony or child support • Distributions from a retirement account (i.e. 401(k), IRA, SEP, Keogh) • Military income (except on FNMA loans) • Mortgage differential payments • Notes receivable • Public assistance • Royalty payment income • Social Security (not including retirement or long term disability) • Trust income • VA benefits (not including retirement or long term disability) **NOTE:** Because these income sources have a defined expiration date or allow the depletion of an asset, care must be taken when this is the sole source of majority of qualifying income. Underwriters must consider the borrower's continued capacity to repay the mortgage loan when the income source expires or the distributions will deplete the asset prior to maturation of the mortgage loan.
Income sources that are not listed above will require underwriter judgment to determine if the documentation of continuance must be obtained.	

Main Page	2106 Expenses	
Input	Automobile/Expense Account income (unreimbursed employee expense) is placed in LendingQB in *Monthly Income* page, *Income Type* drop down. Manually enter "Auto Expense Account Income" in *Other Income Type* Description:	

LendingQB

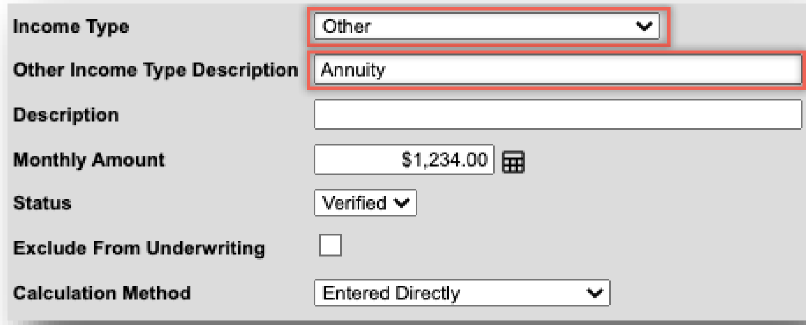


Requirements	**FNMA**	See Automobile Allowance requirements
	FHLMC/FHA	Unreimbursed employee expenses reported on Schedule A of the Borrower's federal individual income tax returns (i.e., uniforms, educational supplies, union dues), and if applicable, on IRS Form 2106, Employee Business Expenses, are not required to be deducted from the borrower's income unless the expenses are associated with commissions that are greater than or equal to 25% of the income from the commissioned employment.
	VA	For a borrower who will qualify using commission income of less than 25 percent of the total annual employment income, IRS Form 2106 expenses are not required to be deducted from income even if they are reported on IRS Form 2106. Additionally, the expenses are not required to be added as a monthly liability for the borrower. For a borrower earning commisison income that is 25 percent or more of annual employment income, IRS Form 2106 expenses must be deducted from gross commission income regardless of the length of time the borrower has filed the expenses with the IRS. One exception is an automobile lease or loan payment. An automobile lease or loan payments are not subtracted from the borrower's income; they are considered part of the borrower's recurring monthly debts/obligations in Section D on VA Form 26-6393, *Loan Analysis.* Refer to Automobile Allowance Section for details.

Main Page	Alimony and/or Child Support Income	
Input		Alimony and/or Child Support income is placed in LendingQB in the *Monthly Income* page, *Income Type* drop down: LendingQB 
Requirements	**FNMA/FHA/VA**	• Document that alimony, child support or separate maintenance will continue to be paid for at least three (3) years after the date of the mortgage application, as verified by one of the following: o A copy of a divorce decree or separation agreement (if the divorce is not final) that indicates payment of alimony or child support and states the amount of the award and the period of time over which it will be received. Note: If a borrower who is separated does not have a separation agreement that specifies alimony or child support payments, the lender should not consider any proposed or voluntary payments as income. o Any other type of written legal agreement or court decree describing the payment terms. o Documentation that verifies any applicable state law that mandates alimony, child support, or separate maintenance payments, which must specify the conditions under which the payments must be made. • Check for limitations on the continuance of the payments, such as the age of the children for whom the support is being paid or the duration over which alimony is required to be paid. • Document no less than six (6) months of the borrower's most recent regular receipt of the full payment. • Review the payment history to determine it's suitability as stable qualifying income. To be considered stable income, full, regular, and timely payments must have been received for six (6) months or longer. Income received for less than six (6) months is considered unstable and may not be used to qualify the borrower for the mortgage. In addition, if full or partial payments are made on an inconsistent or sporadic basis, the Note: The lender may include alimony, child support, or separate maintenance as income only if the borrower discloses it on the Form 1003 and requests that it be considered in qualifying for the loan. NOTE: For FHA Manual underwrite twelve (12) months of receipt is required. See below for additional FHA requirements.
	FHLMC	**Alimony, child support or separate maintenance:**

Stable Monthly Income Requirements	Documentation Requirements
History of receipt: Most recent six (6) months. Note: If the payor has been obligated to make payments for less than six (6) months, if the	• Document to evidence receipt of the maintenance payment amount for the most recent six (6) months, and

		payments are not for the full amount or are not received on a consistent basis, the income must not be considered for qualifying. Continuance: Document and verify the payor is obligated to make payments to the borrowerer for at least the next three years. Calculation: Use the documented fixed monthly payment amount.	• Copy of the signed court order, legally binding separation agreement and/or final divorce decree verifying the payor's obligation for the previous six (6) months, including the amount and the duration of the obligation, and • For child support income, proof of the ages of the children for which child support is received.
	Additional FHA Requirements	• The mortgagee must obtain a fully executed copy of the borrower's final divorce decree, legal separation agreement, court order, or documented receipt. • The mortgagee may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details most recent 3 months that supports the amount used in qualifying o Deposits on bank statements; o Cancelled checks; or o Documentation from the child support agency • The mortgage must provide evidence that the claimed income will continue for at least 3 years. The mortgagee may use the front and pertinent pages of the divorce decree/settlement agreement and/or court order showing the financial details. When using Voluntary support documentation • The mortgagee must document the voluntary payment agreement with; o 12 months cancelled checks, or o Deposit slips, or o Tax Returns • The mortgagee must provide evidence that the claimed income will continue for at least 3 years. • When using evidence of voluntary payments, if the borrower has received consistent alimony, child support or other maintenance payments for the most recent 6 months, the mortgagee may use the current payment to calculate effective income. Effective Income • If legal record or voluntary payment of alimony, child support, or maintenance payments have not been consistently received for the most recent 6 months, the mortgagee may use the current payment to calculate effective income. • If alimony, child support, or maintenance income is less than 2 years, the mortgagee must average over the time of receipt.	

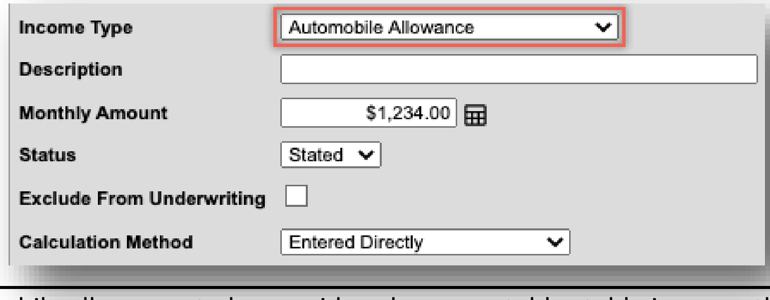
Main Page		Annuities
Input		Annuity income is placed in LendingQB in the *Monthly Income* page, *Income Type* drop down. Enter "Annuity" in *Other Income Type Description* : LendingQB 
Requirements	**FHLMC**	Document income type, source, payment frequency, pre-determined payment amount and current receipt with one or more of the following: • A copy of the benefit verification letter, • Award letter, • Pay Statement, • 1099, • Bank Statement(s), • Other equivalent documentation Newly established Annuity Income • The income must commence prior to or on the first mortgage payment due date. • The finalized term of the new income must be documented
	FNMA	Refer to Pension and Retirement Section for requirements.
	FHA	Must verify and document the legal agreement establishing the annuity and guaranteeing the continuation of the annuity for the first three years of the mortgage. **Obtain the following:** • Copy of bank statement, or The lender must use the current rate of the annuity to calculate effective income. Subtract any of the assets used for the borrower's required funds to close to purcahse the subject property from the borrower's liquid assets prior to calculating any annuity income.
	VA	Annuity Award Letter • If statement, must reflect benefit rate and effective date Note: Civil service annuity is counted at 90 cents on the dollar

Main Page	Automobile/Expense Account

Requirements

Automobile/Expense Account income is placed in LendingQB in *Monthly Income* page, *Income Type* drop down:

LendingQB



FNMA / FHLMC

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least two (2) years.

- The income must be likely to continue for a minimum of three (3) years after the note date.
- Must add the full amount of the allowance to the borrower's monthly income, and
- The full amount of the lease or financing expenditure to the borrower's monthly debt obligations.
  - May not subtract the automobile allowance from the monthly automobile financing expense.

FHA

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least two (2) years.

- Must obtain 2 years 1040's including Form 2106

Calculation of effective income:

- Must determine the portion of the allowance that can be considered effective income.
- The mortgagee must subtract automobile expenses as shown on IRS Form 2106 from the automobile allowance before calculating effective income based on the current amount of the allowance received. If the borrower uses the standard per mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the IRS considered depreciation may be added back to income.

Expenses that must be treated as recurring debt include:

- the borrowers monthly car payment; and
- any loss resulting from the calculation of the difference between the actual expenditures and the automobile allowance.

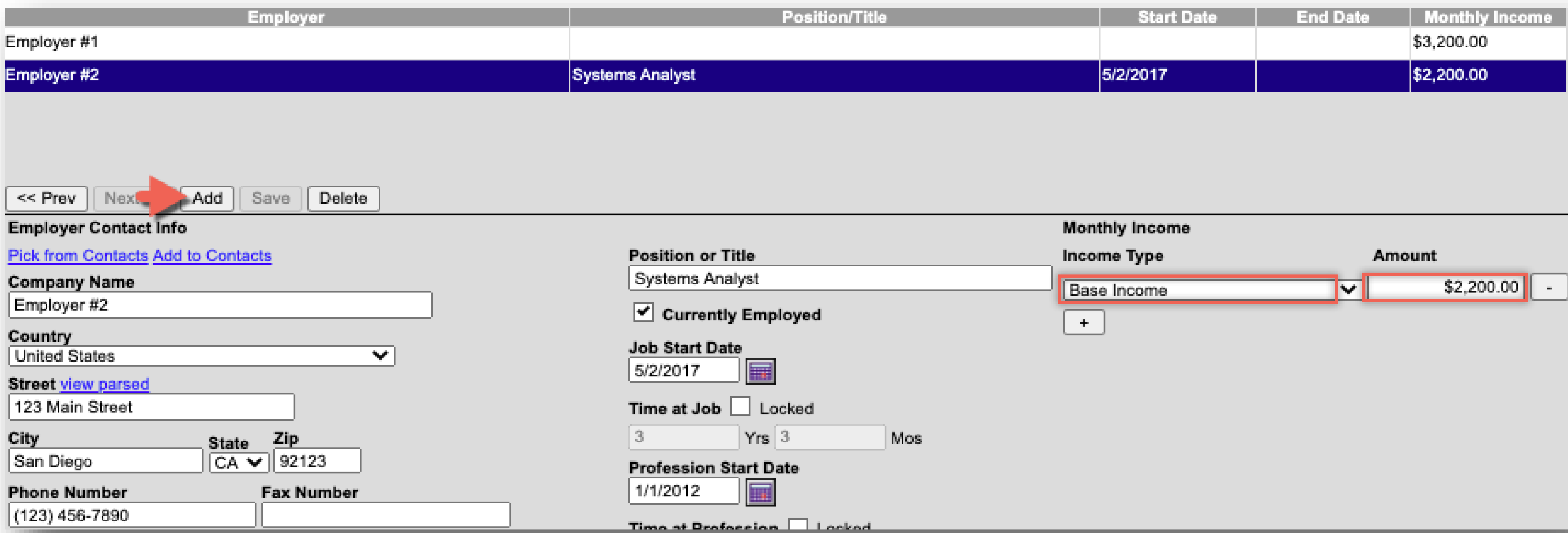
VA

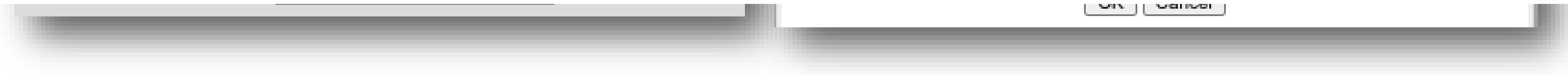
Generally, automobile allowances are paid to cover specific expenses related to a borrower's employment, and it is appropriate to use such income to offset a corresponding car payment. However, if the borrower reports an allowance as part of monthly qualifying income, it must be determined if the automobile expense reported on IRS Form 2106 should be deducted from income or treated as a liability.

If the reported expense is less than the automobile allowance, the amount can be treated as income and added to borrower's monthly income.

If the reported expense exceeds the automobile allowance, the amount must be deducted from income as a net calculation in Section D on VA Form 26-6393, *Loan Analysis.*

Likewise, any other similar type of allowance received by the borrower should be considered with regards to the tax returns for determination of an offset of the corresponding obligation, as income, or as an expense.

[Main Page](#)	Base Pay (Salary or Hourly) Income
Documentation	Follow AUS findings for amount of documentation required for the following: • Number of paystubs • VOE requirement • Number of years required for W-2 and Tax Returns
Input	Base income is placed in LendingQB in the Employment History page. To create an employer, click "Add" button and complete the employer information. To enter base income. Select the *Income Type* drop down and enter the monthly income amount: LendingQB 
Optional Input	If an employer already exists in LendingQB in the *Employment History* page, Base income can be placed in the *Monthly Income* page, *Income Type* drop down. It is associated with the employer by clicking "edit" link under *Employment Records* and selecting the appropriate employer: LendingQB 



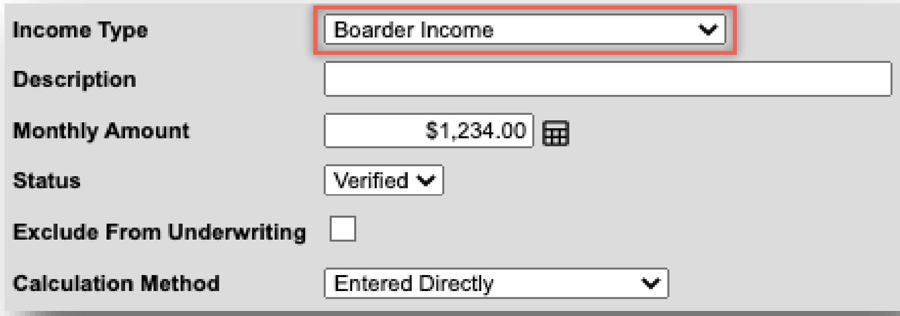
Determine Amount	**How Often Paid**	**How to Determine Monthly Income**
	Annually	Annual gross pay /12 months
	Monthly	Use monthly gross payment amount
	Twice Monthly	Twice monthly gross pay x 2 pay periods
	Biweekly	(Biweekly gross pay x 26 pay periods) / 12 months
	Weekly	(Weekly gross pay x 52 pay periods) / 12 months
	Hourly	(Hourly gross pay x average # of hours worked per week x 52 weeks) / 12 months
	Borrower paid less then 12 months per year	Salary x number of months worked (must be verified) / 12 months
	Note: all of the above calculations must be compared with the documented year to date earning (and past years earnings) to determine if the income appears to be consistent. For borrowers whose hours vary follow variable income section.	

Main Page	Boarder Income

Input

Boarder Income is placed in LendingQB in the *Monthly Income* page, *Income Type* drop down:

LendingQB



Requirements

FHA

Boarder refers to an individual renting space inside the borrower's dwelling unit.

- Rental income from boarders is only acceptable if the borrower has a two (2) year history of receiving income from boarders that is shown on the tax return and the borrower is currently receiving boarder income.
- The mortgagee must obtain two (2) years of the borrower's tax returns evidencing income from boarders and the current lease.
- For purchase transactions, the mortgagee must obtain a copy of the executed written agreement documenting their intent to continue boarding with the borrower.
- The mortgagee must calculate the effective income by using the lesser of the two (2)year average or the current lease.

FNMA

Income from boarders in the borrower's principal residence or second home is not considered acceptable stable income with the exception of the following:

- When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage loan. Personal assistants typically are paid by Medicaid Waiver funds and include room and board, from which rental payments are made to the borrower.

Verification of Income from Boarders:

- Obtain documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statements, or W-2 forms) that shows the boarder's address as being the same as the borrower's address.
- Obtain documentation of the boarder's rental payments for the most recent 12 months.

FHLMC

Rental income generated from a Borrower's 1 unit primary residence may be used to qualify a borrower with a disability if the rental income is from a live-in aide. Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which rental payment are made to the borrower.

This income source may be considered stable monthly income if:

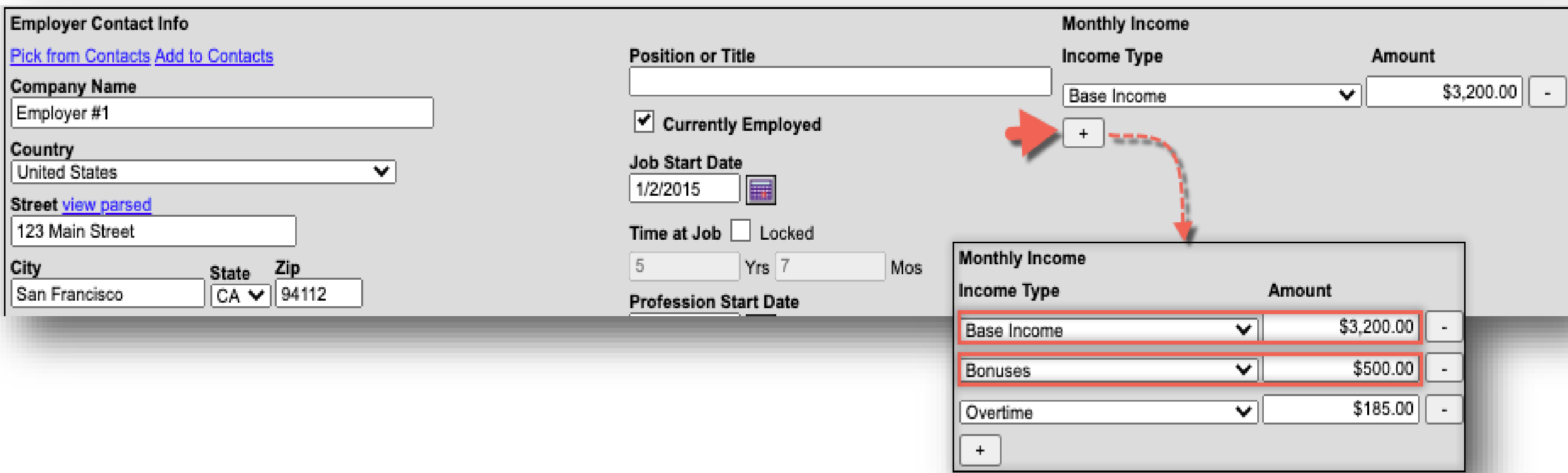
- The borrower has received rental payments from a live-in aide for the past 12 months on a regular basis; and
- The live-in aide plans to continue to reside with the borrower for the foreseeable future.
- The rental income may be considered in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage.

NOTE: Rental income generated from the borrower's second home or 1-unit primary residence other than stated above is not considered stable monthly income and can not be used to qualify.

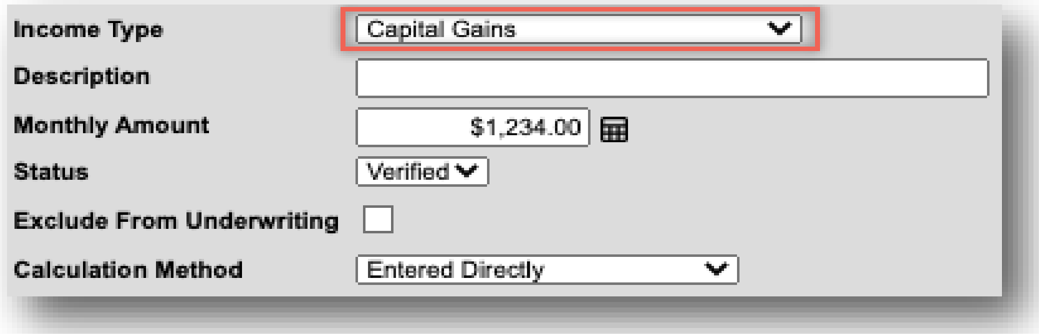
VA

Temporary Boarder Rental Income Single Family Residence

		The verification of temporary boarder rental income requires the following: • Individual income tax returns, signed and dated, pluss all applicable schedules for the previous 2 years, which show boarder income generated by the property, and • The rental cannot impair the residential character of the proprty and cannot exceed 25 percent of the total floor area. **Analysis of Temporary Boarder Rental Income** Include rental income in effective income only if the borrower has a reasonable likelihood of continued success due to the strength of the local market. Provide justification on VA Form 26-6393, *Loan Analysis* . Note: PITI reserves are not necessary to consider the income, and all the income may be used in the analysis.

Main Page	Bonus and Overtime Income	
Documentation	Follow AUS findings for amount of documentation required for the following: • Number of paystubs • VOE requirement • Number of years required for W-2 and Tax Returns	
Input	Bonus and/or Overtime income is placed in LendingQB in the *Employment History* page. Within the employer, click the "+" button under *Monthly Income* section. Select the *Income Type* drop down and enter the monthly bonus and/or overtime income amount: LendingQB 	
Requirements	**FNMA/FHA/VA**	Must have a history of receipt of two (2) years or more; however, income that has been received for less then 24 months but more than 12 months may be considered as acceptable income, as long as the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history. Obtain the following documents: • Written VOE breaking out current and previous two (2) year earnings to properly calculate, **or** • Year to date paystub showing overtime/bonus amounts and IRS W-2 forms covering the most recent two-year period. **FHA** Calculation of Effective Income - Use the lesser of: • the average Overtime or Bonus income earned over the previous two years or, if less than two years, the length of time the income has been earned; or • the aveage Overtime or Bonus income earned over the previous year.
	FHLMC	The borrower must have a two (2) year consecutive history of receiving bonus and/or overtime income in order to consider the income for qualifying. A history of less than two years, but not less than one year, may be acceptable provided the lender provides a written analysis and sufficient supporting documentation justifying the determination of stability. **Documentation** All of the following: YTD paystub(s) documenting all YTD earnings

		W-2 forms for the most recent two calendar years 10-day Pre-Closing Verification (PCV) Or all of the following: Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years. 10-day Pre-Closing Verification (PCV)

Main Page	Capital Gains Income	
Input	Capital Gains Income is placed in LendingQB in the *Monthly Income* page, *Income Type* drop down: LendingQB 	
Requirements	**FNMA**	Income received from capital gains is generally a one-time transaction; therefore, it should **not** be considered as part of the borrower's stable monthly income. However, if the borrower needs to rely on income from capital gains to qualify, the income must be verified in accordance with the following requirements: • Document a two (2) year history of capital gains income by obtaining copies of the borrower's signed federal income tax returns for the most recent two (2) years, including IRS Form 1040, Schedule D. • Develop an average income from the last two (2) years (according to the Variable Income section and use the averaged amount as part of the borrower's qualifying income as long as the borrower provides current evidence that he or she owns additional property or assets that can be sold if extra income is needed to make future mortgage loan **Note**: Capital losses identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring. Due to the nature of this income, current receipt of the income is not required to comply with the Allowable Age of Credit Documents policy. However, documentation of the asset ownership must be in compliance with the Allowable Age of
	FHLMC	Capital Gains may be considered qualifying income if the borrower meets all of the following • Two (2) years most recent 1040's Schedule D show that the borrower has realized capital gains. • The borrower has sufficient assets remaining after closing to support the continuance of the capital gain income at the level used for qualifying for 3 years after the note date.
	FHA/VA	Capital gains or losses generally occur only one time, and should **not** be considered when determining effective income. However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three (3) years tax returns are required to evaluate an earning trend. If the • Results in a gain, it may be added as effective income, or • Consistently shows a loss, it must be deducted from the total income.

