DOCUMENTATION REQUIREMENTS FOR CURRENT RECEIPT OF INCOME – NEW INCOME TOPIC

NEW INCOME GUIDANCE WITH THE 5/2013 UPDATE

The documentation required for each income source is described below. This documentation must support the history of receipt, if applicable, monthly through one year prior to the date of the mortgage application, or in addition, evidence of current receipt of the income must be obtained in compliance with the Allowable Age of Credit Documents policy, unless specifically excluded below. See B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns (05/28/2013), for additional information.

Current receipt may be documented by various means, depending on the income type. Examples include, but are not limited to:

- current paystubs
- bank statements confirming direct deposit
- canceled checks from the payer’s account to the borrower
- court records
- copies of the borrower’s bank statements showing the regular deposit of these funds

TALKING POINT

1. Added this topic at the beginning of the Other Income Section to better facilitate in one primary place.
2. This eliminates the need to independently mention these documentation sources in each income category below.
3. The documentation you are advised to gather will usually need to support (if applicable) the amount, frequency, and duration of the income. And in most cases you must be able to document and evidence current receipt of income based on Allowable Age of Credit Documents. An exception example would be Capital Gains Income.
ALIMONY OR CHILD SUPPORT

**INCOME GUIDANCE WITH THE 5/2013 UPDATE**

- Document that alimony or child support will continue to be paid for at least three years after the date of the mortgage application, as verified by one of the following:
  - A copy of a divorce decree or separation agreement of the borrower signed and dated that includes payment of alimony or child support and states the amount of alimony or child support which will be paid.
  - Note: If a borrower who is separated does not have a separation agreement that specifies alimony or child support, the lender must verify any proposed or voluntary payments as income.

- Any other type of written legal agreement or court decree describing the payment and the amount of the payments.

**TALKING POINTS**

1. Check for limitations on the continuance of the payments, such as the age of the children for whom the support is being paid, duration for which alimony is required to be paid.
2. Document that no less than six months of the borrower’s most recent regular receipt of alimony or child support must be verified by the income guidance in November 2013.
3. Review the payment history.
   - Alimony or child support must be considered stable income, if it is regular, and must have been received for six months or longer.
   - Verify that alimony or child support is considered stable and may not be used to qualify the borrower for the mortgage.
   - If full or partial payments are made on an installment or periodic basis, the income is not acceptable for the purpose of qualifying the borrower.

AUTOMOBILE ALLOWANCE

**INCOME GUIDANCE WITH THE 5/2013 UPDATE**

For an automobile allowance to be considered acceptable stable income, the borrower must have received payments for at least two years. The borrower must include all associated business expenditures in its calculation of the borrower’s total EITC.

- For all expenses that contribute to calculating the income associated with an automobile allowance:
  - Actual cost (lease) approach: If the borrower reports automobile allowance on Employee Business Expenses (IRS Form 2106 or IRS Form 1040, Schedule C) or Form 2106-EZ, the income must be calculated as the difference between the gross amount of the loan or lease payment and the after tax business expenses of the borrower.
  - Actual cost (monthly) approach: If the borrower leased the automobile under a lease agreement and recognized “actual expenses” instead of the “standard mileage rate”, the lender must look at the “actual expenses” section to identify the borrower’s actual lease payments and make the adjustments necessary to determine the amount of the automobile allowance.

**TALKING POINTS**

1. When a borrower does not report the allowance on Form 2106 or Schedule C, the full amount of the allowance is added to the borrower’s total monthly income, and the full amount of the lease or loan payment is subtracted from the borrower’s total monthly obligations.
2. No matter what the approach, guidelines require a 2-year history of receipt. Anything less is not acceptable.

BOARDER INCOME

**INCOME GUIDANCE WITH THE 5/2013 UPDATE**

Income from boarders in the borrower’s principal residence or farm is considered acceptable stable income with the exception of the following:

- When a borrower with disabilities receives certain income from a line in personal assistant, whether or not that income is used to pay for personal assistant payments can be considered acceptable stable income in an amount up to 30% of the gross income that is used to qualify the borrower for the mortgage loan.
- Personal assistant payments are used by Medicaid Waiver funds and includes room and board, from which rental payments are made to the borrower.
- The MyCommunity Mortgage eligibility requirements include an additional section, see Chapter 9D, MyCommunity Mortgage (MCM).

