

**Introduction to Borrower Income Analysis** 

**January 25, 2024** 



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#### **Presentation Objectives**

The purpose of this presentation is to introduce you to the different income types you may encounter when working with borrowers

- Not an in-depth study of income calculations/scenarios.
- Important analysis guidelines associated with different income types.
- Documentation needed to analyze the different income types.
- Basic rules of the road for analyzing and using various types of income.





#### **Income Sources**

- Borrowers receive earnings through many different means.
- To simplify, we are going to break down some of the most common income types into seven categories.

Non-Variable Income from Employment

Variable Income from Employment

**Self-Employed** 

Retirement

Rental Income

Secondary Employment

**Miscellaneous** 



## Non-Variable Income from Employment



#### Non-Variable Income

Non-variable income is probably the easiest to understand and calculate as it tends to be consistent

#### **Examples include:**

- Borrowers who are paid a salary
- Borrowers paid on an hourly basis, where the number of hours do not fluctuate

#### **Full Documentation**

- Pay stubs dated no earlier than 30 days prior to application
- W2s covering the last two years
- Verification of Employment (VOE)
- Verbal VOE (VVOE) no earlier than 10 days before closing

#### **DU or LPA may require**

- Pay stubs dated no earlier than 30 days prior to application
- W2 covering the most recent oneyear period
- Verification of Employment (VOE)
- Verbal VOE (VVOE) no earlier than
   10 days before closing



#### Non-Variable Income

#### Most borrowers will receive their pay based on one of these payment schedules

Pay Type	Calculation	
Hourly	Hourly rate x number of hours per week x 52 divided by 12	
Weekly	Weekly amount x 52 divided by 12	
Bi-Weekly	Bi-weekly amount x 26 divided by 12	PAID EVERY 2 WEEKS
Semi-Monthly	Semi-monthly amount x 24 divided by 12	PAID TWICE A MONTH
Annual	Annual salary divided by 12	

#### Avoiding bi-weekly and semi-monthly calculation errors

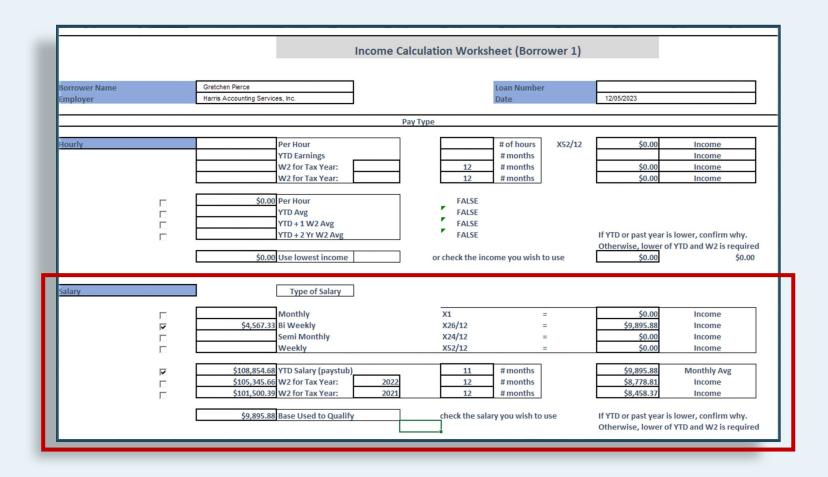
- Look at the paycheck date. Semi-monthly paychecks are commonly dated on the 1st and 15th or the 15th and the last day of the month.
- Divide the gross YTD by the gross base pay for the pay period. That should indicate of how many pay periods there have been YTD.
- If the YTD pay doesn't support the monthly income, review your determination for frequency of pay.



#### There's a Worksheet for That

# There are income calculation worksheets available for most of the common income types

 During this session, we'll share worksheets from a variety of sources including Fannie Mae, Freddie Mac, and some of the mortgage insurance providers\*



<sup>\*</sup>Using a calculation worksheet is always recommended. We don't endorse one worksheet over another. The examples used in this presentation are just a sampling of some of the worksheets that are readily available. Use what works for you!



## Variable Income from Employment



#### Variable Income

Variable income refers to certain types of income that can fluctuate

- **Overtime**
- Commissions Can you name some Bonuses
- Shift differentials
- Part-time work that varies



#### Variable Income

## Borrowers must have a history of receiving variable income

- Typically, a two-year look back is required
  - Less than a 24-month history may be permitted if there are strong supporting factors.
  - At no time should less than a 12-month history be utilized.
- Is the income increasing, decreasing, or relatively unchanged?
- If the income has fluctuated more than 10% year to year, additional analysis is always recommended.