Main Page	Commission Income

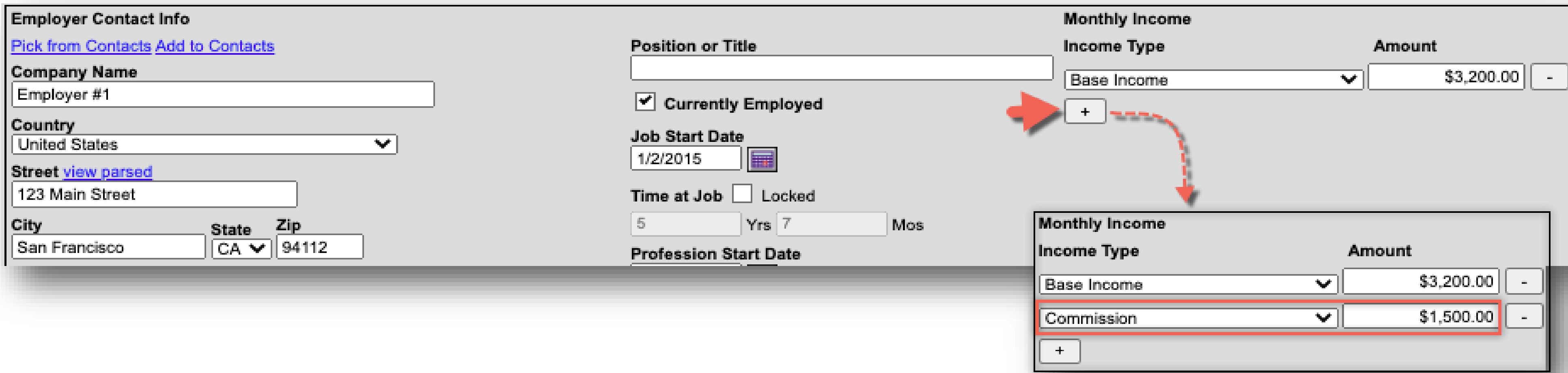
Calculate Income

In order to determine how to average the income use the Income Trending details in the Variable Income Section on the Main Page of this Job Aid.

Input

Commission income is placed in LendingQB in the *Employment History* page. Within the employer, click the "+" button under *Monthly Income* section. Select the *Income Type* drop down and enter the monthly commission income amount:

LendingQB



Optional Input

Commission income can also be placed in the *Monthly Income* page, *Income Type* drop down. It is associated with the employer by clicking the "edit" link under *Employment Records* and selecting the appropriate employer:

LendingQB

Requirements

FNMA

A minimum history of two (2) years of commission income is recommended; however, commission income that has been received for 12-24 months may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.

Documentation:

One of the following must be obtained to document commission income:

- A completed VOE or
- The borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.

A verbal VOE is required from each employer.

FHA	Commission Income may be used if the borrower earned the income for at least one year in the same or similar line of work and it is reasonably likely to continue. **Documentation:** • A completed VOE or • The borrower's recent paystub and IRS W-2 forms covering the most recent two (2) year period. **Calculation:** • Calculate effective income for commission by using the lesser of: o either, (i) the average commission income earned over the previous two years for commission earned for two years or more, or (ii) the length of time commission income has been earned if less than two years; or o The average commission income earned over the previous year.
FHLMC	The borrower must have a two year consecutive history of receiving commission income and the commission income must be likely to continue for the next three years. A history of less than two years, but not less than one year, may be acceptable provided the lender provides a written analysis and sufficient supporting documentation justifying the determination of stability. **Consistent and Increasing Income Trends:** If the income is consistent or the trend is increasing, the Lender must average the most recent year(s) and YTD income over the applicable number of months documented. However, if the increase between the prior year(s) and YTD earnings exceeds 10%, additional analysis is required and additional documentation may be necessary to determine income stability in order to use the higher amount when calculating the qualifying income. The underwriter must include in the mortgage file a written analysis of the income qualification sources and documentation must support the amount of income used to qualify the borrower. NOTE: If the amount of the commission income has decreased between the prior year(s) and/or YTD earnings by more than 10%, the underwriter must determine whether the income is stable and provide an explanation for the decrease. The underwriter must be able to justify that the income is likely to continue at the level used for qualifying. **Documentation:** All of the following: YTD paystub(s) documenting all YTD earnings W-2 forms for the most recent two calendar years 10-day Pre-Closing Verification (PCV) Or all of the following: Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years. 10-day Pre-Closing Verification (PCV)
VA	Generally income from commissions is considered stable when the applicant has obtained such income for at least two (2) years. • Less than two (2) years cannot usually be considered stable unless the applicant has had previous related employment and/or extensive specialized training. • Less than one (1) year can rarely qualify. In depth development is required for a conclusion of stable income on less than one (1) year cases. **Documentation:**

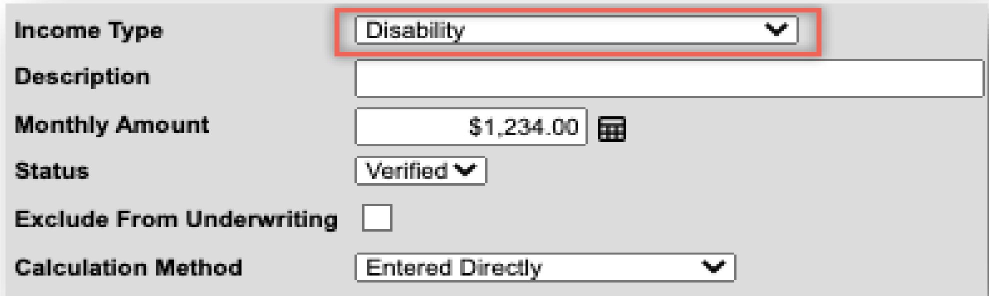
		• Current paystub reflecting year to date income • Written VOE breaking out commission for year to date and past two (2) years • Two (2) years 1040's with receipt of commission income.

Main Page	Disability Income - Long Term

Input

Disability Income - Long Term is placed in LendingQB in the *Monthly Income* pgage, *Income Type* drop down:

LendingQB



Requirements

FNMA

The following provides verification requirements for long-term disability income. It does not apply to disability income that is received from the Social Security Administration. For information specific to Social Security refer to the corresponding tab.

Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine:

- the borrower's current eligibility for the disability benefits,
- the amount and frequency of the disability payments, and
- if there is a contractually established termination or modification date.

Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date.

If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three (3) years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the borrower. For additional information on short-term disability, see Temporary Leave tab.

FHLMC

Long-term disability income may be considered qualifying income that has a reasonable expectation of continuance unless the following applies:

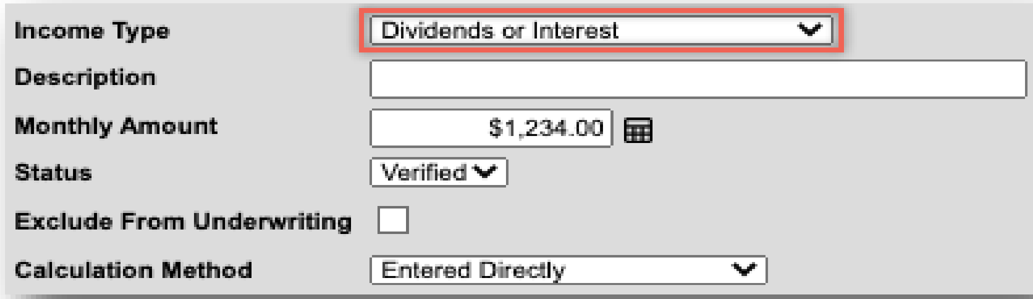
- A pre-determined insurance and/or benefit expiration date that is less then three (3) years from the note date.
  - Pending or current re-evaluation of medical edibility for insurance and/or benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.

Documentation:

Document income type, source, payment frequency, pre-determined payment amount and current receipt with one or more of the following documents, as needed:

- Copy of the benefit verification letter,
- Award letter,
- Pay Statement,
- 1099,
- W-2,
- Bank statement(s) or other equivalent documentation,
- Continuance for minimum of three (3) years after the note date.

		Future Long-Term Disability Income Long-term disability income that will commence after the first mortgage payment due date is acceptable for qualifying the borrower only if the borrower is currently receiving short-term disability benefits that will subsequently convert to long-term benefits. The borrower must be qualified on the lesser amount of either the long-term or short-term disability payments. **Documentation:** For borrowers who are currently receiving short-term disability income that will be converted to long-term disability income after the first mortgage payment due date: • Document the source, type, amount, and payment frequency of both the short-term and long-term payments, • Obtain verification of current receipt of the short-term disability payments and verification that the borrower will continue to receive the payments until the date of conversion to long-term disabilty. If the long-term disabilty policy has a pre-determined expiration date (i.e., certain disability policies provided by employers, private insurers), obain a copy of the certificate of coverage, or other equivalent documentation evidencing the policy term.
	FHA	Follow FNMA guidance and the following: If disability income is due to expire within three (3) years from the date of the mortgage application, that income cannot be used as effective income. • VA Disability/Private Disability - must have the Veterans last Benefits Letter showing the amount of assistance and one of the following: o Federal Tax Returns o The most recent bank statement evidencing receipt of income from the VA *Note:* If the benefit letter does not have a defined expiration date, you may consider the income effective and reasonably likely to continue for at least 3 years.
	VA	If it is reasonable to conclude that other types of income will continue in the foreseeable future, include it in effective income. Otherwise, consider whether it is reasonable to use the income to offset obligations of 6 to 24 months duration. VA disability income is considered a benefit and does not need to be documented for the likelihood of continuance. A COE will generally have the amount of VA disability income listed except in certain instances. A VA award letter or bank statement may also verify the current monthly amount received.

<table>
<tr><th>Main Page</th><th colspan="2">Dividend and Interest Income</th></tr>
<tr><td>Input</td><td colspan="2">Dividend and Interest Income is placed in the Monthly Income page, Income Type drop down:
LendingQB

</td></tr>
<tr><td>Requirements</td><td>All Loan Types</td><td>• Verify the borrowers ownership of the asset on which the interest or dividend income was earned
• Document a two (2) year history of receiving the income
○ Two (2) years signed 1040’s; or
○ Copies of the account statements
• Average the income received for the most recent two (2) years (refer to variable income section on the main page)
• Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.
• Confirm the asset will continue at level of income used to qualify for minimum of three (3) years after note date.</td></tr>
</table>

Main Page	Employed by Family
Description	Family owned business income refers to income earned from a business owned by the borrower's family, but in which the borrower is not an owner. A person is considered an owner if they own 25% or more of the business.
Input	Income will be input into the system as determined by the type of income (base, overtime, commission, etc.)
Documentation Requirements	Follow AUS findings for amount of documentation required for the following: • Verify and document borrower is not an owner (owns less than 25%) of the business using official business documents showing ownership percentage o An official letter from a CPA on their business related letterhead; **or** o a Corporate resolution that describes the percentage of ownership; **or** o Business tax returns; **or** o K-1; **or** o 1065 • Two (2) years signed personal 1040's • Documentation required as per type of income (base, overtime, commission, etc.)

Main Page	Employment Offers or Contracts

Documentation

Follow AUS findings for amount of documentation required for the following:

- Loans where the borrower will not have the necessary documentation prior to funding will be looked at as a case by case basis as an exception.
- Number of paystubs
- VOE requirement
- Number of years required for W-2 and Tax Returns

Input

Income will be input into the system as determined by the type of income (base, overtime, commission, etc.)

Requirements

FNMA

OPTION 1 - Paystub Obtained Before Loan Delivery

The lender must obtain an executed copy of the borrower's offer or contract for future employment and anticipated income.
Prior to delivering the loan, the lender must obtain a paystub from the borrower that includes sufficient information to support the income used to qualify the borrower based on the offer or contract. The paystub must be retained in the mortgage loan file.

OPTION 2 - Paystub Not Obtained Before Loan Delivery

This option is limited to loans that meet the following criteria:

- Purchase transaction
- Principal residence
- One unit property
- The borrower is not employed by a family member or by an interested party to the transaction, and
- The borrower is qualified using only fixed based income.

The lender must obtain and review the borrower's offer or contract for future employment. The employment offer or contract must:

- Clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower;
- Clearly identify the terms of employment, including position, type and rate of pay and start date; and
- Be non-contingent. NOTE: If conditions of employment exist, the lender must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. The confirmation must be noted in the mortgage loan file.

Also note that for a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, long-shoreman, or stagehand), the union may provide the executed emmployment offer or contract for future employment.

The borrower's start date must be no earlier than 30 days prior to the Note date or no later than 90 days after the Note date.

Prior to delivery, the lender must obtain the following docuemtnation depending on the borrower's employment start date:

If the borrower's start date is…	Documentation Required
The note date or no more than 30 days prior to the note date	• Employment offer or contract; and • Verbal verification of employment that confirms active employment status
No more than 90 days after the note date	Employment offer or contract

The lender must document, in addition to the amount of reserves required by DU or for the transaction, one of the following:

- Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject proeprty for six months; or
- Financial resources sufficient to cover the monthly liabilites included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month.

		Financial resources may include: • financial reserves, and • current income. Current income refers to net income that is currently being received by the borrower (or coborrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract. For this purpose, the lender may use the amount of income the borrower is expected to receive between the note date and the employment start date. If the current income is not being used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, but a verification of employment is not required.
		The lender must deliver the loan with Special Feature Code 707.
		Note: DU will issue a verification message related to employment offers and contracts if the borrower's current employment start date is blank or after the date the loan casefile was created.
	FHLMC	For borrowers starting new employment or receiving a future salary increase from their current employer, income commencing after the Note Date may be considered a stable source of qualifying income, provided that either all requirements for option one, or all requirements for option two in the following table are met.

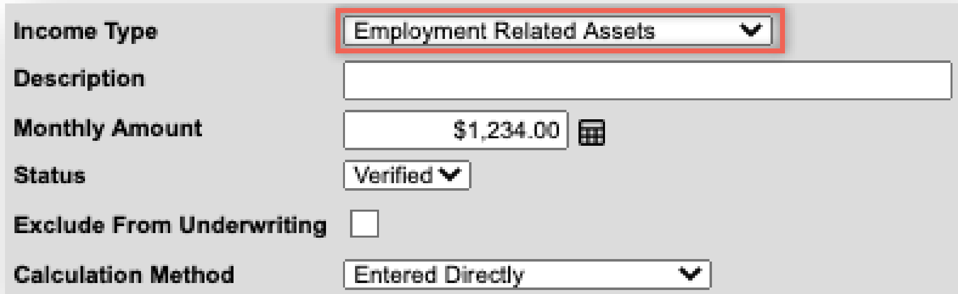
Subject	Option 1	Option 2
Eligible employment and income	Employment and income must meet the following requirements: • Income must be from new primary employment or a future salary increase with the current primary employer • Income must be non-fluctuating and salaried (i.e., hourly earnings are not permitted), and • The borrower's employer must not be a family member or an interested party to the real estate or mortgage transaction.	Employment and income must meet the following requirements: • Income must be from new primary employment • Income must be non-fluctuating and salaried (i.e., hourly earnings are not permitted), and • The borrower's employer must not be a family member or an interested party to the real estate or Mortgage transaction. • As of the Delivery Date, the income must be no less than that used to qualify the borrower for the mortgage.
Start date of the new employment or future salary increase, as applicable	• Must be no later than 90 days after the Note Date. • May be before or after the Delivery Date	• No limit on the number of days after the Note Date • Must be before the Delivery Date
Eligible loan purpose	The mortgage must be originated for one of the following purposes: • Purchase transaction • No cash-out refinance	The mortgage must be orignated for one of the following purposes: • Purchase transaction • No cash out refinance • Cash out Refinance
Eligible Mortgage Premises	• Must be a 1-unit Primary Residence	Must be one of the following: • 1-4 unit Primary Residence • Second Home • 1-4 unit Investment Property
Verfication of	In addition to funds required to be paid by the borrower and	The following requirements apply when there are more than 15 calendar days

additional funds	borrower reserves, the lender must verify additinoal funds in the borrower's depository and/or securities account(s) that equal no less than the sum of the monthly housing expense, and other monthly liabilities, multipled by the number of months between the Note Date and the start date of the new employment/future salary increase, plus one additional month. A partial month is counted as one month for the purpose of this calculation. The amount of the required additional funds, as described above, may be reduced by the amount of verified gross income that any borrower on the mortgage is expected to receive between the Note Date and the start date of the new employment, whether or not this income is used to qualify for the mortgage or is expected to continue after the start date of the new employment/future salary increase.	between the Note Date and the start date of the new employment: In addition to funds required to be paid by the borrower and borrower reserves, the lender must verify additional funds in the borrower's depository and/or securities account(s) that equal no less than the sum of the monthly housing expense, and other monthly liabilities, multiplied by the number of months between the Note Date and the start date of the new employment, plus one additional month. A partial month is counted as one month for the purpose of this calculation. The amount of the required additional funds, as described above, may be reduced by the amount of verified gross income that any borrower on the mortgage is expected to receive between the Note Date and the start date of the new employment, whether or not this income is used to qualify for the mortgage or is expected to continue after the start date of the new employment.
	Lenders may use the following worksheet to assist with the addition funds calculation:	
	Calculation for Verification of Additional Funds Worksheet 1) Total monthly housing expense 2) Monthly debt payment 3) Line 1 + Line 2 4) Number of months between Note Date and start date of new employment/future salary increase (a partial month = 1 month) + 1 month 5) (Line 3) x (Line4) 6) Borrower's verified gross income expected between Note Date and start date of new employment 7) Line 5 - Line 6	 $___________ $___________ $___________ $___________ $___________ $___________ $___________ (This is the amount of additional funds the Lender must verify)
Required Documentation	The following documentation is required: • Copy of the employment offer letter, employment contract or other evidence of the future salary increase from the current employer that: o Is full executed and accepted by the borrower	The following documentation is required: • Copy of the employment offer letter or employment contract that: o Is fully executed and accepted by the borrower, and o Includes the terms of employment, including but not limited to, employment start date and annual income based on non-fluctuating

			o Is non-contingent or provide documentation, such as a letter or emails from the employer verifying all contingencies have been cleared, and o Includes the terms of employment, including employment start date and annual income based on non-fluctuating earnings. • For a future salary increase provided by the borrower's current employer, the above documentation must indicate that the increase is fully approved and is explicitly granted to the borrower • A 10-day pre-closing verification verifying the terms of the employment offer letter, contract or future salary increase have not changed • Documentation of additional funds, as required above.	earnings. • Paystub, written verification of employment (VOE) or a third-party employment verification supporting the income used for qualifying the borrower. • Documentation of additional funds, as required above.
	FHA	The loan must be manually underwritten as AUS findings cannot be met. • Copy of the fully executed contract stating o Date of employment (must be within 60 days of closing) o Confirming the amount of income to be earned • The borrower must currently have sufficient income and cash reserves to support the mortgage payment and all other obligations between the closing of the loan and the start date of the new job. Loan must meet all manual underwriting requirements.		
	VA	Not allowed		

Main Page	Employment Related Assets
Documentation	Follow AUS findings for amount of documentation required for the following: • Number of paystubs • VOE requirement • Number of years required for W-2 and Tax Returns
Input	Employment Related Assets income is placed in LendingQB in the *Monthly Income* page, *Income Type* drop down:

LendingQB



Requirements

FNMA

- Assets used for calculation of the monthly income stream must be owned individually by the borrower, or the co-owner of the assets must be a co-borrower of the mortgage loan.
- Assets must be liquid and available to the borrower and must be sourced as one of the following:
  - A non self employed severance package or non self-employed lump sum retirement package (a lump sum distribution) must be documented with a distribution letter from the employer (form 1099-R) and deposited to a verified asset account.
  - For 401(k) or IRA, SEP, Keogh retirement accounts – the borrower must have unrestricted access to the funds in the accounts and can only use the accounts if distribution is not already set up or the distribution amount is not enough to qualify. The account and its asset composition must be documented with the most recent monthly, quarterly, or annual statement.
- If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the
- A borrower must only be considered to have unrestricted access to a 401(k) or IRA, SEP, Keogh retirement account if the borrower has, as of the time of calculation, the unqualified and unlimited right to request a distribution of all funds in the account (regardless
- Net documented assets are equal to the sum of eligible assets minus:
  - (a) The amount of the penalty that would apply if the account was completely distributed at the time of calculation; and
  - (b) the amount of funds used for down payment, closing costs, and required reserves.

IRA (made up of stocks and mutual funds)	$500,000.00
Minus 10% of $500,000 ($500,000 x .10) (assumes a 10% penalty applies for early distribution)	(-) $50,000
Total eligible documented assets	(=) $450,000
Minus funds required for closing (down payment, closing costs, reserves)	(-) 100,000
Net Documented Assets	**(=) $350,000**

		Monthly income calculation ($350,000 / 360 (or applicable terms of loan in months))	$ 972.22/month

- Ineligible assets are non employment related assets (for example, stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, and divorce proceeds). Checking and Savings accounts are generally not eligible as employment-related assets, unless the source of the balance in a checking or savings account was from the eligible employment-related asset (for example, a severance package or lump sum retirement distribution).

- All of the following loan parameters must be met in order for employment related assets to be used as qualifying income:
  - o Maximum LTV/CLTV/HCLTV 70% (80% if the owner of these asset(s) being used to qualify is at least 62 years old at the time of closing. If the asset(s) is jointly owned, all owners must be a borrower on the loan and the borrower using the income to qualify
  - o Minimum credit score 620
  - o Purchase and limited cash out refinance only
  - o Principal residence and second home only
  - o 1-4 unit properties
  - o Divide "Net Documented Assets" by the amoritization term of the mortgage loan (in months)

Note: If the mortgage loan does not meet the above parameters, employment-related assets may still be eligible under other standard income guidelines, such as "Interest and Dividends Income," or Retirement, Government Annuity, and Pension Income."