**TALKING POINTS**

1. This income is rarely used, when it is, it is typically reserved for the MCM loans.
2. Many lenders typically consider this as an income source that they view as unstable and will generally disregard this income.
3. The income is generally considered eligible except only for MCM loans.

**RATINGS**

- Obtain documentation of the borrower’s history of rental income such as a copy of a lease, license, bank statements, or any verbal contract that shows the borrower’s address being the same as the borrower’s address.
- If the income is from boarders, then the borrower’s lease payments for the most recent 12 months.
CAPITAL GAINS INCOME

TALKING POINTS

1. 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.

2. Note: Capital gains are identified on the Form 1040, Schedule D. They do not have to be disclosed to FNMA/FMVP as the gains are long-term, even if the gains are realized.

3. Current receipt of the income is not required to qualify with the allowable income criteria.

4. Asset ownership must be in compliance with the borrower’s age of liquid assets policy.

DISABILITY INCOME — LONG-TERM:

TALKING POINTS

1. The guidance does not apply to disability income that is received from the Social Security Administration or the Department of Veterans Affairs. Part C of our FAQs data is Other Income and the topic covered is Social Security Income.

2. Long-term disability income must have a defined expiration date and must be expected to continue.

3. The requirement for re-evaluation of benefits is not considered a defined expiration date.

4. If a borrower is currently receiving short-term disability payments that will terminate to a lesser amount within the next three 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.

EMPLOYMENT OFFERS OR CONTRACTS

TALKING POINTS

1. If the borrower is scheduled to begin employment after the loan closes, the lender may, depending on its risk appetite, require the borrower to offer or contract for future employment and income to underwrite and close the loan.

2. If receipt of the income or an employment agreement cannot be attributed to the sale, the loan is ineligible for delivery.

3. Great care should be taken in exercising the use of this income and should probably be reserved for individuals that have completed and received a degree of higher education.
EMPLOYMENT-RELATED ASSETS AS QUALIFYING INCOME

**INCOME GUIDELINES WITH THE 5/2013 UPDATE**

**Assets used for the calculation of the monthly income stream must be owned individually by the borrower, or the owner of the assets must be a co-borrower of the mortgage loan.**

**Assets must be liquid and available to the borrower with no penalty 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 account if distribution is not already set up or the distribution amount is not enough to qualify.

**Example: Calculation of Net Documented Assets**

| Checking and savings accounts (for illustration purposes only – not an eligible employment-related asset) | $40,000 |
| IRA (made up of stocks and mutual funds) | $500,000 |
| **Total eligible documented assets** | **$540,000** |
| Funds required for closing (Down payment, closing costs, reserves) | ($100,000) |
| Remaining IRA assets ($500,000 – $60,000 used at closing) | $440,000 |
| Minus 30% of $440,000 (640,000 x .30) | ($132,000) |
| **Net Documented Assets** | **$308,000** |

**Monthly income calculation** ($308,000/360 months) | $856/month

See Income Calculation/Payout Stream in table below.

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**ADDITIONAL REQUIREMENTS**

**ALL OF THE FOLLOWING LOAN PARAMETERS MUST BE MET IN ORDER FOR EMPLOYMENT-RELATED ASSETS TO BE USED AS QUALIFYING INCOME:**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Fannie Mae Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum LTV/CLTV/HCLTV</td>
<td>70%</td>
</tr>
<tr>
<td>Minimum Credit Score</td>
<td>DU: 620; Standard: Higher of 620 or minimum credit score per the Eligibility Matrix</td>
</tr>
<tr>
<td>Loan Purpose</td>
<td>Principal residence and second home only</td>
</tr>
<tr>
<td>Occupancy</td>
<td>Principal residence only</td>
</tr>
<tr>
<td>Number of units</td>
<td>One- to four-unit properties</td>
</tr>
</tbody>
</table>
| **Net Income Calculation/Payout Stream** | **Net documented assets** for 360-month (8.33 year term) must be used regardless of borrower age or amortization term of the mortgage loan.