## Typical documentation needed to calculate variable income

- Recent pay stub(s)
- Last 2 years of W2s
- VOE
- VVOE



#### Variable Income

#### If the income has increased:

Average the income

If the income was declining but has since stabilized and there's no reason to believe the borrower will not continue to be paid at the current level:

• The current lower amount should be used. **Do not average.** 

If the income has declined, the income may not be stable. Additional analysis is needed to determine if any of the income can be used.

 Under no circumstances can the income be averaged over the period when the decline occurred. 2022 = **\$47,502** 2023 = **\$ 52,323 \$99,825** ÷ **24** = **\$4,159**. per month

2022 = \$65,210 2023 = \$ 41,630 \$41,630 ÷ 12 = \$3,469 per month





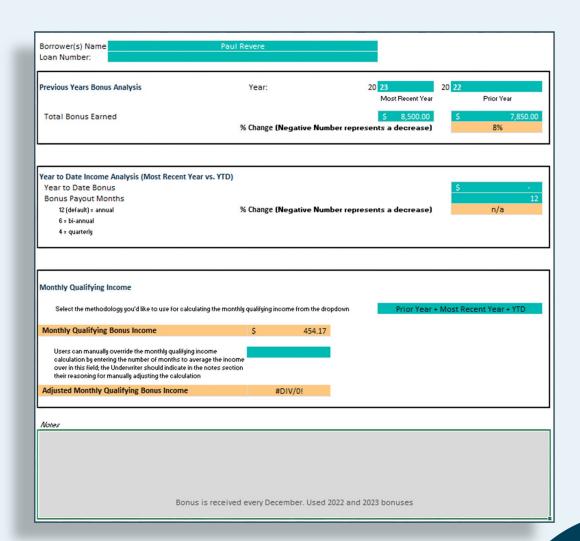
#### **Variable Income Worksheet Example**

## A simple example of analyzing bonus income

 Verifications of Income (VOE) will usually break down bonus amounts.

	12B. Gross Earnings								
Туре	Past Year								
Base Pay	Thru \$	\$	s						
Overtime	\$	\$	\$						
Commissions	\$	\$	\$						
Bonus \$		\$	\$						
Total	s 0.00	<b>\$</b> 0.00	\$ 0.00						

Section 12 B of Fannie Mae/Freddie Mac VOE





## **Self-Employed Income**



#### **Self-Employed Business Structures**

#### There are five principal self-employed categories

Sole Proprietorships

**Partnerships** 

**Limited Liability Companies (LLCs)** 

**S** Corporations

Corporations



#### **General Self-Employed Income Reminders**

- Business income (specifically from a partnership or S corporation) reported on a borrower's personal tax return may not necessarily represent income that has been distributed to the borrower.
- If a borrower owns multiple businesses, tax returns for each of those businesses must be provided.
- If business or personal returns have not been filed prior to the deadline (April 15<sup>th</sup>), the tax extension form must be provided.

#### The following factors should be analyzed:

- Is the borrower's income stable?
- What is the location and nature of the borrower's business?
- Is there a demand for the business's product or services?
- How is the financial strength of the business?
- Can the business continue to generate and distribute sufficient income to the borrower?





#### **Sole Proprietorships**

- Unincorporated business that is individually owned and managed.
- The owner is responsible for all debts of the business.
- There is no distinction between the owner's personal assets and the assets used in the business.
- Income and expenses are reported on Schedule C of the borrower's IRS Form 1040.