FHLMC

Mortgage Eligibility Requirements

The assets described in this section may only used to qualify the borrower if the mortgage meets all of the following requirements:

- 1 or 2 unit Primary residence or second home
- Purchase or rate and term refinance
- Maximum LTV/CLTV/HCLTV is 80%

To determine the amount used to establish the debt payment-to-income ratio, use the net eligible assets divided by 240

The amount of net eligible assets is calculated by subtracting the following from the total eligible assets:

- Any funds required to be paid by the borrower to complete the transaction (i.e., down payment and closing costs)
- Any gift funds and borrowed funds, and
- Any portion of assets pledged as collateral for a loan or otherwise encumbered

Retirement Assets

- The retirement asset must be in a retirement account recognized by the IRS (e.g. 401(k), IRA)
- The borrower must be the sole owner
- The asset must not currently be used as a source of income by the borrower
- As of the Note Date, the borrower must have access to withdraw the funds in their entirety, less any portion pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty or an additional early distribution tax
- The borrower's rights to the funds in the account must be fully vested

Documentation

- Most recent retirement asset account statement
- Documentation evidencing asset eligibility requirements are met

Lump Sum distribution funds not deposited to an eligible retirement asset

If the lump sum distribution funds have been deposited to an eligible retirement asset, follow the requirements for retirement

- Lump sum distribution funds must be derived from a retirement account recognized by the IRS (i.e. 401 (k), IRA) and must be deposited to a non retirement brokerage or depository account
- A borrower must have been the recipient of the lump sum distribution funds
- Parties not obligated on the mortgage may not have any ownership interest in the account that holds the funds from the lump
- The proceeds from the lump sum distribution must be immediately accessible in their entirety
- The proceeds from the lump sum distribution must not have been or currently be subject to a penalty *or early distribution tax*

Documentation

- Employer distribution letter(s) and /or check-stub(s) evidencing receipt and type of lump-sum distribution funds; IRS 1099-R (if it has been received)
- Satisfactorily documented evidence of the following:
    - funds verified in the non-retirement account, used for qualification must be derived from eligible retirement assets
    - Lump-sum distribution funds must not have been or currently be subject to a penalty or early distribution tax

Depository Accounts and Securities

- The borrower must solely own assets or, if asset is owned jointly, each asset owner must be a borrower on the mortgage and/or on
- At least one borrower who is an account owner must be at least 62 years old
- As of the Note Date, the borrower must have access to withdraw the funds in their entirety, less any portion pledged as collateral encumbered, without being subject to a penalty
- Account funds must be located in a United States or State-regulated financial institution and verified in U.S. dollars
    - Retention of business assets

Documentation

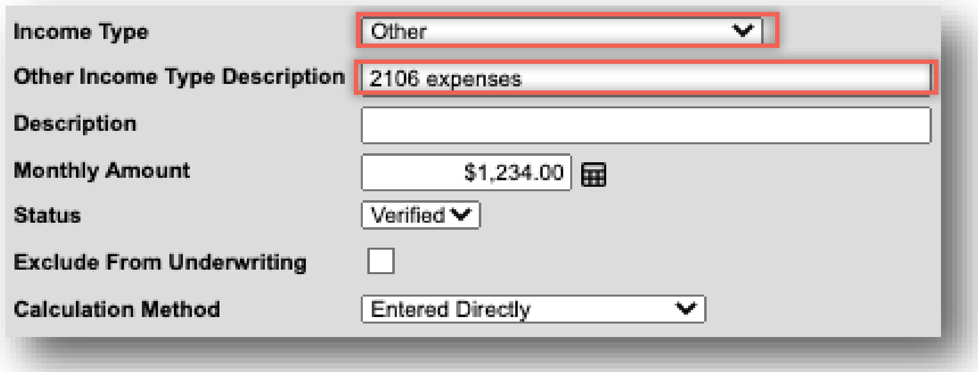
- Provide account statement(s) covering a two-month period or a direct account verification (VOD) OR, for securities only, if the borrower does not receive a stock/security account statement
    - Provide evidence the security is owned by the borrower, and
    - Verify value using stock prices from a financial publication or web site
- Documentation evidencing asset eligibility requirements are met
- Sourcing deposits:
    - Document the source of funds for any deposit exceeding 10% of the borrower's total eligible assets in depository accounts and securities, and verify the deposit does not include gifts or borrowed funds, or reduce the eligible assets used to qualify the borrower by the amount of the deposit
    - When the source of funds can be clearly identified from the deposit information on the account statement (i.e. direct payroll deposits) or other documented income or asset source in the mortgage file, the Lender is not required to obtain additional documentation.

Assets from the sale of the borrower's business

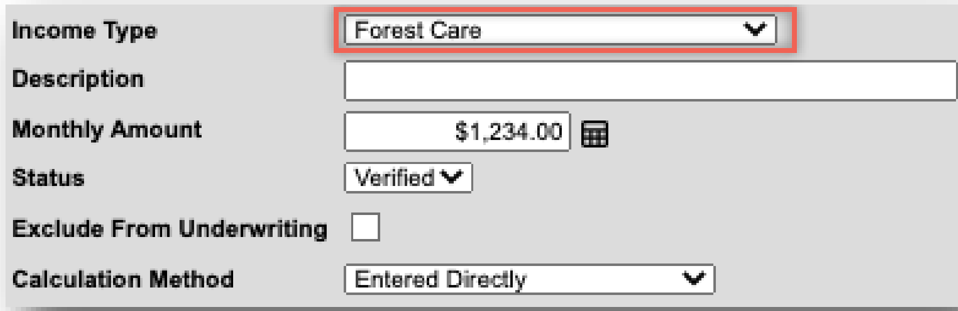
- The borrower must be the sole owner of the proceeds from the sale of the business that were deposited to the non retirement
- Parties not obligated on the mortgage may not have an ownership interest in the account that holds the proceeds from the sale
- The proceeds from the sale of the business must be immediately accessible in their entirety

		• The sale of the business must not have resulted in the following
		  ○ Retention of business assets
		  ○ Existing secured or unsecured debt
		  ○ Ownership interest or seller held notes to buyer of business
		
		Documentation
		• Most recent three (3) months' depository or securities account statements
		• Fully executed cloisng documents evidencing final sale of business to include sales price and net proceeds
		• Contract for sale of business
		• Most recent business tax return prior to sale of business
		• Satisfactorily documented evidence of the following:
		  • Funds verified in the non-retirement account and used for qualification must have been derived from sale of the borrower's business

	FHA/VA	Not allowed

Main Page	Employment Related Expenses	
Documentation	Follow AUS findings for amount of documentation required for the following: • Number of paystubs • VOE requirement • Number of years required for W-2 s and tax returns	
Input	Employment Related Business Expense (2106) is placed in LendingQB in the *Monthly Income* page, *Income Type* drop down. Manually enter "2106 expenses in *Other Income Type Description* : LendingQB  	
Requirements	**All Loan Types**	• When evaluating commission income that represents 25% or more of the borrower's total annual employment income, the lender must consider certain tax deductions o Out of Pocket, unreimbursed business expenses - These expenses must be decucted from the borrower's income. o Actual expenses for leased automoble, rather than the standard mileage rate - the Lender must analyse the "Actual Expenses" section of the IRS form 2106 to determine the amount of the lease payments, and makue sure the lease expense is counted only once in its cash flow analysis, either as an expense on IRS forms 2106 or as a monthly • Automobile Depreciation o If a borrower claims a "standard mileage" deduction the business miles driven should be multiplied by the depreciation factor for the appropriate year, and the calcuated o if a borrower claims an "actual depreciation expense" deduction, the amount the borrower claimed should be added to the borrower's cash flow • Income Calculation o The 2106 deduction will be determined by taking the amount per the 1040's and dividing by 12 or 24 months which ever is more. To add the mileage back you will take the number of business miles x the depreciation factor for the appropriate year and add that amount back into the 2106 total.

Main Page	Foreign Income	
Documentation	Follow AUS findings for amount of documentation required for the following: • Number of paystubs • VOE requirement • Number of years required for W-2 and Tax Returns	
Input	Income will be input into the system as determined by the type of income (base, overtime, commission, etc.)	
Requirements	**All Loan Types**	Foreign income is income that is earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met. • Copies of his/her signed federal income tax returns for the most recent two (2) years that include foreign income. • The lender must satisfy the standard documentation requirements based on the source and type of income. • Provide translations into US Dollars when check stubs / W-2 are not showing US Dollars.

[Main Page](#)	Foster Care Income	
Documentation	Follow AUS findings for amount of documentation required for the following: • Number of paystubs • Number of years required for Tax Returns	
Input	Foster-care Income is placed in Mortgage Builder in "Other Income" drop down: LendingQB  	
Requirements	**FNMA**	Income received from state or county sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met: • Verify the foster care income with letters of verification from the organizations providing the income • Document that the borrower has a two (2) year history of providing foster care services. • If the borrower has not been receiving the income for a full two (2) years, the income may be counted as stable income if: o The borrower has at least a 12 months history of providing foster care services, and o The income does not represent more than 30% of the total gross income that is used to qualify for the mortgage loan. • The income must be likely to continue for a minimum of three (3) years after the note date
	FHLMC/VA	Foster care income may be considered qualifying income if the following is met • Income is received from a State or County sponsored organization • Borrower has a two (2) year documented history of receiving • The income will continue for a minimum of three (3) years from the note date
	FHA	*Income received from state or county sponsored organization for providing temporary care for one or more individuals may be considered acceptable and stable income if the borrower has a two-year history of providing foster care services and receiving foster care payment and that the foster care payment is reasonably likely to continue.* ***Required Documentation*** • *The lender must obtain written verification of foster care payment from the organization providing it,* • *Verify and document that the borrower has a two-year history of providing foster care services and receiving foster care payment, and* • *That the foster care payment is reasonably likely to continue.* ***Calculation of Effective Income*** *Calculate foster care payment by using the lesser of:* • *average foster care payment received over the previous two years; or* • *average foster care payment received over the previous year.*

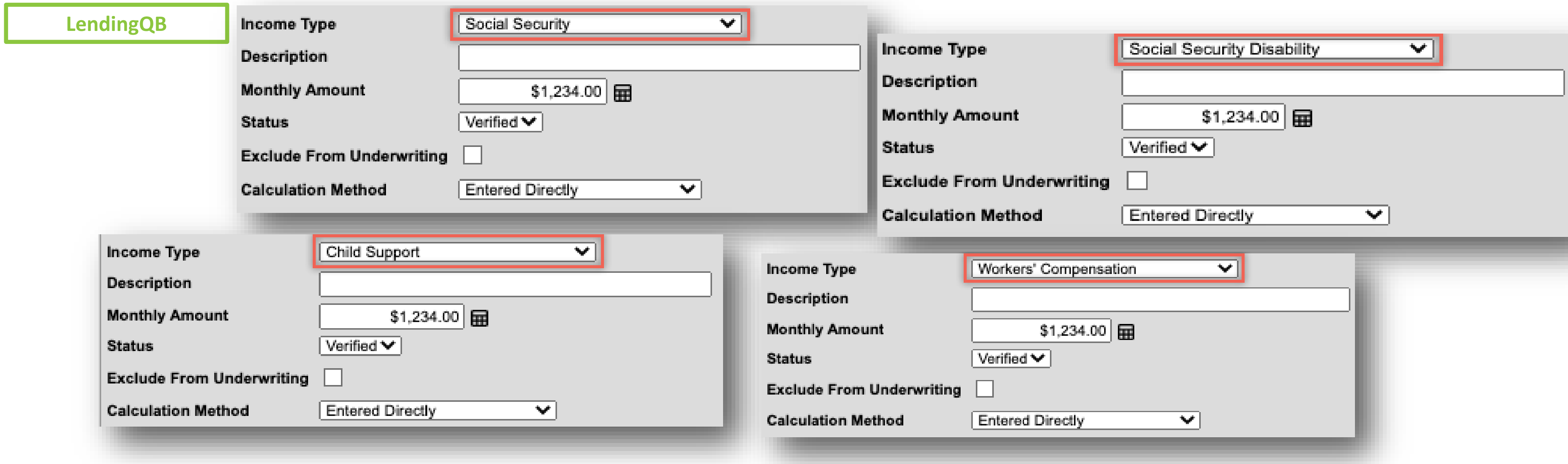
[Main Page](#)	Grossing Up Non Taxable Income

Documentation

Follow AUS findings for amount of documentation required for the following:
- Number of paystubs
- VOE requirement (Statement of Service)
- Number of years required for W-2 and Tax Returns

Input

Military Pay Income is placed in LendingQB in the *Monthly Income* page, *Income Type* drop down. Income types that may be non-taxable are "Social Security", "Social Security Disability", "Child Support" and Workers' Compensation":



Requirements

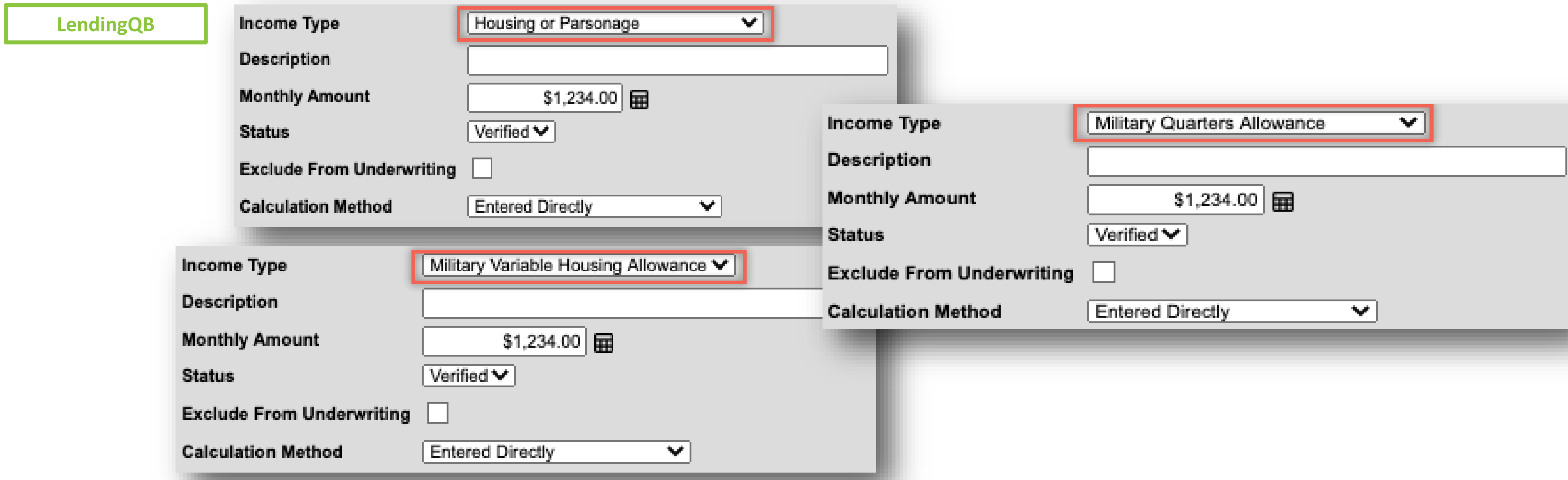
FNMA/ FHLMC/ VA

When borrowers are receiving non taxable income it may be grossed up provided there is evidence in the file that confirm the income is not taxable. When this is confirmed in the file the income may be grossed up 125%. In order to gross up the following items must be obtained in the loan file:
- Most recent tax returns verifying the borrower is not paying taxes on the non taxable income.
- If borrower is not required to file taxes provide:
  1) Letter of explanation from borrower confirming borrower is not required to file taxes.
  2) Evidence taxes are not filed via no record found for past 2 years.

FHA

The percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount. Additional allowances for dependents are not allowed. Non taxable income may be grossed up provided there is evidence in the file that confirm the income is not taxable. When this is confirmed in the file the income may be grossed up 115%. In order to gross up the following items must be obtained in the loan file:
- Most recent tax returns verifying the borrower is not paying taxes on the non taxable income.
  1) Obtain a complete copy of the current awards letter.
  2) Document evidence of continuation for 3 years.
  3) Evidence taxes are not filed via no record found for past 2 years.

NOTE: With reverse mortgages income can not be grossed up

Documentation	Follow AUS findings for amount of documentation required for the following: • Number of paystubs • VOE requirement (Statement of Service) • Number of years required for W-2 and Tax Returns	
Input	Military Pay Income is placed in LendingQB in the *Monthly Income* page, *Income Type* drop down and broken out by type of pay: 	
Requirements	**FNMA/ FHA**	Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 12 months and the allowance is likely to continue for the next 3 years. The housing allowance may be added to income but may not be used to offset the monthly housing payment. ***Note:*** This requirement does not apply to military quarters allowance.
	FHLMC	Follow FNMA guidance above in addition to the following documentation: • A written VOE, a letter from the employer or paystubs reflecting the amount of the housing or parsonage allowance and the terms which it is paid; or • Evidence of one month receipt of the housing allowance • Number of years required for W-2 and Tax Returns
	VA	Military quarters allowance is effective income if properly verified. In most areas there will be additional variable housing allowance which can also be included. The following documentation is needed: • Monthly allotment statement • Proof of receipt • Must be owner occupied • Evidence of continuance for 3 years If the duration of the miltary allowance cannot be determined, this source of income may still be used to offset short term obligations of 6 to 24 months duration.

Main Page	Jop Gap	
Requirements	**FNMA/ FHLMC**	A borrower who experienced recent employment gaps (e.g., 30 days), documentation is obtained from the borrower explaining the circumstances surrounding the gap.
	FHA	For borrowers with gaps in employment of six months or more (an extended absence) , you may consider the borrowers current income as Effective Income if it can be verified and document that: • The borrower has been employed in the current job at least six months at the time of case number assignment; and • A two year work history prior to the absence from employment using standard or alternative employment verification.
	VA	Reduction for Refer • No explanation for employment gap is required if the gaps are <30 days. Reduction for Accept/Approve • No explanation for employment gap is required if the gaps are <60 days.

Main Page	K-1 Income

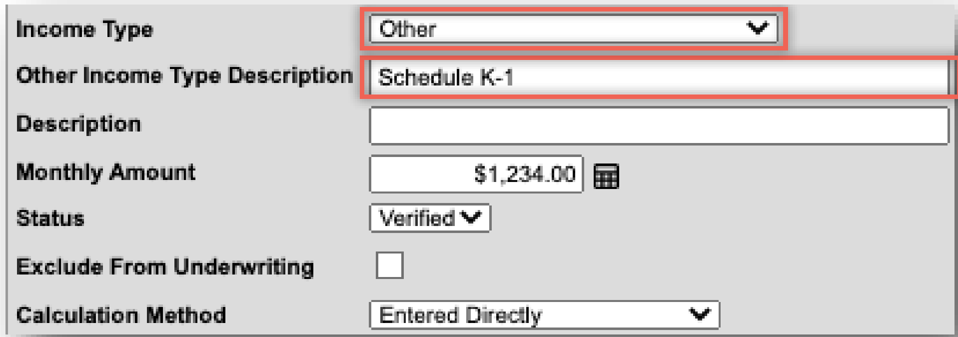
Documentation

Documentation required for the following:
- Most recent 2 years of IRS Schedule K-1
- Most recent 2 years if individual Federal Tax Returns

Input

Schedule K-1 Income is placed in LendingQB in the *Monthly Incom* e page, *Income Type* drop down. Enter "Schedule K-1" in *Other Income Type Description* :

LendingQB



Requirements

FNMA

The following requirements for Schedule K-1 is for borrowers with less than 25% ownership of a partnership, an S corporation, or an LLC

If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the cash flow.

If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions from the business consistent with the level of business income being used to qualify, then confirm the business has adequate liquidity to support the withdrawal of earnings. Use discretion in the method used to confirm business has adequate liquidity.

If the borrower has a 2 year history of receiving a "guaranteed payments to the partner" from a partnership or an LLC, these payments can be added to the cash flow.
- Current receipt of guaranteed payments is required to verify payments are still received at the previous amount.
- If the borrower takes their guaranteed payment other than regular, a letter of explanation is required.

Note: An exception to the two-year requirement of receiving "guaranteed payments to the partner" is if a borrower has recently acquired nominal ownership in a professional services partnership (for example, a medical practice or a law firm) after having an established employment history with the partnership. In this situation, you may rely on the borrower's guaranteed compensation. This must be evidenced by the borrower's partnership agreement and further supported by evidence of current year to date income.

Documentation Requirements

The borrower must provide the most recent two years of signed individual federal income tax returns and the most recent two years of IRS Schedule K-1.

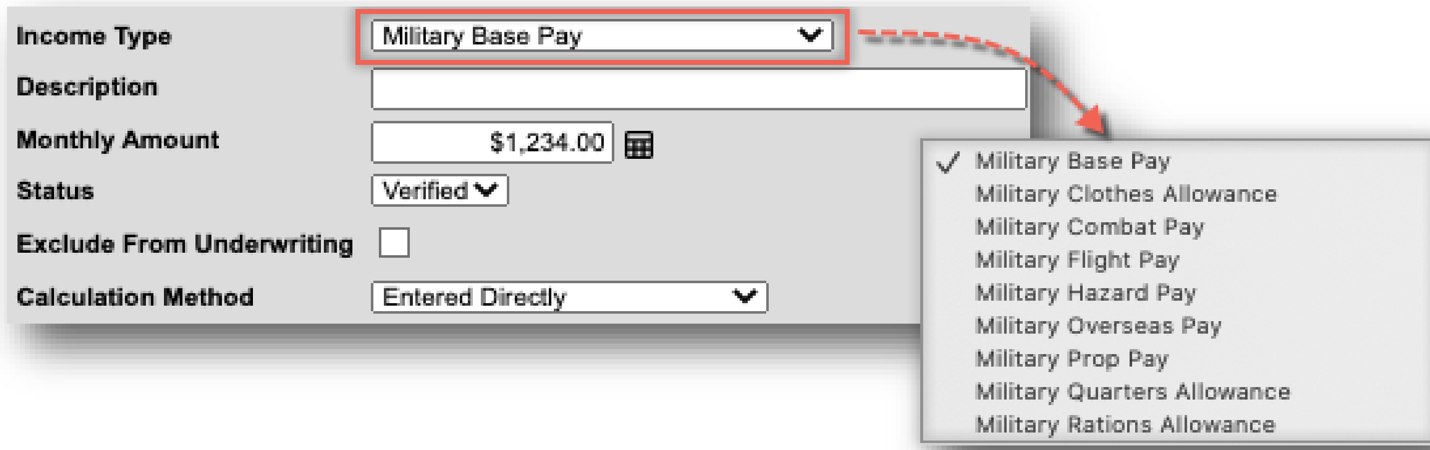
FHLMC

Verify the number of years that the business has been in existence and obtain complete signed federal individual and partnership (form 1065) income tax returns and, including the Schedule K-1(s) for the most recent year if business in existence >5 years or 2 years if < 5 years.