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**TALKING POINTS**

1. “Net documented assets” are equal to:
   - The sum of eligible assets minus any funds that will be used for closing or required reserves
   - Minus 30% of the remaining value of any stocks, bonds, or mutual funds assets (after the calculation in (a))
2. FNMA provides a great example is located on the next two slides.
3. Ineligible assets are non-employment-related assets (stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inventions, 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 an eligible employment-related asset (for example, a severance package or lump sum retirement distribution).

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

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**FOREIGN INCOME**

**INCOME GUIDANCE WITH THE 5/2013 UPDATE**

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.

Copies of his or her signed federal income tax returns for the most recent two years that include foreign income.

This lender must satisfy the standard documentation requirements based on the source and type of income as outlined in Chapter 6B-4, Income Assessment.

Note: All income must be translated to U.S. dollars. If the borrower is not a U.S. citizen, refer to 8B-2-02, Non-U.S. Citizen Borrower Eligibility Requirements (5/2012/03/05), for additional information.

**TALKING POINTS**

1. This is standard requirements.
2. Not the easiest income source to interpret and document and borrower's income may be more difficult if there is not a well documented history.

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**FOSTER-CARE INCOME**

**INCOME GUIDANCE WITH THE 5/2013 UPDATE**

Income received from a state- or county-sponsored organization providing temporary care for one or more foster or adopted children is considered as 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-year history of providing foster care services.
- If the borrower has not been receiving this type of income for two-fall years, the income may still be counted as stable income if the borrower has at least a 12-month history of providing foster care services, and the income does not represent more than 50% of the total gross income that is used to qualify for the mortgage loan.

**TALKING POINTS**

1. This new guidance has been changed the guidance in the 2012 selling guides.
2. Previously you had options:
   - letters of verification from the organizations providing the income,
   - copies of the borrower's signed federal income tax returns,
   - copies of the borrower's deposit slips, or bank statements confirming regular deposit of the payments.

   Your only option now is to obtain letters from the organization providing the income.

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**INTEREST AND DIVIDENDS INCOME**

**INCOME GUIDANCE WITH THE 5/2013 UPDATE**

Verify the borrower’s ownership of the assets on which the interest or dividend income was earned.

Document a borrower's history of the income, as verified by:

- copies of the borrower's signed federal income tax returns,
- copies of account statements.

Develop an average of the income received for the past two years. Refer to the variable income section of 8B-3-01, Dividend Income Information (5/26/2012), for additional information.

Subtract any assets used for debt payment or closing costs from the borrower’s total assets before calculating expected future interest or dividend income.

**TALKING POINTS**

1. Important to appropriately subtract any assets used for closing the loan before calculating documenting the ability to generate income based on the average income.
2. If the remaining assets cannot generate income at the level of the average it is unlikely the income can be used as stable and income.
MORTGAGE CREDIT CERTIFICATES

1. Every lender allows the use of MCC credits—check before sending the loan for underwriting.
2. Check with your state and/or local municipality to determine if they participate in MCC credits.
3. Suggest to the borrower that they check with their tax advisor on tax benefits this may provide to them.
4. This can be a cumbersome process for the lender to complete the necessary tax forms that are required by the IRS for calculating the 40% of the tax credit.

Read More:
Montage Talking Points™: “Mortgage Credit Certificates: A Best from the Past!”

MORTGAGE DIFFERENTIAL PAYMENTS INCOME

1. This is a rare source of qualifying income.
2. Generally reserved for borrowers that have a degree in higher education and are indicating and this is part of their benefit program or compensation program.

IN SUMMARY

Please consider the following:

Information is current as of Fannie UW Guidelines dated May 2013 and is subject to change.

The information contained in this class is from the FNMA guidelines and you may be required to follow more restrictive guidelines based on your own policies or those imposed by the lender you broker or sell your loans to.
Because getting a loan approved and closed these days IS ROCKET SCIENCE!