#### **Schedule C Example**

Departr	n 1040) nent of the Treasury Revenue Service		10, 1040-SR, 1040-SS, 1040-P	IR, or	torship) 1041; partnerships must generally fouctions and the latest information		2023 Attachment Sequence No. 09
Name	of proprietor						curity number (SSN
Rebed	ca C. Glazer						
A	Principal business or profe	ssion, inc	luding product or service (s	ee inst	ructions)	B Enter o	ode from instructions
Ceran	nicist						
С	Business name. If no separ	ate busin	ness name, leave blank.			D Employ	er ID number (EIN) (see
	Pottery						
E			room no.) 123 Fake Street				
E			ZIP code Nowhere, IL 111				
G		☑ Ca	sh (2) Accrual (	3)	Other (specify) 2023? If "No," see instructions for	. Doll on loop	es . 🗹 Yes 🗍
н					20237 II No, see instructions to	limit on loss	is . Tes [
ï					n(s) 1099? See instructions		Yes 🗹
	If "Yes," did you or will you			ino i can	naj ross roce risudutoris		Yes 🗆
Par		me requ	accordingly 10001				
1		e instru	tions for line 1 and check th	e box	f this income was reported to you	on I	
			yee" box on that form was				12
2	Returns and allowances .					. 2	
3	Subtract line 2 from line 1					. 3	
4	Cost of goods sold (from li					. 4	
5	Gross profit. Subtract line					. 5	
6			state gasoline or fuel tax cr	edit or	refund (see instructions)	. 6	
7	Gross income. Add lines 5					. 7	1:
Part			es for business use of y				
8	Advertising	8	250	18	Office expense (see instructions		
9	Car and truck expense (see instructions)	9		20	Pension and profit-sharing plans Rent or lease (see instructions):	19	
10	(see instructions)	10		120	Vehicles, machinery, and equipme	nt 20a	
11	Contract labor (see instruction			1 6	Other business property		
12	Depletion	12		21	Repairs and maintenance	21	
13	Depreciation and section 17			22	Supplies (not included in Part III)		
	expense deduction (n			23	Taxes and licenses		
	included in Part III) (se instructions)	e 13	128	24	Travel and meals:		
14	Employee benefit program	18		a	Travel	. 24a	
	(other than on line 19) .	14		b	Deductible meals (see instruction	ns) 24b	
15	Insurance (other than healt	h) 15		25	Utilities	. 25	
16	Interest (see instructions):			26	Wages (less employment credits		
a	Mortgage (paid to banks, etc			27a	Other expenses (from line 48) .	. 27a	
b	Other	16b		ь	Energy efficient commercial bld		
17	Legal and professional service			_	deduction (attach Form 7205) .	. 27b	
28			or business use of home. Ad			. 28	
			ne 28 from line 7			. 29	
30	unless using the simplified	method.			enses elsewhere. Attach Form 88 ur home:	29	
	and (b) the part of your hor	ne used	for business:		. Use the Simplified		
	Method Worksheet in the in	nstructio	ns to figure the amount to en	nter on	line 30	. 30	
31	Net profit or (loss). Subtra	ct line 3	from line 29.				
			1 (Form 1040), line 3, and				
			uctions.) Estates and trusts,	enter	on Form 1041, line 3.	31	
00	• If a loss, you must go to				J		
32			at describes your investmen				
			on both Schedule 1 (Form			220	All investment is at
	SE, line 2. (If you checked to Form 1041, line 3.	ne box o	n line 1, see the line 31 instru	ctions.	Estates and trusts, enter on		Some investment is at i
		muset att	ach Form 6198. Your loss m	ev he	imited	ULU [	at risk.

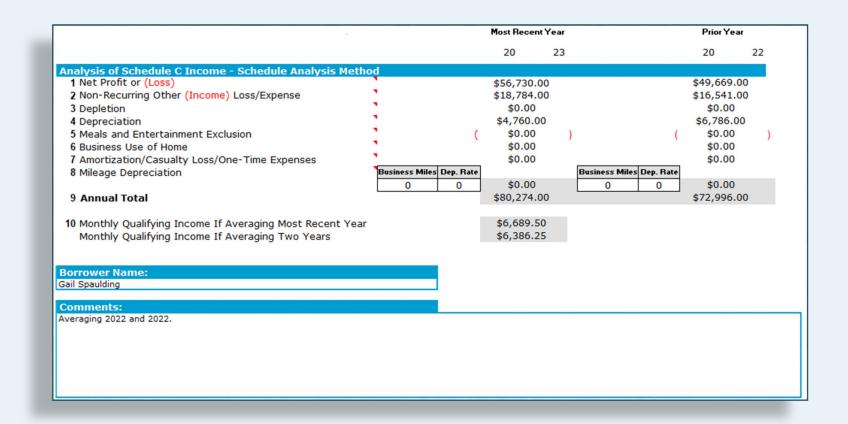
Part	Cost of Goods Sold (see instructions)			
	· · · · · · · · · · · · · · · · · · ·			
33	Method(s) used to value closing inventory: a Cost b Lower of cost or market c Other (atta	ich exp	planation)	
34	Was there any change in determining quantities, costs, or valuations between opening and closing inventor. If "Yes," attach explanation	y? 	☐ Yes	□ No
35	Inventory at beginning of year, if different from last year's closing inventory, attach explanation $\ . \ . \ .$	35		
36	Purchases less cost of items withdrawn for personal use	36		
37	Cost of labor. Do not include any amounts paid to yourself	37		
38	Materials and supplies	38		
39	Other costs	39		
40	Add lines 35 through 39	40		
41	Inventory at end of year	41		
42	Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on line 4	42		
Part	IV Information on Your Vehicle. Complete this part only if you are claiming car or are not required to file Form 4562 for this business. See the instructions for line 1 Form 4562.			
43	When did you place your vehicle in service for business purposes? (month/day/year)			
44	When did you place your vehicle in service for business purposes? (month/day/year)  Of the total number of miles you drove your vehicle during 2023, enter the number of miles you used your vehicle.		for:	
		rehicle	for:	
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#### **Sole Proprietorships: Documentation**