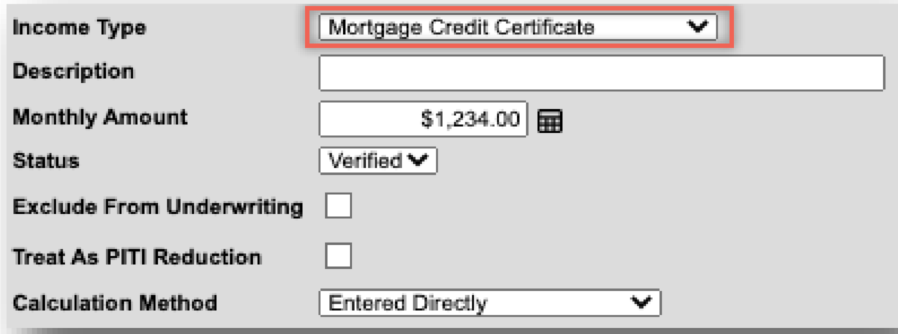
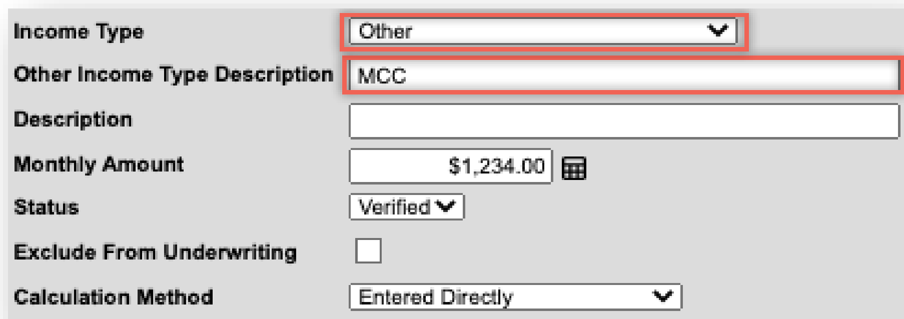
Note: If the self employed income is showing a positive income and is not being used to qualify, additional documentation is not required.

FHA/VA

They are not specific in regards to K-1 income only Self Employed borrowers in general
- Signed copies of federal business income tax returns for the previous 2 years plus all applicable schedules
- A list of all stockholders or partners showing the interest each holds in the business
- Provide profit & loss or balance sheet if taxes were not filed for the prior year.
- Depreciation claimed as a deduction on the tax returns and financial statements of the business may be included in effective income

Main Page	Military Pay Income	
Documentation	Follow AUS findings for amount of documentation required for the following: • Number of paystubs • VOE requirement (Statement of Service) • Number of years required for W-2 and Tax Returns	
Input	Military Pay Income is placed in Mortgage Builder under "Other Income" drop down and broken out by type of pay: LendingQB  	
Requirements	**FNMA**	Military personnel may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters allowance, and proficiency pay are acceptable sources of stable income. As long as the lender can establish that the particular source of income will continue to be received in the future. FNMA does not have specific guidance to document the continuance, however if there is any documentation that shows a defined expiration date then a three (3) year continuance will be required. Income paid to military reservists while they are satisfying their reserve obligations also is acceptable if it satisfies the same stability and continuity tests applied to secondary employment.
	FHLMC	A borrower who is a member of the United States Armed Forces may receive pay entitlements such as flight or hazard duty, rations, clothing allowance or quarters allowance in addition to base pay. The lender may consider entitlements qualifying income if documented and likely to continue for the next three (3) years after the note date. If the borrower is a member of a reserve component of the United States Armed Forces, the lender may consider the duty income for qualifying. A history of receipt is not required for the income to be considered stable.
	FHA	Military income refers to income received by military personnel during their period of active, Reserve, or National Guard service, including: • Base pay • Variable housing allowance • Clothing allowances • Flight or hazard pay • Rations

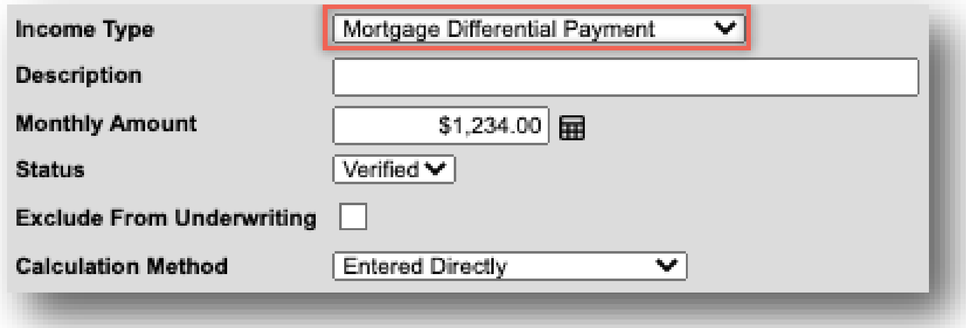
		• Proficiency pay The lender may not use education benefits as effective income. Required documentation: • Copy of the Leave and Earnings Statement (LES) • Verify expiration term of service date on the LES ○ If the expiration term of service date is within the first year (12 months) of the mortgage, military income may only be considered effective income if the borrower represents their intent to continue military service for the first three (3) years of the mortgage. • The lender must use the current amount of military income received to calculate effective income.
	VA	For active-duty military borrowers, a Leave and Earnings Statement (LES) is required instead of a VOE. • The LES must furnish the same information as a VOE. • The LES must be no more than 120 days old (180 days for new construction), from the date of closing. • For loans closed automatically, the date of the LES must be within 120 days of the date the note is signed (180 days for new construction). • For prior approval loans, the date of the LES must be within 120 days of the date the application is received by VA (180 days for new construction). The LES must be an original, electronic, or a copy certified by the lender to be a true copy of the original. ***Note*** : The Department of Defense provides service members access to a computer generated LES through myPay (formerly known as E/MSS - Employee Member Self Service). This type of LES is acceptable. In addition, identify service members who are within 12 months of release from active duty or end of contract term. For an enlisted servicemember, find the date of expiration (ETS) of the borrower's current contract for active service on the LES. For National Guard or Reserve members, find the ETS of the borrower's current contract for active service on the LES. Also, if a National Guard or Reserve member is currently serving on active duty, also identify the expiration date of the current active-duty tour. If the date is within 12 months of the closing date, the loan package must also include one of the following items, or combination of items, to be acceptable: • Documentation that the servicemember has already re-enlisted or extended his/her period of active duty to a date beyond the 12-month period following closing, or • Verification of a valid offer of local civilian employment and/or verification of military retirement income following the release from active-duty service, or • A statement from the servicemember that he/she intends to re-enlist or extend his/her period of active-duty service to a date beyond the 12-month period, plus (i) a statement from the servicemember's commanding officer confirming that the servicemember is eligible to re-enlist or extend his/her active-duty service as indicated, and (ii) the commanding officer has no reason to believe that such re-enlistment or extension of active-duty service will not be granted, and • Documentation of other unusual strong positive underwriting factors, such as a downpayment of at least 10 percent from the borrower's own assets (not a gift), a minimum of 6 months PITI, in cash, after the downpayment from the borrower's own assets (not a gift) or clear evidence of strong ties to the community coupled with a non-military spouse's income so high that only minimal income from the active-duty servicemember is needed to qualify. Note: If an Officer has an ETS date listed as 888888 or 000000 on his/her LES, the above documentation is not required unless there is evidence that the Officer has resigned his/her commission.

<table>
<tr><th>[Main Page](#)</th><th colspan="2">Mortgage Credit Certificate (MCC)</th></tr>
<tr><td>Input for FNMA/FHLMC/ VA</td><td colspan="2">For FNMA and FHLMC, Mortgage Credit Certificate (MCC) Income is placed in LendingQB in the Monthly Income page, Income Type drop down. For VA, MCC Income is not entered as it's only used to reduce the Federal Tax amount used to calculate the residual income.
LendingQB

</td></tr>
<tr><td>Input for FHA</td><td colspan="2">For FHA loans the amount of the monthly MCC should be included in the income. In order to properly include this as effective income, place the monthly MCC amount in LendingQB in the Monthly Income page, Income Type drop down. Manually enter "MCC" in Other Income Type Description :
LendingQB

</td></tr>
<tr><td rowspan="2">Requirements</td><td rowspan="2">FNMA/FHLMC</td><td>• States and municipalities can issue a mortgage credit certificate (MMC) in place of, or as part of, their authority to issue mortgage revenue bonds. MCC’s enable an eligible first time homebuyer to obtain a mortgage secured by his or her principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments.

• When calculating the borrower’s DTI ratio, treat the maximum possible MCC income as an addition to the borrower’s income, rather than as a reduction to the amount of the borrower’s mortgage payment. Use the following calculation when determining the available income:
• (Mortgage Amount) x (Note Rate) x (MCC %) / 12 = Amount added to borrowers monthly income.
For example: if a borrower obtains a $100,000 mortgage that has a note rate of 7.5% and he or she is eligible for a 20% credit under the MCC program, the amount that should be added to his/her monthly income would be $125 ($100,000 x 7.5% x 20% = $1500 / 12 = $125)</td></tr>
<tr><td>• The lender must obtain a copy of the MCC and the lender’s documented calculation of the adjustment to the borrower’s income and include them in the mortgage loan
• For refinance transactions, the lender may allow the MCC to remain in place as long as it obtains confirmation prior to docs from the MCC provider that the MCC remains in effect for the new mortgage loan. Copies of the MCC documents, including the reissue certification, must be obtained.
• The amount used as qualifying income cannot exceed the maximum mortgage interest credit permitted by the IRS
Note: Because the MCC is transaction specific, it does not have to comply with the Allowable Age of Credit Documents policy.</td></tr>
</table>

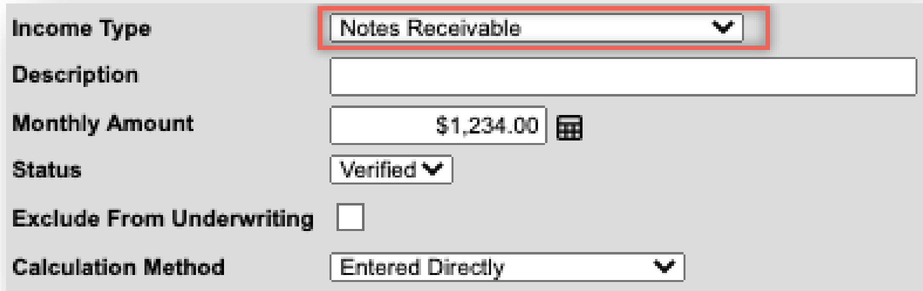
FHA	Mortgage Credit Certificates refer to government mortgage payment subsidies other than section 8 homeownership vouchers. **Required documentation:** • *Verify and document the amount of the tax rebate.* • *Mortgage Credit Certificate income may be included as Effective Income. The lender must use the current subsidy rate to calculate the Effective Income.*
VA	Mortgage Credit Certificates (MCCs) issued by state and local governments may qualify a borrower for a Federal tax credit. The Federal tax credit is based on a certain percentage of the borrower's mortgage interest payment. Lenders must provide a copy of the certificate to VA with the loan package which indicates: • documentation verifying any expenses charged by the local government entity for the program which is listed on the Closing Disclosure Statement, and • the percentage to be used to calculate the tax credit, and if applicable, • The amount of the certified indebtedness. The certified indebtedness can be comprised of a loan incurred by the veteran to acquire a principal residence or a qualified home improvement or rehabilitation loan. There is an IRS annual limit on the tax credit equal to the lesser of $2,000 or the borrower's maximum tax liability. Calculate the tax credit by applying the specified percentage to the interest paid on the certified indebtedness. Then apply the annual limit. **Example**: The MCC shows a 30% rate and $100,000 certified indebtedness. The borrower will pay approximately $8,000 in annual mortgage interest. Borrower's estimated total Federal income tax liability is $9,000. Calculate the tax credit as follows: 30 percent of $8,000 = $2,400 Apply the IRS annual $2,000 limit The tax credit will be $2,000 This allows use of $167 (one-twelfth of $2,000) as income to qualify the borrower. **Note**: If the mortgage on which the borrower pays interest is greater than the amount of certified indebtedness, limit the interest used in the tax credit calculation to that portion attributable to the certified indebtedness

<table>
<tr><th>Main Page</th><th colspan="2">Mortgage Differential</th></tr>
<tr><td>Input</td><td colspan="2">Mortgage Differential Income is placed in LendingQB in the Monthly Income page, Income Type drop down:

LendingQB

</td></tr>
<tr><td rowspan="2">Requirements</td><td>FNMA/FHLMC</td><td>An employer may subsidize an employee’s mortgage payments by paying all or part of the interest differential between the employee’s present and proposed mortgage payments.

When calculating the qualifying ratio, the differential payments should be added to the borrower’s gross income.

The payment may not be used to directly offset the mortgage payment, even if the employer pays them to the mortgage lender rather than to the borrower.
The following is required:
• Obtain written verification from the employer confirming the subsidy and stating the amount and duration of the payments.
• Verify that the income will continue for a minimum of three (3) years from application date.
• Must be part of an on going and documented program.
• Employer must not be an interested party to the transaction.
Purchase transaction
• Current receipt is not required except as verified in the employer letter.
Refinance
• The recent receipt must be in compliance with the allowable age of credit documents policy</td></tr>
<tr><td>FHA/VA</td><td>Not allowed</td></tr>
</table>

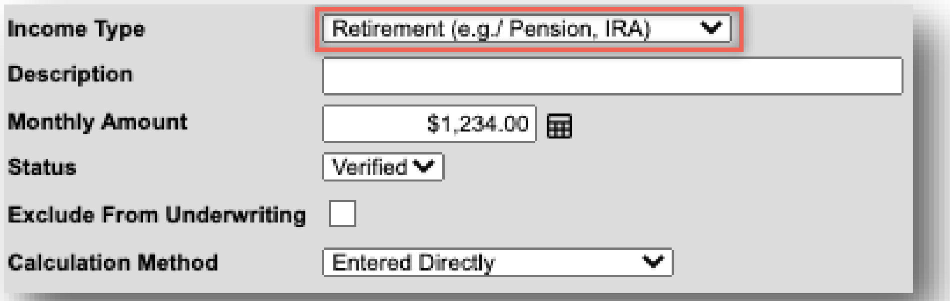
Main Page	Notes Receivable Income	
Input	Note Receivable Income is placed in LendingQB in the *Monthly Income* page, *Income Type* drop down: LendingQB  	
Requirements	**FNMA**	The following must be provided as verification requirements for notes receivable income. • Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage application. • Obtain a copy of the note to establish the amount and length of payment. • Document regular receipt of income for the most recent 12 months. Payments that vary may cause additional documentation required and/or ineligibility to use the income in qualifying. ○ Statement print out from company collecting payments on borrowers behalf in exact amount of the note on a monthly basis. ○ 12 months bank statement showing deposit in the exact amount of the note on a monthly basis. ○ Copies of wires to the borrower in the exact amount of the note on a monthly basis. • Payments on a note executed within the past 12 months, regardless of the duration, may not be used as stable income.
	FHLMC	Income from Notes Receivable may be considered qualifying income if the file contains the following: • A copy of the note • Evidence that the borrower has received payments on a regular monthly basis for the most recent 12 months (in the amount stated on the note) • The income must be likely to continue for a minimum of three (3) years after the note date.
	FHA/VA	Required Documentation: • Verify and document the existence of the note. • Verify and document the amount and number of payments remaining • Verify the payments have been consistently received for the previous 12 months by obtaining tax returns and either deposit slips or cancelled checks. • For borrowers who have been and will be receiving a consistent amount of notes receivable income. ○ Use the current rate of income to calculate effective income • For borrowers whose notes receivable income fluctuates (i.e. adjustable notes) ○ Use an average of the notes receivable income received over the previous year to calculate effective income. · Verify the income cn be expected to continue for a minimum of three (3) years from the note date

Main Page	Part Time Income (main job)	
Requirements	**FNMA / FHLMC**	Income must be calculated by an averaging method and must be reviewed to assess the borrowers history of receipt, the frequency of payment, and the trending of the amount of income being received. • After the monthly year to date income amount is calculated, it must be compared to prior years earning using the W2, tax returns or VOE • If the income is stable or increasing, the income amount should be averaged. • If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level the current , lower amount of variable income must be used. • If the trend is declining, the income may not be stable and the income can not be averaged.
	FHA	For employees who are paid hourly and whose hours vary, average the income over the previous 2 years. If documentation provided shows an increase in pay rate you may use the most recent 12 month average of hours at the current pay rate.
	VA	Follow all FNMA/FHA/FHLMC guidance and additional must document: • Consistent receipt for the most recent two (2) months

<table>
<tr><th>Main Page</th><th colspan="2">Pension and Retirement Income (including 401(k) and IRA)</th></tr>
<tr><td>Grossing Up</td><td colspan="2">When Pension income is on the tax returns as taxable income the below calculation may be used to calculate the amount to gross up:

Subtract (Line 16a - Total Amount Received) from (Line 16b - Taxable Amount) /12 = (Amount to Gross Up)
(Line 16b - Taxable Amount) /12 + (Amount to Gross Up) = Total usable pension income

Subtract line 16a (total amount received) $18,277 – line 16b (taxable amount) $15, 493 = $2784 x 125% $3480 / 12 = $290
Taxable amount line 16b $15,493 / 12 = $1291.08 + grossed up amount $290 = total pension $1581.08</td></tr>
<tr><td>Input</td><td colspan="2">Pension Retirement Income is placed in LendingQB in the Monthly Income page, Income Type drop down:

LendingQB

</td></tr>
<tr><td>Requirements</td><td>FNMA</td><td>Document regular and continued receipt of the income, as verified by the following documentation:
• a statement from the orgaization providing the income,
• a copy of retirement award letters or benefit statement,
• a copy of financial or bank account statement,
• a copy of signed federal tax returns;
• IRS W-2 or 1099 forms

If income from a government annuity or a pension account will begin on or before the first payment date, document the income with a benefit statement from the organization providing the income. The statement must specify the income type, amount and frequency of the payment, and include confirmation of the intitial start date.

If retirement income is paid in the form of a distribution from a 401k, IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three (3) years after the mortgage application. Eligible retirement account balances (from a 401(k), IRA, or Keogh) may be combined for the purpose of determining whether the three-year continuance requirement is met. Note: The borrower must have unrestricted access to the accounts without penalty.

If a borrower's retirement, annuity, or pension income is validated by the DU validation service, DU wil issue a message indicating the required documentation. This documentation may differ from the requirements described above.</td></tr>
<tr><td></td><td>FHLMC</td><td>Retirement Income (not including retirement account distributions as income) - For existing and established sources of retirement income: document income type, source, payment frequency, pre-determined payment amount and current receipt with one or more of the following documents, as needed:
• Copy of benefit verifcation letter,
• award letter,
• pay statement,
• 1099,</td></tr>
</table>

	• bank statement(s) or other equivalent documentation. • Age of documentation requirements do not have to be met for verification of income type, source, payment frequency or pre-determined payment amount. • For Social Security retirement benefits, obtain either: (i) a copy of the Social Security Administration benefit verification letter or (ii) documentation evidencing current receipt, it is not required to obtain both. **For newly established sources of retirement income:** • Verification of current receipt is NOT required • Income must commence prior to or on the first mortgage payment due date. • Copies of benefit letter (or equivalent documentation from payor) • Must include the source, type, effective date of income commencement, pay frequency and pre-determined payment amount that will commence prior to or on the first mortgage payment due date. • The documentation must be dated no more than 120 days prior to the NOTE date
	Retirement account distributions as income (i.e., 401(k), IRA) - Distributions from retirement accounts recognized by the IRS that are not subject to penalty (i.e., early withdrawal penalty) may be considered stable monthly qualifying income, as evidenced by: • Copy of most recent retirement account statement(s); • Documentation from financial institution holding retirement account that verifies regularly scheduled distribution arrangements, 1099(s) and/or other equivalent documentation showing income source, type, distribution frequency, distribution amounts and history of receipt (as applicable), and • Copy of bank statement(s) or other equivalent documentation evidencing current receipt (as applicable), and; • Evidence of sufficient assets to support the qualifying income. If the retirement distributions are not scheduled monthly payments (i.e., annual, semi-annual, quarterly), the most recent distribution verified through a copy of the retirement account statement, 1099 and/or other equivalent documentation, as applicable, is sufficient in lieu of current receipt; however, verificaiton of receipt of multiple distributions may be necessary to determine frequency of distributions, history of receipt and amount of stable monthly qualifying income. **Continuance:** Document that sufficient assets remain in the retirement account(s) after closing to support continuance of the retirement account distributions as income for at least the next three years. If the retirement account(s) from which the borrower is currently taking distribution is projected to be depleted within three years, the borrower's additional retirement accounts may be considered when determining continuance of income used for qualifying. The lender must verify that the borrower has sufficient eligible retirement assets in aggregate to support the amount of qualifying income for at least three years after the Note Date. The additional retirement assets used to verify continuance may not be used as a source of funds for closing or reserves, as a current source of income for the borrower, or for the calculation of assets as a basis for repayment of obligations.
FHA	Document regular and continued receipt of the income, as verified by the following documentation: • Copies of retirement award letters; and • Copies of signed federal tax returns; and • IRS W-2 or 1099 forms, or • Proof of current receipt (i.e., most recent bank statement) If any income is due to expire within three years from the date of case number assignment, that income may not be used for qualifying. If retirement income is paid in the form of a distribution from a 401k, IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three (3) years after the note date. In addition: • The borrower must have unrestricted access without penalty to the accounts; and

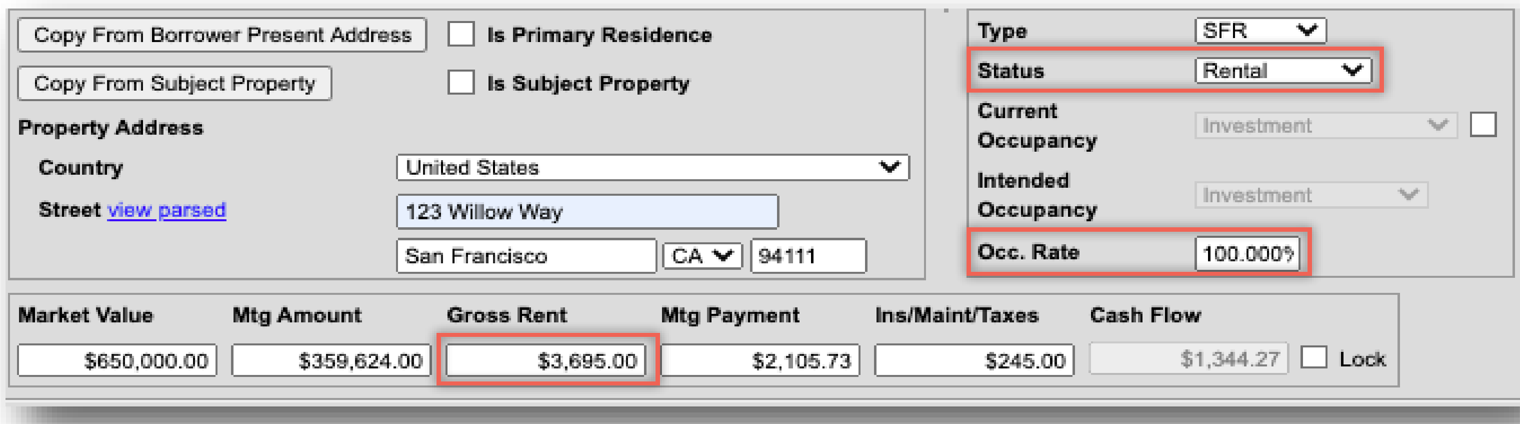
		• If the assets are in the form of stocks, bonds, or mutual funds - 70% of the value (remaining after any applicable costs for the subject transaction) must be used to determine the number of distributions remaining to account for the volatile nature of these assets. Documentation of asset ownership must be in compliance with allowable age of credit documents policy.
	VA	Follow all FNMA/FHA/FHLMC guidance and additionally must document: • Consistent receipt for the most recent two (2) months

Main Page	Rental Income/Loss FHA

Input - Non Subject Property

This rental Income will be placed in LendingQB in the *REO* page. Enter the *Gross Rent* amount and *Occ Rate %* . Ensure "Rental" is selected under *Status* . The net rental income or loss will auto-calculate, taking into account any existing mortgage payments and ins/maint/tax payments:

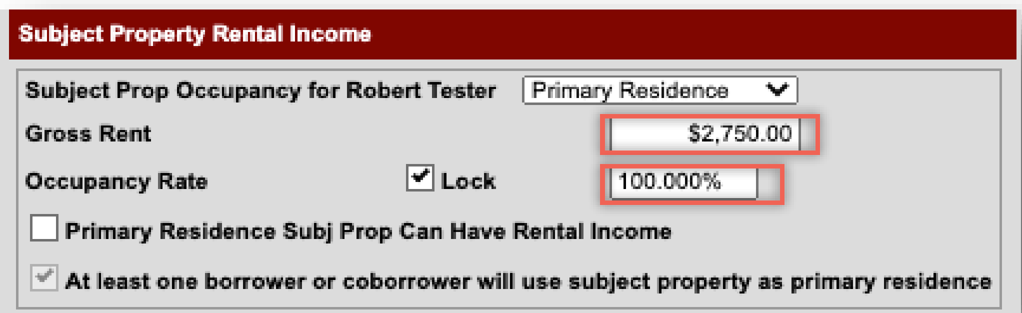
LendingQB



Input - Subject Property

The rental income will be placed in LendingQB in the Subject Property Rental Income page. Enter the Gross Rent amount and the Occupancy Rate %. The net rental income or loss will auto-calculate, taking into account the new PITI:

LendingQB



Requirements

Subject Property 2-4 Units

Documentation varies depending upon the length of the time the borrower owned the property.