## Documentation typically required to analyze sole proprietors:

- Last two years of signed 1040s;
   or
- The most recent signed 1040 (if DU or LPA findings permit).
- NOTE: YTD profit and loss statements (P&Ls) are generally used to demonstrate patterns or provided additional insight. Only audited P&L statements can be used in the actual income calculation.



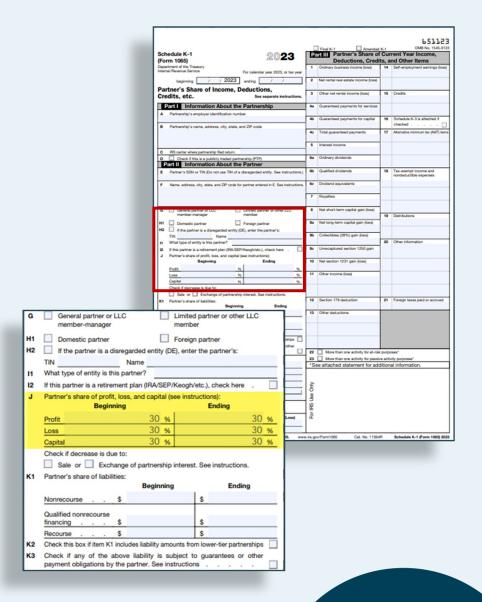


#### **Partnerships**

Partnerships are unincorporated businesses where two or more parties jointly manage and operate a company

Any individual who has a 25% or greater ownership interest in a business is considered self-employed.

- Partnerships do not pay income taxes. Profits and losses are passed on to its partners and reported on the borrower's personal tax returns.
- The partnership reports profits/losses on IRS Form 1065 and each partner's share of the profit/loss is provided on Form 1065, Schedule K-1.
- Two years of both personal and business tax returns are typically required.





#### **Partnerships**

#### There are two main types of partnerships that utilize Form 1065 and K-1s

#### **General Partnership**

- The partners are each personally liable for the partnership debts
- Partners usually have a role in running the business



#### **Limited Partnership**

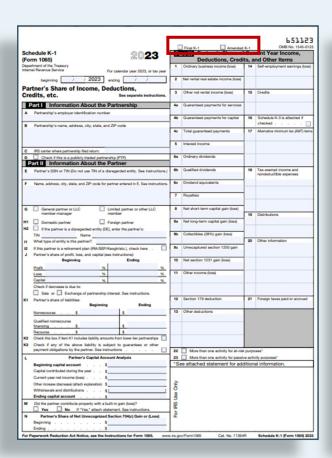
- The partners' liability for the business debts is limited to the amount of money or property the partner contributed
- Partners usually don't participate in the management of the business





#### **Partnership Documentation**

- The most recent 2 years of signed individual federal tax returns (1040's) and the corresponding Form 1065s and K-1s; or
- The most recent signed 1040 and corresponding Form 1065 and K-1 (if DU or LPA findings permit).
- 2 years of business tax returns\*
- YTD profit and loss statement may be used in some cases but cannot be used in the income analysis unless it has been audited.



	65	U.S. F	Return of Part	nership Ir	ncom	е		OMB No. 1545-0123
	For ca	lendar year 2023, or tax yo	ear beginning	, 2023, en	nding	.:	10	0000
etment of	the Tressury se Service		ov/Form1065 for instruc					<b>2023</b>
	siness activity	Name of partnership					D	Employer identification number
ncipal pro	duct or service Type	Number, street, and room	n or suite no. If a P.O. box,	see instructions.			E	Date business started
	or Print							
usiness o	ode number Print	City or town, state or pro-	wince, country, and ZIP or fo	areign postal code	•		- '	Total assets (see instructions)
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Check a	occupting method:	(1) Cash (	(2) Account (3)	Other (spe	city):			
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			and expenses on lines					re information.
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29 30 31	Amount owed.							
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29 30 31 32	Amount owed.  Overpayment.  Under penalties of and belief, it is true.	If the sum of line 29 a perjury, I declare that I have e, correct, and complete. D	re examined this return, incl Declaration of preparer (other	uding accompany or than partner or	limited list	des and statemer stity company me	ember) is bas	ed on all information of
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<sup>\*</sup>This may not apply in certain situations when DU or LPA are used.

#### IRS Form 1065 and K-1: Using a Worksheet

- This is an example from an income analysis worksheet showing the section for partnership income.
- Both IRS Form 1065 and Schedule
   K-1 are broken out on the worksheet.

#### Partnership or S Corporation

A self-employed borrower's share of Partnership or S Corporation earnings can only be considered if the lender obtains documentation, such as Schedule K-1, verifying that

- · the income was actually distributed to the borrower, or
- the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this
  confirmation, no further documentation of business liquidity is required.

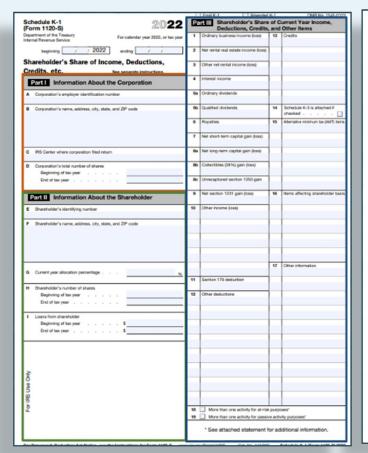
Note: See the Instructions for additional guidance on documenting access to income and business liquidity.

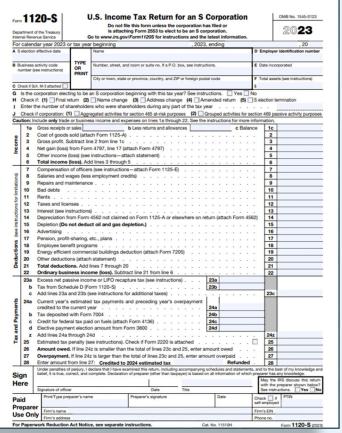
IRS	S Form 1065 - Partnership Income		
7.	Schedule K-1 Form 1065 – Partner's Share of Incom	me Year	Year
	Ordinary Income (Loss)	(+/-)	(+/-)
	<ul> <li>b. Net Rental Real Estate; Other Net Income (Loss)</li> </ul>	(+/-)	(+/-)
	c. Guaranteed Payments to Partner	(+)	(+)
8.	Form 1065 - Adjustments to Business Cash Flow		
	<ul> <li>a. Ordinary (Income) Loss from Other Partnerships</li> </ul>	(+/-)	(+/-)
	<ul> <li>Nonrecurring Other (Income) Loss</li> </ul>	(+/-)	(+/-)
	c. Depreciation	(+)	(+)
	d. Depletion	(+)	(+)
	e. Amortization/Casualty Loss	(+)	(+)
	f. Mortgages or Notes Payable in Less than 1 Year	(-)	(-)
	g. Non-deductible Travel and Entertainment Expense	es (-)	(-)
	h. Subtotal		
	i. Total Form 1065		
	(Subtotal multiplied by % of ownership)		



#### **Limited Liability Company (LLC)**

- LLCs are a legal business structure that protects the owner's personal assets from the company's debts. There is a financial barrier between the company and the owner.
- Can be owned by a single-member or multiple members.
- LLCs can elect to file taxes as an S corporation.
- Instead of IRS Form 1065, LLC income/losses may be reported on IRS Form 1120-S, and partners are supplied with a K-1.







#### **S-Corporations**

- Doesn't pay corporate income tax like a traditional corporation.
- Profits pass through to the shareholder's personal tax returns.
- Like partnerships, K-1s are issued to shareholders.
- Corporation income/loss is reported on IRS Form 1120S and K-1s.
- This example shows the 1120S and K-1 sections from an income calculation worksheet.

#### III. Income Calculations from IRS Schedule K-1 and IRS Form 1120S

S Corporation Income (Refer to Chapter 5304)
 Name of business:

S Corporation Schedule K-1 (IRS Form 1120S)	Year:	Year:
Ordinary Business Income or Loss	(+/-)	(+/-)
Net rental real estate income or loss	(+/-)	(+/-)
Subtotal from Schedule K-1 (IRS Form 1120S)	\$	\$

orporation Income from IRS Form 1120S	Year:	Year:	
Depreciation (IRS Form 1120S)	(+)	(+)	
Depreciation (IRS Form 8825) (Guide Section 5304.1(d))	(+)	(+)	
Depletion	(+)	(+)	
Amortization or casualty loss	(+)	(+)	
Mortgage, notes, bonds payable in less than one year (Section 5304.1(d))	tes, bonds payable in less than one year (Section 5304.1(d)) (-)		
Other nonrecurring income or loss	(+/-)	(+/-)	
Travel and entertainment exclusion	(-)	(-)	
Subtotal prior to application of ownership interest percentage	\$	\$	
Multiply by total percentage of ownership (on Schedule K-1)	(x) 0.00%	(x) 0.009	
Subtotal from IRS Form 1120S	\$	\$	