Limited or No Rental History

- Verify and document the proposed rental income by obtaining an appraisal showing fair market rent and the prospective leases if available.
- If the property already has tenants
  - o Verify the unit the borrower will occupy has been vacated; and
  - o Verify the leases have been transferred to the borrower (if applicable)

History of Rental Income

- Verify and document the existing rental income by obtaining the borrowers most recent tax returns, including Schedule E, from the previous two (2) years

NOTE: 3-4 unit properties must debt service in order to use rental income for these property types. See FHA guidelines for specifics.

Calculating Effective Income

Add the net subject rental income to the borrower’s gross income gross income. The borrower’s total mortgage payment may not be reduce by the net rent for the subject property. **Note:** No income from commercial space may be included in rental income calculations.

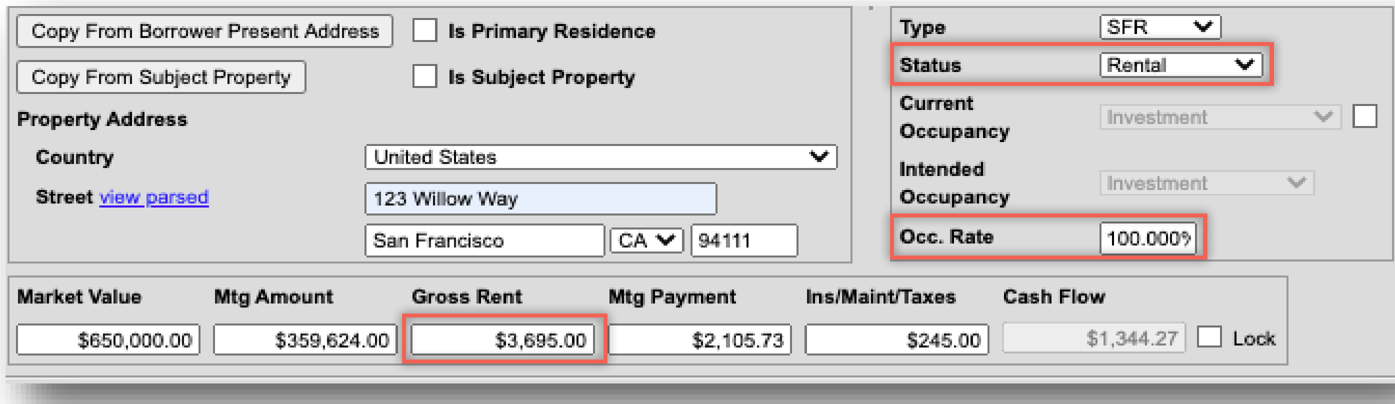
		Limited or No History of Rental Income • When the borrower does not have a history of rental income from the subject property since the previous tax filing, either; o Use the monthly operating income reported on the Fannie Mae Form 216/Freddie Mac form 998, or o 75% of the fair market rent reported by the appraiser or the rent reflected in the lease or other rental agreement, whichever is less. **History of Rental Income** Average the amount shown on the Schedule E provided the borrower continues to own all properties included on the Schedule E. • Depreciation, mortgage interest, taxes, insurance, HOA dues shown on the Schedule E may be added back to the net income or loss, and new payment deducted out.
	Other Real Estate Owned	Rental income from other real estate holding may be considered effective income, if the documentation requirements listed below are met. **Limited or No Rental History** When the borrower does not have a history of rental income since the pervious tax filing, including properties being vacated by the borrower, obtain. • 1-4 unit properties o Copy of the lease agreements; and o Evidence of receipt of income; and o A full interior/exterior appraisal evidencing market rent and that the borrower has at least 25% equity in the property • Vacating current residence o A full interior/exterior appraisal evidencing market rent and that the borrower has at least 25% equity in the property; and o Copy of the lease agreement; and o Evidence of the security deposit and/or first months rent was paid to the borrower; and o The borrower must be relocating 100 miles or more from the current residence (if not relocating 100 miles or more rental income may not be used) **History of Net Rental Income** Obtain the borrower’s last two (2) years tax returns with Schedule E. **Calculating Net Rental Income on other Real Estate Owned** **Limited or No History of Rental Income** To calculate the effective net rental income from the other real estate holdings where the borrower does not have a history of rental income since the previous tax filing: • Deduct the principal interest, taxes, and insurance (PITIA) from the lesser of either; o The monthly operating income reported on Fannie Form 216 or Freddie Form 998; or o 75% of the fair market rent reported by the appraiser ; or o The rent reflected in the lease agreement or other rental agreement. **History of Net Rental Income** Calculate the net rental income by averaging the amount shown on the Schedule E provided the borrower continues to own all properties included on the Schedule E. • Depreciation shown on the Schedule E may be added back to the net included of the loss. • If the property has been owned for less than two (2) years, annualize the rental income for the length of time the property has been owned. • For properties owned less than two (2) years, document the date of acquisition by providing the deed, HUD-1 settlement statement or other legal document.
		• Positive net rental income must be added to the borrower's effective income (MB will pull this into the income from the Real Estate Owned section) • Negative net rental income must be included as a debt/liability (MB will pull this into the liabilities under “other liabilities” from the REO section.

Main Page	Rental Income/Loss FHLMC

Input - Non Subject Property

This rental income will be placed in LendingQB in the *REO* page. Enter the *Gross Rent* amount and *Occ Rate %.* Ensure "Rental" is selected under *Status* . The net rental income or loss will auot-calculate, taking into account any existing mortgage payments and ins/maint/tax payments.

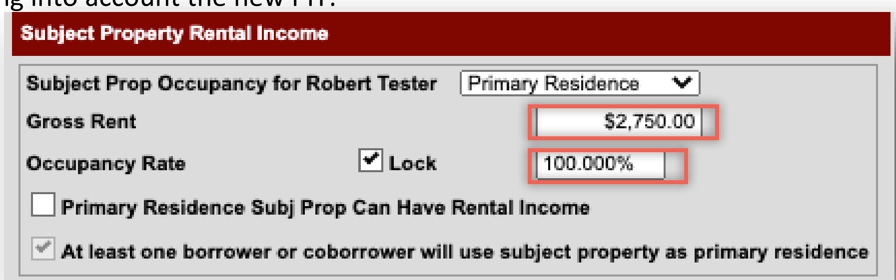
LendingQB



Input - Subject Property

The rental income will be placed in LendingQB in the Subject Property Rental Income page. Enter the Gross Rent amount and the Occupancy Rate %. The net rental income or loss will auto-calcualte, taking into account the new PIT:

LendingQB



Self Employed

Partnerships and S corporations that use Form 8825 to report income and deductible expenses from rental properties (regardless if the borrower is personally obligated or not) must refer to Self Employed Partnership section or Self Employed S Corp section, as applicable, for additional requirements.

Requirements

When using Rental Income, reasonable adjustments to gross rental income must be made to compensate for vacancies, operating and maintenance expenses and rental income received for future.

If the borrower owned a rental property during the pervious tax year, the borrower's individual tax returns must be obtained to determine the net rental income or loss for qualifying. In some instances, the income reported on the borrower's individual tax returns may not reflect the property's current rental value (i.e. the tax returns show large one-time expenses, or the property was under renovation). In these instances, individual tax returns must be obtained; however, form 998, Operating Income Statement, may be used to determine rental income. Explain the reasons for not using the income or loss from the tax returns to determine rental income.

NOTE: For vacating residence borrower must provide two (2) years tax returns with a history of managing investment properties in order to use the income – see vacating current residence in the guidelines.

1-unit Primary Residence, including rental income from an Accessory Unit	Rental income generated from the borrower's 1-unit Primary Residence, including rental income from an accessory unit, may be used to qualify a borrower with a disability provided the rental income is from a live-in aide. Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which rental payments are made to the borrower. • Evidence that the borrower has received stable rental income from a live-in aide for the most recent 12 months. • The rental income may be considered in an amount up to 30% of the total stable monthly income that is used to qualify the borrower.

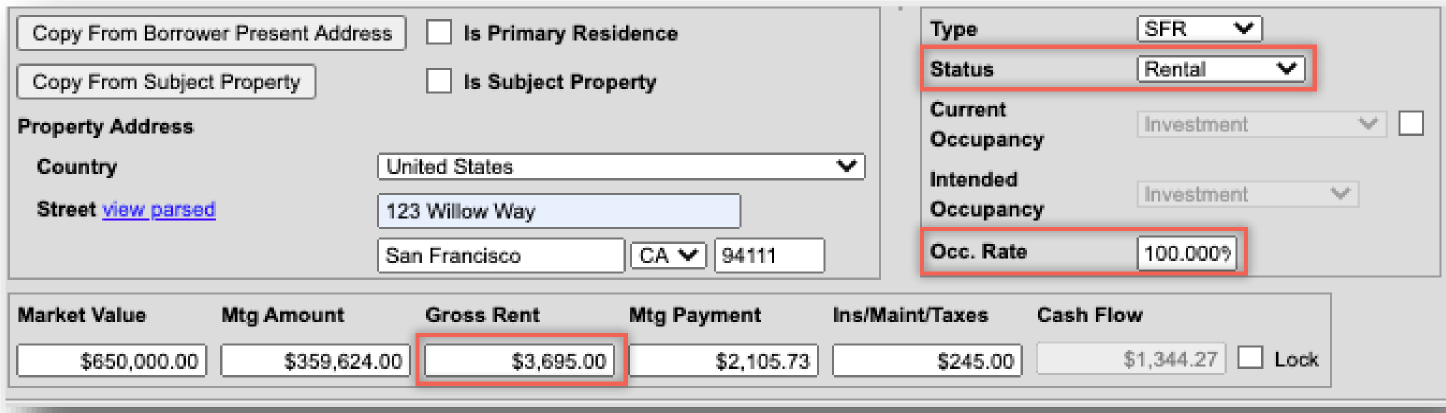
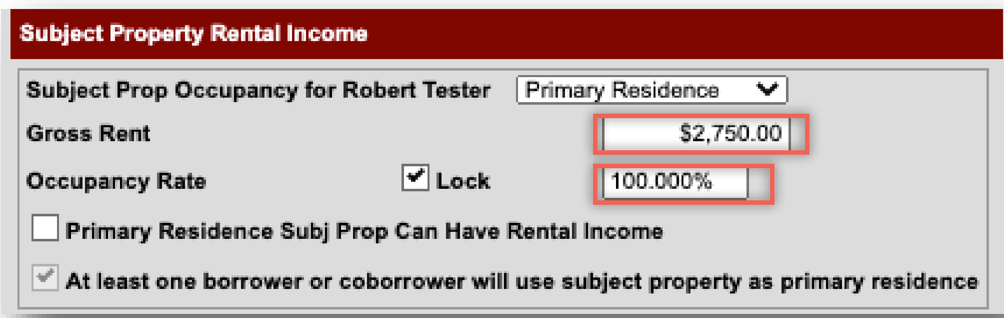
<table>
<tr><td rowspan="6">Subject Property 2-4 units Primary Residence; Subject Property 1-4 unit Investment Property and Non-Subject Investment Property</td><td colspan="3">Analysis of the rental information must include, at a minimum, the following factors:
• Rental market viability and income producing potential for subject property
• Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, if applicable.
If the current market rents do not reaosnably support the gross rents reported on Schedule E or the gross monthly lease income, the Seller
o Determine if additional documentation is necessary to support income stability, and
o Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue.</td></tr>
<tr><td colspan="3">Documentation, History and Analysis</td></tr>
<tr><td rowspan="2">Documentation and Analysis</td><td>Subject Property Purchase Transaction</td><td>Refinance of Subject 1-4 unit Investment Property, Non-Subject Investment Property or subject 2-4 unit Primary Residence</td></tr>
<tr><td>• A lease, if available, must be used to determine the net rental income. The Seller must make reasonable efforts to determine lease availability, including review of the appraisal, comparable rent data, purchase contract, a discussion with the bororwer and/or any other applicable and reaonsable method.
OR
• If a lease is not available, Forms 72 or 1000, as applicable, may be used to determine the net rental income.</td><td>For a property purchased in the current calendar year or placed in service for use as a rental property in the current calendar year:
• Lease must be used to determine the net rental income; and
o Form 73 or 1000 supporting the income reflected on the lease
OR
o Document (i.e., bank statements evidencing deposit or electronic transfer of rental payments, canceled rent checks) supporting two months of receipt of rental income*
• Purchase date or conversion date, as applicable, must be documented.</td></tr>
<tr><td>Lease Requirements</td><td colspan="2">Leases must be current and fully executed, with a minimum original term of one year. If the lease is documented as assigned from the property seller to the borrower and is in the automatically renewable month-to-month phase of an original one-year (or longer) term lease, then a month-to-month term is acceptable.</td></tr>
<tr><td>Maximum eligiblity of net rental income</td><td colspan="2">• The borrower must currently own a primary residence to use rental income to qualify when purchasing a new rental property in the current calendar year. In such instances, rental income can only offset the principal, interest, taxes and insurance (PITI) and when applicable, mortgage insurance premiums, leasehold payments, homeowners association dues (excluding unit utility charges) and payments on secondary financing (full monthly payment) of the new rental property.
• If the borrower's current primary residence is being converted to a rental property, rental income can only offset the full monthly payment of that primary residence.
• If the rental icnome exceeds the full monthly payment of the new rental property or the converted primary residence, as applicable, the excess rental income cannot be added to the borrower's gross monthly income to qualify unless the file documentation demonstrates the borrower has a minimum of one-year investment property management experience.</td></tr>
<tr><td></td><td>Documentation</td><td colspan="2">If the borrower's monthly debt payment-to-income ratio includes the full monthly payment amount for the subject Investment non-subject investment property, no further evaluation is required.

If rental income from the subject Investment Property and/or non-subject investment property is to be considered in qualifying the borrower, the following requirements apply:</td></tr>
</table>

			• The Seller must obtain the borrower's federal income tax returns (Form 1040) including the Schedule E for the most recent year. Except as set forth below when use of a signed lease may be permitted, if the subject property has been owned for at least one year and income from the subject property is reported on the borrower's federal income tax returns, the Seller must use the Schedule E to determine the net rental income or loss. • A signed lease may be used if: o The property was out of service for any time period in the prior year and the mortgage file contains a documented event renovation or evidence the property was purchased later in the calendar year. o The Schedule E supports this by a reduced number of days in use and reflects repair costs; and
			o Form 72 or 1000 supports the income reflected on the lease
			Unless the above requirements are met, a signed lease may not be used and the rental income or loss from the Schedule E must be used and annualized for qualifying purposes.
		Net Rental Income Calculation Requirements	
		Rental Income Source	**Calculation Requirements**
		Lease Forms 72 or 1000	75% of the gross monthly rent or gross monthly market rent. The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and other unexpected expenses.
		Schedule E	The net rental income from each individual property is determined based on the history of income and expenses reportted on Schedule E. Calculate the net rental income from Schedule E using Form 92, Net Rental Income Calculations Schedule E, or a similar alternative form, as follows: **Rents Received** (-) Less total expenses Add back the following expenses: (+) Insurance (+) Mortgage Interest paid to banks, etc. (+) Taxes (real estate taxes only) (+) Depreciation and/or depletion (+) Homeowners association dues (if specifically reported as an expense) (+) One time losses (i.e., casualty loss due to documented catastrophic event); Result: Net rental income (calculated to a monthly amount) When calculating the net rental income for each individual property, the following expenses reported on Schedule E (and noted above) can only be added back if they are included in the payment amount being used to establish the debt payment-to-income ratio for that property; insurance, mortgage interest paid to banks, real estate taxes, homeowners association dues.

Example:

Address: 1234 ABC Street, Loan City,		
Tax Year-	2013	2012
Net Rental Income / Loss	$ 674.00	
Depreciation	$ 4,285.00	
Amortization / Casualty Loss / One-Time Expense		
Insurance	$ 357.00	
Mortgage Interest	$10,000.00	
Taxes	$ 1,264.00	
Total Adjusted Net	$16,580.00	$0.00
Total Adjusted Net Income (Loss) Both Years	$16,580.00	
# of Months Rental Income / Expense (12 / 24)	12	
Subtotal Average Monthly Income (Loss)	$1,381.67	
Full verified PITI for this property	$1,583.00	
Net Rental Income (Loss) for Property	($201.33)	

Main Page	Rental Income/Loss FNMA
Input - Non Subject Property	This rental income will be placed in LendingQB in the *REO* page. Enter the *Gross Rent* amount and *Occ Rate %* . Ensure "Rental" is selected under Status. The net rental income for loss will auto-calculate, taking into account any existing mortgage payments and ins/maint/tax payments: LendingQB 
Input - Subject Property	The rental income will be placed in LendingQB in the *Subject Property Rental Income* page. Enter the *Gross Rent* amount and the *Occupancy Rate %.* The net rental income or loss will auto-calculate, taking into account the new PITI: LendingQB 
Self Employed Borrowers	***Partnerships and S corps that show rental properties on Form 8825 <u>AND</u> the borrower is personally obligated on the mortgage debt, see requirements below.*** ***If not personally obligated, refer to Self Employed Income tab.***
Requirements	Rental income is an acceptable source of stable income if it can be established that the income is likely to continue. If the rental income is derived from the subject property, the property must be one of the following: • A two-four unit principal residence property in which the borrower occupies one of the units, or • A one-four unit investment property If the income is derived from a property that is not the subject property, there are no restrictions on the property type. For example, rental income from a commercial property owned by the borrower is acceptable if the income otherwise meets all other requirements (it can be documented in accordance with Generally, rental income from the borrower's principal residence (a one unit principal residence or the unit the borrower occupies in a two to four unit property) or a second home cannot be used to qualify the borrower. However, there may be an exception. (see Boarder Income)

Does the borrower have a history of receiving rental income from the subject property?	Transaction Type	Documentation Requirements
Yes	Refinance	**Form 1007 or Form, 1025, as applicable, and either:** • The borrower's most recent year signed federal income tax returns, including Schedule 1 and Schedule E, or • Copies of the current lease agreement(s) if the borrower can document a qualifying exception (see Partial or No Rental History on Tax Returns).
No	Purchase	**Form 1007 or form 1025, as applicable, and** • Copies of current lease agreement(s). If the property is not currently rented, lease agreements are not required. Use market rent supported by form 1007 or form 1025. If there is a lease on the property that is being transferred to the borrower, Verify that it does not contain any provisions that could affect the first lien position.
No	Refinance	**Form 1007 or Form 1025, as applicable, and** • Copies of the current lease agreement(s)
If the borrower is not using any rental income from the subject property to qualify, the gross monthly rent must still be documented for lender reporting purposes.		

Documenting Rental Income From Property Other Than the Subject Property

When the borrower owns property - other than the subject property - that is rented, the lender must document the monthly gross (and net) rental income with the borrower's most recent signed federal income tax return that includes Schedule 1 and Schedule E. Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception. (See Partial or No Rental History on Tax Returns)

Partial or No Rental History on Tax Returns

In order to determine qualifying rental income, the lender must determine whether or not the rental property was in service for the entire tax year or only a portion of the tax year. In some situations, the analysis may determine that using alternative rental income calculations or using lease agreements to calculate income are more appropriate methods for the qualifying income from rental properties. This policy may be applied to refinances of a subject rental If the borrower is able to document (per table below) that the rental property was not in service the previous tax year or was in service for only a portion of the pervious tax year, the lender may determine qualifying rental income by using:

- Schedule E income and expenses, and annualizing the income (or loss) calculation; or
- Fully executed lease agreement(s) to determine the gross rental income to be used in the net rental income (or loss) calculation.

If…	Then…
If the subject property was acquired during or subsequent to the most recent tax filing year.	• Confirm the purchase date using the Settlement Statement or other documentation • If acquired during the year, Schedule E (fair rental days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental) • If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for
If the rental property was out of	• Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation may be required to ensure that the expenses support a significant renovation that

		If the rental property was out of service for an extended period,	supports the amount of time that the rental property was out of service. • Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.
		Lender determines that some other situation warrants an exception to use a lease agreement,	the lender must provide an explanation and justification in the loan file.

Calculating Monthly Qualifying Rental Income / Loss

Calculating Monthly Qualifying Rental Income / Loss

To determine the amount of rental income from the subject property that can be used for qualifying purposes when the borrower is purchasing a two- to four-unit principal residence or one- to four-unit investment property, the lender must consider the following:

If the borrower...	Then for qualifying purposes...
• currently owns a principal residence (or has a cur-rent housing expense), and • has at least a one-year history of receiving rental income or documented property management experience	there is no restriction on the amount of rental income that can be used.
• currently owns a principal residence (or has a cur-rent housing expense), and • has less than one-year history of receiving rental income or documented property management ex-perience	• for a principal residence, rental income in an amount not exceeding PITIA of the subject property can be added to the borrower's gross income, or • for an investment property, rental income can only be used to offset the PITIA of the subject property.
• does not own a principal residence, and • does not have a current housing expense	rental income from the subject property cannot be used.

The lender must establish a history of property management experience by obtaining one of the following:

- The borrower's most recent signed federal income tax return, including Schedules 1 and E. Schedule E should reflect rental income received for any property
- If the property has been owned for at least one year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return; or
- A current signed lease may be used to supplement a federal income tax return if the property was out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income on

Notes:

- The lender must document the borrower has at least a one-year history of receiving income in accordance with the requirements above.
- The requirements above do not apply to HomeReady loans with rental income from an accessory unit.