Combined subtotal from S corporation	\$	\$
--------------------------------------	----	----



#### C Corporations (C Corp or Regular Corporation)

- Corporations offer the strongest protection to its owners from personal liability, but the cost to form a corporation is higher than other structures.
- Can be created by an individual or a group of people.
- Corporations report income and losses on IRS 1120 and pay taxes on net income.
- Both the corporation and its shareholders pay taxes on business profits.
- Shareholders may receive IRS Form 1099-DIV or a W2\*. Those earnings are reported on their personal tax returns.

-	may be used when the borrower(s) own	100% of the corporatio	n.
		Year	Year
	gular Corporation		
a. Taxable Inco	me		
<ul> <li>b. Total Tax</li> </ul>		(-)	(-)
<ul> <li>Nonrecurring</li> </ul>	(Gains) Losses	(+/-)	(+/-)
<ul> <li>d. Nonrecurring</li> </ul>	Other (Income) Loss	(+/-)	(+/-)
<ul> <li>Depreciation</li> </ul>		(+)	(+)
f. Depletion		(+)	(+)
g. Amortization/	Casualty Loss	(+)	(+)
h. Net Operatin	g Loss and Special Deductions	(+)	(+)
i. Mortgages or	Notes Payable in Less than 1 Year	(-)	(-)
j. Non-deductib	le Travel and Entertainment Expenses	(-)	(-)
k. Subtotal		` '	( /
I. Less: Divider	nds Paid to Borrower	(-)	(-)
m. Total Form 1		\ /	( )



<sup>\*</sup>Those receiving W2s should also have paystubs available.

#### **Self-Employed Borrower Documentation Requirements**

#### Documentation guidance for borrowers with 25% or more interest in a business

Self-Employed Business Type	General Documentation Requirements	Calculation Worksheets Use
Sole Proprietor	Last two years of IRS 1040s	Schedule C
General or Limited Partnership	<ul><li>Last two years of IRS 1040s</li><li>Last two year of business returns</li></ul>	IRS Form 1065 and K-1s
Limited Liability Company (LLC)	<ul><li>Last two years of IRS 1040s</li><li>Last two years of business returns</li></ul>	IRS Form 1120-S and K-1s
S Corporation (S Corp)	<ul><li>Last two years of IRS 1040s</li><li>Last two years of business returns</li></ul>	IRS Form 1120-S
Corporation (C Corp)	<ul><li>Last two years of IRS 1040s</li><li>Last two years of business returns</li></ul>	IRS Form 1120

- DU or LPA may request/require less than two years of tax returns in some cases.
- When using DU or LPA, business returns may be waived if all the following apply: Two years of signed, person tax returns must be provided, the borrower must be using personal funds for down payment and/or closing costs, the borrower has been self-employed in the same business for at least 5 years and the borrower's personal tax returns show an increase in self-employed income over the past two years.

## Retirement



#### **Retirement Income Sources**

Retirement Income can come in many different forms.

#### **Examples include:**

- Social Security
- Pensions
- IRA, 401K, and Keogh Distributions
- Government Annuities or Pensions





#### **Retirement Income Documentation**

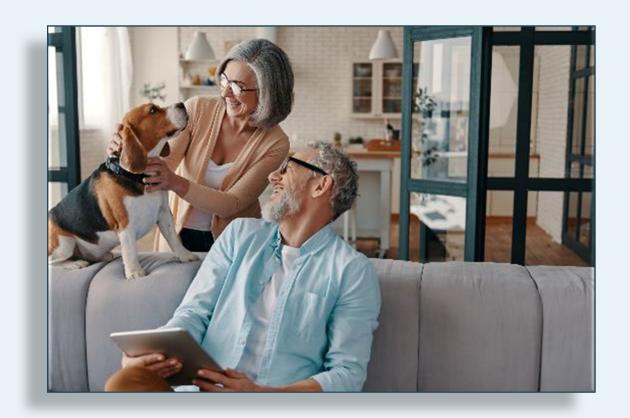
#### **Social Security Retirement Income**

#### **Documentation**

 A SSA Award Letter, SSA Form 1099, or proof of receipt can be used to verify Social Security.

#### **Grossing-up untaxed Social Security income**

- If grossing-up more than 15% of the borrower's Social Security income, tax returns are required to confirm the non-taxable amount.
- **15%** of the borrower's Social Security income may be treated as non-taxable and grossed up by 25% without the need for tax returns.





#### **Retirement Accounts/Pensions/Government Annuities**

## Income from IRAs, 401(k)s or Keogh Retirement Accounts

## One or more of the following may be used to document receipt:

- A statement from the organization providing the income, benefit statement, bank account statement, tax return, IRS W2, or IRS 1099.
- Is it eligible?
- The income must continue for at least three years after the date of the mortgage application.
- Accounts may be combined for the purpose of determining whether the three-year continuance requirement is met.





#### **Creating Income Streams from Retirement Assets**

## Some borrowers have retirement assets such as 401Ks or IRAs, but have <u>never</u> taken any distributions

- If the borrower is eligible, an income stream can be created from those assets.
- Maximum LTV is 70%
- If the borrower is 62 years old or more, the maximum LTV is **80%.** If owned jointly with the co-borrower, both borrowers must be at least 62 years old.
- Purchases and limited cash-out refinances only.
- Principal residence and second homes only.
- The asset must be in the borrower's name as an individual or jointly with only a co-borrower.

#### **INCOME STREAM EXAMPLE**

Value of the Asset \$400,000
Penalties that may apply -\$40,000
Funds being used for closing -\$50,000

Net Documented Asset \$310,000

Divide the Net Documented Asset by the loan term

\$310,000 ÷ 360 = **\$861.11**/ month



### **Rental Income**



#### **Rental Income**

## Borrowers can earn rental income from several sources

- Personally held investment properties
- A primary, owner-occupied 2–4-unit property
- Properties owned through a business

## Documentation typically used to analyze rental income may include:

- Schedule E on IRS Form 1040
- Leases (used only in certain situations, such as when the property is newly acquired and not on the tax return, or purchases where the property is income-producing.
- Business returns such as IRS Form 1065 or 1120S



#### **Analyzing Rental Income**

# Many rental income worksheets are specific to the occupancy or documentation used to calculate the income/loss

- Principal Residence, 2-4-unit property (Fannie Mae Form 1037),
- Individual Rental Income from Investment Property(s) (up to 4 properties) (Fannie Mae Form 1038),
- Individual Rental Income from Investment Property(s) (up to 10 properties) (Fannie Mae Form 1038A)
- Business Rental Income from Investment Property(s) (Fannie Mae Form 1039).

#### **Documentation**

- For properties currently owned (Schedule E), use the borrower's most recent tax returns. Do not average over two years.
- For new properties (purchases or properties acquired in the last tax year), leases or market rents from an appraisal may be used.
- When using leases or market rents, 75% of the gross rents should be used. The reduction accounts for potential expenses and vacancies.



#### Fannie Mae's Form 1038

	Kental Income	worksneet				
	Individual Rental Income from Investment Property	y(s): Month	ly Qualifying Re	ntal Income (or	Loss)	
Docu	mentation Required:		Investment	Investment	Investment	Investment
• Sc	hedule E (IRS Form 1040) OR		Property Address	Property Address	Property Address	Property Address
• Le	ase Agreement or Fannie Mae Form 1007 or Form 1025	Enter				
Step	<ol> <li>When using Schedule E, determine the number of months the property</li> </ol>	was in ser	vice by dividing	the Fair Rental (	Days by 30.	
If Fa	ir Rental Days are not reported, the property is considered to be in service for 12 n	nonths unles	s there is evidenc	e of a shorter ten	m of service.	
	Step 1. Result: Enter the number of months the property was in	Result				
St	service: ep 2. Calculate monthly qualifying rental income (loss) using Step 2A; Sch	edule F OF	Sten 28: Lease	Agreement or F	annie Mae Form	1007 or Form
-	1025			- g. ccciic oi i		2007 0. 101111
	Step 2A. Schedule E - Part I For o	each propert	y complete ONLY	2A or 2B		
A1	Enter total rents received.	Enter				
A2	Enter total expenses.	Subtract				
A3	Enter insurance expense.	Add				
A4	Enter mortgage interest paid.	Add				
A5	Enter tax expense.	Add				
A6	Enter homeowners' association dues. This expense must be specifically identified on Schedule E in order to add it back.	Add				
A7	Enter depreciation expense or depletion.	Add				
A8	Enter any one-time extraordinary expense (e.g., casualty loss). There must be evidence of the nature of the one-time extraordinary expense.	Add				
	Equals adjusted rental income.	Total	0	0	0	C
A9	Enter the number of months the property was in service (Step 1 Result).	Divide	0	0	0	C
	Equals adjusted monthly rental income	Total	0	0	0	(
A10	Enter proposed PITIA (for subject property) or existing PITIA (for non-subject property).	Subtract				
	Step 2A. Result: Monthly qualifying rental income (or loss):	Result	0	0	0	(