Self Employed Borrowers

Offsetting Monthly Obligations for Rental Property through a Partnership or an S Corporation (Fannie Mae)

If the borrower is ***personally obligated*** *on the mortgage debt (as evidence by inclusion of the related mortgage(s) on the credit report) and gross rents and* *related expenses are reported through a partnership or S corporation, the business tax returns may be used to offset the property's PITIA. The steps described below should be followed:*

1. Obtain the borrower's business tax returns, including IRS Form 8825 for the most recent year.

2. Evaluate each property listed on Form 8825, as shown below:

- *From total gross rents, subtracted total expenses. Then add back insurance, mortgage interest, taxes, homeowners' association dues (if applicable), depreciation, and non-recurring property expenses (if documented accordingly),*
- *Divide by the number of months the property was in service.*
- *Subtract the entire PITIA (proposed for subject property or actual for real estate owned) to determine the monthly property cash flow.*

3. If the resulting net cash flow is ***positive,*** *the lender may exclude the property PITIA from the borrower's monthly obligations when calculating the debt-to-*

4. If the resulting net cash flow is negative (that is, the rental income derived from the investment property is not sufficient to fully offset the property PITIA), the calculated negative amount must be included in the borrower's monthly obligations when calculating the debt-to-income ratio.

In order to include a positive net rental income received through a partnership or an S corporation in the borrower's monthly qualifying income, the lender must evaluate it according to Fannie Mae's guidelines for income received from a partnership or an S corporation. See B3-3.4-01, Analyzing Partnership

Rental Income Calculation Worksheet

FNMA publishes four worksheets that may be used to calculate rental income. Use of these worksheets is optional:

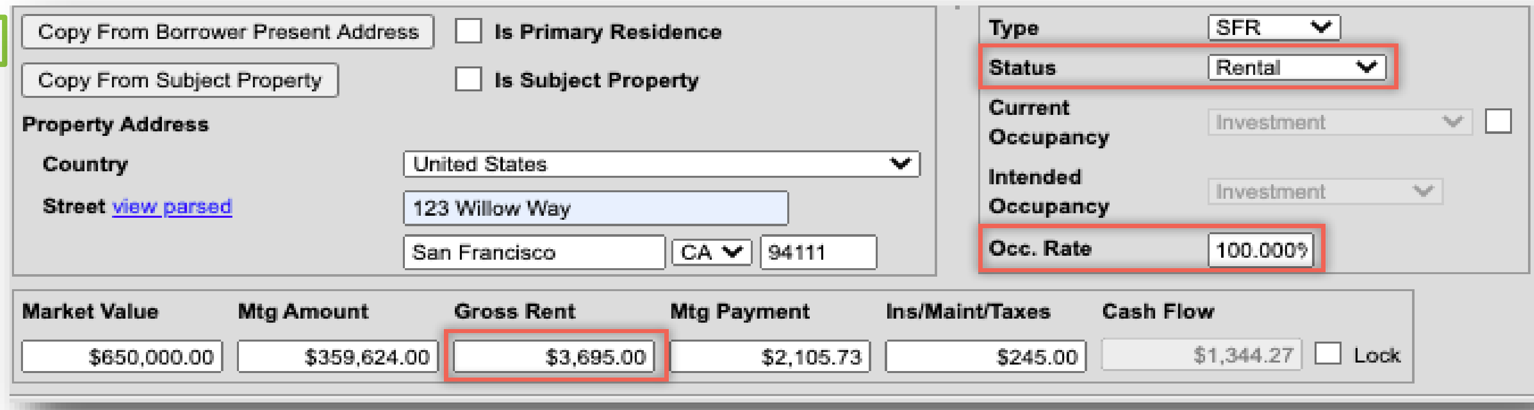
- *Rental Income Worksheet - Principal Residence, 2- to 4-unit Property (Form 1037)*
- *Rental Income Worksheet - Individual Rental Income from Investment Property (up to 4 properties) (Form 1038)*
- *Rental Income Worksheet - Individual Rental Income from Investment Property(s) (up to 10 properties) (Form 1038A), and*
- *Rental Income Worksheet - Business Rental Income from Investment Property(s) (Form 1039)*

Main Page	Rental Income/Loss VA

Input - Non Subject Property

This rental income will be placed in LendingQB in the *REO* page. Enter the *Gross Rent* amount and *Occ Rate %*. Ensure "Rental" is selected under Status. The net rental income or loss will auto-calculate, taking into account any existing mortgage payments and ins/maint/taxes payments:

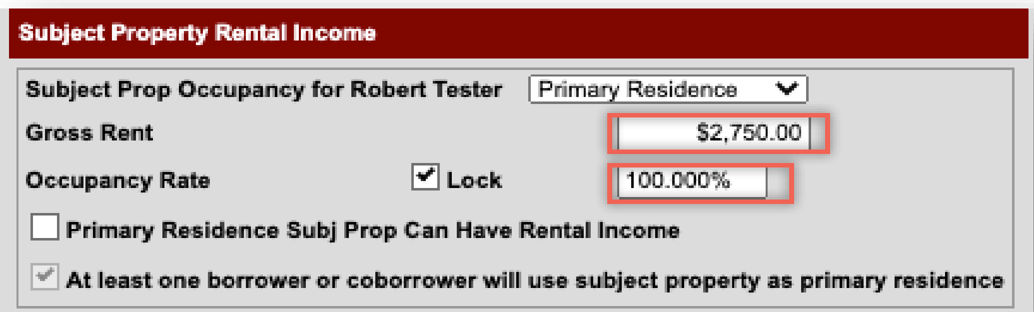
LendingQB



Input - Subject Property

The rental income will be placed in LendingQB in the *Subject Property Rental Income* page. Enter the *Gross Rent* amount and the *Occupancy Rate %*. The net rental income or loss will auto-calculate, taking into account the new PITI:

LendingQB



Requirements

Multi Unit Subject Property

The Veteran/borrower must occupy one unit as his/her residence. Must verify,

- Cash reserves totaling at least 6 months mortgage payments (PITI), and
- Document the borrower's prior experience managing rental units and/or use of a property management company to oversee the

Include the prospective rental income in effective income only if:

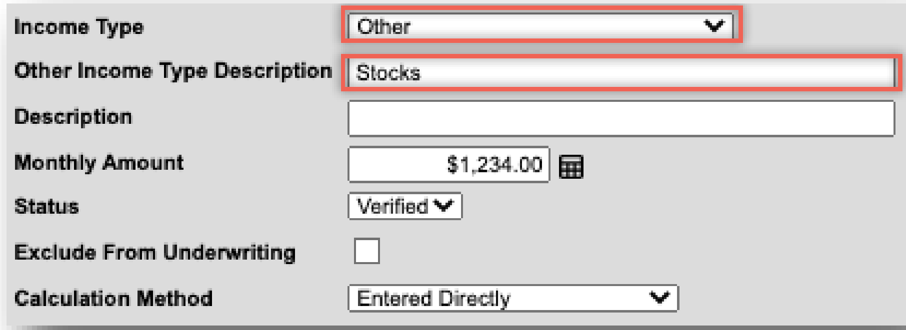
- The borrower has a reasonable likelihood of success as a landlord, and
- Cash reserves totaling at least six (6) months mortgage payment (PITI) are available.

If each unit is separate and not under one mortgage, 6 months PITI must be verified for each separate unit. Equity in the property cannot be used as reserves to meet PITI requirements. This must be the borrower's own funds, not a gift.

Cash proceeds from a VA regular "Cash-Out" refinance cannot be counted as the required PITI on a rental property. The reserve funds must be in the borrower's account before the new VA loan closes.

The amount of rental income to include in effective income is based on 75% of:

		• The amount indicated on the lease or rental agreement unless a greater percentage can be documented (existing property). • The appraiser's opinion of the property's fair monthly rental (proposed construction).
	Vacating current residence	• Obtain a copy of the rental agreement for the property, if any. • Use the prospective rental income only to offset the mortgage payment on the rental property and only if there is no indication that the property will be difficult to rent. This rental income may not be included in effective income. • Obtain a working knowledge of the local rental market. If there is no lease on the property, but the local rental market is very strong, the lender may consider the prospective rental income for offset purposes. Reserves are not needed to offset the mortgage payment on the property the Veteran occupies prior to the new loan.
	Other Rental Properties owned	Obtain the following: • documentation of cash reserves totaling at least three (3) months mortgage payments (principal, interest, taxes, and insurance - PITI), • Individual income tax returns, signed and dated, plus all applicable schedules for the previous two (2) years, which show rental income generated by the property. If the borrower has multiple properties, • documentation of cash reserves totaling at least three (3) months mortgage payments for each property owned (principal, interest, taxes, and insurance - PITI). If there is not a lien on the property, 3 months reserves to cover expenses such as taxes, insurance, homeowner's association fees, and any other recurring fees should be documented for the propert(ies). Equity in the property cannot be used as reserves. Cash proceeds from a VA refinance cannot be counted as the required PITI on a rental property. The reserve funds must be in the borrower's account before the new VA loan closes. Gift funds cannot be used to meet reserve requirements. **Analysis of Rental Property Income** Each property(ies) must have a 2-year rental history itemized on the borrower's tax return. Property depreciation claimed as a deduction on the tax returns may be included in effective income. If after adding depreciation to the negative rental income, the borrower still has rental loss, the negative income should be deducted from the overall income as it reduced the borrower's income. If rental income will not, or cannot be used, then the full mortgage payment should be considered and reserves do not need to be considered.

Main Page	Restricted Stocks and Restricted Stock Units	
Input	Stock Income is placed in LendingQB in the *Monthly Income* page, *Income Type* drop down selection "Other". Enter "Stocks" in the *Other Income Type Description* field: LendingQB  	
Requirements	**FNMA/ FHA**	See Employment Related Assets as Income Section
	VA	N/A
	FHLMC	The following must be provided as verification requirements for RS and RSU stock income (performance-based). • A two (2) year consecutive history (time-based vesting = 1 year) • RS & RSU used for qualifying must have vested and have been distributed to the borrower from their current employer without restrictions • The income must be likely to continue for a minimum of three (3) years after the note date. Documentation: • YTD paystub(s) documenting all YTD earnings, including payout(s) of RS or RSU • W2 forms for the most recent 2 calendar years • 10 day PCV • Income validation thru a third party verification service or all of the folowing: • Written VOE documenting all YTD earnings, including payout(s) of RS or RSU as well as earning for the most recent two calendar years. • 10 day PCV • Income validation thru a third party verification service **Additional documentation requirements:** • Evidence the stock is publicly traded • RS and/or RSU agreement • Most recent vesting schedule (s) detailing past and future vesting • Evidence of receipt of previous year(s) payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with brokerage or bank statement showing transfer of shares or funds that must, at a minimum , include; o Date(s) of the payout(s) o The number of vested shares or its cash equivalent distributed to the borrower (pre-tax)

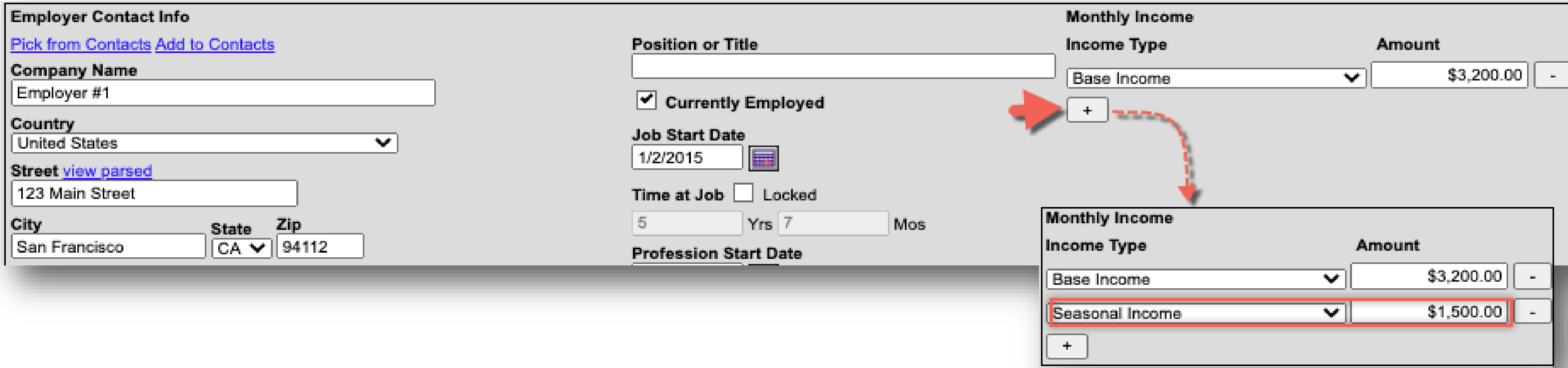
Main Page	Royalty Income	
Input	Royalty Income is placed in LendingQB in the Monthly Income page, Income Type drop down: LendingQB  	
Requirements	**FNMA**	Obtain copies of the: • Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income; and • Borrower's most recent signed federal income tax return, including the related IRS Form 1040, Schedule E. • Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three (3) years after the date of the mortgage application.
	FHLMC	Income received from royalty payments may be considered qualifying income if the file contains : • Evidence that the borrower has received payments on a regular basis for the most recent 12 months; and • The royalty payments are likely to continue for the next three (3) years. • Copy of the most recent 1040 including Schedule E
	FHA/VA	Obtain copies of the: • Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income; and • Borrowers most recent signed federal income tax return, including the related IRS Form 1040, Schedule E. • Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three (3) years after the date of the mortgage application

Main Page	Seasonal Income

Input

Seasonal income can be placed in LendingQB in the *Employment History* page. Within the employer, click the "+" button under *Monthly Income* section. Select the *Income Type* drop down and enter the seasonal income amount:

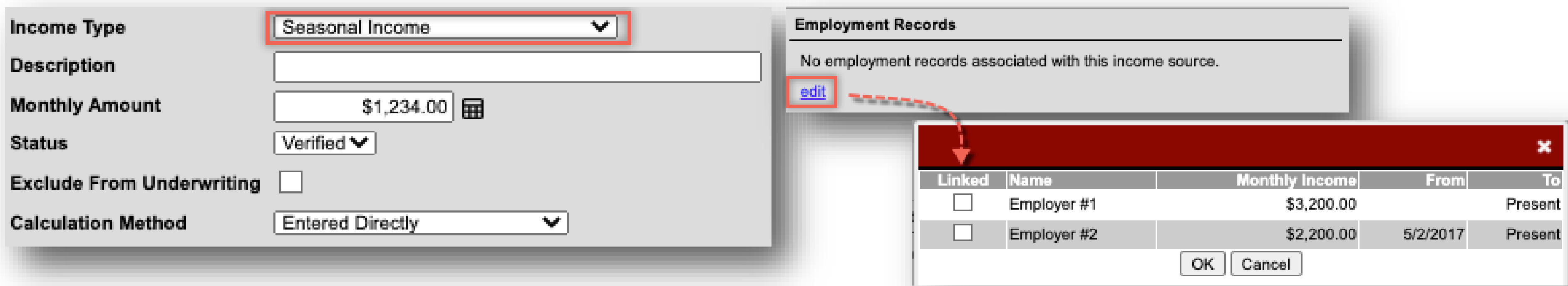
LendingQB



Optional Input

Seasonal income can also be placed in the *Monthly Income* page, *Income Type* drop down. It is associated with an employer by clicking the "edit" link under *Employment Records* and selecting the appropriate employer:

LendingQB



Requirements

FNMA

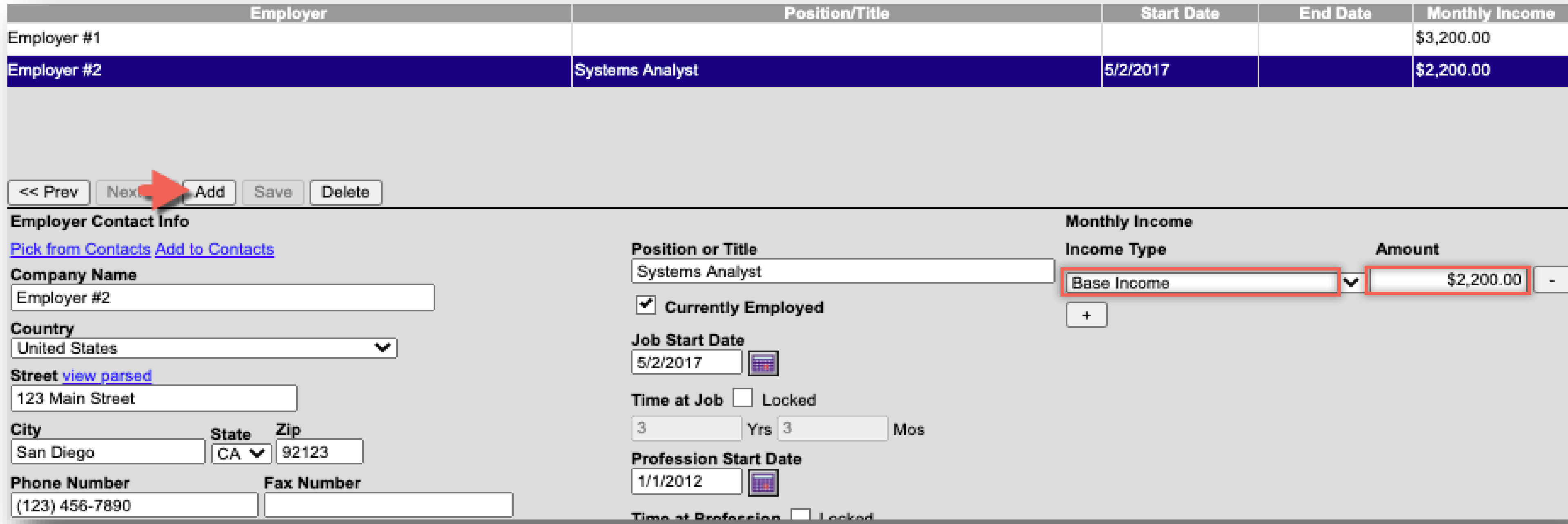
Documentation:

- A complete written VOE
- Borrower's recent paystub
- W-2 covering two (2) years
- AUS may require two (2) years tax returns to verify the unemployment during layoff period of seasonal job

Verification:

- Verify the borrower has at least a two-year history of seasonal employment and income.
- For seasonal unemployment compensation, verify:
  - o It is appropriately documented; and

		o Clearly associated with the seasonal layoffs; and o Expected to recur; and o Reported on the borrowers signed federal income tax returns • If not all conditions are met the unemployment compensation cannot be used to qualify the borrower.
	FHLMC	• The borrower must have a two (2) year consecutive history of receiving income from seasonal employment, and • The seasonal employment income must be likely to continue for the next three (3) years in order to consider the income for qualifying. • Unemployment compensation associated with seasonal employment may be considered qualifying income if the borrower has a two (2) year history of receipt; and • The unemployment compensation is likely to continue for the next three (3) years.
	FHA	Documentation: • Verify the borrower has worked in the same line of work for the past two (2) years • Confirm with the borrower's employer that there is a reasonable expectation that the borrower will be re-hired for the next season. Calculate Income: Average the income earned over the previous two (2) full years to calculation effective income.
	VA	• Documentation evidencing the applicants total earnings year to date • Signed and dated 1040's for two (2) years • Confirm with the borrower's employer that there is reasonable expectation that the borrower will be re-hired for the next season. • Evidence of the union's history with the applicant (if works through union) • If unemployment is a regular part of the applicants income due to the nature of the employment. It may be included in the income average.

<table>
<tr><th>Main Page</th><th colspan="2">Second Job Income</th></tr>
<tr><td>Input</td><td colspan="2">Second Job Income is placed in LendingQB in the Employment History page. To create a second job, click "Add" button and complete the employer information. To enter the second job income, select the Income Type drop down and enter the monthly income amount:
LendingQB

</td></tr>
<tr><td rowspan="2">Requirements</td><td>FNMA</td><td>• Verification of a minimum history of two (2) years secondary employment income is recommended.
o However, income that has been received for less than 24 months (but, no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.
• A borrower may have a history that includes different employers, which is acceptable as long as income has been consistently received. In no instance may the borrower have any gap in employment greater than one month in the most recent 12 -month period, unless the secondary employment is considered seasonal income. See Seasonal Income for requirements.
• Current paystubs with year to date earnings
• Two (2) years W-2</td></tr>
<tr><td>FHLMC</td><td>In most instances, the borrower should have at least a two-year history of secondary employment for the employment to be considered stable. Under certain circumstances, when a borrower has less than a two-year secondary employment history but has at least a 12-month history, the lender may be able to justify and determine the employment is stable. Examples that may support less than a two-year history of secondary employment include, but are not limited to, the following:
o The borrower previously held a job with base non-fluctuating earnings working 40 hours per week for multiple years; however, due to reasons such as position elimination, work force reduction, or illness, the borrower is no longer employed at this job and is now working at multiple part-time jobs that are similar in hours and pay, when combined, to the previous full-time job. Since the borrowers full-time employment ended 18 months ago, the length of employment at each part-time job is in the range of 13 to 15 months. In this scenario, the lender may be able to justify an employment history of less than two years for the secondary and additional jobs provided the earnings are consistent and the borrower has exhibited the ability to repay obligations.
o The borrower is employed in the educational system as a teacher. During the previous summer the borrower taught summer school within the same educational system and is now starting summer school teaching for the current year. Although the two-year history is not yet fully developed, given the job type and current employment situation, the lender may be able to justify including the summer school income provided an accurate qualifying amount can be established and documented</td></tr>
</table>

		based on the previous and current earnings. Additional documentation to determine the stable monthly income may be appropriate (i.e., how may classes, how much, is it similar to prior year). **Continuance** Income must be likely to continue for at least the next three years. The lender is not required to obtain documentation to verify income continuance, absent any knowledge, information or documentation that the income is no longer being received or is likely to cease. **Earnings Type** Base non-fluctuating employment earnings: For the purpose of determining stable monthly income, base non-fluctuating employment earnings are considered to be earnings with a pre-determined and agreed upon rate of pay and number of hours worked each pay period. Fluctuating hourly employment earnings: For the purpose of determining stable monthly income, fluctuating hourly employment earnings are considered to be wages that are based on an hourly rate of pay and where the number of hours fluctuate each pay period. The required minimum 12-month history must be derived from either the borrower's current hourly employment or a combination of current and prior hourly employment. Fluctuating hourly employment earnings are typically representative of non-exempt earnings. **Documentation Requirements - Secondary Employment Earnings (base non-fluctuating earnings and fluctuating hourly earnings)** All of the following: o YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years, and a 10-day Pre-Closing Verifcation. **OR** All of the following: o Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years, and a 10-day Pre-Closing Verifcation.
	FHA	• Verify the borrower has worked the second job uninterrupted for the past two (2) years • Current paystubs • Two (2) years W-2 • The income must be averaged over the previous two (2) years, or • Use a 12-month average of hours at the current pay rate if the lender documents an increase in pay rate.
	VA	• Verify two (2) years of receipt • The income must be consistent, • Must be a reasonable likelihood that it will continue in the foreseeable future based on compatibility with the hours of duty and other work conditions of the borrower's primary job and, • how long the borrower has been employed under such an arrangement. • Current paystubs • Two (2) years W-2's • The income is not eligible for inclusion of effective income if received less then 24 months; however, if received for at least 12 months may be used to offset debts of 6-24 months in duration. An explanation of why the income was used to offset must be documented on VA Form 26-6393, Loan Analysis.