		Step 2B. Lease Agreement OR Fannie Mae Form 1007 or	Form 1025	or each property o	omplete ONLY 2	A or 2B	
This me	ethod i	s used when the transaction is a purchase, the property was acquired sub					for using a lease
		agreen	ent.				
		egross monthly rent (from the lease agreement) or ent (reported on Form 1007 or Form 1025).					
		unit properties, combine gross rent from all rental units.	Enter				
B2 I	e remaining 25% accounts for vacancy loss, maintenance, and management penses.			x.75	x.75	x.75	x.75
Equ	uals a	djusted monthly rental income.	Total	0	0	(	0
1 B3 1		posed PITIA (for subject property) or existing PITIA (for non- property).	Subtract				
S	Step 2B. Result: Monthly qualifying rental income (loss):			o	0		0
		Step 3. Determine the qualifying impact	using the re	sult of Step 2A or S	itep 2B.		
If the result of Step 2A or 2B is <b>positive</b> , add the positive amount to the borrower's monthly qualifying income. Because the PITIA expense was included in the calculations above, do not add it to the debt-to-income (DTI) ratio.							
		f Step 2A or 2B is <b>negative</b> , include the amount of the loss in the nses when calculating the DTI ratio.	borrower's				
DU Data	ta Entry Monthly Income and Combined Housing Expenses		Mortgage Liabilities				
Subject Property				For refinance transactions, identify the mortgage as a subject property lien.			
Non-Sub Property	Ion-Subject Enter the amount of the monthly qualifying income (positive result) or monthly qualifying loss (negative result) in "Net Rental."			Identify the mortgage as a rental property lien.			
Refer to t	the Rei	ntal Income topic in the Selling Guide for additional guidance.					



## Secondary Employment



#### **Secondary Employment**

## Many borrowers may have second jobs to supplement their income

- At least a two-year history of secondary employment is recommended.
- Less than two years (but never less than 12 months) may be acceptable, if there are positive factors to reasonably offset the shorter income history.
- Secondary employment can oftentimes fluctuate based on hours. In this case, variable income guidelines should be followed.
- A history of different employers is acceptable as long as employment is consistent.







#### **Secondary Employment**

## Secondary employment can also include income received through self-employment

"Gig-work" is a common term used for some secondary self-employment.

Many gig-workers may receive a 1099-NEC from an organization instead of a W2 because they are not an employee of the company (think UBER). This income is reported on their Schedule C.

If a borrower qualifies using only base pay from their primary employment, secondary income/losses may be disregarded.

 This is not permitted if the borrower's primary income is derived from self-employment.







### **Miscellaneous Sources**



#### **Common Types of Miscellaneous Income**

Alimony, Child Support, Separate Maintenance

- Alimony, child support, or separate maintenance must continue to be paid for at least three years after the date of the mortgage application.
- Document using a copy of a divorce decree or separation agreement.
- Evidence receipt of payments covering no less than the previous six months.

Seasonal Unemployment

- The borrower must have at least a two-year history of receiving seasonal unemployment income.
- The unemployment income should be associated with seasonal layoffs, expected to recur, and the income reported on the borrower's signed federal income tax returns.

**Capital Gains** 

- Typically, capital gains are a one-time payment and cannot be used.
- If capital gains are recurring, a two-year history must be documented (Schedule D, IRS 1040s).
- Verify the asset(s) supporting the gain.
- Use the variable income guidelines for calculating.
- Capital losses do not have to be held against the borrower.

**Automobile Allowances** 

Payments must have been received for at least 2 years.

Add the full amount of the allowance to the borrower's monthly income.

If the borrower has a lease or car loan, treat it like any other liability.



#### **Summary**

Borrower income can sometimes be complicated and difficult to understand.

If something doesn't make sense, don't be afraid to reach out to the borrower for additional insight.

Worksheets are great tools for breaking down income. Always show your calculations!

Sometimes more analysis beyond a worksheet/documentation will be necessary.

Looking for more detail? The MPF Program and many mortgage insurance companies provide webinars on analyzing specific types of income.



#### MPF® Program Contacts and Resources

#### **MPF Service Center**

Email: MPF-Help@FHLBC.com Hours: 8:30 am to 4:30 pm CST

Phone: (877) 345-2673

The MPF Customer Service Portal is also a great way to get answers to your questions!





#### **MPF National Education**



**Check out our upcoming webinars:** 

https://www.fhlbmpf.com/education/upcoming-webinars

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