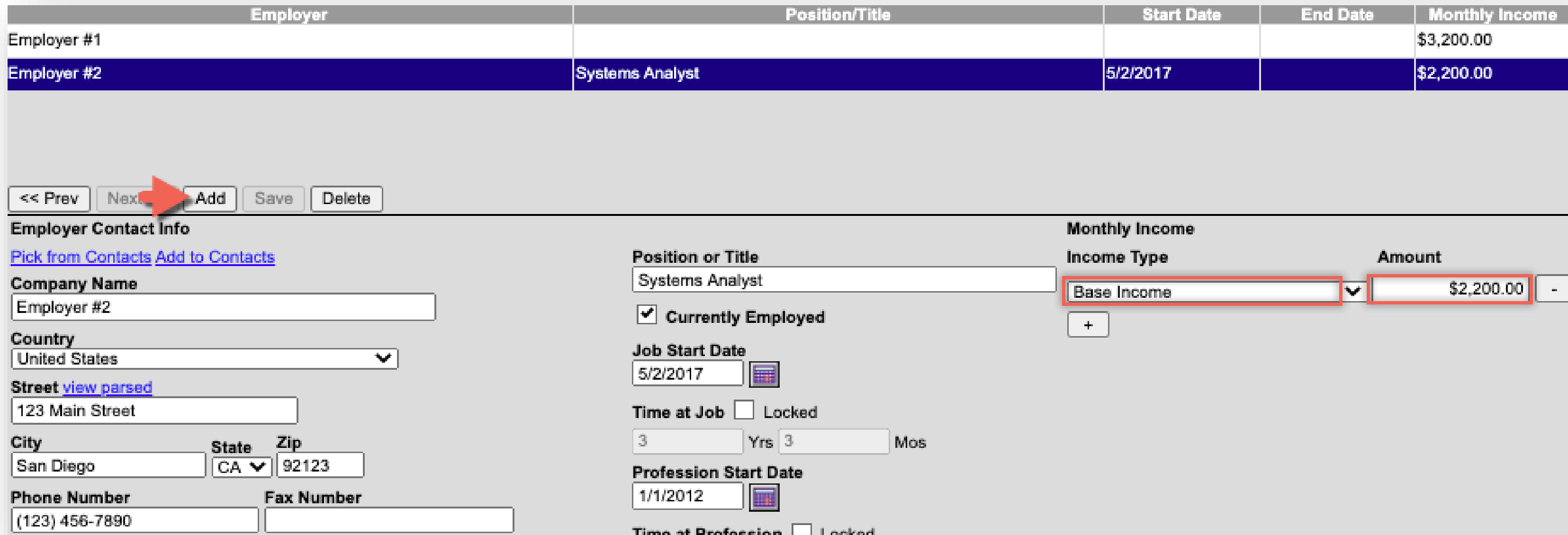
Main Page	Self Employed Borrowers	
Types	**Description**	Any individual who has a 25% or greater ownership interest in a business is considered to be self employed

- Schedule C
- Partnerships
- LLC
- S-Corporations
- Corporations
- Analyzing Tax Returns
- Analyzing P&L
- DU Self Employment

Input

Self Employed income is managed in LendingQB the same as base income. Base Income is placed in LendingQB in the Employment History page. To create an employer, click "Add" button and complete the employer information. To enter the base income, select the Income Type drop down and enter the monthly income amount:

LendingQB



Optional Input

If the employee's company already exists in LendingQB in the *Employment History* page, self employed base income can be placed in the *Monthly Income* page, *Income Type* drop down. It is associated with the employer by clicking "edit" link under *Employment Records* and selecting the appropriate employer:

LendingQB

Analyzing	The following factors must be analyzed before approving a mortgage for a self-employed borrower: • the stability of the borrower's income, • the location and nature of the borrower's business, • the demand for the product or service offered by the business, • the financial strength of the business, and • the ability of the business to continue generating and distributing sufficient income to enable the borrower to make the payments on the requested mortgage.
Length of Self Employment	Generally lenders are required to obtain a two-year history of the borrower's prior earnings as a means of demonstrating the likelihood that the income will continue to be received. However, a person who has a shorter history of self-employment - 12 to 24 months - may be considered, as long as the borrower's most recent signed federal income tax returns reflect the receipt of such income as the same (or greater) level in a field that provides the same products or services as the current business or in an occupation in which he or she had similar responsibilities to those undertaken in connection with the current business. In such cases, the lender must give careful consideration to the nature of the borrower's level of experience, and the amount of debt the business has acquired.
Verification of Income	The lender may verify a self-employed borrower's employment and income by obtaining from the borrower copies of his or her signed federal income tax returns (both individual returns and in some cases, business returns) that were filed with the IRS for the past two years (with all applicable schedules attached). Alternatively, the lender may use IRS-issued transcripts of the borrower's individual and business federal income tax returns that were filed with the IRS for the most recent two years - as long as the information provided is complete and legible and the transcripts include the information from all applicable schedules. (See B3-3.1-06, Requirements and Uses of IRS Form 4506-T) When two years of signed individual federal tax returns are provided, the lender may waive the requirement for business tax returns if: • the borrower is using his or her own personal funds to pay the down payment and closing costs and satisfy applicable reserve requirements, • the borrrower has been self-employed in the same business for at least five years, and • the borrower's individual tax returns show an increase in self-employment income over the past two years. For certain loan casefiles DU will issue a message permitting only one year of personal and business tax returns, provided lenders document the income by: • obtaining signed individual and business federal income tax returns for the most recent year, • Confirming tax returns reflect at least 12 months of self employment income, and • Completing a Cash Flow Analysis Form 1084 or any other form that applies the same principal (i.e. SAM form) **NOTE:** For FHA loans Year to date P&L and Balance sheet is required if more than 1 calendar quarter has passed since the filing of the borrowers tax returns. • For Schedule C borrowers - Balance Sheet is not required If using more than a 2 year average when calculating the income an audited P&L is required.
Written	The lender must prepare a written evaluation of its analysis of a self-employed borrower's personal income, including the business income or

Analysis of Borrower Personal Income	loss, reported on the borrower's individual income tax returns. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower. This is not required when a borrower is qualified using only income that is not derived from self-employment and self-employment is a secondary and separate source of income (or loss). Examples of income not derived from self-employment include salary and retirement income. The lender may use Form 1084 or any other type of cash flow analysis that applies the same principals as Fannie Mae's form. A copy of the written analylsis must be included as part of any loan application package that the lender submits to Fannie Mae for a mortgage that is selected for a post-purchase quality control review.
Written Analysis of Borrower Business Income	When a borrower is relying upon self-employed income to qualify for a mortgage and the requirements that permit the lender to waive business tax returns are not met, the lender must prepare a written evaluation of its analylsis of the borrower's business income. The lender must evaluate the borrower's business through its knowledge of other businesses in the same industry to confirm the stability of the borrower's business income and estimate the potential for long term earnings. The purpose of this analysis is to: • consider the recurring nature of the business income, including identification of pass-through income that may require additional evaluation; • measure year-to-year trends for gross income, expenses, and taxable income for the business; • determine (on a yearly or interim basis) the percentage of gross income attributed to expenses and taxable income; and • determine a trend for the business based on the change in these percentages over time. The lender may use Fannie Mae's *Comparative Income Analysis* (Form 1088) or any other method of trend analysis that enables it to determine a business's viability, as long as the method used fairly presents the viability of the business and results in a degree of accurancy and a conclusion that is comparable to that which would be reached by use of Form 1088. A copy of the written analysis and conclusions must be retained in the individual mortgage file.
Self Employed Co-Borrower	When a borrower who is qualified using only income that is not derived from self-employment and a self-employed co-borrower jointly apply for a mortgage and the co-borrower's income will not be used for qualifying purposes, the co-borrower's last two years of complete individual and business tax returns or other financial information related to the business are not required. Instead, the co-borrower may provide a copy of the first page of his or her latest individual federal income tax return, which will enable the lender to determine whether there was a meaningful business loss. The lender must perform at least one of the following: • determine there is not a meaningful business loss, in which case no additional action or documentation is required; • reduce the salaried income being used to qualify by the amount of the reported loss, in which case additinoal documentation is not required; • obtain the most recent year complete individual and business tax returns to determine if there was a meaningful loss after adjusting for non-recurring or non-cash expenses. If after evaluation, the lender determines there is a meaningful business loss, the qualifying income must be reduced by the amount of the meaningful business loss; or • decide that it needs to request additional information about the co-borrower's business income in order to determine whether there is an impact on qualifying income.

Business Structures	The legal structure of a business determines the following: • the way business income or loss is reported to the IRS, • the taxes that are paid, • the ability of the business to accumulate capital, and • the extent of the owner's liability. There are five principal business structures; sole proprietorships, partnerships, limited liability companies (LLCs), S corporations, and corporations. Knowledge of the structure of a self employed borrower's business will assist the lender in analyzing and evaluating the stability of the business and the degree of the borrower's involvement.

Main Page	Social Security Income

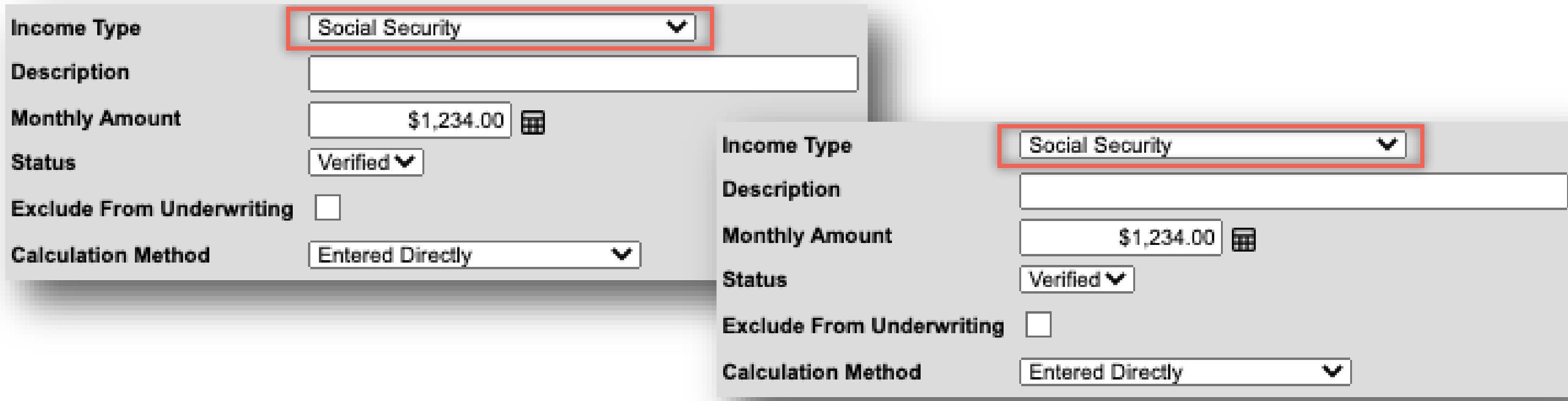
Documentation

Follow AUS findings for amount of documentation required for the following:
- Number of paystubs
- Award Letter
- Number of years required for 1099 and Tax Returns

Input

Social Security Income is placed in LendingQB in the *Monthly Income* page, *Income Type* drop down:

LendingQB



Requirements

FNMA/FHLMC

Social security income for retirement or long-term disability that the borrower is drawing from his or her own account/work record will not have a defined expiration date and must be expected to continue. However, if social security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if the underwriter obtains documentation that confirms the remaining term is at least three (3) years from the date of the mortgage application.

Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as follows:

Type of Social Security Benefit	Borrower is drawing Social Security benefits from own account/work record	Borrower is drawing Social Security benefits from another person's account/work record
Retirement	• Social Security Award letter; or • Proof of current receipt	• Social Security Award letter • Proof of current receipt, And • 3 year continuance (e.g., verification of beneficiary's age)
Disability		
Survivor Benefits	N/A	
Supplemental Security Income (SSI)	• Social Security Award letter; or • Proof of current receipt	N/A

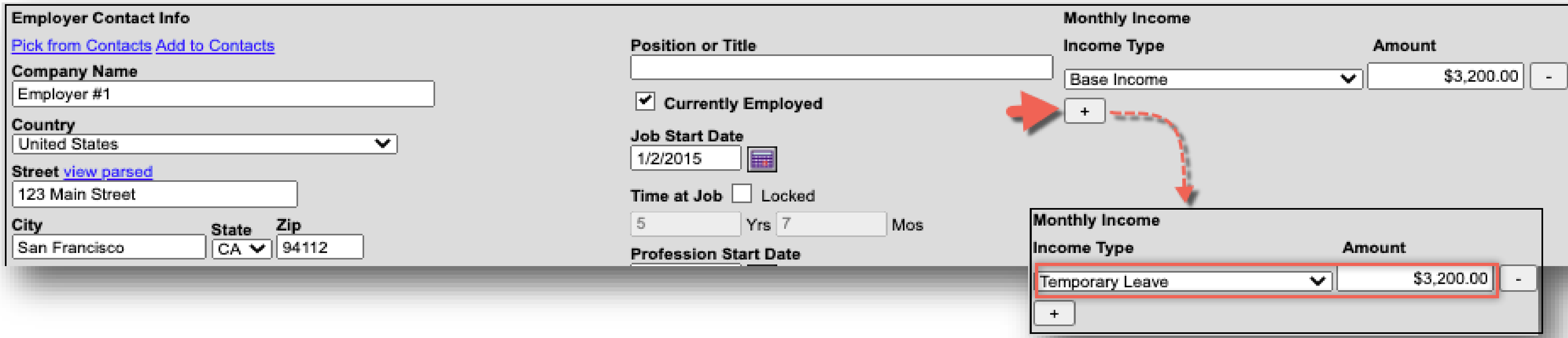
Examples of how a borrower might draw Social Security benefits from another persons account/work record and use the income for qualifying:
- A borrower may be eligible for benefits from a spouse, ex-spouse, or dependent parents (the benefit is paid to the borrower on behalf of the spouse, etc.); or
- A borrower may use Social Security income received by a dependent (a minor or disabled dependent)

Note: If a borrower's Social Security income is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation may differ from the requirements described above.

FHA

Follow FNMA and additionally:

		• If any income from the SSA is due to expire within three (3) years from the date of the mortgage application, that income may only be considered as a compensating factor. • If the Award letter or equivalent document does not have a defined expiration date, consider the income effective and reasonably likely to continue. The lender should not request additional documentation from the borrower to demonstrate continuance of Social Security Income.
	VA	Follow AUS findings for income documentation

<table>
<tr><th>Main Page</th><th colspan="2">Temporary Leave</th></tr>
<tr><td>Documentation</td><td colspan="2">Follow AUS findings for amount of documentation required for the following:
• Number of paystubs
• VOE requirement
• Number of years required for W-2 and Tax Returns</td></tr>
<tr><td>Input</td><td colspan="2">Temporary Leave income can be placed in LendingQB in the Employment History page. Within the employer, click the "+" button under Monthly Income section. Select the Income Type drop down and enter the temporary leave income amount:
LendingQB

</td></tr>
<tr><td>Optional Input</td><td colspan="2">Temporary Leave income can also be placed in the Monthly Income page, Income Type drop down. It is associated with an employer by clicking the "edit" link under Employment Records and selecting the appropriate employer:
LendingQB

</td></tr>
<tr><td>Requirements</td><td>All Loan Types</td><td>Temporary Leave/Short Term Disability
Temporary leave/short term disability from work is generally short in duration and encompasses various circumstances (e.g. family and medical, short term disability, maternity leave, other temporary leaves with or without pay). If the lender is made aware that the borrow will be on temporary leave at the time of closing of the mortgage loan and the borrowers income is needed to qualify for the loan, the lender must determine allowable income and confirm employment as described below.</td></tr>
<tr><td></td><td></td><td>• The borrower must have a two (2) year employment history</td></tr>
</table>

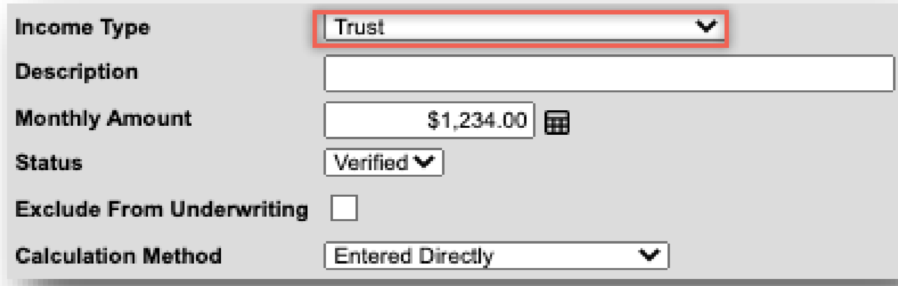
		• Provide written confirmation of his/her intent to return to work. • Documented the borrower's agreed-upon date of return by obtaining, either from the borrower or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave), documentation evidencing such date that has been produced by the employer or by a designee of the employer. o Examples include: previous correspondence from the employer or designee that specifies the duration of leave or expected return date, or a computer printout from the employer or designees system of record. • Confirmation from the employer of the borrower's right to return to work. The lender must receive no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period. • A verbal verification of employment must be obtained – If the employer confirms the borrower is currently on leave the lender will consider the borrower as employed. • Income documentation must be obtained o The amount and duration of the borrowers "temporary leave income," which may require multiple documents or sources depending on the type and duration of the leave period; and o The amount of the "regular employment income" the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus). Requirements for calculating income used for qualifying: • If the borrower will return to work prior to the first mortgage payment date, the regular gross income may be used to qualify the borrower • If the borrower will not return to work prior to the first mortgage payment date, the lesser of the borrower's temporary leave income or regular employment income must be used.

<table>
<tr><th>Main Page</th><th colspan="2">Tip Income</th></tr>
<tr><td>Documentation</td><td colspan="2">Follow AUS findings for amount of documentation required for the following:
• Number of paystubs
• VOE requirement
• Number of years required for W-2 and Tax Returns</td></tr>
<tr><td>Input</td><td colspan="2">Tip income can be placed in LendingQB in the Employment History page. Within the employer, click the "+" button under Monthly Income section. Select the Income Type drop down and enter the tip income amount:
LendingQB

</td></tr>
<tr><td>Optional Input</td><td colspan="2">Tip income can also be placed in the Monthly Income page, Income Type drop down. It is associated with an employer by clicking the "edit" link under Employment Records and selecting the appropriate employer:
LendingQB

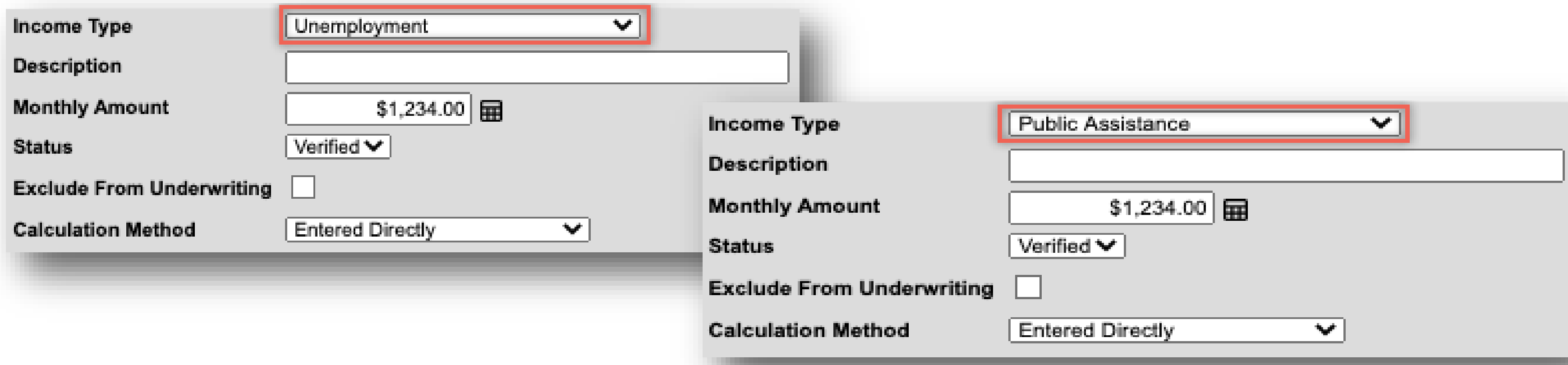
</td></tr>
<tr><td rowspan="2">Requirements</td><td>FNMA / VA</td><td>• Complete written VOE confirming current year and two (2) years previous tip income broken out, OR
• Recent paystub showing tip income, AND
• Two (2) years W-2 or two (2) years most recent tax returns with IRS Form 4137, to verify tips not reported by the employer.
• Must verify two (2) year history in order to use to qualify
• Tip income is to be averaged in accordance with the variable income section.</td></tr>
<tr><td>FHLMC</td><td>Stable monthly income requirements</td></tr>
</table>

		• History of receipt: Two years, consecutive • Continuance: Must be likely to continue for at least the next three years • Tip income is calculated based on FHLMC Seller Guide Section 5303.4(b), Fluctuating employment earnings **Documentation Requirements** <u>Tip income reported by the employer</u> All of the following: • YTD paystub(s) documenting all YTD earnings • W-2 forms for the most recent two calendar years • 10-day Pre-closing Verification **OR** all of the following: • Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years • 10-day Pre-closing Verificaiton <u>Tip income - cash and charge tips reported on IRS Form 4137</u> All of the following: • IRS Form 4137 for the most recent two years • Complete federal individual income tax returns covering the most recent two-year period • 10-day Pre-closing Verification
	FHA	Tip income may be used as effective income is the borrower has received this income for the past two years and it is reasonably likely to continue. Periods less than two years maybe considered effective income if it has been consistently earned over a period of not less than one **Documentation Requirements** • Complete written VOE confirming current year and two (2) years previous tip income broken out • Recent paystub showing tip income • Two (2) years W-2 Must calculate the effective income by using the lesser of: • Tip income earned over the previous two years or, if less than two years, the length of time the tip income has been earned; or • The average tip income earned over the previous year.

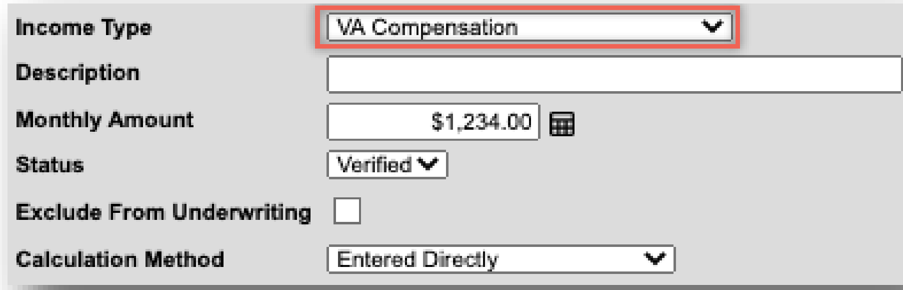
[Main Page](#)	Trust Income	
Documentation	Follow AUS findings for amount of documentation required for the following: • Number of years required Tax Returns	
Input	Trust Income is placed in LendingQB in the *Monthly Income* page, *Income Type* drop down: LendingQB 	
Requirements	**FNMA/ FHA/ VA**	• Confirm the trust income by obtaining a copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of payments. • Verify that the trust income will continue for at least three (3) years from the date of the application • If the income is received monthly documentation of receipt i.e. paystubs etc. are required.
	FHLMC	**History of receipt:** • Most recent two-years if the income is based on historical fluctuating payments from a trust asset (i.e., dividends and interest) • A history of receipt is not required if the trust specifies pre-determined fixed payment amounts occurring at regular intervals for a duration of at least three years. **Continuance:** • Document that sufficient assets remain after closing to support continuance of trust income for at least the next three (3) years **For trust income based on historical fluctuating payments from a trust asset:** • Copy of fully executed trust agreement outlinining payment terms, and • Copy of complete federal individual income tax returns for the most recent two-year period, and • Evidence of sufficient assets to support the qualifying income (i.e., letter from trustee, bank statements) **OR** **For trust income based on pre-determined fixed payment amount:** • Copy of fully executed trust agreement specifying fixed payment amount occurring at set intervals (i.e., monthly, quarterly) and duration of payments, and • Document current receipt with a copy of a bank statement or other equivalent documentation, and • Evidence of sufficient assets to support the qualifying income (i.e., letter from trustee, bank statements)

<table>
<tr><th>Main Page</th><th colspan="2">Unemployment and Public Assistance Income</th></tr>
<tr><td>Documentation</td><td colspan="2">Follow AUS findings for amount of documentation required for the following:
• Award Letter or Section 8 Voucher
• Number of years required for 1099's</td></tr>
<tr><td>Input</td><td colspan="2">Unemployment and Public Assistance income is placed in LendingQB in the Monthly Income page, Income Type drop down:

LendingQB


</td></tr>
<tr><td rowspan="4">Requirements</td><td>Unemployment
All Loan Types</td><td>Unemployment income can be used in qualifying for seasonal workers with the following requirements:
• Two (2) years 1040's documenting receipt of income
• Cannot be used as qualifying income unless it is clearly associated with seasonal employment that is reported on the borrowers signed federal income tax returns due to the inherent inability of non-seasonal unemployment benefits to meet the three (3) year continuity of income requirement.
• Verify that the seasonal income is likely to continue</td></tr>
<tr><td>Public Assistance All Loan Types</td><td>Verification requirements:
• Document the borrower's receipt of public assistance income with letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments.
• Verify that the income can be expected to continue for a minimum of three (3) years form the date of the mortgage application.
• Evidence of receipt for the most recent two (2) months (FHA)</td></tr>
<tr><td>Section 8 Payment Vouchers
FNMA/VA</td><td>Section 8 homeownership assistance payments that are paid directly to the borrower may be considered qualifying income. The payments may not be used to offset the monthly housing payment amount used for qualification.
• Determine from the public agency that issues the vouchers the monthly payment amount and whether the income is nontaxable
• If the income is nontaxable, the lender can develop an adjusted gross income for the borrower.
o Adjusted gross income is the amount grossed up by 25%
• Must continue for three (3) years</td></tr>
<tr><td>Section 8 Payment Vouchers
FHLMC</td><td>Homeownership Voucher Program payments (formerly referred to as Section 8 homeownership assistance payments)
• The payments may not be used to offset the monthly housing payment amount used for qualification.
• A history of receipt is not required for the income to be considered stable.
• Use the fixed monthly payment amount documented by the public housing agency that issued the voucher.
• Copy of documentation from the public housing agency that issued the homeownership voucher verifying the terms including, but not limited to,</td></tr>
</table>

		the source, benefit type, payment frequency, payment amount and duration of the term limit for assistance. • Must continue for at least three (3) years.
	Section 8 Payment Vouchers FHA	Section 8 Homeownership Vouchers refer to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency. The lender must verify and document the borrower's receipt of the housing choice voucher homeownership subsidies. The lender may consider that this income is reasonably likely to continue for three (3) years.
		Effective Income: Section 8 subsidies may only be used as effective income if it is not used as an offset to the monthly mortgage payment. The current subsidy rate must

Main Page	Main Page	VA Benefits (non-educational)	
Input	**Input**	VA Benefits (non-educational) income is placed in LendingQB in the Monthly Income page, Income Type drop down, as "VA Compensation": LendingQB 	
Requirements	**Requirements**	**All Loan Types**	• Document the borrower's receipt of VA benefits with a letter from the VA. • Verify that the income can be expected to continue for a minimum of three (3) years from the date of the mortgage application. (Continuance verification is not required for VA retirement or long-term disability benefits)

Main Page	Verbal Verification Of Employment	
Requirements	**FNMA**	A verbal verification of employment for each borrower using employment or self-employment income to qualify. • The verbal VOE must be obtained within 10 business days prior to the NOTE date for employment income. • Must be within 120 calendar days of the NOTE date for self-employment.
	FHLMC	• The verbal VOE must be obtained within 10 business days prior to the NOTE date for employment income. • For self-employed borrowers obtain a verification of the business from a third party source no more than 30 calendar days prior to the NOTE date.
	FHA	• The verbal VOE must be obtained within 10 business days prior to the NOTE date for employment income.
	VA	• Not Applicable

Main Page	Schedule C (Sole Proprietorship)
Self Employed	A sole proprietorship is an unincorporated business that is individually owned and managed. The individual owner has unlimited personal liability for all debts of the business. If the business fails, the borrower not only will have to replace his or her lost income, but also will be expected to satisfy the outstanding obligations of the business. Since no distinction is made between the owner's personal assets and the assets used in the business, creditors may take either (or both) to satisfy the borrower's business obligations. The financial success or failure of this type of business depends solely on the owner's ability to obtain capital and to manage the various aspects of the business. Poor management skills or an inability to secure capital to keep the business running will compromise the continuance of the borrower's business (and income). The owner's death terminates the business and may cause the assets to be placed into probate, thus delaying the disposition of the assets to creditors and heirs. The income, expenses, and taxable profits of a sole proprietorship are reported on the owner's IRS Form 1040, Schedule C, and are taxed at the tax rates that apply to individuals. When evluating a sole proprietorship, the lender must: • review the owner's most recent signed federal income tax returns to ensure that there is sufficient and stable cash flow to support both the business and the payments for the requested mortgage, and • determine whether the business can accommodate the withdrawal of assets or revenues should the borrower need them to pay the mortgage payment and/or other personal expenses. **Income or Loss Reported on Schedule C (sole proprietorship)** The income (or loss) from a borrower's sole proprietorship is calculated on IRS Form 1040, Schedule C, then transferred to IRS Form 1040. The lender may need to make certain adjustments to the net profit or loss shown on Schedule C to arrive at the borrower's cash flow. For example, Schedule C may include income that was not obtained from the profits of the borrower's business. If the lender determines that such income is not recurring, it should adjust the borrower's cash flow by deducting the non-recurring income. **Recurring vs. Non-recurring Income and Expenses** The lender must determine whether income is recurring or non-recurring. Non-recurring income must be deducted in the cash flow analysis, including any exclusion for meals and entertainment expenses reported by the borrower on Schedule C. The following recurring items claimed by the borrower on Schedule C must be added back to the cash flow analysis: depreciation, depletion, business use of a home, amortization, and casualty losses.

Main Page	Corporations
Self Employed	A corporation is a state-chartered legal entity that exists separately and distinctly from its owners (who are called stockholders or shareholders). It is the most flexible form of business organization for purposes of obtaining capital. A corportation can sue; be sued; hold, convey, or receive property; enter into contracts under it's own name; and does not dissolve when its ownerhsip changes. There are two types of corporations - publicly owned (widely held) and privately owned (closed held). Because more than 50% of the outstanding stock of a privately owned corporation is owned directly or indirectly by no more than five people, the corporation has little or no access to public funds and must raise capital through institutional financing.
	Although legal control of the corporation rests with its stockholders, they typically are not responsible for the day-to-day operations of the business since they elect a board of directs to manage the corporation and delegate responsibility for the day-to-day operations to the directors and officers of the company. The distribution of profits earned by the business is determined by the corporation's board of directors or other entities that have a significant financial interest in the business. However, the profits usually are filtered down to the owners in the form of dividends. Since a stockholder is not personally liable for the debts of the corporation, losses are limited to his or her individual investment in the corporation's stock.
	Corporations must report income and losses on IRS Form 1120 and pay taxes on the net income. The corporation distributes profits to its shareholders in the form of dividends, which it reports on IRS Form 1099-DIV. The shareholders must then report the dividends as income on their individual IRS Form 1040.
	Analyzing Returns for a Corporation
	Corporations use IRS Form 1120 to report their taxes.
	Corporate Fiscal Year
	When funds from a corporation that operates on a fiscal year that is different from the calendar year are used in qualifying a self-employed borrower, the lender must make time adjustments to relate the corporate income to the borrower's individual tax return, which is on a calendar year basis.
	Determining the Corporation's Financial Position
	After determining the income available to the borrower for qualifying purposes, the lender must evaluate the overall financial position of the corporation. Ordinary income from the corporation can be used to qualify the borrower only if the following requirements are met: • the business income must be stable and consistent, • the sales and earnings trends must be positive, and • the business must have adequate liquidity to support the borrower's withdrawals of cash without having severe legative effects.
	Borrower's Share of Income or Loss
	The cash flow analysis can only be considered the borrower's share of the business income or loss, taking into consideration adjustments to business income provided below. Earnings may not be used unless the borrower owns 100% of the business.
	Adjustments to Cash Flow
	Items that can be added back to the business cash flow include depreciation, depletion, amortization,

casualty losses, net operating losses, and other special deductions that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

• meals and entertainment exclusion,

• tax liability and amount of any dividends, and

• the total amount of obligations on mortgages or notes that are payable in less than one year. These adjustments are not required if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

Main Page	S Corporations
Self Employed	An S Corporation is a legal entity that has a limited number of stockholders and elects not to be taxed as a regular corporation. Business gains and losses are passed on to the stockholders. An S Corporation has many of the characteristics of a partnership. Stockholders are taxed at their individual tax rates for their proportionate share of ordinary income, capital gains, and other taxable items. The ordinary income for an S Corporation is reported on IRS Form 1120S, with each shareholder's share of the income reported on IRS Form 1120S, Schedule K-1. Because this income from the distribution of corporate earnings may or may not be distributed to the individual shareholders, the lender must determine if the borrower received a cash distribution from the S Corporation. The cash flow of an S Corporation is otherwise evaluated similarly to that of a regular corporation. **Analyzing S Corp** S Corporations and some LLCs pass gains and losses on to their shareholders, who are then taxed at the tax rates for individuals. S Corporations and some LLCs use IRS Form 1120S, Schedule K-1, for filing federal income tax returns for the corporation. The shareholder's share of income or loss is carried over to IRS Form 1040, Schedule E. A borrower with an ownership interest in an S Corporation or LLC may receive income in the form of wages or dividends in addition to his or her proportionate share of business income (or loss) reported on Schedule K-1. **Evaluating the Business Income** When the borrower has 25% or more ownership interest in the business, the lender must perform a business cash flow analysis in order to evaluate the overall financial position of the business and confirm: • the business income is stable and consistent, and • the sales and earnings trends are positive. If the business does not meet these standards, business income cannot be used to qualify the borrower. **Borrower's Proportionate Share of Income or Loss** The borrower's proportionate share of income or loss is based on the borrower's (shareholder) percentage of stock ownership in the business for the tax year as shown on IRS Form 1120S, Schedule K-1. The cash flow analysis should consider only the borrower's proportionate share of the business income (or loss), taking into account any adjustments to the business income that are discussed below. Business income may only be used to qualify the borrower if the lender obtains documentation verifying that: • the borrower has ownership of the income (Schedule K-1 may be used to document ownership share), and

	• the income was actually distributed to the borrower.
	Alternatively, the lender can obtain documentation verifying that: • the borrower has access to the income through a corporate resolution or other documentation that the lender determines is appropriate - unless the borrower(s) own 100% of the business, in which case confirmation of access to the inocme is not required; and • the business has adequate liquidity to support the withdrawal of earnings. **Adjustments to Business Cash Flow** Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring. The following items should be subtracted from the business cash flow: • meals and entertainment exclusion, • other reported income that is not consistent and recurring, and • the total amount of obligations on mortgages or notes that are payable in less than one year. These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.
Self Employed (FNMA)	*Partnerships and S corporations using Form 8825 to report income and deductible expenses from rental properties, refer to 'Rental FNMA' tab for requirements.*

A partnership is an arrangement between two or more individuals who have pooled their assets and skills to form a business and who will share profits and losses according to predetermined proportions that are set out in the partnership agreement. A partnership may be either general partnership or a limited partnership:

General Partnership

Under a general partnership, each partner has responsibility for running the business, is personally liable for the debts of the entire business and is responsible for the actions of every other partner (unless otherwise specified in the partnership agreement). A general partnership is dissolved immediately on the death, withdrawal, or insolvency of any of the partners, although the personal liability to partnership creditors exists even after the partnership is dissolved. However, the partnership's assets will first by applied to the creditors of the business and the partners' individual assets will first be applied to their personal creditors, with any surplus in a partner's personal assets then being applied to the remaining business creditors.

Limited Partnership

Under a limited partnership, a limited partner has limited liability based on the amount he or she invested in the partnership, does not typically participate in the management and operation of the business, and has limited decision-making ability. A limited partnership will have at least one general partner who manages the business and is personally liable for the debts of the entire business. A limited partner's death, withdrawal, or insolvency does not dissolve the partnership. Because limited partnerships often are formed as tax shelters, it is more likely that IRS Form 1065, Schedule K-1, will reflect a loss instead of income. In such cases, the borrower's ability to deduct the loss will be limited by the "at risk" amount of his or her limited partnership interest (and will probably be subject to passive loss limitations).

The partnership must report its profit or loss on IRS Form 1065 and each partner's share of the profit or loss on IRS Form 1065, Schedule K-1; however, the partnership pays no tax on the partnership income. Each partner uses the information from IRS Form 1065, Schedule K-1, to report his or her share of the partnership's net profit or loss (and special deductions and credits) on his or her IRS Form 1040 - whether or not the partner receives a cash distribution from the partnership. Individual partners pay taxes on their proportionate share of the net partnership income at their individual tax rates.

To quantify the level of the borrower's financial risk, the lender must:

- determine whether the borrower has guaranteed any loans obtained by the partnership (other than loans that are considered as nonrecourse debt or qualified nonrecource debt),
- determine if the borrower received a distribution from the partnership, and
- determine the borrower's share of non-cash expenses that can be added back to the cash flow of the partnership business.

Analyzing Partnership Returns

Partnerships and some LLCs use IRS Form 1065 for filing informational federal income tax returns for the partnership or LLC. The partner's or member-owner's share of income (or loss) is carried over to IRS Form 1040, Schedule E.

A borrower with an ownership interest in a partnership or LLC may receive income in the form of wages or other compensation from the partnership or LLC in addition to the borrower's proportionate share of income (or loss) reported on the Schedule K-1.

Evaluating the Business Income
When the borrower has 25% or more ownership interest in the business and business returns are required, the lender must perform a business cash flow analysis, and evaluate the overall financial position of the borrower's business to determine whether:
• Income is stable and consistent, and
• Sales and earnings trend are positive.

If the business does not meet these standards, business income cannot be used to qualify the borrower.

Borrower's Proportionate Share of Income or Loss
The borrower's proportionate share of income or loss is based on the borrower's partnership percentage of Ending Capital in the business as shown on IRS Form 1065, Schedule K-1.

The lender can only consider the borrower's proportionate share of the business income or loss after making the adjustments to the business cash flow analysis discussed below.

Adjustments to Business Cash Flow
Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring.

The following items should be subtracted from the business cash flow:
• meals and entertainment exclusion,
• other reported income that is not consistent and recurring, and
• the total amount of obligations on mortgages or notes that are payable in less than one year.

These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

Income from Partnerships, LLCs, Estates, and Trusts
Income from partnerships, LLCs, estates, or trusts can only be considered if the lender obtaines documentation verifying that:
• The borrower has ownership of the income (K-1 may be used to document ownership share), and

	• The income was actually distributed to the borrower. Alternatively, the lender can obtain documentation verifying that • The borrower has access to the income through a partnership agreement, LLC operating agreement, or other documentation that the lender determines is appropriate, unless the borrower(s) own 100% of the business, in which case confirmation of access to the income is not required; and • The business has adequate liquidity to support the withdrawal of earnings.
Self Employed (FNMA)	*Partnerships and S corporations using Form 8825 to report income and deductible expenses from rental properties, refer to 'Rental FNMA ' tab for requirements.*

Main Page	Limited Liability Company
Self Employed	A limited liability company (LLC) is a hybrid business structure that is designed to offer its member-owners the tax efficiencies of a partnership and the limited liability advantages of a corporation. The member-owners of the LLC (or their assigned managers) can sign contracts, sell assets, and make other important business decisions. The LLC operating agreement may set out specific divisions of power among the member-owners (or managers). Although the member owners generally have limited liability, ther may be some instances in which they are required to personally guarantee some of the loans that the LLC obtains. Profits from the operation of the LLC may be distributed beyond the pool of member-owners, such as by offering profit distributions to managers. The LLC may report its profit or loss on IRS Form 1065 or IRS Form 1120S with each member owner's share of the profit or loss on Schedule K-1, IRS Form 1065 or IRS Form 1120S; however, Schedule K-1 to report his or her share of the LLC's net profit or loss (and special deductions and credits) on his or her individual IRS Form 1040, whether or not the member-owner receives a cash distribution from the LLC. Individual member-owners pay taxes on their proportionate share of the LLC's net income at their individual tax rates. The lender must evaluate the LLC using IRS Form 1065 or IRS Form 1120S along with the Schedule K-1, as applicable, to determine the following: • whether the borrower actually received a cash distribution from the LLC, since profits may or may not be distributed to the individual member-owners; and • whether the borrower has guaranteed any loans obtained by the LLC (other than loans that are considered as non-recourse debt or qualified non-recourse debt). **Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1** The version of Schedule K-1 that is utilized to report a borrower's share of income (or loss) is based on how the business reports earnings for tax purposes; • Partnership - reported on IRS Form 1065, Schedule K-1; • S Corporation - reported on IRS Form 1120S, Schedule K-1; and • LLC - reported on either IRS Form 1065 or IRS Form 1120S, Schedule K-1, depending on how the federal income tax returns are filed for the LLC. The lender must use caution when including income that the borrower draws from the borrower's partnership or S Corporation as qualifying income. Ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow provided: • the borrower can document ownership share (may use Schedule K-1), • the borrower can document access to the income, and • the business has adequate liquidity to support the withdrawal of earnings.

If...	Then...

The K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify	No further documentation of access to the income or adequate business liquidity is required. The K-1 income may then be included in the borrower's cash flow.
The K-1 does not relect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify	The lender must confirm the following to include the income in the borrower's cash flow: • The borrower can document access to the income (such as a partnership agreement or corporate resolution) unless the borrower(s) own 100% of the business, in which case confirmation of access to the income is not required; and • The business has adequate liquidity to support the withdrawal of earnings.
The borrower has a 2 year history of receiving "guaranteed payments to the partner" from a partnership or an LLC	These payments can be added to the borrower's cash flow.
Business tax returns are required	The lender must consider the type of business structure and analyze the business returns according to the requirements described in Underwriting Factors and Documentation for a Self Employed Borrower.

Documentation Requirements

The following table describes the documentation that the borrower must provide. There must be at least one item from each box.

Standard Requirement	Reduced Requirement IF permitted by DU
The most recent 2 years individual 1040's	The most recent one year individual 1040, if permitted by DU
The most reent 2 years of IRS K-1's	The most recent year K-1, if permitted by DU
The most recent 2 years business returns (IRS Form 1065, or 1120S), unless the requirements to waive business returns have been met.	The most recent 1 year business returns, if permitted by DU

Main Page	DU Self-Employment Income
Self Employed	For DU loan casefiles where two years of the most recent signed personal and two years of the most recent signed business federal income tax returns are required, business tax returns do not have to be provided unless the business is a corporation, an S- Corporation, a Limited Liability Company, or a Partnership.Under certain conditions, the requirements for business tax returns may be waived. For certain loan casefiles DU will issue a message permitting only one year of personal and business tax returns, provided lenders document the income by: • obtaining signed individual and business federal income tax returns for the most recent year, • confirming the tax returns reflect at least 12 months of self-employment income, and • completing Fannie Mae's *Cash Flow Analysis* (Form 1084) or any other type of cash flow analysis form that applies the same principles. When two years of signed individual federal tax returns are provided, the lender may waive the requirement for business tax returns if: • the borrower is using his or her own personal funds to pay the down payment and closing costs and satisfy applicable reserve requirements, • the borrower has been self-employed in the same business for at least five years, and • the borrower's individual tax returns show an increase in self-employment income over the past two years. **Note:** The net income from self-employment should be entered in the Base Income field in Section V. The lender should answer "Yes" in the self-employment indicator.

Main Page	Analyzing Profit and Loss Statements
Self Employed	The lender may use a profit and loss statement - audited or unaudited - for a self-employed borrower's business to support its determination of the stability or continuance of the borrower's income. A typical profit and loss statement has a format similar to IRS Form 1040, Schedule C. A year-to-date profit and loss statement is not required for most businesses, but if the borrower's loan application is dated more than 120 days after the end of the business's tax year, the lender may choose to require this document if it believes that it is needed to support its determination of the stability or continuance of the borrower's income. If the lender did not count the borrower's year-to-date salary or draws in determining the borrower's qualifying income, it may add them to the net profit shown on the profit and loss statement as well as adding any of the allowable adjustments it used in analyzing the tax returns for the business, such as non-recurring income and expenses, depreciation, and depletion. However, only the borrower's proportionate share of these items may be considered in determining the amount of income from the business that the borrower can use for qualifying purposes.

Main Page	Analyzing Individual Tax Returns
Self Employed	In analyzing a self-employed borrower's personal income, the lender should focus on earnings trends and the actual sources of income not just on the total amount of the income. The lender must confirm the stability and likelihood of continuance for each source of income that the borrower reports on his or her IRS Form 1040. The lender should not include any income that does not appear to be stable or likely to continue. The lender should, however, consider all recurring income that the borrower can expect to continue receiving over time. Income may be considered as recurring if the loan application package does not include any specific indication of an upcoming change in the borrower's employment or income, the borrower's employment history has no gaps or other significant fluctuations in income, and any income received under a contractual agreement (other than an "at will" contract) will continue to be received for at least three years. Examples of recurring income include: • regular salaries or wages, • bonus or commission income that has been received on a consistent basis, • interest income from long-term investments that are not being liquidated in connection with the mortgage transaction, and • earnings from the operation of the borrower's business. Any non-recurring loss (such as an extraordinary one-time expense) should not be included in the cash flow analysis; therefore, in developing the borrower's qualifying income, the lender should adjust the borrower's cash flow by the amount of any non-recurring loss. **Adjusted Gross Income Approach** IRS Form 1040 permits a taxpayer to adjust his or her total reported income by reporting certain deductions in the "Adjusted Gross Income" section. If a lender uses the adjusted gross income approach to its cash flow analysis, it should add back to the borrower's cash flow all deductions in this section that represent: • voluntary payments to savings accounts (IRS and Keogh deductions), • deductions for taxes or health insurance plans, • deductions for obligations that must be counted in the calculation of the borrower's debt-to-income ratio (such as alimony or payments on student loans), and • other non-recurring expenses (such as moving expenses or penalties for early withdrawal of savings).